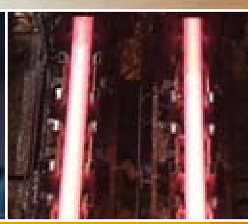
中國鎳資源控股有限公司

CHINA NICKEL RESOURCES HOLDINGS COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock code : 2889



2008 Annual Report

The Group has become a major integrated non-ferrous metals and special steels manufacturer with low costs, high earnings and various mineral resources. In May 2007, China Nickel successfully acquired the Exclusive Offtake Right of an ore in Indonesia and has become the first and leading special steel enterprise which has mining and steel manufacturing businesses. With its sufficient mineral resources and low costs, we are proactively expanding our product lines, such as developing NiCr-based high value added special steel products, including nickel-based bearing steel and gear steel and Series 300 stainless steel. In early 2007, our self-developed stainless steel base was launched to the market with a satisfactory response. In November in the same year, we successfully manufactured the first batch of Series 300 stainless steel, NiCr-based bearing steel and gear steel, forming a solid foundation for our growth strategy in nickel and chromium business. As such, the Group is able to maintain its leading position by realizing its advantages in sufficient resources, low production costs, high quality and diversified product offerings. In the year 2008/09, the Group also plans to adopt the ore separation process and nickel refining technology in its newly built factories in Indonesia and the PRC. By which, non-ferrous metals, such as nickel and cobalt, are refined from its own ores and used to manufacture steel products or sell in the markets directly.

CONTENTS

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 Director

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

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
18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Service (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
Grand Cayman, KY1-1107
Cayman Islands

Corporate Information

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

02889

Five Year Financial Summary

SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and minority interests of the Company and its subsidiaries (hereinafter collectively referred as "the Group") for the last five financial years prepared on the basis set out in the note below is as follows:

Results

	2008 RMB'000	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000
Revenue	**1,481,594**	1,874,591	879,796	837,529	783,240
Cost of sales	**(1,329,260)**	(1,288,493)	(691,564)	(677,174)	(626,911)
Gross profit	**152,334**	586,098	188,232	160,355	156,329
Other income and gains	**275,445**	72,965	9,553	17,145	15,554
Selling and distribution costs	**(30,754)**	(43,988)	(34,179)	(8,525)	(6,755)
Administrative costs	**(138,839)**	(75,442)	(32,280)	(23,958)	(16,676)
Other expenses	**(128,406)**	(786)	(332)	(284)	(881)
Finance costs	**(153,943)**	(68,100)	(23,420)	(22,609)	(20,007)
(Loss)/profit before tax	**(24,163)**	470,747	107,574	122,124	127,564
Tax benefit/(expense)	**62,337**	(110,085)	(17,332)	—	—
Profit for the year	**38,174**	360,662	90,242	122,124	127,564
Attributable to:					
Equity holders of the parent	**37,361**	359,291	90,272	122,141	127,653
Minority interests	**813**	1,371	(30)	(17)	(89)
	38,174	360,662	90,242	122,124	127,564
Dividends	**31,320**	121,732	32,369	69,094	—

Five Year Financial Summary

Assets, Liabilities and Minority Interests

	2008 RMB'000	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000
Total assets	**7,056,354**	7,402,043	1,593,043	1,131,895	826,833
Total liabilities	**2,946,187**	3,264,816	753,252	516,113	538,632
Minority interests	**55,004**	54,191	7	37	54
Net assets	**4,110,167**	4,137,227	839,791	615,782	288,201

The combined results of the Group for the years ended 31 December 2004 is extracted from the Prospectus of the Company dated 9 May 2005 and the consolidated results of the Group for the year ended 31 December 2005, 2006 and 2007 are extracted from the Annual Report 2005, 2006 and 2007 of the Group respectively and while those for the year ended 31 December 2008 were prepared based on the consolidate income statement and balance sheet as set out on page 54 to 56. This summary does not form part of the audited financial statements.

Awards

Hong Kong Awards:

1. Mr. Dong Shutong, the Chairman, was honoured as "Capital Leader of Excellence 2008" by Capital Weekly.

2. China Nickel Resources Holdings Company Limited was awarded as "Hong Kong Outstanding Enterprise 2008" by Economic Digest.

HONG KONG OUTSTANDING ENTERPRISES
香港傑出企業
2008
ECONOMIC DIGEST
經濟一週

PRC Awards:

1. 

2. 

3. 

4. 

1. Zhengzhou Yongtong Special Steel Company Ltd, a subsidiary of the Group in China, was honoured by the Ministry of Human Resources and Social Security of the People's Republic of China and China Iron and Steel Association as "Pioneer of the National Iron and Steel Industry"（全國鋼鐵工業先進集體） in February 2009.

2. Zhengzhou Yongtong Special Steel Company Ltd ("Yongtong Special Steel") was ranked 69th among the Top 100 Henan Enterprises in 2008（2008 河南企業100強）.

3. Mr. Dong Shutong, the Chairman, was honoured as the "Outstanding Entrepreneur of Henan Province in the 30 Years of Reform and Opening"（改革開放三十年河南省功勛企業家.

4. Mr. Dong Shutong, the Chairman, was honoured as "Excellent Leader of Private Economic Entity in the 30 Years of Reform and Opening of Henan Province"（河南省改革開放三十年民營經濟領袖人物）.

Chairman & CEO
Dong Shutong

Chairman's Statement

Dear Shareholders,

I am pleased to present the Annual Report of the Group for the year ended 31 December 2008 and extend my gratitude to all the shareholders on behalf of the Board of China Nickel Resources Holdings Company Limited.

REVIEW

2008 was a challenging year. In the first half of 2008, prices of raw materials and fuels continued to rise and the shipping cost fluctuated with oil price. In the second half of 2008, the US subprime mortgage crisis has developed into a global financial crisis. The loss of confidence towards financial market led to a strike to commodity market, heavy industry, manufacturing industry and consumer market. Although the financial sector of the PRC is more resistant to the external financial environment compared to other countries, the export of the PRC has decreased due to the global economic slowdown. Profitability was also affected by the decline in commodity prices. Under such circumstances, many companies of the steel industry and its downstream business were forced to reduce their production since the second half of 2008 and lower their goals for the next year. As a player in the steel industry, the Group was no exception. Under such difficult time, the Group took a flexible and pragmatic approach by adjusting its product mix in response to market changes, slowing down the construction of new plants and developing high value-added products to satisfy future market needs in mid-2008. Apart from reducing its production in response to market change in the last quarter of 2008, the Group has also made an impairment provision for inventories as at the end of 2008. I believe that these measures will enable the Group to further consolidate its existing competitive edges and to be well-positioned to grasp future opportunities.

PROSPECTS

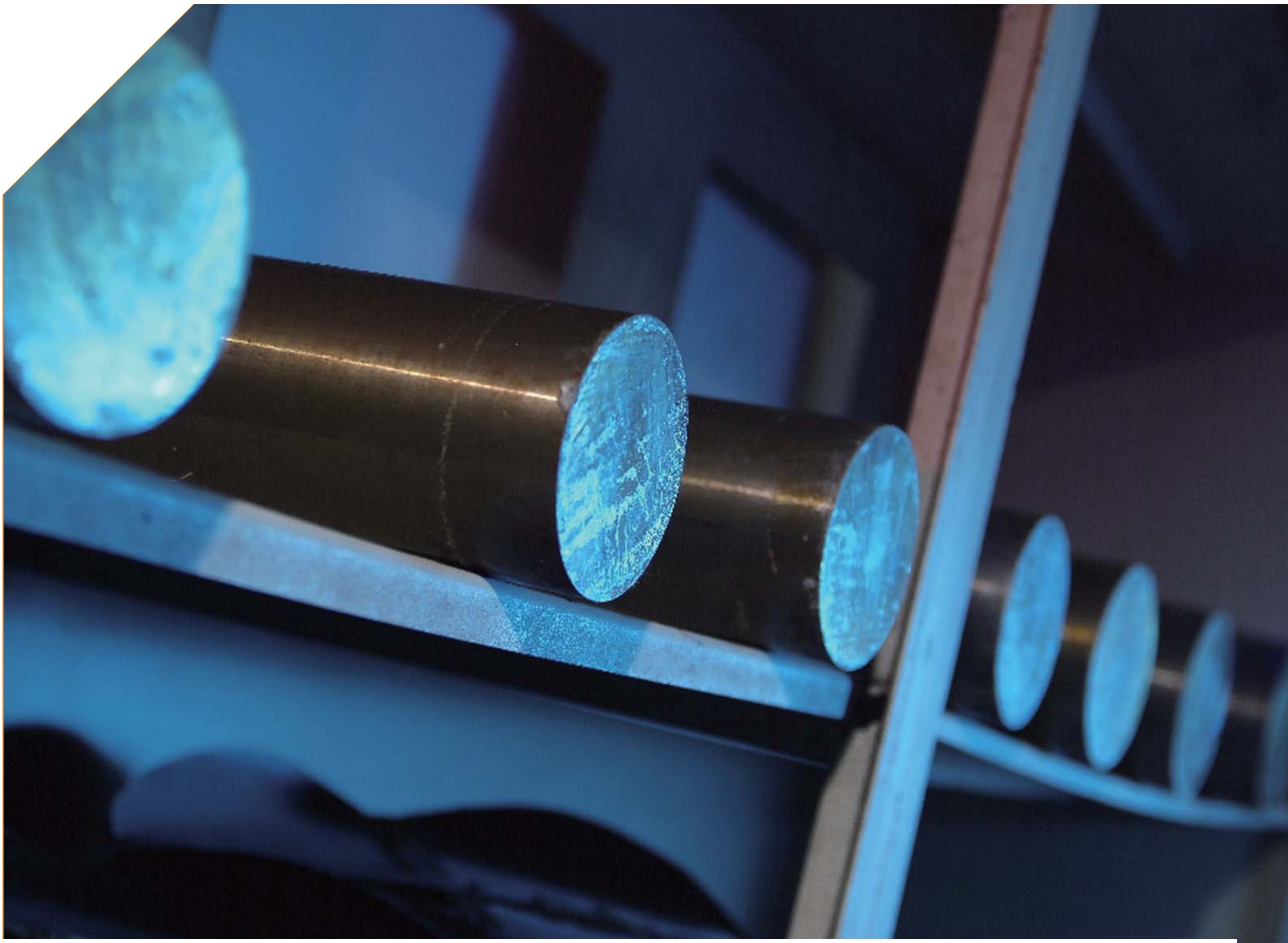
To our delight, at the end of last year the PRC government announced an economic stimulus plan involving huge capital investment and details of implementation will be promulgated by stages this year. It is believed that the stimulus measures and industry revival plan will benefit the steel and nonferrous metal industry in the next few years and thus the general market conditions will remain positive in the long run. However, we should stay alert to uncertainties in the global economy which will continue to suffer from the financial crisis and credit crunch in the near future. As such, our focus will remain on maintaining the existing competitiveness in resources, production cost, new products and production technology development in 2009. We will also take proactive measures to consolidate our capital strength and risk management capability.

Chairman's Statement

Meanwhile, the construction of the Group's new plant in Gongyi, Henan Province of China is in progress on schedule. The assembly of the first production line for ore separation is partially ready for trial run. The whole project is expected to be completed by the end of 2009. Upon completion, the Group will improve the whole industry chain covering mineral resources, nonferrous metals and special steel, which will enhance the returns to investors.

Dong Shutong
Chairman & CEO

Hong Kong, 29 April 2009



Optimizing production chain and product mix

Management Discussion and Analysis

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		
	2008	2007	Change
	RMB'000	RMB'000	%
Turnover	**1,481,594**	1,874,591	(21%)
Gross Profit	**152,334**	586,098	(74%)
Earning before Interest, Tax, Depreciation and Amortisation ("EBITDA") (2007 comparative figure restated)	**223,617**	622,808	(64%)
(Loss)/Profit before Tax	**(24,163)**	470,747	N/A
Profit Attributable to Shareholders	**37,361**	359,291	(90%)
Gross Profit Margin	**10%**	31%	(21%)
EBITDA Margin	**15%**	33%	(18%)
(Loss)/Profit before Tax Margin	**(2%)**	25%	(27%)
Net Profit Margin	**3%**	19%	(16%)

The board of directors (the "Board" or the "Directors") of China Nickel Resources Holdings Company Limited (the "Company") is pleased to announce that the audited consolidated turnover of the Company and its subsidiaries (the "Group") for the year 2008 was approximately RMB1,481.6 million, representing a decrease of 21% as compared to 2007. Audited profit attributable to shareholders of the Company was approximately RMB37.4 million, representing a decrease of 90% when compared to 2007. Audited basic earnings per share for 2008 decreased by RMB0.227 to RMB0.018 when compared to 2007. Basic earnings per share was calculated based on the profit attributable to the shareholders of RMB37.4 million divided by the weighted average of 2,093.0 million shares in issue in 2008. The Directors do not recommend the payment of final dividend for the year ended 31 December 2008. The audited consolidated financial statements for the year ended 31 December 2008 have been reviewed by the Company's Audit Committee.

Management Discussion and Analysis

OPERATING ENVIRONMENT ANALYSIS

Effect of the PRC's economic stimulus package on the Group

In November 2008, the PRC government announced an economic stimulus package of RMB4,000 billion. Ten stimulus programmes will be launched in two years. The programmes of infrastructure construction of railways, highways, airports, villages and environmental protection and the re-establishment of the quake-stricken areas will directly benefit the steel industry. Other economic stimulus programmes will boost the overall economic growth and indirectly benefit the steel industry.

However, the impacts of the financial crisis on overseas economies remained and weakened the demand for commodities in international markets, resulting in the recent decrease in China's export. In the near future, such circumstances will continue to be the most critical uncertainties hindering the recovery of the economy of China. Therefore, apart from the RMB4,000 billion economic stimulus package announced at the end of last year, the central government introduced additional measures to boost consumption at the beginning of 2009. The government sought to boost domestic demand through improvement of household income and confidence in social security system. To ensure the balanced growth of the economy of China, the government encouraged the provision of loans and facilities for key projects, small and medium enterprises, utility projects and infrastructure of rural areas and technology development projects.

Industry revival plan favourable to the steel industry and the nonferrous metal industry

Favourable measures were specially proposed in the adjustment and revival plan of the State Council for ten major industries, namely the steel industry, the nonferrous metal industry, the automobile industry, the shipbuilding industry, the petrochemical industry, the machine manufacturing industry, the light industry, the logistics industry, the textile industry and the electronic information industry, due to their importance in the economy. The Group will have direct benefits from these measures as it operates in the steel industry and the nonferrous metal industry.

The revival plan for the steel industry favours the development of steel producers which are competitive in international markets so as to optimise the industry structure. Technology development of the steel industry will be encouraged by funding technology upgrade, research and introduction. Measures will also be taken to improve product offering and quality. The Group has been focusing on its research and development capability and is one of the few local and international steel enterprises that have a comprehensive business structure. It is believed that the Group is well positioned to enjoy the advantages brought by the new measures.

Management Discussion and Analysis

In addition, the automobile industry, the shipbuilding industry, the petrochemical industry and the machine manufacturing industry are the downstream industries of the Group. It is expected that demands for the existing steel products of the Group and the nonferrous metal products to be produced and other steel products being developed by the Group will continue to grow.

Product price

At present, iron and steel prices remain low generally. According to the analysis of certain global iron and steel price indices, price level of iron and steel as at the end of March 2009 has dropped to the price level in 2006, or decreased by about 36% as compared to last year. Nonetheless, in retrospect of the long-term price trend price indices of iron and steel maintained steady growth with an accumulated growth of 38% and an average annual growth rate of approximately 7.6% during the five years from 2004 to 2008. It indicates that the iron and steel price will rebound corresponding to the economic growth after the current price adjustment finishes.

Since mid-2007, nickel price in international markets has dropped for over 20 months from its record high. The price fall was further fuelled by the financial crisis and the plunge in commodity prices. Major nickel consuming enterprises have reduced their production since the end of last year, resulting in the reduction of planned production of certain nickel producers for 2009. Nevertheless, many countries have launched their economic stimulus packages which will boost the long term demand for steel and nickel. Currently, the domestic nickel market sees a moderate rebound. The average domestic nickel price picked up gradually from RMB83,500 per tonne at the end of 2008 to approximately RMB120,000 per tonne at the mid of April 2009. According to major international analysis reports on commodity market and metals, although the current price of nickel is weak due to excessive stocks, it is estimated that most of the stocks will be consumed by the end of this year. Together with the implementation of economic and industry stimulus plans by various countries, the relevant industries will adjust their business development and production plans to take advantage of the relevant measures. It is expected that the price and demand of nickel products and products containing nickel will further improve by the end of 2009.

Management Discussion and Analysis

BUSINESS REVIEW

Progress of business expansion plan

Henan Yongtong Nickel Co., Ltd. ("Yongtong Nickel") was a steel factory in Gongyi operated under another name and became a wholly-owned subsidiary of the Group upon its acquisition by the Group in January 2008. The Group launched its expansion project in the PRC through the acquisition of Yongtong Nickel. In March 2008, the application for registration of nickel refinery project of Yontong Nickel was approved by the provincial government. In June 2008, the municipal government approved the total pollutant discharge limits of Yongtong Nickel and completed the environmental assessment in September 2008. Construction of the expansion project is in progress as scheduled. The installation of the first mineral ore separation line has completed and is partially ready for trial run. The whole project is expected to be completed by the end of 2009.

CNR Group Holdings Pte. Ltd., a company incorporated in Singapore in October 2007, is a wholly-owned subsidiary of the Company. As an investment holding company and a trading company, it is principally engaged in investment management in Indonesia and trading of raw material and ore from the Indonesian plant. The company was granted preferential tax treatment under the Global Trader Programme by International Enterprise Singapore of Singapore government in September 2008.

PT Mandan Steel was incorporated in Indonesia in January 2008. It will establish a plant adjacent to a mine where the Group has an exclusive offtake right to procure ore. The Group is now processing all the necessary compliance and preparatory works for the construction of the plant.

PT Yiwan Mining ("Yiwan"), the supplier of the Exclusive Offtake Agreement, has applied for extension of the term of its mining authorisations (the "Mining Authorisations") at the request of the Group and has obtained approval from the relevant authority in Indonesia for extension of the Mining Authorisations from 15 years to 30 years up to 24 January 2036 (the "Extended Rights"). To enjoy the Extended Rights of Yiwan, the Group supplemented the relevant agreements in September 2008 to extend the original term to 24 January 2036 (the "Extended Term") to coincide with the expiry date of the Extended Rights. The term of the Exclusive Offtake Agreement was thereby extended from approximately 14 years to approximately 29 years. The Group is not required to pay any consideration for the amendment and the Extended Term.

Management Discussion and Analysis

Research and development of products and production technologies

The Group has invested significantly in the research and development of high value added products and innovative production technologies. The Group launched its self-developed and well-received stainless steel base material at the beginning of 2007 based on its existing special steel products such as bearing steel and spring steel and rolled out new products, including nickel-chromium alloy steel ingot and nickel-chromium bearing steel, in 2008 to further enhance its product offering. The Group also successfully developed anti-quake steel with high tensile ratio for construction use last year and engaged experts of the industry to develop special steel products for applications in infrastructure, railway system, oil plant and petroleum machine to cope with the forthcoming huge demand in relation to aftermath reconstruction and infrastructure construction.

Besides, the Group continued to strengthen its research and development efforts on green production technologies in order to conserve the earth's resources. Stainless steel base material is a steel material containing iron, nickel and chromium extracted from crude ore by reduction process. Based on this technology, the Group has successfully increased the nickel content of its steel products to meet the requirements of high-end stainless steel products and purification, providing a cost-effective method to produce stainless steel products directly from nickel oxide ore in the future. The Group is delighted that the construction of its new plant in Gongyi, Henan Province of China is scheduled to complete by the end of 2009. The new plant will employ self-developed ore separation and refinery technology to separate ore with various elements co-existing and refine them into iron concentrate, nickel, cobalt and other industrial raw materials. This technology can effectively recover the economic value of mineral resources to the full extent and will enhance the Group's cost effectiveness.

Management Discussion and Analysis

Turnover and sales volume

Major products of the Group were stainless steel base material and bearing steel. The table below sets out the turnover and sales volume of our major products for the years indicated:

Turnover

	For the year ended 31 December			
	2008		2007	
	RMB'000	%	RMB'000	%
Stainless steel base materials	**1,207,962**	**82%**	1,687,527	90%
Bearing steel	**104,213**	**7%**	159,211	8%
Ni-Cr alloy steel ingot	**152,074**	**10%**	—	—
Ni-Cr bearing steel	**14,449**	**1%**	—	—
Carbon structure steel and other steel	**2,896**	**—**	27,853	2%
Total	**1,481,594**	**100%**	1,874,591	100%

Sales volume

	For the year ended 31 December			
	2008		2007	
	(tonnes)	%	(tonnes)	%
Stainless steel base materials	**158,475**	**79%**	182,511	77%
Bearing steel	**20,383**	**10%**	46,368	19%
Ni-Cr alloy steel ingot	**20,194**	**10%**	—	—
Ni-Cr bearing steel	**920**	**1%**	—	—
Carbon structure steel and other steel	**549**	**—**	9,195	4%
Total	**200,521**	**100%**	238,074	100%

Management Discussion and Analysis

The Group's turnover in 2008 decreased by RMB393.0 million, or 21%, to approximately RMB1,481.6 million (2007: RMB1,874.6 million). This decrease was principally due to the decrease in demand and global financial turmoil broken out in the second half of 2008.

Total Group's sales volume in 2008 decreased by 37,553 tonnes, or 16%, to approximately 200,521 tonnes (2007: 238,074 tonnes).

During 2008, the Group's average selling price per tonne for stainless steel base material was RMB7,622 (2007: RMB9,271) while the average unit selling price per tonne for bearing steel was RMB5,113 (2007: RMB3,434).

Cost of sales

The cost of sales in 2008 increased by RMB40.8 million, or 3%, to approximately RMB1,329.3 million (2007: RMB1,288.5 million) which is due to the cost of coal and coke sharply increase in January to August 2008.

The unit cost of sales for stainless steel base material was RMB6,701 per tonne in 2008 (2007: RMB6,223 per tonne). The unit cost of bearing steel in 2008 increased by RMB2,853 per tonne, or 107%, to RMB5,519 per tonne (2007: RMB2,666), reflecting the result of high cost of coal and coke and higher absorption of fixed costs due to the lower volume of production and more research and development works.

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. Therefore the percentages of raw material in the first half 2008 was reduced to 45% of the cost of sales (2007: 58%).

Management Discussion and Analysis

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

Cost of sales

	For the year ended 31 December			
	2008		2007	
	RMB'000	**%**	RMB'000	%
Raw Materials	**603,242**	**45%**	743,841	58%
Fuel	**512,787**	**39%**	329,273	26%
Utilities	**98,052**	**7%**	115,197	9%
Depreciation	**61,007**	**5%**	57,190	4%
Staff Cost	**29,087**	**2%**	32,085	2%
Repair	**7,643**	**1%**	7,284	1%
Others	**17,442**	**1%**	3,623	—
	1,329,260	**100%**	1,288,493	100%

Gross profit

The unit gross profit for stainless steel base material in 2008 was RMB921 per tonne (2007: RMB3,048 per tonne), representing a unit gross profit margin of 12%. The unit gross loss for bearing steel in 2008 was RMB406 per tonne (2007: Unit gross profit RMB768 per tonne).

As a result of the factors discussed above, the gross profits in 2008 decreased by RMB433.8 million, or 74%, to RMB152.3 million (2007: RMB586.1 million).

The unit gross profit in 2008 decreased by RMB1,702 per tonne, or 69%, to RMB760 per tonne (2007: RMB2,462 per tonne).

The Group's gross profit margin in 2008 decreased by 21 percentage points to 10% (2007: 31%).

Management Discussion and Analysis

Other income and gains

Other income and gains in 2008 increased by RMB202.4 million, to RMB275.4 million (2007: RMB73.0 million). This is mainly due to the gain arose from the repurchase and cancellation of the convertible bonds from market at a discounted price which lower than the carrying amount of the convertible bonds.

Selling and distribution costs

Selling and distribution costs in 2008 decreased by RMB13.2 million to RMB30.8 million (2007: RMB44.0 million), representing 2% of turnover (2007: 2%).

Administrative costs

Administrative costs in 2008 increased by RMB63.4 million, or 84%, to RMB138.8 million (2007: RMB75.4 million), representing 9% of turnover (2007: 4%). This is in line 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 RMB9.1 million in 2008 (2007: RMB9.4 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 in the future. The total financial charges for convertible bonds based on effective interest method amounted to RMB138.9 million in 2008 (2007: RMB35.9 million), of which RMB17.3 million was capitalised as part of the cost of construction in progress.

Finance costs in 2008 was RMB153.9 million (2007: RMB68.1 million). The increase in interest expenses was mainly due to the increase in interest accrual for the Zero Coupon Convertible Bonds due 2012. Only approximately half month interest expense was accrued for the zero coupon convertible bonds in 2007 while full year of interest expense was accounted for in 2008.

Management Discussion and Analysis

Income tax expenses

The applicable Hong Kong corporate income rate of the Company and Company's subsidiaries which operates in Hong Kong is 16.5% based on existing legislation. HK$38.9 million of Hong Kong profit tax provision has been provided for the year ended 31 December 2008. Yongtong Special Steel is entitled to a 50% reduction in income of PRC for the year ended 31 December 2006, 2007 and 2008. Accordingly, Yongtong Special Steel was subject to PRC corporate income tax at an applicable income tax rate of 12.5% for the year ended 31 December 2008. The applicable income tax rate of Luoyang Yongan Special Steel Co., Ltd. is 25% for the year ended 31 December 2008.

Profit attributable to shareholders

As a result of the factors discussed above, the profit attributable to shareholders in 2008 decreased by RMB321.9 million, or 90%, to RMB37.4 million (2007: RMB359.3 million).

The unit net profit in 2008 decreased by RMB1,325 per tonne, or 87% to RMB190 per tonne (2007: RMB1,515 per tonne).

Key financial ratios

		For the year ended 31 December	
	Note	**2008**	2007
Current ratio	*1*	**193%**	328%
Inventories turnover days	*2*	**277 days**	225 days
Debtor turnover days	*3*	**34 days**	41 days
Creditor turnover days	*4*	**222 days**	159 days
Interest cover*	*5*	**0.8 times**	8 times
Interest-bearing gearing ratio	*6*	**46%**	58%
Debt to EBITDA ratio**	*7*	**8.4 times**	1.4 times
Net debt/Capital and net debt ratio	*8*	**25%**	17%

Management Discussion and Analysis

Note:

1 $$\frac{\text{Current asset}}{\text{Current liabilities}} \times 100\%$$

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

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

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

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

6 $$\frac{\text{Interest-bearing loans and other borrowings}}{\text{Equity attributable to the shareholders}} \times 100\%$$

7 $$\frac{\text{Interest-bearing loans and other borrowings}}{\text{EBITDA}}$$

8 $$\frac{\text{Net debt}}{\text{Capital and net debt}}$$

* Interest expenses for convertible bonds included both coupon payment and financial charges accrued for redemption or conversion in the future. If financial charges accrued based on the coupon rate, the Interest cover will be 3.1 times for the year ended 31 December 2008 (2007: 13 times).

** 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 for the year ended 31 December 2007.

Management Discussion and Analysis

Construction in progress

Our construction in progress as at 31 December 2008 was increased to RMB217.7 million (2007: RMB168.3 million) which comprised of addition of new facilities and conversion of existing facilities in PRC related to the expansion project and the production of new products in China.

Cash and cash equivalents and pledged time deposit

The decrease in cash and bank balances by approximately RMB792.9 million, or 35%, to RMB1,444.7 million as at 31 December 2008 compared to that as at 31 December 2007 was mainly due to the start of the expansion projects and repurchases of convertible bonds in 2008.

Trade and notes receivables

The debtor turnover days decreased from 41 days in 2007 to 34 days in 2008. As at 31 December 2008, trade and notes receivables balance decreased by RMB71.7 million, or 34%, to RMB137.7 million. This was mainly due to decrease in sales, especially during the 4th quarter of 2008 following the global financial turmoil.

Inventories

The inventories turnover days increased from 225 days in 2007 to 277 days in 2008. As at 31 December 2008, inventories balance increased by RMB212.5 million, or 27%, to RMB1,008.2 million. This was mainly due to major customers' request on deferring delivery schedule from the fourth quarter of 2008 to the first quarter of 2009 to cope with the major customers' revision on their production plan.

Prepayments, deposits and other receivables

As at 31 December 2008, prepayment, deposit and other receivables balance increased by RMB93.8 million, or 179% to RMB146.1 million. This was mainly due to the increase of prepayment to suppliers by RMB55.1 million, and Value-added tax receivable increased by RMB32.6 million.

Management Discussion and Analysis

Trade and notes payables

The creditor turnover days increased from 159 days in 2007 to 222 days in 2008. As at 31 December 2008, trade and notes payables balance increased by RMB247.8 million, or 44%, to RMB808.3 million. This was mainly due to the increase of note payable by RMB185.6 million to settle the accounts payable to suppliers of production material and contractors of expansion projects.

Interest-bearing loans and other borrowings

As at 31 December 2008, the total interest-bearing loans and other borrowings balance increased by RMB95.5 million, or 37%, to RMB356.5 million. Since the Group's equity has also increased in May 2007, the gearing ratio decreased from 58% as at 31 December 2007 to 46% as at 31 December 2008.

Use of proceeds

The net proceeds from the Share Subscription and the 3% Convertible Bond Subscription in May 2007 were approximately HK$700 million.

As at 31 December 2008, net proceeds were utilised in the following manner:

Use of proceeds	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 Zero Coupon Convertible Bond were approximately HK$1,950 million.

Management Discussion and Analysis

As at 31 December 2008, 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	141.5
General working capital	487.5	242.7

The Group has repurchased certain Zero Coupon Convertible Bonds with a total principal amount of HK$450 million for consideration of approximately HK$206.5 million and certain 3% Convertible Bonds with a total principal amount of HK$205 million for a consideration of HK$194.8 million. The utilised amount of Convertible Bonds include the consideration paid for respective repurchase of Convertible Bonds. The unutilised 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 utilise advances we received from our customers to finance part of our working capital requirements. As at 31 December 2008, the advance from customers amounted to RMB10.2 million. We also make prepayments to our suppliers which amounted to RMB45.7 million as at 31 December 2008.

As at 31 December 2008, we had current liabilities of RMB1,417.4 million, of which RMB236.1 million were interest-bearing loans repayable within one year, and RMB808.3 million were trade and notes payables in respect of purchase of raw materials.

Foreign currency risk

Since 2004, the Group has begun the purchase of iron ore from overseas suppliers. Since the contracts are in United States dollars ("US$") 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 consider to use necessary financial instruments for hedging purposes. As at 31 December 2008, all bank loans are denominated in RMB.

Management Discussion and Analysis

Since part of the proceeds from the convertible bonds issued in 2007 will be used to build a steel plant in Indonesia through an investment holding subsidiary of the Group which is incorporated in Singapore, also considering that Singapore dollars ("S$") is highly correlated with RMB, about 79% of the proceeds in HK$ from the convertible bonds has been converted into S$ in January, April and December of 2008 respectively. Besides, the Group does not enter into any hedging transactions with third parties to manage the potential fluctuation in foreign currency as the directors consider the Group has no significant foreign currency risk.

Security

As at 31 December 2008, the Group had notes payables of RMB569.4 million (2007: RMB383.8 million) secured by time deposit of RMB446.9 million (2007: RMB327.6 million) and notes receivable of nil (2007: RMB40 million). As at 31 December 2008, a bank loan of RMB83 million was secured by time deposit of RMB80 million.

Capital commitment

As at 31 December 2008, the Group had capital commitments in the amount of approximately RMB297.8 million for remaining parts of equipment refinement project.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 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 policy of linkage between duties and efficiency. The remuneration of employee consists of a basic salary and a performance-based bonus. In 2008, the staff costs of the Group amounted to RMB80.8 million (2007: RMB64.6 million).

Directors and Audit Committee

DIRECTORS

Executive Directors

Mr. Dong Shutong, aged 57, is an executive Director and the Chairman and the chief executive officer of the Company and is responsible for formulating the Group's overall business plans and strategies. He has been the director of Yongtong Special Steel and Zhengzhou Yongtong Alloy Metals Co., Ltd. ("Yongtong Alloy Metals"), 95% owned by Yongtong Special Steel, since the their incorporation in 1993 and 1995 respectively and has been involved in the management and day-to-day operations on a full time basis since. He has served as the vice manager and senior economic technology consultant Ministry of Metallurgical Industry Metallurgy News Information Development Company (冶金工業部冶金報社信息開發公司) in 1989. The said company was the original Ministry's department for news on the industry, organisation and major reports on metallurgical industry. Mr. Dong was appointed as the director of the Synthesis Department of the World Metallurgical Products Exhibition in 1990. The said organisation was primarily involved in the activities relating to exhibitions of metallurgical products. In 1992, he was appointed as the general manager of Henan Sanen Industry Sci-Tech Industrial Company (河南三恩工業科技實業公司). The said company was primarily involved in the research and development of industrial technologies. Between October 1984 and April 2004, the business of Refractory Materials Factory was contracted out to be managed by Mr. Dong. The Refractory materials factory was principally involved in the operation and management of refractory materials. He has also been serving as a part-time associate professor in the field of economics at Wuhan University of Science and Technology since 2002. He graduated from the Metallurgy Department of Wuhan Iron and Steel College in 1989. He received his Trade and Economics degree from Graduate School, The Chinese Academy of Social Sciences in 2000. He has been honoured various times for his outstanding achievement in the advancement of technology by various PRC governmental authorities from 1985 to 1994. He has also been awarded the "Award for Achievement in Development of the World Patent Technology" for his outstanding contribution to the patent technology and a gold medal for his bicomponent nozzle with condenser project by the Hong Kong Organising Committee of the International Patent Technology Expo in 2001 and as "The World's outstanding Chinese entrepreneur" by the World Chinese Entrepreneur Association in 2004. He was appointed as a member of the Zhengzhou Overseas Exchange Association and was elected as a joint-committee member of the Zhengzhou Enterprises Association and the Representatives of the Members of the Zhengzhou Enterprises Association in 2003. In 2004, he was appointed as a representative of the Zhengzhou City to the Twelfth National People's Congress. Mr. Dong was awarded China Industry and Economics Hundred Outstanding People of the Year by the China Industry and Economics News and People of the Year Award Organisation Committee in April 2005. Mr. Dong was also the factory general manager and the sole legal representative of the Refractory Materials Factory from 1984 to 2004. Mr. Dong published

Directors and Audit Committee

《新經濟的背後 — 精神經濟浮出水面》(What's behind the New Economy — The Emergence of Spiritual Economy) in 2001 and《精神價值與中國經濟轉型》(Spiritual Value and the Transformation of the Chinese Economy) in 2002. Mr. Dong is the father of Mr. Dong Chengzhe, the executive Director of the Company.

Mr. He Weiquan, aged 55, is an executive Director and the chief operation officer of the Company and is responsible for implementing the Group's plans and strategies relating to production and financial matters. He worked in the Handan Steel Company (邯鄲鋼鐵公司), a company involved in steel production, for 17 years as a section chief and then as a factory director. Thereafter, he spent two years as factory director in Shuicheng Steel Group Co. (水城鋼鐵集團公司), a company principally involved in steel production. He joined Daye Special Steel (大冶特鋼), an enterprise principally involved in steel production as the chief engineer before he joined the Group in May 2000 first as a deputy general manager and then as a general manager. He was awarded a senior professional rank by the Title Reform Leading Group Office of the Hebei Province in 1997. He has also published several articles on techniques of steel smelting and continuous casting. He graduated with a bachelor's degree from the Metallurgy Department of Northeastern University of Technology (東北工學院) in 1980.

Mr. Lau Hok Yuk, MBA, FCPA, FCCA, ATIHK, FLMI, CFA, aged 43, is an executive Director and company secretary of the Company. Mr Lau is also the Chief Financial Officer of the Company. He holds a Master Degree of Business Administration from the University of Strathclyde in the UK. He is a Certified Public Accountant and a Fellow of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the UK. He is also a Chartered Financial Analyst in the USA and an associate member of the Taxation Institution of Hong Kong. Mr. Lau has over 19 years of working experience in the areas of financial and compliance control, corporate finance and business administration and has held various senior finance positions in financial institutions, multinational enterprises and manufacturing companies.

Mr. Song Wenzhou, aged 41, is an executive Director and is responsible for the Group's administrative, marketing and staff development matters. Prior to joining the Group in July 1995, he was a teacher at the Zhengzhou Institute of Technology. He graduated from Beijing Open University with a Bachelor's Degree in Linguistics and Phonetics in 1987. He also received his Bachelor's Degree in Chinese Language and Literature from Henan Normal University and Bachelor's Degree in Legal Studies from Central Broadcast and Television University in 1992 and in 2003, respectively. Since joining the Group in 1995 until February 2004, Mr. Song was also responsible for the administrative matters at the Refractory Materials Factory.

Directors and Audit Committee

Mr. Zhao Ping, age 45, is an executive Director of the Company. He graduated from Chongqing Steel Industrial Institute in 1982. He studied Industrial Management at Shenyang Metallurgy Technical Institute, Political Economics at Xinjiang University, and was trained in prominent steel factories in Germany and Denmark. He obtained a Master degree in Business Administration from the Peking University in 2005 and is studying for a Doctorate in Steel Metallurgy at the Institute of Metallurgy, Peking University of Science and Technology. After serving respectively as technician, assistant engineer, engineer and senior engineer at the August First Steel Corporation in Xinjiang, he was appointed senior engineer (Professorial Grade) in 2001. He led various projects that were awarded prizes, commendations and distinctions in the Xinjiang Uygur Autonomous Region.

Mr. Dong Chengzhe, age 30, is an executive Director of the Company. He graduated from the Wuhan University of Science and Technology with a Diploma in International Trade and obtained a Bachelor degree in Accountancy from the Royal Melbourne Institute of Technology in Australia. Mr. Dong joined the Group in 2007 and was primarily responsible for the finance and international trade functions of Yongtong Special Steel Co. Ltd., an indirect wholly owned subsidiary of the Group in Zhengzhou, the PRC. Prior to joining the Group, Mr. Dong was a proprietor in international trade in Australia. Mr. Dong is the son of Mr. Dong Shutong, an executive Director and the controlling shareholder of the Company.

Non-executive Director

Mr. Yang Tianjun, aged 65, is a non-executive Director. He worked in Ministry of Metallurgy Forty Company (冶金部四零公司) and then in Angang Steelwork (鞍鋼煉鋼廠) for a total of 14 years as a technician and an engineer, respectively. He was the principal of University of Science and Technology Beijing from 1993 to July 2004 and is currently a professor and doctoral advisor in the Metallurgy Department of University of Science and Technology Beijing.

He has been awarded nine national and provincial first, second and third-grade State Scientific and Technological Progress Prizes since 1989 for his outstanding contributions to the State by conducting scientific researches in metallurgical projects. He was the chairman of the Sino-German co-operation in studying the multipurpose use of niobium. He was invited by Research Institute of Industrial Science and Technology of Korea to lead the research of blast furnace air-refined coal spray, and he participated in a joint research with Metallurgical Research Institute in blast furnace coal spray and mathematics model. He published over 70 academic papers both in the PRC and abroad and six books on the specialised subjects in the metallurgy field. He was appointed as the vice chairman of Chinese Society of Metals and a member of the Fifth Graduate Committee of the State Council (國務院學位委員會) in 2001 and 2003 respectively.

Directors and Audit Committee

He graduated in 1965 from the Metallurgical Department of Beijing Iron and Steel College. He completed his postgraduate study in 1981 and obtained a master's degree in metallurgy from the Beijing Iron and Steel Institute. In 1985, he was granted the scholarship from Humboldt-University zu Berlin and conducted a joint research with the RWTH-Aachen University in Germany, and was awarded a doctorate degree in 1986.

Independent non-executive Directors

Mr. Bai Baohua, aged 67, is an independent non-executive Director. He has almost 42 years experience in the metallurgy field. He has worked as the engineer, manager and general manager of China Metallurgical Import & Export Company (中國冶金進出口公司), a company primarily involved in the trading of metals, the general manager of China International Steel Investment Company (中國國際鋼鐵投資公司), a company primarily involved in the promotion of foreign investment in the steel industry in the PRC, and the general manager, vice chairman and legal representative of China Iron and Steel Industry and Trade Group Corporation, a company primarily involved in production and trade of steel. He graduated from the Metal Pressure Processing Department at Beijing Iron and Steel College in 1965.

Mr. Huang Changhuai, aged 73, is an independent non-executive Director. He has worked in a printing and dyeing mill as a supervisor, political director and deputy director of the mill. He was appointed as the deputy director of the city's economic system reform committee by the People's Government of Zhengzhou City and as the director of the city's industrial and communications development committee at the Third Session of the Eighth People's Congress of Zhengzhou City in 1985. He was then appointed at the Twelfth Session of the Eighth People's Congress of Zhengzhou City as the director of the city's economic committee in 1986. He was also appointed the deputy director of the standing committee of the People's Congress of Zhengzhou City. He graduated in September 1958 from Zhengzhou Textile School.

Mr. Wong Chi Keung, FCCA, FCPA, ACMA, ACIS, aged 54, is an independent non-executive Director. He holds a master's degree in business administration from the University of Adelaide in Australia. He is a fellow member of Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants and CPA Australia; an associate member of The Institute of Chartered Secretaries and Administrators and The Chartered Institute of Management Accountants. Mr. Wong was an executive director, the deputy general manager, group financial controller and company secretary of Guangzhou Investment Company Limited for over ten years.

He is currently an independent non-executive director and a member of the audit committee of Asia Orient Holdings Limited, Asia Standard International Group Limited, Century City International Holdings Limited, China Ting Group Holdings Limited, First Natural Foods Holdings Limited (provisional liquidators appointed), FU JI Food and Catering Services Holdings Limited, Golden Eagle Retail Group Limited, Great Wall Motor

Directors and Audit Committee

Company Limited, PacMOS Technologies Holdings Limited, Paliburg Holdings Limited, Regal Hotels International Holdings Limited and TPV Technology Limited, all of which are listed on the Stock Exchange. He was formerly an independent non-executive director of International Entertainment Corporation. Save as disclosed above, Mr. Wong does not hold other directorship in listed public company for the last three years. Mr. Wong has over 32 years of experience in finance, accounting and management.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Lau Hok Yuk, is the Group's executive Director, company secretary and qualified accountant. Mr. Lau's personal particulars are set out in the paragraph headed "Directors" above.

AUDIT COMMITTEE

The Company established an audit committee pursuant to a resolution of the Directors passed on 2 May 2005 in compliance with Rule 3.21 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, ("Listing Rules"). The primary duties of the audit committee are to review the financial reporting process and internal control procedures of the Group. The audit committee consists of the three independent non-executive Directors, namely Wong Chi Keung, Bai Baohua and Huang Changhuai and Wong Chi Keung is the chairman of the audit committee.

Green Production Technology

Cost Effectiveness Enhancement

Full Recovery of Mineral Resources' Value

Report of the Directors

The Directors present their report and the audited consolidated financial statements of the Company and the Group for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and trading of iron ore. The Group is principally engaged in the manufacture and sale of nickel resources products in the People's Republic of China (the "PRC"). Details of the principal activities of the subsidiaries are set out in note 20 to the consolidated financial statements.

SEGMENT INFORMATION

The Group's turnover and profit for the year ended 31 December 2008 were mainly derived from 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 for the year ended 31 December 2008.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2008 and the state of affairs of the Company and the Group at that date are set out in the consolidated financial statements on pages 54 to 152.

An interim dividend of HK$0.017 per ordinary share was declared on 24 September 2008 and paid on 20 October 2008.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial year is disclosed on page 4.

PROPERTY, PLANT AND EQUIPMENT

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

Report of the Directors

SHARE CAPITAL, SHARE OPTIONS AND CONVERTIBLE BONDS

Details of movements in the Company's share capital, share options and convertible bonds during the year are set out in notes 30, 32 and 29 to the consolidated financial statements respectively.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2008.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company purchased a total of HK$205 million principal amount of 3% Convertible Bonds on 10 November 2008 at an average price of 95% of the principal amount and a total of HK$450 million principal amount of Zero Coupon Convertible Bonds between 19 August 2008 and 26 November 2008 at an average price of 46% of the principal amount, respectively. The purchases involved a total cash outlay of HK$401.3 million. The repurchases and cancellations resulted in a reduction in the liability component of convertible bonds by HK$671.4 million and a gain of HK$270.1 million (equivalent to RMB237.7 million) was recorded in the consolidated income statement.

Saved as disclosed above, during the year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 31 to the consolidated financial statements and the consolidated statement of changes in equity, respectively.

Report of the Directors

DISTRIBUTABLE RESERVES

As at 31 December 2008, the Company's reserves, including the share premium account, available for distribution, calculated in accordance with the provisions of Companies Law (2007 Revision) of the Cayman Islands, amounted to RMB3,029,664,000.

Under the laws of the Cayman Islands, the share premium account and contributed surplus are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

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

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 84% of the total sales for the year and sales to the largest customer included therein accounted for 55%. Purchases from the Group's five largest suppliers accounted for 41% of the total purchases for the year and purchases from the largest supplier accounted for 10%.

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

Report of the Directors

DIRECTORS

The Directors of the Company during the year and as at the date of the report were:

Executive Directors

Mr. Dong Shutong
Mr. He Weiquan
Mr. Lau Hok Yuk
Mr. Song Wenzhou
Ms. Zhang Ming (resigned on 1 April 2008)
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

Pursuant to article 87 of the articles of association of the Company, Mr. Lau Hok Yuk, Mr. Zhao Ping, Mr. Dong Chengzhe and Mr. Bai Baohua will retire as Directors at the forthcoming annual general meeting and all retiring Directors, being eligible for re-election, will offer themselves for re-election thereat.

The Independent Non-executive Directors of the Company are not appointed for any specific terms. According to article 87 of the articles of association of the Company, all Directors are subject to retirement by rotation and re-elections at least once every three years at the annual general meeting of the Company.

The Company has received annual confirmation of independence from Mr. Bai Baohua, Mr. Huang Chuanghuai and Mr. Wong Chi Keung and still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and Audit Committee of the Company are set out on pages 27 to 31.

DIRECTORS' SERVICE CONTRACTS

None of the Directors of the Company has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Report of the Directors

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS IN CONTRACTS

Mr. Dong Shutong, being a beneficial owner of East Grow Management Limited ("East Grow"), was interested in a contract for the supply of iron ore to the Group effective from 1 January 2006.

On 5 March 2007, S.E.A. Mineral Limited ("S.E.A.M") entered into an Exclusive Offtake Agreement with Yiwan Mining, a limited company incorporated in Indonesia, (the "Exclusive Offtake Agreement") which is substantially owned by Mr. Soen Bin Kuan. Pursuant to the Exclusive Offtake Agreement, Yiwan Mining agreed to exclusively sell and S.E.A.M agreed to buy the iron ores produced by Yiwan Mining at a fixed price of US$16 per dry tonne, for a minimum 40 million dry tones of iron ores throughout a period of approximately 14 years expiring on 24 January 2021. On 12 September 2008, the term of the exclusive offtake right was extended to 29 years expiring on 24 January 2036.

By virtue of the convertible bonds issued by Yiwan Mining to Easyman Assets Management Limited which is wholly-owned by Mr.Dong Shutong ("Mr. Dong"), executive Director and Chairman of the Company. As such, Mr. Dong had an indirect interest in the Exclusive Offtake Agreement.

Further details of the transaction undertaken in connection therewith are included in note 36 to the consolidated financial statements. Save as disclosed above, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries was a party during the year.

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

As at 31 December 2008, the interests and short positions of the Directors and chief executive and their associates in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities & Futures Ordinance ("SFO") which (a) were required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the

Report of the Directors

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 (the "Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange (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	1,501,326,705 (note 1)	71.73%

(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. 1,481,074,705 shares and 15,252,000 shares are held directly by Easyman Assets Management Limited and Sino Regent Worldwide Limited respectively, which is 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, Company's shares of HK$0.10 each are issuable.

Report of the Directors

Save as disclosed above, as at 31 December 2008, none of the Directors and the chief executive of the Company and their associates had any interest or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2008, shareholders (other than the interests disclosed above in respect of the Director of the Company who is also substantial shareholder of the Company) who had interests and short positions in the shares and underlying shares of the Company which have been disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

(i) Long positions in the Shares as at 31 December 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)	Beneficial owner	1,481,074,705	Nil	70.76%	Nil

Note: Easyman Assets Management Limited is wholly owned by Mr. Dong Shutong, Chairman of the Company.

Report of the Directors

(ii) Long positions in the underlying Shares of the 2010 convertible notes of the Company as at 31 December 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)	316,130,000	182,736,416	8.73%

Note: As at 31 December 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 constitutes a long position in physically settled equity derivatives under the SFO.

Save as disclosed above, as at 31 December 2008, the Company has not been notified by any persons who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Report of the Directors

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.

The option will have a vesting schedule of 5 years whereby only 20% of the option shall be exercisable 12 months after the date of acceptance of the option and an additional 20% may be exercised by the grantee in each subsequent year until the last day of the five-year period after the date of acceptance of the option when 100% of the option may be exercised.

Report of the Directors

During the year, the Board of Directors of the Company were authorised to grant share options under the Company's share option scheme to certain executive Directors and senior managers. The details of the share options are as follows:

	No. of share options						
	At beginning of year	Granted during the year	Exercised during the year	Lasped during the year	At 31 December 2008	Exercise price of share options* HK$	Price of Company's shares 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	–
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	–	(480,000)	14,520,000	2.45	–
Sub-total for number of share options to other employees	12,690,000	15,000,000	–	(480,000)	27,210,000		
Total	32,760,000	15,000,000	(255,000)	(1,500,000)	46,005,000		

Report of the Directors

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 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.

*** Ms. Zhang Ming resigned as a Director of the Company on 1 April 2008.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme as set out in note 32 to the consolidated financial statements, at no time during the year ended 31 December 2008 were rights to acquire benefits by means of the acquisition of shares in the Company granted to any Director or their respective spouse or minor children, or were such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

CONNECTED TRANSACTIONS

Pursuant to the extraordinary general meeting of the Company held on 19 January 2006, the Company's independent shareholders approved the continuing connected transactions in relation to sourcing of iron ore from East Grow. According to the master agreement entered into between East Grow and the Company (the "Master Agreement") in connection with the sourcing of iron ore, East Grow agreed to supply iron ore to the Group with effect from 1 January 2006 to 31 December 2008. According to the Master Agreement, the prices for these continuing connected transactions will be set on the basis of 90% of the market price, at maximum, and these transactions will be entered into in usual and ordinary course of business of the Group. The annual cap for these transactions for the years ended 31 December 2006, 2007 and 2008 will not exceed HK$318 million, HK$438 million and HK$588 million, respectively.

During the year, the Company had purchased nil (2007: Nil) iron ore from East Grow.

Pursuant to the extraordinary general meeting of the Company held on 2 May 2007, the Company's independent shareholders approved the continuing connected transactions in relation to the exclusive ores purchase from Yiwan Mining. According to the Exclusive Offtake Agreement entered into between Yiwan Mining and the S.E.A.M., an indirect wholly owned subsidiary of the Company, in connection with the purchasing of ore, Yiwan Mining agreed to supply ore to the S.E.A.M. with effect from 18 May 2007 to 31 December 2009. According to the Exclusive Offtake Agreement, the prices for these continuing connected

Report of the Directors

transactions will be US$16.00 per dry tonne and these transactions will be entered into in usual and ordinary course of business of the Group. The annual cap for these transactions for the years ended 31 December 2007 and 2008 and years ending 31 December 2009 will not exceed HK$89.70 million, HK$452.40 million and HK$491.40 million, respectively.

During the year, the Company had purchased US$13.8 million (approximately HK$107.3 million) (2007: US$8.9 million (approximately HK$69.40 million)) ore from Yiwan Mining.

Pursuant to Rule 14A.38 of the Listing Rules, the Board of Directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the Board of Directors.

The independent non-executive Directors of the Company have reviewed the continuing connected transactions in 2008 and confirm that the transactions have been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties;

(3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Group as a whole; and

(4) have not exceeded the relevant maximum amount capped in accordance to the waiver previously granted by the Stock Exchange.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, none of the Directors of the Company had any interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

Report of the Directors

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 40 to the consolidated financial statements.

AUDIT COMMITTEE

The Company established an audit committee pursuant to a resolution of the Directors passed on 2 May 2005 in compliance with Rule 3.21 of the Listing Rules. The primary duties of the audit committee are to review the financial reporting process and internal control procedures of the Group. The audit committee consists of the 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.

REMUNERATION COMMITTEE

The Company established a remuneration committee pursuant to a resolution of the Directors passed on 10 April 2006 in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules.

The remuneration committee consists of the three independent non-executive Directors, namely Mr. Wong Chi Keung, Mr. Bai Baohua, Mr. Huang Changhuai and an executive Director, Mr. Dong Shutong.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Dong Shutong
Chairman

29 April 2009

Report of Corporate Governance

CORPORATE GOVERNANCE PRACTICES

For the year ended 31 December 2008, in the opinion of the Board, the Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules except for the deviations from Code Provision A.2.1 of the CG Code in respect of the segregation of the role of Chairman and chief executive officer, and Code Provision A.4.1 of the CG Code in respect of the service term of independent non-executive Directors.

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

MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code for securities transactions by Directors of the Company. Having made specific enquiries, all Directors have confirmed that they have complied with the requirements set out in the Model Code during the year ended 31 December 2008.

THE BOARD

Composition and appointment

As at 31 December 2008, the Board comprises ten Directors, including six executive Directors, one non-executive Director and three independent non-executive Directors. Names and biographies of the Directors are set out on pages 27 to 31 of this annual report.

The Company has complied with Rules 3.10(1) and (2) of the Listing Rules of having one of the independent non-executive Directors possesses the requisite appropriate professional qualifications. The Board confirmed that the independence and qualification of the independent non-executive Directors are in compliance with the relevant requirements of the Listing Rules.

Other than Mr. Dong Shutong and Mr. Dong Chengzhe are father and son, there was no connection amongst the Directors that should be disclosed relating to finance, business, relation or other significant events or relevant matters.

The Board has effectively overseen and monitored the activities of the Company and the decisions were made in the best interests of the Company. During the year, the Board convened a total of three meetings,

Report of Corporate Governance

performing its duties in considering, inter alia, continuing connected transactions and financial and other matters under the provisions of the articles of association of the Company. Real-time teleconference system was adopted at each meeting to increase the attendance rate.

Under Code Provision A.4.1 of the CG Code, 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 of the CG Code. 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 in line to those provided in the Code.

During the year, three full Board meetings were held and the attendance of each Director is set out as follows:

	Attendance		
Name of Director	Times	Rate (%)	Title
Dong Shutong	3	100	Chairman, executive Director, Chief Executive Officer
He Weiquan	3	100	executive Director, Chief Operation Officer
Lau Hok Yuk	3	100	executive Director, Chief Financial Officer
Song Wenzhou	3	100	executive Director
Zhang Ming*	N/A	N/A	executive Director
Zhao Ping	3	100	executive Director
Dong Chengzhe	3	100	executive Director
Yang Tianjun	3	100	non-executive Director
Bai Baohua	3	100	independent non-executive Director
Huang Changhuai	3	100	independent non-executive Director
Wong Chi Keung	3	100	independent non-executive Director

* resigned effective from 1 April 2008

Chairman and chief executive

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

Report of Corporate Governance

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 the chief executive for the year ended 31 December 2008 and up to the date of the report. This constitutes a deviation from Code Provision A.2.1 of the CG Code. 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. 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 the posts are held by the same individual. However, the functions of the chief executive were carried out by all of the executive Directors.

Remuneration Committee

The remuneration committee of the Company was established on 10 April 2006 and comprises one executive Director and three independent non-executive Directors. The members of the remuneration committee are: Mr Dong Shutong, Mr Bai Baohua, Mr. Huang Changhuai and Mr. Wong Chi Keung.

The remuneration committee held one meeting on 20 March 2008 and all committee members attended the meeting.

Responsibilities of the remuneration committee include:

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

(2) to have the delegated responsibility to determine the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive Directors. The remuneration committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;

Report of Corporate Governance

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

(4) to review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment;

(5) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct; and

(6) to ensure that no Director is involved in deciding his own remuneration.

AUDITORS' REMUNERATION

For the year ended 31 December 2008, the auditors of the Company, Ernst & Young, have carried out the statutory audit for the Company. The total fee paid to Ernst & Young amounted to RMB3,089,000.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive Directors, and Mr. Wong Chi Keung serves as the chairman of the audit committee.

During the year, the audit committee held two committee meetings on 22 April 2008 and 23 September 2008. The attendance of each of the members of the audit committee at such meetings is as follows:

	Attendance		
Name of member	Times	Rate (%)	Title
Wong Chi Keung	2	100	Independent Non-Executive Director
Bai Baohua	2	100	Independent Non-Executive Director
Huang Changhuai	2	100	Independent Non-Executive Director

During the meetings held in 2008, the audit committee had performed the following work:

(1) reviewed the financial reports for the year ended 31 December 2007 and for the six months ended 30 June 2008;

(2) reviewed the effectiveness of internal control system;

Report of Corporate Governance

(3) reviewed the external auditors' statutory audit plan and engagement letter;

(4) reviewed the management letter from the external auditors in relation to the audit of the Group for the year ended 31 December 2007;

(5) reviewed and recommended for approval by the Board the 2008 audit scope and fees.

Responsibilities of the audit committee include:

(1) reviewing the financial reporting process, internal control system and the completeness of financial reports of the Company;

(2) to be in charge of the appointment of external auditors, auditing expenses and any matters regarding the resignation or dismissal of the external auditors;

(3) to discuss with the external auditors on the nature and scope of audit prior to the commencement of the auditing procedures; and

(4) to review the interim and annual accounts.

The audit committee has reviewed the auditing performance, the internal controls and the audited accounts of the Group for the year ended 31 December 2008.

INTERNAL CONTROL

The Board is responsible for the Company's system of internal controls and its effectiveness. However, such a system is designed to manage the Company's risks within an acceptable risk profile, rather than to eliminate the risk of failure to achieve the policies and business objectives of the Company. Accordingly, it can only provide reasonable assurance but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Company and this process includes updating the system of internal controls when there are changes to business environment.

Report of Corporate Governance

During the year, the Board has conducted a review of the effectiveness of the system of internal control of the Company and its principal subsidiaries with no material issues noted.

The Board is of the view that the system of internal controls in place for the year under review and up to the date of issuance of the annual report and consolidated financial statements is sound and is sufficient to safeguard the interests of shareholders, customers and employees, and the Company's assets.

The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and involving in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of financial statements which give a true and fair view of the state of affairs of the Group. In preparing the financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. The statement of the external auditors about the reporting responsibilities in the Independent Auditors' Report on the consolidated financial statements is set out on pages 52 and 53.

Independent Auditors' Report

ERNST & YOUNG
安 永

To the shareholders of China Nickel Resources Holdings Company Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of China Nickel Resources Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 54 to 152, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company (the "Directors") are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

29 April 2009

Consolidated Income Statement

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Revenue	5	**1,481,594**	1,874,591
Cost of sales		**(1,329,260)**	(1,288,493)
Gross profit		**152,334**	586,098
Other income and gains	5	**275,445**	72,965
Selling and distribution costs		**(30,754)**	(43,988)
Administrative expenses		**(138,839)**	(75,442)
Other expenses		**(128,406)**	(786)
Finance costs	6	**(153,943)**	(68,100)
(Loss)/profit before tax	7	**(24,163)**	470,747
Tax benefit/(expense)	9	**62,337**	(110,085)
Profit for the year		**38,174**	360,662
Attributable to:			
Equity holders of the parent	10	**37,361**	359,291
Minority interests		**813**	1,371
		38,174	360,662
Dividends	11	**31,320**	121,732
Earnings per share attributable to ordinary equity holders of the parent			
— Basic (RMB)	12	**0.018**	0.245
— Diluted (RMB)	12	**0.016**	0.223

Balance Sheets

31 December 2008

	Notes	Group 2008 RMB'000	Group 2007 RMB'000	Company 2008 RMB'000	Company 2007 RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	14	**1,000,042**	930,838	**3,600**	359
Construction in progress	15	**217,704**	168,294	**—**	—
Prepaid land lease payments	16	**203,639**	201,485	**—**	—
Goodwill	17	**58,394**	65,052	**—**	—
Intangible asset	18	**2,656,572**	2,682,095	**—**	—
Deferred tax assets	19	**112,505**	24,290	**193**	—
Interests in subsidiaries	20	**—**	—	**4,417,136**	3,947,907
Prepayments	21	**70,760**	34,991	**21,679**	22,642
Total non-current assets		**4,319,616**	4,107,045	**4,442,608**	3,970,908
Current assets					
Inventories	22	**1,008,220**	795,693	**—**	—
Trade and notes receivables	23	**137,704**	209,369	**—**	—
Prepayments, deposits and other receivables	24	**146,139**	52,335	**4,973**	6,289
Pledged time deposits	25	**526,912**	327,642	**80,001**	—
Cash and cash equivalents	25	**917,763**	1,909,959	**558,171**	1,719,530
Total current assets		**2,736,738**	3,294,998	**643,145**	1,725,819
TOTAL ASSETS		**7,056,354**	7,402,043	**5,085,753**	5,696,727
Current liabilities					
Trade and notes payables	26	**808,337**	560,517	**1,137**	—
Accrued liabilities and other payables	27	**210,506**	231,662	**4,714**	5,280
Interest-bearing loans and other borrowings	28	**236,089**	140,659	**—**	37,089
Current portion of convertible bonds	29	**145,859**	—	**145,859**	—
Tax payable		**16,620**	70,851	**—**	—
Total current liabilities		**1,417,411**	1,003,689	**151,710**	42,369

to be continued/

Balance Sheets

31 December 2008

	Notes	Group 2008 RMB'000	Group 2007 RMB'000	Company 2008 RMB'000	Company 2007 RMB'000
NET CURRENT ASSETS		**1,319,327**	2,291,309	**491,435**	1,683,450
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,638,943**	6,398,354	**4,934,043**	5,654,358
Non-current liabilities					
Interest-bearing loans and other borrowings	28	**120,457**	120,370	**—**	—
Convertible bonds	29	**1,382,398**	2,113,871	**1,382,398**	2,113,871
Deferred tax liabilities	19	**25,921**	26,886	**—**	—
Total non-current liabilities		**1,528,776**	2,261,127	**1,382,398**	2,113,871
NET ASSETS		**4,110,167**	4,137,227	**3,551,645**	3,540,487
EQUITY					
Equity attributable to equity holders of the parent					
Issued capital	30	**209,961**	209,938	**209,961**	209,938
Equity component of convertible bonds	29	**54,043**	73,198	**54,043**	73,198
Reserves	31	**3,791,159**	3,775,501	**3,287,641**	3,232,952
Proposed final dividends	11	**—**	24,399	**—**	24,399
Total equity attributable to equity holders of the parent		**4,055,163**	4,083,036	**3,551,645**	3,540,487
Minority interests		**55,004**	54,191	**—**	—
TOTAL EQUITY		**4,110,167**	4,137,227	**3,551,645**	3,540,487

Dong Shutong
Chairman

Lau Hok Yuk
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2008

	Notes	Issued capital RMB'000 (note 30)	Share premium account RMB'000 (note 31)	Contributed surplus RMB'000 (note 31)	Capital reserve RMB'000 (note 31)	Share option reserves RMB'000 (note 31)	Equity component of convertible bonds RMB'000 (note 29)	Statutory surplus reserves and statutory reserve fund RMB'000 (note 31)	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000 (note 11)	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
		Attributable to equity holders of the parent												
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		–	–	–	–	–	–	–	(18,870)	–	–	(18,870)	–	(18,870)
Profit for the year		–	–	–	–	–	–	–	–	37,361	–	37,361	813	38,174
Total income and expense for the year		–	–	–	–	–	–	–	(18,870)	37,361	–	18,491	813	19,304
Exercise of share options	32	23	568	–	–	(154)	–	–	–	–	–	437	–	437
Equity-settled share option arrangements	32	–	–	–	–	8,918	–	–	–	–	–	8,918	–	8,918
Forfeited share option reserves		–	–	–	–	(400)	–	–	–	400	–	–	–	–
Repurchases of convertible bonds	29	–	–	–	–	–	(19,155)	–	–	19,155	–	–	–	–
Transferred from retained profits		–	–	–	–	–	–	133	–	(133)	–	–	–	–
Adjustment on proposed final 2007 dividend for new shares issued	11	–	(3)	–	–	–	–	–	–	–	3	–	–	–
Final 2007 dividend declared		–	–	–	–	–	–	–	–	–	(24,402)	(24,402)	–	(24,402)
Interim 2008 dividend	11	–	(31,317)	–	–	–	–	–	–	–	–	(31,317)	–	(31,317)
At 31 December 2008		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

* The aggregate of these reserve accounts represents the consolidated reserves of RMB3,791,159,000 (2007: RMB3,775,501,000) in the consolidated balance sheet.

to be continued/

Consolidated Statement of Changes in Equity

Year ended 31 December 2008

		Attributable to equity holders of the parent												
	Notes	Issued capital RMB'000 (note 30)	Share premium account RMB'000 (note 31)	Contributed surplus RMB'000 (note 31)	Capital reserve RMB'000 (note 31)	Share option reserves RMB'000 (note 31)	Equity component of convertible bonds RMB'000 (note 29)	Statutory surplus reserves and statutory reserve fund RMB'000 (note 31)	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000 (note 11)	Total RMB'000	Minority interests RMB'000	Total equity 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		–	–	–	–	–	–	–	(10,795)	–	–	(10,795)	–	(10,795)
Profit for the year		–	–	–	–	–	–	–	–	359,291	–	359,291	1,371	360,662
Total income and expense for the year		–	–	–	–	–	–	–	(10,795)	359,291	–	348,496	1,371	349,867
Issue of ordinary shares		5,510	89,806	–	–	–	–	–	–	–	–	95,316	–	95,316
Share issue expenses		–	(2,964)	–	–	–	–	–	–	–	–	(2,964)	–	(2,964)
Issue of consideration shares		131,889	2,149,791	–	–	–	–	–	–	–	–	2,281,680	–	2,281,680
Issue of convertible notes (stock options)		–	–	–	311,135	–	–	–	–	–	–	311,135	–	311,135
Exercise of share options		74	936	–	–	(219)	–	–	–	–	–	791	–	791
Equity-settled share option arrangements	32	–	–	–	–	4,590	–	–	–	–	–	4,590	–	4,590
Issue of convertible bonds, net of transaction costs	29	–	–	–	–	–	78,925	–	–	–	–	78,925	–	78,925
Conversion of convertible bonds	29(i)	11,346	249,469	–	–	–	(5,727)	–	–	–	–	255,088	–	255,088
Transferred from retained profits		–	–	–	–	–	–	27,168	–	(27,168)	–	–	–	–
Final 2006 dividend declared		–	–	–	–	–	–	–	–	–	(17,153)	(17,153)	–	(17,153)
Interim 2007 dividend	11	–	(97,333)	–	–	–	–	–	–	–	–	(97,333)	–	(97,333)
Proposed final 2007 dividend		–	(24,399)	–	–	–	–	–	–	–	24,399	–	–	–
Acquisition of subsidiaries	33	–	–	–	–	–	–	–	–	–	–	–	37,494	37,494
Acquisition of minority interests		–	–	–	(15,319)	–	–	–	–	–	–	(15,319)	15,319	–
At 31 December 2007		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

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Cash flows from operating activities			
(Loss)/profit before tax		**(24,163)**	470,747
Adjustments for:			
Finance costs	6	**153,943**	68,100
Interest income	5	**(28,261)**	(17,016)
Amount waived by creditors	5	**(1,734)**	(15,847)
Gain on repurchases of convertible bonds	5	**(237,679)**	—
Gain on disposal of items of property, plant and equipment	5	**(3,209)**	(3,325)
Depreciation of property, plant and equipment	7	**88,440**	79,129
Amortisation of prepaid land lease payments	7	**4,434**	4,350
Amortisation of long-term prepayments	7	**963**	482
Provision of impairment for trade receivables and other receivables	7	**2,118**	267
Write-down of inventories to net realisable value	7	**103,194**	4
Write-off of construction in progress	7	**3,486**	—
Foreign exchange loss/(gain), net	7	**13,733**	(29,567)
Goodwill adjustment due to recognition of unrecognised pre-acquisition tax losses	17	**6,658**	—
Equity-settled share option expense	32	**8,918**	4,590
		90,841	561,914
Increase in inventories		**(290,198)**	(391,929)
Decrease/(increase) in trade and notes receivables		**70,229**	(61,461)
(Increase)/decrease in prepayments, deposits and other receivables		**(68,004)**	83,188
Increase in trade and notes payables		**249,554**	84,117
Decrease in accrued liabilities and other payables		**(7,680)**	(69,917)
Increase in long-term prepayments		**(63,130)**	(35,473)
Cash (used in)/generated from operations		**(18,388)**	170,439
Income tax paid		**(81,074)**	(26,078)
Net cash (outflow)/inflow from operating activities		**(99,462)**	144,361

to be continued/

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Net cash (outflow)/inflow from operating activities		**(99,462)**	144,361
Cash flows from investing activities			
Interest received	5	**28,261**	17,016
Acquisition of subsidiaries	33	**—**	(19,366)
Acquisition of property, plant and equipment and construction in progress		**(248,057)**	(121,024)
Proceeds from disposal of items of property, plant and equipment		**46,491**	4,688
Additions to prepaid land lease payments		**(6,672)**	(2,543)
Addition to an intangible asset		**—**	(105,470)
Increase in pledged time deposits		**(199,270)**	(198,557)
Net cash outflow from investing activities		**(379,247)**	(425,256)
Cash flows from financing activities			
Proceeds from issue of shares		**437**	93,143
Proceeds from issue of convertible bonds	29	**—**	2,451,577
Consideration for repurchases of convertible bonds		**(353,086)**	—
New bank loans and other borrowings		**280,536**	307,212
Repayment of bank loans and other borrowings		**(189,071)**	(565,252)
Dividends paid		**(55,719)**	(114,486)
Interest paid		**(38,781)**	(35,969)
Net cash (outflow)/inflow from financing activities		**(355,684)**	2,136,225
Net (decrease)/increase in cash and cash equivalents		**(834,393)**	1,855,330
Cash and cash equivalents at beginning of year		**1,909,959**	80,777
Effect of foreign exchange rate changes, net		**(157,803)**	(26,148)
Cash and cash equivalents at end of year		**917,763**	1,909,959
Analysis of balances of cash and cash equivalents			
Cash and bank balances	25	**770,259**	203,194
Unrestricted time deposits with original maturity of less than three months	25	**147,504**	1,706,765
		917,763	1,909,959

Notes to Financial Statements

31 December 2008

1. CORPORATE 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 Room 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. Details of the principal activities of the subsidiaries are set out in note 20 to the financial statements.

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.

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2008. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group have been eliminated on consolidation in full.

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation (continued)

The acquisition of subsidiaries has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as an equity transaction.

2.2 IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

The Group has adopted the following new interpretations and amendments to IFRS for the first time for the current year's financial statements.

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*
IAS 39 and IFRS 7 Amendments	Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures — Reclassification of Financial Assets*

The adoption of these new interpretations and amendments has had no significant financial effect on these financial statements.

2.2 IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

The principal effects of adopting these new interpretations and amendments are as follows:

(a) IFRIC 11 IFRS 2 — *Group and Treasury Share Transactions*

IFRIC 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group buys the instruments from another party, or the shareholders provide the equity instruments needed. IFRIC 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the arrangement for share-based payment transactions within the Group is fully eliminated on consolidation, this interpretation has had no impact on the financial position or results of operations of the Group.

(b) IFRIC 12 *Service Concession Arrangements*

IFRIC 12 applies to service concession operators and explains how to account for the obligations undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Group.

(c) IFRIC 14 IAS 19 — *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

IFRIC 14 addresses how to assess the limit under IAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

(d) Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures — Reclassification of Financial Assets*

The amendments to IAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

2.2 IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

(d) Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures — Reclassification of Financial Assets* (continued)

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held-to-maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to IFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRSs

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

IFRS 1 and IAS 27 Amendments	Amendments to IFRS 1 *First-time Adoption of IFRSs* and IAS 27 *Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*[1]
IFRS 1 (Revised)	*First-time Adoption of IRRS*[2]
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment — Vesting Conditions and Cancellations*[1]
IFRS 3 (Revised)	*Business Combinations*[2]
IFRS 7 Amendments	*Improving Disclosures about Financial Instruments*[1]
IFRS 8	*Operating Segments*[1]
IAS 1 (Revised)	*Presentation of Financial Statements*[1]
IAS 23(Revised)	*Borrowing Costs*[1]
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*[2]
IAS 32 and IAS 1 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation*[1]
IAS 39 Amendments	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*[2]
IFRIC 9 and IAS 39 Amendments	*Embedded Derivatives*[5]
IFRIC 13	*Customer Loyalty Programmes*[3]
IFRIC 15	*Agreements for the Construction of Real Estate*[1]
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation*[4]
IFRIC 17	*Distribution of Non-cash Assets to Owners*[2]
IFRIC 18	*Transfers of Assets from Customers*[2]

Apart from the above, the IASB has issued Improvements to IFRSs* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to IFRS 5 which is effective for annual periods beginning on or after 1 July 2009, amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRSs (CONTINUED)

[1] Effective for financial years beginning on or after 1 January 2009
[2] Effective for financial years beginning on or after 1 July 2009
[3] Effective for financial years beginning on or after 1 July 2008
[4] Effective for financial years beginning on or after 1 October 2008
[5] Effective for accounting periods ending on or after 30 June 2009
* Improvements to IFRSs contains amendments to IFRS 5, IFRS 7, IAS 1, IAS 8, IAS 10, IAS 16, IAS 18, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, it has concluded that while the adoption of IFRS 8 and IAS 1 (Revised) may result in new or amended disclosures and the adoption of IFRS 3 (Revised), IAS 27 (Revised) and IAS 23 (Revised) may result in changes in accounting policies, these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill (continued)

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

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

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets other than goodwill

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets other than goodwill (continued)

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

Related parties

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

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is a member of the key management personnel of the Group or its parent;

(c) the party is a close member of the family of any individual referred to in (a) or (b);

(d) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c); or

(e) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account its estimated residual value. The estimated useful lives of property, plant and equipment are as follows:

Buildings	15 to 25 years
Plant and machinery	8 to 15 years
Office equipment	3 to 5 years
Motor vehicles and others	5 to 8 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation methods are reviewed, and adjusted if appropriate, at least at each balance sheet date.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Construction in progress

Construction in progress representing property, plant and equipment under construction, is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Exclusive offtake right

The exclusive offtake right represents the exclusive right to purchase iron ores at a fixed price by the Group from an iron ore supplier for a period of approximately 29 years ending 24 January 2036. The exclusive offtake right is stated at cost less accumulated amortisation and any impairment losses. The exclusive offtake right is amortised based on the unit of purchase method.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases are charged to the income statement on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating leases (continued)

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

Investments and other financial assets

Financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. As at 31 December 2008, the Group only had loans and receivables. When financial assets are recognised initially, they are measured at fair value.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets

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

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and notes payables, other payables, and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial guarantee contracts

Financial guarantee contracts in the scope of IAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the balance sheet date; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 *Revenue*.

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not premeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Convertible bonds (continued)

When the convertible bonds extinguishes before maturity through an early redemption or repurchase in which the original conversion privileges are unchanged, the consideration and transaction costs paid for the redemption or repurchase is allocated to the liability and equity components of the instrument at the date of the transaction. The method used in allocating the consideration paid and transaction costs to the separate components is consistent with that used in the original allocation to the separate components of the proceeds received when the convertible instrument was issued. The difference between the carrying amount of the liability component and the liability component from the allocation of consideration and transaction costs paid for the redemption or repurchase is recognised in profit or loss. Whereas, the difference between the carrying amount of the equity component and the equity component from the allocation of consideration and transaction costs paid for the redemption or repurchase is recognised in equity.

Derecognition of financial liabilities

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, cost comprises direct materials, direct labour, and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less all further costs expected to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand, demand deposits and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, have a short maturity of generally within three months when acquired, and are not restricted as to use.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

Revenue recognition

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 32. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents a movement in the cumulative expense recognised as at the beginning and end of that period.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payment transactions (continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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

Retirement benefit schemes

Obligatory retirement benefits in the form of contributions under defined contribution retirement schemes administered by local government agencies are charged to the income statement as incurred. Further details of the retirement benefit schemes are set out in note 13 to the financial statements.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Other borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Dividends

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Dividends (continued)

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

Foreign currencies

The functional currency of the Company is Hong Kong dollars ("HK$"), the functional currency of its subsidiaries incorporated outside the PRC are HK$, United States dollars ("US$") or Indonesia Rupiah ("IDR") and the functional currency of the PRC subsidiaries is Renminbi ("RMB"). The functional currency of each entity is measured using the currency of the primary economic environment in which the entity operates. The financial statements are presented in RMB, which is the Group's presentation currency.

Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

On consolidation, the assets and liabilities of the Group's non-PRC entities are translated into RMB at the applicable rates of exchange ruling at the balance sheet date and their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity. On disposal of a non-PRC entity, the deferred cumulative amount recognised in equity relating to that particular non-PRC entity is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of the Company and its non-PRC subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the Company and its non-PRC subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Estimation uncertainty

(a) *Share-based payment transactions*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the forfeiture rate, the volatility and dividend yield and making assumptions about them. The assumptions and models used are disclosed in note 32.

(b) *Impairment of receivables*

Impairment of receivables is made based on assessment of the recoverability of receivables. The identification of bad and doubtful debts requires management judgement and estimates. Provision is made when there is objective evidence that the Group will not be able to collect the debts. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying values of receivables and expenses for write-back of bad and doubtful debts in the period in which the estimate has been changed. The carrying amount of trade and notes receivables as at 31 December 2008 was RMB137,704,000 (2007: RMB209,369,000) as set out in note 23 to the financial statements. The carrying amount of other receivables as at 31 December 2008 was RMB20,757,000 (2007: RMB14,660,000) as set out in note 24 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

(c) *Useful lives of property, plant and equipment*

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. The carrying amount of property, plant and equipment as at 31 December 2008 was RMB1,000,042,000 (2007: RMB930,838,000) as set out in note 14 to the financial statements.

(d) *Initial recognition of exclusive offtake right and its impairment*

The Group's exclusive offtake right is initially recognised at fair value. The fair value is determined by the Directors of the Company with reference to the valuation performed by an independent valuer. The independent valuer used the income approach by applying the discounted cash flow method in its valuation. The estimation of fair value requires management judgement and estimates and the fair value could change significantly as a result of changes in the discount rate, estimation of market price of nickel and iron and other risk factors related to the exclusive offtake right. The carrying amount of the exclusive offtake right as at 31 December 2008 was RMB2,656,572,000 (2007: RMB2,682,095,000). Further details are included in note 18 to the financial statements.

The Group assesses whether there are any indicators of impairment for its exclusive offtake right at each reporting date. When an impairment test in undertaken, management judgement and estimate are required in determining suitable valuation factors as mentioned above in the impairment test.

(e) *Amortisation of an exclusive offtake right*

Amortisation of the Group's exclusive offtake right is made based on the actual iron ore purchase during the period over the total planned purchase volume during the contractual period. The estimation of the total planned purchase volume requires management judgment and estimates. It could change significantly as a result of market demand for nickel-based products, technical innovations, reserve of the mine, the ability of the miner in meeting the Group's ore orders and other relevant factors. Management reviews the total planned purchase volume at least annually, and adjusts the amortisation calculation accordingly. Further details are included in note 18 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

(f) *Impairment of goodwill*
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2008 was RMB58,394,000 (2007: RMB65,052,000), more details are included in note 17 to the financial statements.

(g) *Impairment of non-financial assets (other than goodwill)*
The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

(h) *Net realisable value of inventories*
Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated cost to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in customer taste or competitor actions in response to severe consumer product industry cycles. Management reassesses these estimates at each balance sheet date. The carrying amount of inventory as at 31 December 2008 was RMB1,008,220,000 (2007: 795,693,000) as set out in note 22 to the financial statements.

(i) *Deferred tax assets*
Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2008 was RMB21,258,000 (2007: Nil). The amount of unrecognised tax losses at 31 December 2008 was Nil (2007: RMB8,834,000). Further details are contained in note 19 to the financial statements.

4. 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.

5. 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:

	2008 RMB'000	2007 RMB'000
Revenue		
Sale of goods:		
Stainless steel base materials	1,207,962	1,687,527
Bearing steel	104,213	159,211
Ni-Cr alloy steel ingot	152,074	—
Ni-Cr bearing steel	14,449	—
Carbon structure steel and other steel	2,896	27,853
Total revenue	1,481,594	1,874,591
Other income		
Bank interest income	28,261	17,016
Sales of scrap materials and others	3,442	6,984
Others	670	226
	32,373	24,226
Gains		
Gain on repurchases of convertible bonds	237,679	—
Gain on disposal of items of property, plant and equipment	3,209	3,325
Amount waived by creditors	1,734	15,847
Government grants*	450	—
Foreign exchange gain, net	—	29,567
	243,072	48,739
Total other income and gains	275,445	72,965

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

6. FINANCE COSTS

		Group	
		2008	2007
	Notes	**RMB'000**	RMB'000
Interest on bank loans and other borrowings		**32,314**	32,199
Interest on convertible bonds	29	**138,947**	35,901
Total interest expenses		**171,261**	68,100
Less: Interest capitalised	15	**(17,318)**	—
		153,943	68,100

7. (LOSS)/PROFIT BEFORE TAX

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

		2008	2007
	Notes	**RMB'000**	RMB'000
Staff costs (including Directors' and senior executives' emoluments as set out in note 8):			
Salaries and other staff costs		**64,342**	54,083
Retirement benefit schemes contributions		**7,577**	5,883
Equity-settled share-based expense	32	**8,918**	4,590
Total staff costs		**80,837**	64,556
Amortisation of an intangible asset:			
Accumulated amortisation of exclusive offtake right	18	**41,713**	16,190
Less: Capitalised as cost of inventories		**(26,980)**	(10,847)
Less: Accumulated amortisation charged to income statement in prior years		**(5,343)**	—
		9,390	5,343

7. (LOSS)/PROFIT BEFORE TAX (CONTINUED)

	Notes	2008 RMB'000	2007 RMB'000
Costs of inventories sold		**1,329,260**	1,288,493
Research and development costs		**4,195**	137
Auditors' remuneration		**3,089**	2,427
Depreciation of property, plant and equipment	14	**88,440**	79,129
Amortisation of prepaid land lease payments	16	**4,434**	4,350
Amortisation of long-term prepayments	21	**963**	482
Gain on disposal of items of property, plant and equipment		**(3,209)**	(3,325)
Provision of impairment of trade receivables and other receivables		**2,118**	267
Write-down of inventories to net realisable value*		**103,194**	4
Write-off of construction in progress*	15	**3,486**	—
Bank interest income		**(28,261)**	(17,016)
Gain on repurchases of convertible bonds		**(237,679)**	—
Foreign exchange loss/(gain), net**		**13,733**	(29,567)
Minimum lease payments under operating leases in respect of buildings and other assets		**2,841**	1,557

* These items are included in "Other expenses" on the face of the consolidated income statement.

** The net foreign exchange loss/(gain) consist of an amount of Nil (2007: RMB29,567,000) included in "Other income and gains" (note 5) and an amount of RMB13,733,000 (2007: Nil) included in "Other expenses".

8. DIRECTORS' REMUNERATION AND THE FIVE HIGHEST PAID EMPLOYEES

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

	Group	
	2008 RMB'000	2007 RMB'000
Fees	**728**	776
Salaries, allowances and benefits in kind	**4,071**	3,771
Equity-settled share option expense	**1,924**	3,032
Retirement benefit schemes contributions	**36**	47
	6,759	7,626

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

In July 2005, March 2007, April 2007 and March 2008, certain Directors or employees were granted share options, in respect of their services to the Group, under the Company's share option scheme, further details of which are set out in note 32 to the financial statements. The fair value of these options, which has been recognised in the income statement over the vesting period, was determined as at the date of the grant and the amount included in the financial statements for the current year is included in the above Directors' remuneration disclosures above.

(a) Independent non-executive directors

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

	Group	
	2008	2007
	RMB'000	RMB'000
Mr. Bai Baohua	**182**	194
Mr. Huang Changhuai	**182**	194
Mr. Wong Chi Keung	**182**	194
	546	582

There were no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

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

(b) Executive directors and a non-executive director

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Retirement benefit schemes contributions RMB'000	Total remuneration RMB'000
2008					
Executive directors:					
Mr. Dong Shutong	—	1,118	195	11	1,324
Mr. He Weiquan	—	711	166	—	877
Mr. Lau Hok Yuk	—	662	536	11	1,209
Mr. Song Wenzhou	—	210	40	3	253
Mr. Zhao Ping	—	728	759	—	1,487
Mr. Dong Chengzhe	—	642	228	11	881
	—	4,071	1,924	36	6,031
Non-executive director:					
Mr. Yang Tianjun	182	—	—	—	182
	182	4,071	1,924	36	6,213

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

(b) Executive directors and a non-executive director (continued)

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Equity-settled share option expense RMB'000	Retirement benefit schemes contributions RMB'000	Total remuneration RMB'000
2007					
Executive directors:					
Mr. Dong Shutong	—	757	323	23	1,103
Mr. He Weiquan	—	631	275	—	906
Mr. Lau Hok Yuk	—	707	720	12	1,439
Mr. Song Wenzhou	—	226	82	3	311
Ms. Zhang Ming	—	538	306	—	844
Mr. Zhao Ping	—	646	1,020	—	1,666
Mr. Dong Chengzhe	—	266	306	9	581
	—	3,771	3,032	47	6,850
Non-executive director:					
Mr. Yang Tianjun	194	—	—	—	194
	194	3,771	3,032	47	7,044

The remuneration package of each Director of the Company is determined with reference to his/her duties and responsibilities in the Company.

During the year ended 31 December 2008, the five highest paid individuals of the Group included five directors (2007: five). Information relating to these directors' emoluments has been disclosed above.

9. TAX

The applicable Hong Kong corporate income tax rate of the Company and S.E.A. Mineral Limited ("S.E.A.M") which operate in Hong Kong is 16.5% for the year ended 31 December 2008 (2007: 17.5%) 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. Ltd. ("CNR Group Holdings"), a subsidiary of the Company incorporated in Singapore, was 18% for the year ended 31 December 2008. CNR Group Holding 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.

PT. Mandan Steel ("PT Mandan"), a subsidiary the Company incorporated in Indonesia, was subject to a progressive income tax rate in the following pattern: for taxable income from Nil to IDR50 million is 5%, from IDR50 million to IDR100 million is 15%, and above IDR100 million is 30% for the year ended 31 December 2008.

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 Zhengzhou Yongtong Special Steel Co., Ltd. ("Yongtong Special Steel"), Zhengzhou Yongtong Alloy Metals Co., Ltd. ("Yongtong Alloy Metals"), Luoyang Yongan Special Steel Co., Ltd. ("Yongan Special Steel"), Zhengzhou Xiangtong Electricity Co., Ltd. ("Xiangtong Electricity"), and Henan Yongtong Nickel Co. Ltd. ("Yongtong Nickel"), subsidiaries of the Company, was 25% for the year ended 31 December 2008 (2007: 33%).

Yongtong Special Steel was re-registered as a wholly-foreign-owned company on 10 November 2003. In accordance with the relevant tax laws and regulations in the PRC and pursuant to an approval from the local tax authority dated 4 June 2004, effective from 1 January 2004, Yongtong Special Steel was exempted from corporate income tax in the PRC for the years ended 31 December 2004 and 31 December 2005, and is entitled to a 50% reduction in corporate income tax in the PRC for the three years ended 31 December 2008.

9. TAX (CONTINUED)

Under the New CIT Law and in accordance with the "Notification of the State Council on Carrying out the Transitional Preferential Policies concerning Enterprise Income Tax" (Guo Fa [2007] No. 39) promulgated by the State Council on 26 December 2007, an entity established before 16 March 2007 that was entitled to a tax holiday of "two-year exemption followed by a three-year 50% reduction in the income tax rate", can continue to enjoy the remaining unused tax holiday until expiry. Therefore, the applicable income tax rate for Yongtong Special Steel was 12.5% for the year ended 31 December 2008.

	Note	**2008** **RMB'000**	2007 RMB'000
Group:			
Provision for income tax in respect of profit for the year:			
Current — PRC		**1,396**	57,055
Prior year — Utilisation of unrecognised pre-acquisition tax losses from a subsidiary	17	**(10,966)**	—
Current — Hong Kong and others		**36,413**	23,025
Movements in deferred tax balances	19	**(89,180)**	30,005
Total tax (credit)/charge for the year		**(62,337)**	110,085

9. TAX (CONTINUED)

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

	Note	2008 RMB'000	2007 RMB'000
(Loss)/profit before tax		**(24,163)**	470,747
Tax at statutory tax rate of 25% (2007:33%)		**(6,041)**	155,347
Tax effect of:			
Lower income tax rate for Hong Kong at 16.5% (2007:17.5%) and other non-PRC subsidiaries		**(25,284)**	(8,555)
Tax exemption		**—**	(42,764)
Effect of change in tax rate on deferred tax		**—**	(4,067)
Income not subject to tax		**(42,288)**	(6,278)
Expenses not deductible for tax		**22,242**	14,765
Utilisation of unrecognised pre-acquisition tax losses from a subsidiary	17	**(10,966)**	—
Tax losses not recognised		**—**	1,637
Tax (credit)/charge at the Group's effective rate		**(62,337)**	110,085

10. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2008 includes a profit of RMB80,683,000 (2007: a loss of RMB60,067,000) which has been dealt with in the statements of changes in equity of the Company as set out in note 31(b).

11. DIVIDENDS

	Notes	**2008 RMB'000**	2007 RMB'000
Adjustment on proposed final dividend for 2007 — HK$0.013 per ordinary share	(a)	**3**	—
Interim — HK$0.017 (2007: HK$0.048) per ordinary share	(b)	**31,317**	97,333
Proposed final — Nil (2007: HK$0.013) per ordinary share		**—**	24,399
		31,320	121,732

Notes:

(a) On 12 June 2008, the shareholders at the annual general meeting approved the Company's declaration of 2007 final dividend of HK$0.013 per ordinary share, totalling HK$27,211,000 (equivalent to RMB24,402,000), including HK$3,000 (equivalent to RMB3,000) for the additional 255,000 ordinary shares issued on 24 April 2008 upon exercise of share options.

(b) Pursuant to a resolution of the board of Directors of the Company dated 24 September 2008, the Company declared an interim dividend of HK$0.017 (2007: HK$0.048) per ordinary share. The interim dividend totalling HK$35,583,000 (equivalent to RMB31,317,000) (2007: HK$100,458,000, equivalent to RMB97,333,000) was paid on 20 October 2008 based on the number of ordinary shares registered on 10 October 2008.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the interest on 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 year, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (CONTINUED)

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

	Notes	2008 RMB'000	2007 RMB'000
Profit for the year attributable to ordinary equity holders of the parent used in the basic earning per share calculation		**37,361**	359,291
Interest on 3% Convertible Bonds	29(i)	**29,264***	29,632
Interest on Zero Coupon Convertible Bonds		**92,365***	6,269*
Profit attributable to ordinary equity holders of the parent before interest on convertible bonds		**158,990**	395,192

	Number of shares 2008 '000	2007 '000
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,093,040**	1,469,159
Effect of dilution — weighted average number of ordinary shares:		
— Share options	**5,512**	18,395
— 3% Convertible Bonds	**147,790***	141,933
— Zero Coupon Convertible Bonds	**333,401***	17,331*
— Convertible notes (stock options) (note 31)	**182,736**	112,686
	2,762,479	1,759,504

* Because the diluted earnings per share amount is increased when taking the 3% Convertible Bonds and Zero Coupon Convertible Bonds (2007: Zero Coupon Convertible Bonds only) into account, the 3% Convertible Bonds and Zero Coupon Convertible Bonds (2007: Zero Coupon Convertible Bonds only) had an anti-dilutive effect on the basic earnings per share for the year and were ignored in the calculation of diluted earnings per share. Therefore, the diluted earnings per share amount of the year is based on the profit for the year of RMB37,361,000 (2007: profit of RMB388,923,000) and the weighted average of 2,281,288,000 (2007: 1,742,173,000) ordinary shares in issue during the year.

13. RETIREMENT BENEFIT SCHEMES

As stipulated by the PRC State regulations, Yongtong Special Steel, Yongtong Alloy Metals, Yongan Special Steel, Xiangtong Electricity and Yongtong Nickel participate in a defined contribution retirement plan. All employees of the companies are entitled to an annual pension equal to a fixed proportion of the average basic salary amount within the geographical area of their last employment at their retirement date. Yongtong Special Steel, Yongtong Alloy Metals, Xiangtong Electricity and Yongtong Nickel are required to make contributions to the local social security bureau at 20% of the previous year's average basic salaries within the geographical area where the employees are under employment, and Yongan Special Steel is required to make contributions to the local social security bureau at 21% of the previous year's average basic salary amount within the geographical area where the employees are under employment. The Group has no obligations for the payment of pension benefits beyond the annual contributions as set out above.

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all employees of the companies in Hong Kong who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed to the MPF Scheme.

As stipulated by the Indonesia State regulations, PT Mandan participates in a defined contribution retirement plan namely the Day Old Assurance Program (the "DOA Program") for all employees of PT Mandan in Indonesia who are eligible to participate in the DOA Program. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the DOA Program.

As stipulated by the Singapore State regulations, CNR Group Holdings participates in a defined contribution retirement plan namely the Central Provident Fund (the "CPF Scheme") for all employees of CNR Group Holdings in Singapore who are eligible to participate in the CPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the CPF Scheme.

14. PROPERTY, PLANT AND EQUIPMENT

Group:

	Notes	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles and others RMB'000	Total RMB'000
Cost:						
At 1 January 2007		113,991	745,041	5,819	14,517	879,368
Acquisition of subsidiaries	33	90,647	139,292	48	365	230,352
Additions		3,481	12,804	688	1,773	18,746
Transferred from construction in progress	15	21,439	65,825	—	2,773	90,037
Disposals		—	(2,305)	—	(439)	(2,744)
At 31 December 2007 and 1 January 2008		229,558	960,657	6,555	18,989	1,215,759
Additions		9,006	8,592	4,239	44,015	65,852
Transferred from construction in progress	15	16,155	118,919	—	—	135,074
Disposals		—	(975)	—	(42,879)	(43,854)
As at 31 December 2008		**254,719**	**1,087,193**	**10,794**	**20,125**	**1,372,831**
Accumulated depreciation and provision for impairment losses:						
At 1 January 2007		25,593	168,261	4,023	9,296	207,173
Depreciation charge for the year		8,155	67,777	810	2,387	79,129
Disposals		—	(1,225)	—	(156)	(1,381)
At 31 December 2007 and 1 January 2008		33,748	234,813	4,833	11,527	284,921
Depreciation charge for the year		10,053	74,219	1,301	2,867	88,440
Disposals		—	—	—	(572)	(572)
At 31 December 2008		**43,801**	**309,032**	**6,134**	**13,822**	**372,789**
Net carrying amount:						
At 31 December 2008		**210,918**	**778,161**	**4,660**	**6,303**	**1,000,042**
At 31 December 2007		195,810	725,844	1,722	7,462	930,838

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company:

	Office equipment RMB'000	Motor vehicles and others RMB'000	Total RMB'000
Cost:			
At 1 January 2007	561	—	561
Additions	89	—	89
At 31 December 2007 and 1 January 2008	650	—	650
Additions	3,784	42,699	46,483
Disposal	—	(42,699)	(42,699)
At 31 December 2008	**4,434**	**—**	**4,434**
Accumulated depreciation:			
At 1 January 2007	119	—	119
Charge for the year	172	—	172
At 31 December 2007 and 1 January 2008	291	—	291
Charge for the year	543	392	935
Disposal	—	(392)	(392)
At 31 December 2008	**834**	**—**	**834**
Net carrying amount:			
At 31 December 2008	**3,600**	**—**	**3,600**
At 31 December 2007	359	—	359

15. CONSTRUCTION IN PROGRESS

		Group	
		2008	2007
	Notes	**RMB'000**	RMB'000
At 1 January		**168,294**	48,660
Acquisition of a subsidiary	33(i)	**—**	62,966
Additions		**187,970**	146,705
Transferred to property, plant and equipment	14	**(135,074)**	(90,037)
Write off		**(3,486)**	—
At 31 December		**217,704**	168,294

During the year, interest of RMB17,318,000 (2007: Nil) was capitalised in construction in progress, the capitalisation rate was 6.82% (2007: Nil).

16. PREPAID LAND LEASE PAYMENTS

		Group	
		2008	2007
	Notes	**RMB'000**	RMB'000
Carrying amount at 1 January		**205,835**	5,382
Acquisition of a subsidiary	33(i)	**—**	202,260
Additions		**6,672**	2,543
Amortisation during the year		**(4,434)**	(4,350)
Carrying amount at 31 December		**208,073**	205,835
Current portion included in prepayments, deposits and other receivables	24	**(4,434)**	(4,350)
Non-current portion		**203,639**	201,485

The leasehold land is held under medium term leases and is situated in the PRC and Indonesia.

As at 31 December 2008, the Group was in the process of applying for the land use right certificates for leasehold land which had a net book value of RMB8,149,000 (2007: RMB118,094,000). The land cannot be sold, transferred or pledged until the certificates are obtained.

17. GOODWILL

Group

	Notes	RMB'000
Cost at 1 January 2007		—
Acquisition of subsidiaries	33	65,052
As at 31 December 2007 and 1 January 2008		65,052
Adjustment for utilisation of unrecognised pre-acquisition tax losses from a subsidiary	(a)	(6,658)
At 31 December 2008		**58,394**

Note:

(a) Prior to the acquisition of Yongan Special Steel on 5 January 2007, Yongan Special Steel incurred tax losses of RMB43,864,000 for the years ended 31 December 2004 and 2005. These tax losses were not approved by the local tax authority before the acquisition date and thus were not taken into consideration for the recognition of deferred tax asset on the acquisition date. These tax losses were subsequently approved by the local tax authority following a special investigation by the local tax authority. Therefore, the Group's income tax expenses and goodwill were reduced by RMB10,966,000 and RMB6,658,000, respectively.

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units of the respective subsidiaries for impairment testing:

- Special steel products cash-generating unit (Yongan Special Steel);
- Electricity generating cash-generating unit (Xiangtong Electricity).

Special steel products cash-generating unit (Yongan Special Steel)

The recoverable amounts of the special steel products cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 13% and cash flows beyond the five-year period are extrapolated using zero growth rate.

17. GOODWILL (CONTINUED)

Impairment testing of goodwill (continued)

Electricity generating cash-generating unit (Xiangtong Electricity)
The recoverable amount of the electricity generating cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 13% and cash flows beyond the five-year period are assumed to be constant on the assumption that electricity generating cash generating unit is near its full capacity.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	Special steel products cash-generating unit 2008 RMB'000	Electricity generating cash-generating unit 2008 RMB'000	Total 2008 RMB'000
Carrying amount of goodwill	**50,036**	**8,358**	**58,394**

Key assumptions were used in the value in use calculation of the cash-generating units for 31 December 2008 as follows:

Budgeted gross margins
The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year ended 31 December 2008.

Discount rates
The discount rates used are before tax and reflect specific risks relating to the relevant units.

18. INTANGIBLE ASSET

	Group	
	2008	2007
	RMB'000	RMB'000
Exclusive offtake right		
Carrying amount at 1 January	**2,682,095**	—
Acquisition of an exclusive offtake right	**—**	2,698,285
Amortisation during the year	**(25,523)**	(16,190)
Carrying amount at 31 December	**2,656,572**	2,682,095
At 31 December:		
Cost	**2,698,285**	2,698,285
Accumulated amortisation	**(41,713)**	(16,190)
Carrying amount	**2,656,572**	2,682,095

In May 2007, the Group secured an exclusive offtake right from PT Yiwan Mining ("Yiwan Mining"), a limited company incorporated in Indonesia, whereby Yiwan Mining agreed to exclusively sell the iron ores produced by Yiwan Mining to the Group at a fixed price of US$16 per dry tonne for a period of approximately 14 years expiring on 24 January 2021, which is extendable upon the issuance of new mining authorisations and Yiwan Mining obtaining such approvals or mining authorisations on the same terms and conditions. On 12 September 2008, the term of the exclusive offtake right was extended to 29 years expiring on 24 January 2036.

The purchase consideration for the exclusive offtake right was satisfied by cash of HK$95.56 million (equivalent to RMB94,050,000), issuance of 1,340,067,052 ordinary shares, and issuance of convertible notes with a principal of HK$316,130,000 (equivalent to RMB311,135,000) which will be converted to 182,736,416 ordinary shares of the Company three years after the date of issuance, and is neither transferable nor redeemable. The Group measures the exclusive offtake right acquired and the corresponding increase in equity and cash consideration paid, directly, at the fair value of the exclusive offtake right. The fair value of the exclusive offtake right was determined at RMB2,686,865,000 by the Directors with reference to the valuation performed by Greater China Appraisal Limited ("Greater China"), an independent valuer dated 2 May 2007. The independent valuer used income approach by applying discounted cash flow method in its valuation. The transaction cost directly attributable to the acquisition of the exclusive offtake right amounted to RMB11,420,000 and was capitalised as part of cost of this intangible asset.

19. DEFERRED TAX

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

Deferred tax assets

Group

	Note	Losses available for offsetting against future taxable profits RMB'000	Inventory provision RMB'000	Unrealised intra-group profit RMB'000	Decelerated tax depreciation RMB'000	Total RMB'000
At 1 January 2007		–	–	–	–	–
Acquisition of a subsidiary	33(i)	47,061	–	–	16,787	63,848
Deferred tax (charged)/credited to the income statement during the year		(47,061)	–	12,942	(5,439)	(39,558)
At 31 December 2007 and 1 January 2008		–	–	12,942	11,348	24,290
Deferred tax credited/(charged) to the income statement during the year		21,258	25,877	44,938	(3,858)	88,215
At 31 December 2008		**21,258**	**25,877**	**57,880**	**7,490**	**112,505**

19. DEFERRED TAX (CONTINUED)

Deferred tax liabilities

Group

	Note	Fair value adjustments arising from acquisition of a subsidiary RMB'000	Others RMB'000	Total RMB'000
At 1 January 2007		—	2,231	2,231
Acquisition of a subsidiary	33(i)	34,208	—	34,208
Deferred tax credited to the income statement during the year		(9,260)	(293)	(9,553)
At 31 December 2007 and 1 January 2008		24,948	1,938	26,886
Deferred tax credited to the income statement during the year		(853)	(112)	(965)
At 31 December 2008		**24,095**	**1,826**	**25,921**

The Group has unutilised tax losses arising in Hong Kong of HK$1,323,000, equivalent to RMB1,167,000 (2007: tax loss arising in Hong Kong of HK$9,166,000, equivalent to RMB8,834,000) that are available indefinitely for offsetting against future taxable profits of the Company, and unutilised tax losses arising in the PRC of RMB84,263,000 (2007: Nil) that will expire in one to five years for offsetting against future taxable profit.

The Company's deferred tax assets as at 31 December 2008 related to tax losses in Hong Kong of HK$1,323,000, equivalent to RMB1,167,000.

20. INTERESTS IN SUBSIDIARIES

	Company	
	2008	2007
	RMB'000	RMB'000
Unlisted shares, at cost	**322,204**	322,204
Advances to subsidiaries	**4,094,932**	3,625,703
	4,417,136	3,947,907

The amounts advanced to the subsidiaries included in the interests in subsidiaries above are denominated in HK$, US$ and Singapore dollar ("S$"), are unsecured and have no fixed terms of repayment. In the opinion of the Company's Directors, these advances are considered as quasi-equity loans to the subsidiaries. The carrying amounts of these amounts due from subsidiaries approximate to their fair values.

20. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of the Company's subsidiaries are as follows:

Name of companies	Place of incorporation and operations	Nominal value of issued shares/ paid-up capital	Percentage of equity interest attributable to the Group Direct	Indirect	Principal activities
Infonics International Limited ("Infonics")	British Virgin Islands/ Hong Kong	US$10,001	100	—	Investment holding
Yongtong Metallurgy Engineering Technology Company Limited	British Virgin Islands/ Hong Kong	US$1	100	—	Dormant
S.E.A.M	British Virgin Islands/ Hong Kong	US$100	—	100	Trading of iron ore
Group Rise Trading Limited ("Group Rise")	British Virgin Islands/ Hong Kong	US$1	—	100	Dormant
CNR Group Holdings	Singapore	US$400,000	—	100	Trading of minerals, steel products and investment holding
PT Mandan	Indonesia	IDR 131,264,000,000	—	100	Manufacture and sale of steel products

20. INTERESTS IN SUBSIDIARIES (CONTINUED)

Name of companies	Place of incorporation and operations	Nominal value of issued shares/ paid-up capital	Percentage of equity interest attributable to the Group Direct	Indirect	Principal activities
Yongtong Special Steel	PRC	RMB636,760,000	–	100	Manufacture and sale of special steel products
Yongan Special Steel	PRC	RMB227,628,277	–	60*	Manufacture and sale of special steel products
Yongtong Alloy Metals	PRC	RMB3,000,000	–	95	Trading of scrap steel
Xiangtong Electricity	PRC	RMB10,000,000	–	50.01	Generation and sale of electricity
Yongtong Nickel	PRC	RMB266,000,000	–	100	Manufacture and sale of stainless steel and related material

* According to a management agreement entered into between Yongtong Special Steel and the minority shareholders of Yongan Special Steel, Yongtong Special Steel is entitled to all remaining undistributable profits of Yongan Special Steel after an annual fixed payment of RMB6,310,000 for a period of 15 years from 5 January 2007. The fixed annual payment payable to the minority shareholders of RMB6,310,000 has been charged to the financial statements as an expense for the year ended 31 December 2008.

21. PREPAYMENTS

Group

	Note	Prepayments for Acquisition of a subsidiary RMB'000	Prepayments for An operating lease RMB'000	Prepayments for Purchases of raw materials RMB'000	Total RMB'000
2008					
Carrying amount at 1 January 2008		**–**	**23,605**	**26,959**	**50,564**
Additions		**–**	**–**	**81,591**	**81,591**
Settlement		**–**	**–**	**(18,461)**	**(18,461)**
Amortisation		**–**	**(963)**	**–**	**(963)**
Carrying amount at 31 December 2008		**–**	**22,642**	**90,089**	**112,731**
Current portion included in prepayments, deposits and other receivables	24	**–**	**(963)**	**(41,008)**	**(41,971)**
Non-current portion		**–**	**21,679**	**49,081**	**70,760**

21. PREPAYMENTS (CONTINUED)

Group (continued)

	Notes	Acquisition of a subsidiary RMB'000	Prepayments for An operating lease RMB'000	Prepayments for Purchases of raw material RMB'000	Total RMB'000
2007					
Carrying amount at 1 January 2007		171,730	—	—	171,730
Capital contribution to a subsidiary	33(i)	(77,628)	—	—	(77,628)
Elimination upon consolidation of a subsidiary		(94,102)	—	—	(94,102)
Additions		—	24,087	35,060	59,147
Settlement		—	—	(8,101)	(8,101)
Amortisation		—	(482)	—	(482)
Carrying amount at 31 December 2007		—	23,605	26,959	50,564
Current portion included in prepayments, deposits and other receivables	24	—	(963)	(14,610)	(15,573)
Non-current portion		—	22,642	12,349	34,991

21. PREPAYMENTS (CONTINUED)

Company

	Note	Prepayments for an operating lease RMB'000
2008		
Carrying amount at 1 January 2008		**23,605**
Amortisation		**(963)**
Carrying amount at 31 December 2008		**22,642**
Current portion included in prepayments, deposits and other receivables	24	**(963)**
Non-current portion		**21,679**
2007		
Carrying amount at 1 January 2007		—
Addition		24,087
Amortisation		(482)
Carrying amount at 31 December 2007		23,605
Current portion included in prepayments, deposits and other receivables	24	(963)
Non-current portion		22,642

22. INVENTORIES

	Group	
	2008	2007
	RMB'000	RMB'000
Raw materials	**327,404**	281,556
Work in progress	**222,936**	112,150
Finished goods	**418,099**	374,472
Spare parts and consumables	**39,781**	27,515
	1,008,220	795,693

23. TRADE AND NOTES RECEIVABLES

	Group	
	2008	2007
	RMB'000	RMB'000
Trade receivables	**107,332**	155,110
Notes receivables	**30,372**	54,259
	137,704	209,369

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one to two months (2007: one month). In view of the fact that the Group's trade receivables relate to a limited number of customers, there is a significant concentration of credit risk. Trade receivables are non-interest-bearing.

23. TRADE AND NOTES RECEIVABLES (CONTINUED)

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

	Group	
	2008	2007
	RMB'000	RMB'000
Outstanding balances aged:		
Within 90 days	**119,267**	199,040
91 to 180 days	**13,186**	3,956
181 to 365 days	**3,724**	4,455
Over 1 year	**3,891**	2,846
	140,068	210,297
Less: Provision for impairment of trade receivables	**(2,364)**	(928)
	137,704	209,369

The carrying amounts of trade and notes receivables approximate to their fair values.

The movement in the provision for impairment of trade receivables is as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
At 1 January	**928**	592
Impairment losses recognised	**1,436**	336
At 31 December	**2,364**	928

23. TRADE AND NOTES RECEIVABLES (CONTINUED)

An aged analysis of trade and notes receivables that are not considered to be impaired is as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Neither past due nor impaired	**125,004**	138,185
Less than 90 days past due	**7,448**	60,855
91 to 180 days past due	**1,862**	4,698
181 to 365 days past due	**2,234**	3,867
Past due over 1 year	**1,156**	1,764
	137,704	209,369

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

As at 31 December 2007, notes receivable of RMB40,000,000 were pledged to secure notes payable of RMB40,000,000 as set out in note 26.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group		Company	
		2008	2007	**2008**	2007
	Notes	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Prepayments to suppliers		**45,660**	16,931	**513**	4,947
Other prepayments		**734**	821	**—**	—
Other receivables		**26,587**	19,808	**3,497**	379
Value-added tax receivable		**32,583**	—	**—**	—
Current portion of long-term prepayments	21	**41,971**	15,573	**963**	963
Current portion of prepaid land lease payments	16	**4,434**	4,350	**—**	—
		151,969	57,483	**4,973**	6,289
Less: Provision for impairment of other receivables		**(5,830)**	(5,148)	**—**	—
		146,139	52,335	**4,973**	6,289

The carrying amounts of prepayments, deposits and other receivables approximate to their fair value.

25. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**770,259**	203,194	**551,168**	12,765
Time deposits	**674,416**	2,034,407	**87,004**	1,706,765
	1,444,675	2,237,601	**638,172**	1,719,530
Less: Pledged time deposits	**(526,912)**	(327,642)	**(80,001)**	—
Cash and cash equivalents	**917,763**	1,909,959	**558,171**	1,719,530

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

At the balance sheet date, the pledged time deposits amounting to RMB446,911,000 (2007: RMB327,642,000) were pledged to banks to secure notes payable of RMB569,437,000 (2007: RMB383,831,000) as set out in note 26. The balance of the pledged time deposits of RMB80,001,000 were pledged to the bank to secure bank loan of RMB83,000,000 as set out in note 28(a). The pledged time deposits bear interest at rates ranging from 2.80% to 3.54% (2007: 2.93%) per annum.

26. TRADE AND NOTES PAYABLES

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

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 90 days	**460,104**	304,147	**377**	—
91 to 180 days	**265,684**	189,881	**760**	—
181 to 365 days	**36,761**	8,623	**—**	—
1 to 2 years	**9,760**	52,673	**—**	—
2 to 3 years	**31,579**	2,241	**—**	—
Over 3 years	**4,449**	2,952	**—**	—
	808,337	560,517	**1,137**	—

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

		Group		Company	
		2008	2007	**2008**	2007
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Trade payables		**238,900**	176,686	**1,137**	—
Notes payable	(a)	**569,437**	383,831	**—**	—
		808,337	560,517	**1,137**	—

Note:

(a) As at 31 December 2008, notes payable of RMB569,437,000 (2007: RMB383,831,000) were secured by time deposits amounting to RMB446,911,000 (2007: RMB327,642,000) and notes receivable of nil (2007: RMB40,000,000) as set out in note 25 and note 23.

27. ACCRUED LIABILITIES AND OTHER PAYABLES

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Advances from customers	**10,239**	11,409	**—**	—
Payables related to purchases of property, plant and equipment	**55,876**	67,429	**—**	—
Value-added tax payable	**—**	11,313	**—**	—
Accrued interest expenses	**1,538**	3,461	**—**	—
Payroll payable	**4,823**	6,650	**—**	563
Amounts due to minority shareholders of a subsidiary	**88,633**	85,760	**—**	—
Loan from a related party	**507**	—	**—**	—
Government grants	**3,500**	—	**—**	—
Other payables and accruals	**45,390**	45,640	**4,714**	4,717
	210,506	231,662	**4,714**	5,280

Accrued liabilities and other payables and accruals are unsecured, interest-free and have no fixed terms of repayment. Included in the amounts due to minority shareholders of a subsidiary as at 31 December 2008 is an amount of RMB75,000,000 (2007: RMB75,000,000) due to the Luoyang State-owned Asset Committee (the "LSAC"), which will be accounted for as a capital contribution from the LSAC in Yongan Special Steel upon the completion of the transfer of land use rights to Yongan Special Steel.

28. INTEREST-BEARING LOANS AND OTHER BORROWINGS

		Group		Company	
		2008	2007	**2008**	2007
	Notes	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Bank loans:					
Secured	(a)	**83,000**	—	**—**	—
Unsecured	(b)	**183,000**	170,089	**—**	37,089
		266,000	170,089	**—**	37,089
Other borrowings:	(c)	**90,546**	90,940	**—**	—
Total:		**356,546**	261,029	**—**	37,089
Repayable:					
Within one year		**236,089**	140,659	**—**	37,089
In the second year		**—**	5,000	**—**	—
In the third to fifth years, inclusive		**120,457**	115,370	**—**	—
		356,546	261,029	**—**	37,089
Portion classified as current liabilities		**(236,089)**	(140,659)	**—**	(37,089)
Long-term portion		**120,457**	120,370	**—**	—

28. INTEREST-BEARING LOANS AND OTHER BORROWINGS (CONTINUED)

Notes:

(a) As at 31 December 2008, a bank loan of the Group of RMB83,000,000 bearing interest at a fixed rate of 6.723% per annum was secured by time deposits amounting to RMB80,001,000, and was repayable within one year.

(b) As at 31 December 2008, unsecured bank loans of the Group of RMB183,000,000 (2007: RMB133,000,000) bore interest at fixed rates ranging from 6.12% to 8.59% per annum (2007: ranging from 6.93% to 7.29%), and with maturity dates ranging from April 2009 to May 2010.

As at 31 December 2007, unsecured bank loans of the Company of US$5,082,000 (equivalent to RMB37,089,000) bore interest at a floating rate of 2% over and above the London Interbank Offered Rate per annum.

(c) As at 31 December 2008, an unsecured borrowing of the Group from Luoyang Municipal Ministry of Finance of RMB10,000,000 (2007: RMB10,000,000) with interest free, and was repayable within one year.

As at 31 December 2008, an unsecured borrowing of the Group from Anyang Steel Group Company Limited of approximately RMB77,457,000 (2007: RMB72,370,000) bore interest at rates ranging from 5.76% to 7.74% (2007: 6.93%) per annum, and was repayable within five years from 5 January 2007.

As at 31 December 2008, an unsecured borrowing of the Group from Xianghe Group Shangjie Power Engineering Co., Ltd. of approximately RMB3,089,000 (2007: RMB8,570,000) bore interest at a fixed rate of 7.47% (2007: 7.47%) per annum, and was repayable within one year.

The carrying amounts of the Group's and the Company's current borrowings approximate to their fair values. The carrying amounts and fair values of the Group's non-current borrowings are as follows:

	Carrying amounts		**Fair values**	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Non-current borrowings in respect of				
— Bank loans	**43,000**	43,000	**44,170**	42,900
— Other borrowings	**77,457**	77,370	**77,457**	74,849
	120,457	120,370	**121,627**	117,749

29. CONVERTIBLE BONDS

	Notes	**31 December 2008 RMB'000**	31 December 2007 RMB'000
Liability components:			
3% Convertible Bonds	(i)	**145,859**	341,087
Zero Coupon Convertible Bonds	(ii)	**1,382,398**	1,772,784
		1,528,257	2,113,871
Less: current portion	(i)	**(145,859)**	—
Non-current portion of liability components of convertible bonds		**1,382,398**	2,113,871
Equity components:			
3% Convertible Bonds	(i)	**3,385**	7,833
Zero Coupon Convertible Bonds	(ii)	**50,658**	65,365
		54,043	73,198

(i) HK$625 million 3% convertible bonds due 2012 (the "3% Convertible Bonds")

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.

29. CONVERTIBLE BONDS (CONTINUED)

(i) HK$625 million 3% convertible bonds due 2012 (the "3% Convertible Bonds") (continued)

Some of the key terms of the 3% Convertible Bonds are:

(a) convertible from 2 June 2007 to 3 May 2012 into fully paid ordinary shares of the Company with a par value of HK$0.10 each at a conversion price of HK$2.25 per share;

(b) redeemable at the option of the bond holders after 18 May 2009 and prior to 18 May 2012, at a yield to redemption amount calculated by using the bond principal with an interest rate of 6.5% plus accrued but unpaid interest;

(c) redeemable at the option of the Company at the yield to redemption amount plus accrued interest to the date of redemption at anytime from 18 May 2010 to 18 May 2012, providing the prices of the Company's shares for 60 consecutive trading days are over 190% of the conversion price; and

(d) Unless previously redeemed, converted or purchased and cancelled, the bonds will be redeemed at 137% of their principal amount on 18 May 2012. The 3% Convertible Bonds carry interest at a rate of 3% per annum, which is payable half-yearly in arrears on 18 May and 18 November each year.

The Company determined the fair value of the liability component based on the valuations performed by Greater China using an equivalent market interest rate for a similar bond without a conversion option. The effective interest rate of the host contract is determined to be 10.10%.

On 24 September 2007 and 4 October 2007, certain 3% Convertible Bonds with principal amounts of HK$108,000,000 and HK$156,000,000 were converted into 48,000,000 and 69,333,333 new ordinary shares of the Company, increasing issued capital and share premium account of the Company by RMB11,346,000 and RMB249,469,000, respectively.

On 10 November 2008, the Company repurchased and cancelled certain 3% Convertible Bonds with a principal amount of HK$205,000,000 for a consideration of HK$194,750,000. The repurchase and cancellation resulted in a gain of HK$26,593,000 (equivalent to RMB23,423,000) during the year ended 31 December 2008.

29. CONVERTIBLE BONDS (CONTINUED)

(i) HK$625 million 3% convertible bonds due 2012 (the "3% Convertible Bonds") (continued)

The movements in the liability component and equity component of the 3% Convertible Bonds during the year ended 31 December 2008 are as follows:

	Liability component of convertible bonds RMB'000	Equity component of convertible bonds RMB'000	Total RMB'000
Principal amount of convertible bonds issued	600,047	13,766	613,813
Transaction costs	(9,002)	(206)	(9,208)
Interest expenses	29,632	—	29,632
Interest paid	(5,174)	—	(5,174)
Conversion into ordinary shares	(255,088)	(5,727)	(260,815)
Exchange realignment	(19,328)	—	(19,328)
At 31 December 2007 and 1 January 2008	341,087	7,833	348,920
Interest expenses	29,264	—	29,264
Interest paid	(9,631)	—	(9,631)
Repurchased and cancelled	(194,959)	(4,448)	(199,407)
Exchange realignment	(19,902)	—	(19,902)
At 31 December 2008	**145,859**	**3,385**	**149,244**

(ii) HK$2,000 million zero coupon convertible bonds due 2012 (the "Zero Coupon Convertible Bonds")

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.

29. CONVERTIBLE BONDS (CONTINUED)

(ii) HK$2,000 million zero coupon convertible bonds due 2012 (the "Zero Coupon Convertible Bonds") (continued)

Some of the key terms of the Zero Coupon Convertible Bonds are:

(a) convertible at the option of the bond holders into fully paid ordinary shares at any time from 22 January 2008 to 2 December 2012 at a conversion price of HK$5.77 per share;

(b) redeemable at the option of the bond holders on 12 December 2010, being the third anniversary of the issue date, at the principal amount multiplied by 117.68%;

(c) redeemable at the option of the Company at their early redemption amount calculated by using the bond principal with an interest rate of 5.5% on a semi-annual basis, at anytime from 12 December 2010 to 12 December 2012, providing the prices of the Company's shares for 20 consecutive trading days are over 130% of the early redemption price divided by a conversion ratio; and

(d) The Zero Coupon Convertible Bonds will be redeemed at 131.17% of its principal amount on 12 December 2012.

The Company determined the fair value of the liability component based on the valuations performed by Greater China using an equivalent market interest rate for a similar bond without a conversion option. The effective interest rate of the host contract is determined to be 6.82%.

On 19 August 2008, 20 August 2008, 6 October 2008 and 26 November 2008, the Company repurchased and cancelled certain Zero Coupon Convertible Bonds with principal amounts of HK$60,000,000, HK$40,000,000, HK$50,000,000 and HK$300,000,000 for considerations of HK$42,000,000, HK$28,000,000, HK$31,500,000 and HK$105,000,000, respectively. The repurchases and cancellations resulted in total gains of HK$243,523,000 (equivalent to RMB214,256,000) during the year ended 31 December 2008.

29. CONVERTIBLE BONDS (CONTINUED)

(ii) HK$2,000 million zero coupon convertible bonds due 2012 (the "Zero Coupon Convertible Bonds") (continued)

The movements in the liability component and equity component of the Zero Coupon Convertible Bonds during the year ended 31 December 2008 are as follows:

	Liability component of convertible bonds RMB'000	**Equity component of convertible bonds** RMB'000	**Total** RMB'000
Principal amount of convertible bonds issued	1,821,952	66,847	1,888,799
Transaction costs	(40,345)	(1,482)	(41,827)
Interest expenses	6,269	—	6,269
Exchange realignment	(15,092)	—	(15,092)
At 31 December 2007 and 1 January 2008	1,772,784	65,365	1,838,149
Interest expenses	**109,683**	**—**	**109,683**
Repurchased and cancelled	**(395,806)**	**(14,707)**	**(410,513)**
Exchange realignment	**(104,263)**	**—**	**(104,263)**
At 31 December 2008	**1,382,398**	**50,658**	**1,433,056**

30. ISSUED CAPITAL

	Notes	Year ended 31 December 2008 Number of ordinary shares	Year ended 31 December 2008 RMB'000	Year ended 31 December 2007 Number of ordinary shares	Year ended 31 December 2007 RMB'000
Authorised (HK$0.1 each):					
At 1 January		**3,000,000,000**	**302,420**	1,000,000,000	106,000
Increase during the year	(a)	**2,000,000,000**	**176,780**	2,000,000,000	196,420
At 31 December		**5,000,000,000**	**479,200**	3,000,000,000	302,420
Issued and fully paid (HK$0.1 each):					
At 1 January		**2,092,865,385**	**209,938**	578,600,000	61,119
Issue 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	(b)	**255,000**	**23**	765,000	74
Conversion of convertible bonds		**–**	**–**	117,333,333	11,346
At 31 December		**2,093,120,385**	**209,961**	2,092,865,385	209,938

Notes:

(a) Pursuant to a Directors' resolution of the Company dated 12 June 2008, the authorised share capital of the Company was increased from HK$300,000,000, divided into 3,000,000,000 shares of HK$0.10 each, to HK$500,000,000, divided into 5,000,000,000 shares of HK$0.10 each.

(b) On 24 April 2008, 255,000 ordinary shares of HK$0.10 each were issued at HK$1.91 per ordinary share to a former executive director pursuant to the exercise of share options granted on 8 March 2007.

31. RESERVES

(a) Group

Contributed surplus

The contributed surplus of the Group represents the difference between the aggregate of the nominal value of the paid-up capital of Infonics acquired pursuant to the group reorganisation on 29 April 2006 and the nominal value of the Company's shares issued in exchange therefor.

Share premium account

Under the Companies Law (2004 Revision) of the Cayman Islands, the share premium and contribution surplus are distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

Capital reserves

The convertible notes (stock options) with a principal of HK$316,130,000 (equivalent to RMB311,135,000) were issued as part of the consideration for the exclusive offtake right in May 2007. The convertible notes (stock options) will be converted to 182,736,416 ordinary shares of the Company in three years after the issuance of convertible notes (stock options) and are neither transferable nor redeemable.

Share option reserves

The Company has a share option scheme under which options to subscribe for the Company's shares have been granted to certain Directors and senior employees as set out in note 32.

The share option reserves comprise a proportion of the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payment transactions in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

31. RESERVES (CONTINUED)

(a) Group (continued)

Statutory surplus reserves and statutory reserve fund

In accordance with the Company Law of the PRC and the respective Articles of Association of Yongtong Special Steel, Yongtong Alloy Metals, Yongan Special Steel, Xiangtong Electricity and Yongtong Nickel, these companies are each required to allocate 10% of their profit after tax, as determined in accordance with PRC GAAP, to the statutory surplus reserves (the "SSR") until such reserves reach 50% of the registered capital.

Subsequent to the re-registration of Yongtong Special Steel as a wholly-foreign-owned company on 10 November 2003, allocation to the SSR was no longer required. According to the relevant PRC regulations applicable to wholly-foreign-owned companies, Yongtong Special Steel is required to allocate a certain portion (not less than 10%) of its profit after tax in accordance with PRC GAAP to the statutory reserve fund (the "SRF") until such reserve reaches 50% of its registered capital.

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

Distributable reserves

For dividend purposes, the amount which the PRC subsidiaries can legally distribute by way of a dividend is determined by reference to the distributable profits as reflected in their PRC statutory financial statements which are prepared in accordance with PRC GAAP. These profits differ from those that are reflected in this report which is prepared in accordance with IFRSs.

In accordance with the Company Law of the PRC, profits after tax of the PRC subsidiaries can be distributed as dividends after the appropriations to the SSR and SRF set out above.

31. RESERVES (CONTINUED)

(b) Company

	Notes	Share premium account RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Share option reserves RMB'000	Exchange fluctuation reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
2008								
At 1 January 2008		2,691,523	314,784	311,135	7,936	(46,297)	(46,129)	3,232,952
Total income and expense recognised directly in equity- Exchange realignment		–	–	–	–	(23,161)	–	(23,161)
Profit for the year		–	–	–	–	–	80,683	80.683
Total income and expense for the year		–	–	–	–	(23,161)	80,683	57,522
Exercise of share options	32	568	–	–	(154)	–	–	414
Equity-settled share option arrangements	32	–	–	–	8,918	–	–	8,918
Forfeited share option reserves		–	–	–	(400)	–	400	–
Repurchases of convertible bonds		–	–	–	–	–	19,155	19,155
Adjustment on proposed final 2007 dividend for new shares issued	11	(3)	–	–	–	–	–	(3)
Interim 2008 dividend	11	(31,317)	–	–	–	–	–	(31,317)
At 31 December 2008		2,660,771	314,784	311,135	16,300	(69,458)	54,109	3,287,641

31. RESERVES (CONTINUED)

(b) Company (continued)

	Notes	Share premium account RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Share option reserves RMB'000	Exchange fluctuation reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Total RMB'000
2007								
At 1 January 2007		326,217	314,784	—	3,565	(17,605)	13,938	640,899
Total income and expense recognised directly in equity- Exchange realignment		—	—	—	—	(28,692)	—	(28,692)
Loss for the year		—	—	—	—	—	(60,067)	(60,067)
Total income and expense for the year		—	—	—	—	(28,692)	(60,067)	(88,759)
Issue of ordinary shares		89,806	—	—	—	—	—	89,806
Share issue expenses		(2,964)	—	—	—	—	—	(2,964)
Issue of consideration shares		2,149,791	—	—	—	—	—	2,149,791
Issue of convertible notes (stock options)		—	—	311,135	—	—	—	311,135
Exercise of share options		936	—	—	(219)	—	—	717
Equity-settled share option arrangements	32	—	—	—	4,590	—	—	4,590
Conversion of convertible bonds		249,469	—	—	—	—	—	249,469
Interim 2007 dividend	11	(97,333)	—	—	—	—	—	(97,333)
Proposed final 2007 dividend	11	(24,399)	—	—	—	—	—	(24,399)
At 31 December 2007		2,691,523	314,784	311,135	7,936	(46,297)	(46,129)	3,232,952

32. SHARE OPTION SCHEME

On 2 May 2005, the Company approved a share option scheme (the "Share Option Scheme") under which the Directors may, at their discretion, grant options to the Directors and employees of the Company to subscribe for shares in the Company. The subscription price for shares under the Share Option Scheme will be determined by the Directors, which shall be calculated at the time of grant of the relevant option and shall not be less than the highest of (i) the nominal value of a share; (ii) the closing price of a share as stated in the Stock Exchange's daily quotation sheet on the date of grant of the relevant option, which must be a business day; and (iii) 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 the relevant option.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme must not exceed 10% of the share capital of the Company in issue and may not exceed in nominal value 30% of the issued share capital of the Company in issue for a period of 10 consecutive years. The Share Option Scheme will remain in force for the period of 10 years commencing on 2 May 2005. No option may be granted to any one person which, if exercised in full, would result in the total number of shares which were already issued and may fall to be issued to him under all the options previously granted to him pursuant to the Share Option Scheme in any 12-month period up to the date of grant, exceeding 1% of the maximum aggregate number of shares for the time being issued and which may fall to be issued under the Share Option Scheme.

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive Directors. In addition, any share options granted to a substantial shareholder or an independent non-executive Director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the Directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of offer of the share options. The options will have a vesting schedule of five years whereby only 20% of the options shall be exercisable 12 months after the grant date and an additional 20% may be exercised by the grantee in each subsequent year until five years later when 100% of the options may be exercised.

32. SHARE OPTION SCHEME (CONTINUED)

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Share Option Scheme during the year:

	2008 Weighted average exercise price HK$ per share	**2008** Number of options '000	2007 Weighted average exercise price HK$ per share	2007 Number of options '000
At 1 January	**1.47**	**32,760**	1.07	19,450
Granted during the year	**2.45**	**15,000**	2.01	14,075
Lapsed during the year	**1.91**	**(1,020)**	—	—
Lapsed during the year	**2.45**	**(480)**	—	—
Exercised during the year	**1.91**	**(255)**	1.07	(765)
At 31 December	**1.77**	**46,005**	1.47	32,760

The weighted average share price at the date of exercise for share options exercised during the year was HK$2.27 (2007: HK$4.29) per share.

The exercise prices and exercise periods of the share options outstanding as at the balance sheet date are as follows:

2008

Number of options '000	**Exercise price* HK$ per share**	**Exercise period**
18,685	**1.07**	**30 July 2006 to 29 July 2015**
9,800	**1.91**	**6 March 2008 to 5 March 2017**
3,000	**2.37**	**20 April 2008 to 19 April 2017**
14,520	**2.45**	**20 March 2009 to 19 March 2018**
46,005		

32. SHARE OPTION SCHEME (CONTINUED)

2007

Number of options '000	Exercise price* HK$ per share	Exercise period
18,685	1.07	30 July 2006 to 29 July 2015
11,075	1.91	6 March 2008 to 5 March 2017
3,000	2.37	20 April 2008 to 19 April 2017
32,760		

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

The fair value of the share options granted on 20 March 2008 was RMB15,319,000 (RMB1.02 each). The Group recognised a net share option expense of RMB8,918,000 during the year ended 31 December 2008 (2007: RMB4,590,000).

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used in estimating the fair value of the equity-settled share options:

	2008	2007	
Grant date		March	April
Dividend yield (%)	**2.82**	4.02	4.02
Expected volatility (%)	**67.82**	52.83	52.18
Historical volatility (%)	**67.82**	52.83	52.18
Risk-free interest rate (%)	**2.31**	4.21	4.21
Weighted average share price (HK$ per share)	**2.16**	1.88	2.25

32. SHARE OPTION SCHEME (CONTINUED)

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other features of the options granted were incorporated into the measurement of fair value.

The 255,000 share options exercised during the year 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 reserves of HK$172,000 (equivalent to RMB154,000).

As at 31 December 2008, the Company had 46,005,000 share options outstanding under the Share Option Scheme, which represented approximately 2.2% of the Company's shares in issue as at 31 December 2008. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 46,005,000 additional ordinary shares of the Company and an additional share capital of HK$4,600,500 and share premium of HK$76,794,000 before share issue expenses.

As at the date of approval of these financial statements, the Company had 46,005,000 share options outstanding under the Share Option Scheme, which represented approximately 2.2% of the Company's shares in issue as at that date.

33. BUSINESS COMBINATION

(i) Acquisition of Yongan Special Steel

On 5 January 2007, upon capital injection of RMB77,628,000 by Yongtong Special Steel as set in note 21(a), the share capital of Anyang Steel Group Luoyang Anlong Steel Company Limited ("Anlong Steel") increased to RMB167,628,000, of which the Group held 46% of the enlarged registered capital. Anlong Steel was renamed as Yongan Special Steel. The principal activities of Yongan Special Steel include the production and sale of stainless steel base materials and other steel products.

Following the capital injection on 5 January 2007, a new board of directors of Yongan Special Steel of seven members has been formed, of whom four directors are appointed by Yongtong Special Steel. Accordingly, Yongtong Special Steel obtained control of Yongan Special Steel thereafter.

Yongtong Special Steel also entered into a management agreement ("Management Agreement") with Anyang Steel Group Company Limited ("ASG") and LSAC on 11 June 2006, pursuant to which all parties agreed that Yongtong Special Steel will be responsible to manage the operations of Yongan Special Steel for a period of 15 years from its business licence date of 5 January 2007. During such period, ASG and LSAC will be entitled to a fixed annual payment of RMB2,270,000 and RMB4,040,000, respectively from Yongan Special Steel, during the first year of the Management Agreement, the fixed annual payment to ASG and LSAC shall not be less than 50% of the amounts mentioned above. Except for the fixed annual payment above, ASG and LSAC will neither share the profits nor bear the losses of Yongan Special Steel.

33. BUSINESS COMBINATION (CONTINUED)

(i) Acquisition of Yongan Special Steel (continued)

The fair values of the identifiable assets and liabilities of Yongan Special Steel as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair value recognised on acquisition RMB'000	**Previous carrying amount** RMB'000
Property, plant and equipment	207,438	201,696
Construction in progress	62,966	62,966
Prepaid land lease payments	202,260	104,342
Inventories	158,753	158,753
Trade and notes receivables	230	230
Prepayments, deposits and other receivables	3,672	3,672
Deferred tax assets	63,848	63,848
Amount due from ASG and its related parties	331	331
Cash and cash equivalents	610	610
Interest-bearing loans	(10,000)	(10,000)
Amounts due to Yongtong Special Steel	(161,264)	(161,264)
Accrued liabilities and other payables	(66,822)	(66,822)
Deferred tax liabilities	(34,208)	—
Tax payables	(11,401)	(11,401)
Trade and notes payables	(204,937)	(204,937)
Amounts due to ASG and its related parties	(153,367)	(153,367)
	58,109	(11,343)
Minority interests	(31,379)	
Goodwill on acquisition	56,694	
Total consideration	83,424	
Satisfied by:		
Prepayments	77,628	
Direct expenses paid in connection with the acquisition	5,796	
	83,424	

33. BUSINESS COMBINATION (CONTINUED)

(i) Acquisition of Yongan Special Steel (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the above acquisition of a subsidiary is as follows:

	RMB'000
Direct expenses paid in connection with the acquisition	(5,796)
Cash and cash equivalents acquired	610
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(5,186)

Since its acquisition, Yongan Special Steel contributed revenue of approximately RMB728,668,000 and profit of approximately RMB110,059,000 to the Group during the period from 5 January 2007 (date of acquisition) to 31 December 2007.

Had the combination taken place at the beginning of the year ended 31 December 2007, the revenue of the Group and the profit of the Group for the year ended 31 December 2007 would have been RMB1,878,420,000 and RMB360,317,000, respectively.

(ii) Acquisition of Xiangtong Electricity

On 18 August 2007, the Group acquired a 50.01% interest in Xiangtong Electricity from an independent third party. Xiangtong Electricity is engaged in the power generation business that generates and supplies the electricity to Yongtong Special Steel and other companies in the Zhengzhou area. The purchase consideration for the acquisition was in the form of cash totalling HK$15,000,000 (equivalent to RMB14,477,000).

33. BUSINESS COMBINATION (CONTINUED)

(ii) Acquisition of Xiangtong Electricity (continued)

The fair values of the identifiable assets and liabilities of Xiangtong Electricity as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair value recognised on acquisition	**Previous carrying amount**
	RMB'000	RMB'000
Property, plant and equipment	22,914	22,914
Inventories	57	57
Trade and notes receivables	3,345	3,345
Prepayments, deposits and other receivables	219	219
Cash and cash equivalents	297	297
Interest-bearing loans	(8,570)	(8,570)
Accrued liabilities and other payables	(3,933)	(3,933)
Tax payables	(1,357)	(1,357)
Trade and notes payables	(738)	(738)
	12,234	12,234
Minority interests	(6,115)	
Goodwill on acquisition	8,358	
Satisfied by cash	14,477	

33. BUSINESS COMBINATION (CONTINUED)

(ii) Acquisition of Xiangtong Electricity (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the above acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(14,477)
Cash and cash equivalents acquired	297
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(14,180)

Since its acquisition, Xiangtong Electricity contributed revenue of nil and profit before tax of RMB2,406,000 to the Group's profit for the year ended 31 December 2007.

Had the combination taken place at the beginning of the year ended 31 December 2007, the revenue of the Group and the profit of the Group for the year ended 31 December 2007 would have been RMB1,874,591,000 and RMB361,799,000, respectively.

34. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

Financial assets

	Group	
	2008	2007
	Loans and receivables	Loans and receivables
	RMB'000	RMB'000
Trade and notes receivables	**137,704**	209,369
Financial assets included in prepayments, deposits and other receivables	**26,587**	19,808
Cash and cash equivalents	**917,763**	1,909,959
Pledged time deposits	**526,912**	327,642
	1,608,966	2,466,778

Financial liabilities

	Group	
	2008	2007
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
	RMB'000	RMB'000
Trade and notes payables	**808,337**	560,517
Financial liabilities included in accrued liabilities and other payables	**121,767**	145,253
Liability component of convertible bonds	**1,528,257**	2,113,871
Interest-bearing bank and other borrowings	**356,546**	261,029
	2,814,907	3,080,670

34. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: (continued)

Financial assets

	Company	
	2008	2007
	Loans and receivables	Loans and receivables
	RMB'000	RMB'000
Financial assets included in prepayments, deposits and other receivables	**3,497**	379
Cash and cash equivalents	**558,171**	1,719,530
Pledged time deposits	**80,001**	—
	641,669	1,719,909

Financial liabilities

	Company	
	2008	2007
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
	RMB'000	RMB'000
Trade and notes payables	**1,137**	—
Financial liabilities included in accrued liabilities and other payables	**4,714**	5,280
Liability component of convertible bonds	**1,528,257**	2,113,871
Interest-bearing bank and other borrowings	**—**	37,089
	1,534,108	2,156,240

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, other interest-bearing loans, and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main financial risks faced by the Group are interest rate risk, credit risk, foreign currency risk and liquidity risk. The Group does not hold or issue derivative financial instruments either for hedging or for trading purposes.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. At 31 December 2008, approximately 65% (2007: 58%) of the Group's interest-bearing borrowings bore interest at fixed rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variable held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

Group:

	Increase/ (decrease) in basis points	**Increase/ (decrease) in (loss)/profit before tax** RMB'000
2008	**25**	**(309)**
	(25)	**309**
2007	25	(274)
	(25)	274

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk

As at December 2008, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet after deducting any impairment allowance.

Substantial amounts of the Group's cash and cash equivalents are held in major financial institutions located in the PRC, Hong Kong, Singapore and Indonesia, which management believes are of high credit quality.

The Group's notes receivables are guaranteed by banks and the risk for default in payment is minimal. In respect of trade and other receivables, in order to minimise risk, the management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. Credit evaluations of its customers' financial position and condition is preformed on each and every major customer periodically. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. The Group does not require collateral in respect of its financial assets. Debts are usually due within 90 days from the date of billing.

In respect of trade receivables, the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group has significant sale transactions with established manufacturers of stainless steel and hence has a significant concentration of credit risk in this regard. The Group's sales to its top five customers accounted for approximately 84% (2007: 93%) of its total sales for the year. Taking into account the creditworthiness of the Group's customers, the credit risk measures and the historical levels of the bad debts, the Directors consider that such concentration of credit risk would not result in significant credit default exposure to the Group.

Foreign currency risk

The Group principally operates in the PRC and its principal activities are transacted in RMB. The Group's financial assets and liabilities are not subject to foreign currency risk, except for cash and cash equivalents, interest-bearing loans and convertible bonds, and the inter company trade and loan balances which are denominated in US$, HK$, S$ and Europe dollar ("EUR€"). Therefore, the fluctuations in the exchange rates of RMB against foreign currencies could affect the Group's results of operations and equity. The Group does not enter into any hedging transactions to manage the potential fluctuation in foreign currency.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk (continued)

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the United States dollar, Hong Kong dollar, Euro and Singapore dollar exchange rates, with all other variables held constant, of the Group's profit/(loss) before tax (due to changes in the fair value of monetary liabilities) and the Group's equity.

	Fluctuation in foreign currency rate	Increase/ (decrease) in (loss)/profit before tax	Increase/ (decrease) in equity*
	%	RMB'000	RMB'000
2008			
If RMB weakens against US$	**5**	**(16,740)**	**18,214**
If RMB strengthens against US$	**5**	**16,740**	**(18,214)**
If RMB weakens against HK$	**5**	**—**	**(97,404)**
If RMB strengthens against HK$	**5**	**—**	**97,404**
If RMB weakens against EUR€	**5**	**1,943**	**—**
If RMB strengthens against EUR€	**5**	**(1,943)**	**—**
If RMB weakens against S$	**5**	**27,821**	**(12,904)**
If RMB strengthens against S$	**5**	**(27,821)**	**12,904**
2007			
If RMB weakens against US$	5	(27,449)	4,254
If RMB strengthens against US$	5	27,449	(4,254)
If RMB weakens against HK$	5	(2,758)	(25,445)
If RMB strengthens against HK$	5	2,758	25,445

* Excluding retained profits

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial liabilities and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, convertible bonds, and other interest-bearing loans. The Group's policy is that not more than 75% of borrowings should mature in any 12-month period. 47% of the Group's debts would mature in less than one year as at 31 December 2008 (2007: 27%) based on the carrying value of borrowings reflected in the financial statements.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contractual undiscounted payments, was as follows:

Group

	2008				
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Convertible bonds	—	—	137,576	1,366,945	1,504,521
Interest-bearing bank and other borrowings	—	83,000	153,089	120,457	356,546
Trade and notes payables	238,900	336,480	232,957	—	808,337
Other payables	65,384	55,876	507	—	121,767
	304,284	475,356	524,129	1,487,402	2,791,171

	2007				
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Convertible bonds	—	—	—	2,210,840	2,210,840
Interest-bearing bank and other borrowings	—	—	140,659	120,370	261,029
Trade and notes payables	176,686	207,108	176,723	—	560,517
Other payables	77,824	67,429	—	—	145,253
	254,510	274,537	317,382	2,331,210	3,177,639

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

Company

	2008				
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Convertible bonds	—	—	137,576	1,366,945	1,504,521
Trade and notes payable	1,137	—	—	—	1,137
Other payables	4,714	—	—	—	4,714
	5,851	—	137,576	1,366,945	1,510,372

	2007				
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Convertible bonds	—	—	—	2,210,840	2,210,840
Interest-bearing bank and other borrowings	—	—	37,089	—	37,089
Other payables	5,280	—	—	—	5,280
	5,280	—	37,089	2,210,840	2,253,209

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Fair values

The fair values of the Group's financial instruments are not materially different from their carrying amounts. Fair value estimates are made at a specific point in time and are based on the relevant market information and information about the financial instruments. These estimates are subjective in nature, involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Capital management

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

The Group manages its capital structure and makes adjustment to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, issue bonds or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2008 and 31 December 2007.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by total capital and net debt. Net debt includes interest-bearing loans and other borrowings, the liability component of convertible bonds, trade and notes payables and other payables and accruals less cash and cash equivalents and pledged deposits. Capital represents equity attributable to the equity holders of the parent. The gearing ratios as at the balance sheet dates were as follows:

	31 December 2008 RMB'000	31 December 2007 RMB'000
Interest-bearing loans and other borrowings	**356,546**	261,029
Trade and notes payables	**808,337**	560,517
Other payables and accruals	**121,767**	145,253
Convertible bonds, the liability component	**1,528,257**	2,113,871
Less: cash and cash equivalents and pledged time deposits	**(1,444,675)**	(2,237,601)
Net debt	**1,370,232**	843,069
Equity attributable to equity holders	**4,055,163**	4,083,036
Capital and net debt	**5,425,395**	4,926,105
Gearing ratio	**25%**	17%

36. RELATED PARTY TRANSACTIONS

(I) **In addition to the transactions and balances detailed elsewhere in these financial statements, the Company and its subsidiaries had the following material transactions with related parties:**

Names of related parties	Nature of transactions	2008 RMB'000	2007 RMB'000
Group			
Easyman (note a)	Purchase of an exclusive offtake right	**—**	2,686,865
Yiwan Mining (note b)	Purchase of materials (note c)	**97,420**	67,340
Yiwan Mining (note b)	Loan (note d)	**507**	—
PT Yiwan Shipping (note e)	Sale of property, plant and equipment (note f)	**45,509**	—
Company			
Yongtong Special Steel (note g)	Sale of materials (note h)	**107,169**	307,405
Infonics (note i)	Advances to subsidiaries (note j)	**521,748**	3,024,265
S.E.A.M (note k)	Management fee (note l)	**4,578**	7,040
PT Yiwan Shipping (note e)	Sale of property, plant and equipment (note f)	**45,509**	—

36. RELATED PARTY TRANSACTIONS (CONTINUED)

(I) In addition to the transactions and balances detailed elsewhere in these financial statements, the Company and its subsidiaries had the following material transactions with related parties: (continued)

Notes:

(a) Easyman is a company wholly owned by Mr. Dong Shutong, an executive Director and a substantial shareholder of the Company.

(b) The Directors consider that Mr. Dong Shutong through Easyman, as a lender of Yiwan Mining, has an indirect economic interest in Yiwan Mining.

(c) The transaction was carried out based on the terms agreed by the parties under an exclusive offtake agreement signed between Yiwan Mining and S.E.A.M in March 2007.

(d) The loan from Yiwan Mining bears interest at the prevailing market interest rate, and is repayable in October 2009.

(e) PT Yiwan Shipping is a wholly-owned subsidiary of Yiwan Mining.

(f) The transactions were carried out based on normal commercial terms agreed by the parties with reference to market prices.

(g) Yongtong Special Steel is an indirect subsidiary of the Company.

(h) The transaction was carried out based on normal commercial terms agreed by the parties.

(i) Infonics is a subsidiary of the Company.

(j) The advances to the subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

(k) S.E.A.M is an indirect subsidiary of the Company.

(l) Represented the management fee charged to S.E.A.M and direct expenses incurred in the Company on behalf of S.E.A.M.

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

	2008	2007
	RMB'000	RMB'000
Fees	**728**	776
Salaries, allowances and benefits	**4,071**	3,771
Equity-settled share option expense	**1,924**	3,032
Retirement benefit schemes contributions	**36**	47
Total compensation paid to key management personnel	**6,759**	7,626

36. RELATED PARTY TRANSACTIONS (CONTINUED)

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

In the opinion of the Directors, key management personnel of the Group consist of all the Directors of the Company. Further details of Directors' emoluments are included in note 8 to the financial statements.

37. PLEDGE OF ASSETS

Details of the Group's bank loans and notes payables, which are secured by the assets of the Group, are included in notes 25, 26 and 28 to the financial statements.

38. COMMITMENTS

Operating lease arrangements

As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from two to three years.

At the balance sheet date, the Group and Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group and Company	
	2008	2007
	RMB'000	RMB'000
Within one year	**2,473**	1,149
In the second to fifth years, inclusive	**2,337**	542
	4,810	1,691

38. COMMITMENTS (CONTINUED)

Capital commitments

In addition to the operating lease commitments detailed above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2008	2007
	RMB'000	RMB'000
Capital commitments in respect of property, plant and equipment, contracted, but not provided for	**297,762**	62,796

39. CONTINGENT LIABILITIES

As at the balance sheet date, contingent liability not provided for in the financial statements was as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Guarantee given for bank loans of a subsidiary	**—**	—	**83,000**	—

At 31 December 2008, the bank loans of Yongtong Special Steel of RMB83,000,000 were guaranteed by the Company.

40. POST BALANCE SHEET EVENTS

The following significant event took place subsequent to 31 December 2008:

On 25 February 2009 and 4 March 2009, the Company repurchased and cancelled certain Zero Coupon Convertible Bonds with principal amounts of HK$5 million and HK$140 million respectively. The total consideration paid for the Zero Coupon Convertible Bonds amounted to HK$61.45 million.

41. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of Directors on 29 April 2009.