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

2009 Annual Report

China Nickel Resources is a hi-tech leading integrated special steel, non-ferrous metal and mineral enterprise in the PRC. The Group currently owns a long term exclusive offtake right of ore in Indonesia. The Group currently produces nickel-based steel products, nickel-chromium alloy steel and special iron products. The Group will also migrate to a major producer of nickel pig iron, stainless steel, high value added nickel-chromium products and non-ferrous metals soon. Together with its self-developed innovative technologies in non-coke reduction purification technology and ore separation technology, as well as the geographical advantage of new plant in Lianyungang, 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.

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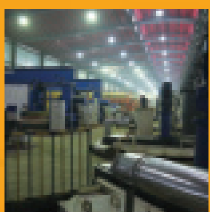

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-executive 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

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 KYI-1111
Cayman Islands

HEAD OFFICE IN PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

AUDITORS

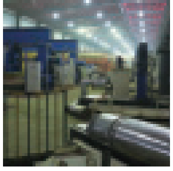
Ernst & Young

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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



Corporate Information

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

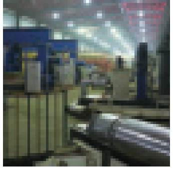
Five Year Financial Summary

Financial Summary

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

	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000	2005 RMB'000
Revenue	**887,734**	1,481,594	1,874,591	879,796	837,529
Cost of sales	**(1,083,909)**	(1,329,260)	(1,288,493)	(691,564)	(677,174)
Gross (loss)/profit	**(196,175)**	152,334	586,098	188,232	160,355
Other income and gains	**110,497**	275,445	72,965	9,553	17,145
Selling and distribution costs	**(24,909)**	(30,754)	(43,988)	(34,179)	(8,525)
Administrative costs	**(133,999)**	(138,839)	(75,442)	(32,280)	(23,958)
Finance costs	**(86,500)**	(153,943)	(68,100)	(23,420)	(22,609)
Other expenses	**(108,231)**	(128,406)	(786)	(332)	(284)
(Loss)/profit before tax	**(439,317)**	(24,163)	470,747	107,574	122,124
Income tax credit/(expense)	**108,759**	62,337	(110,085)	(17,332)	—
(Loss)/profit for the year	**(330,558)**	38,174	360,662	90,242	122,124
Attributable to:					
Owners of the parent	**(332,145)**	37,361	359,291	90,272	122,141
Minority interests	**1,587**	813	1,371	(30)	(17)
	(330,558)	38,174	360,662	90,242	122,124
Dividends	**—**	31,320	121,732	32,369	69,094



Five Year Financial Summary

Assets, Liabilities and Minority Interests

	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000	2005 RMB'000
Total assets	**6,698,918**	7,056,354	7,402,043	1,593,043	1,131,895
Total liabilities	**2,826,601**	2,946,187	3,264,816	753,252	516,113
Minority interests	**121,226**	55,004	54,191	7	37
Net assets	**3,872,317**	4,110,167	4,137,227	839,791	615,782

The consolidated results of the Group for the year ended 31 December 2005, 2006, 2007 and 2008 are extracted from the Annual Reports 2005, 2006, 2007 and 2008 of the Group respectively and while those for the year ended 31 December 2009 were prepared based on the consolidated income statement and consolidated statement of financial position set out on page 47 to 50. This summary does not form part of the audited financial statements.

Corporate Responsibility

Unlimited Commitment with Limited Resources

It is the responsibility of an enterprise to utilize limited resources in an efficient way and protect the environment with dedication and creativity. Aiming to fulfil unlimited commitment with limited resources, the Group has devoted efforts in the research and development of new technology and product in order to realize the targets of high recovery rate, low emission as well as resource recycling with effective and comprehensive use of resources. The management believes that the Group is able to bring economic returns for the investors at low costs effectively through the proper use of limited resources.

Projects Progress

Expert Appraisal of Integrated Processing of Limonitic Lateritic Nickel Ore Project

20 January 2010

The Group's Integrated Processing of Limonitic Lateritic Nickel Ore Project in Gongyi, Zhengzhou obtained the appraisal certificate from China Nonferrous Metals Industry Association and was registered as an innovative advanced technology application of international standard.

Technological Upgrades and Improvements of Two Plants in the PRC

Early 2010

Technological upgrades and improvements have been made to two plants in Zhengzhou and Luoyang, Henan province, including the installation of 18 sets of 3-tonne electric slag furnaces, 2 Φ1.2m vertical casters and a 1,600-tonne fast forging unit as well as the upgrades and improvements of wide slab casting unit and stainless steel wire products.

Acquisition of Lianyungang Project Completed and Construction Commenced

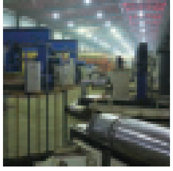
28 October 2009

The Group announced the acquisition of development project in Lianyungang, Jiangsu Province, the PRC was completed. The annual production capacity of 1,000,000 tonnes of ferro-nickel scheduled for the initial phase is expected to commence in the second half of 2010. The annual processing capacity of 4,500,000 tonnes of dry ores scheduled for the subsequent phase is expected to commence construction in 2011, whereupon the annual production capacity for such plant of nickel and cobalt, chromic oxide and fine iron powder will be 35,000 tonnes, 120,000 tonnes and 3,000,000 tonnes, respectively. The project commenced construction on 28 September 2009 and is underway as scheduled.

Chairman's Statement

Chairman & Chief Executive Officer ("CEO")
Dong Shutong

Unlimited Commitment with Limited Resources



Chairman's Statement

Dear Shareholders,

I am pleased to present the Annual Report of the Group for the year ended 31 December 2009 and extend my gratitude to all the shareholders on behalf of the Board of China Nickel Resources Holdings Company Limited.

Review

2009 was a special year for the Group. First of all, with the research and development efforts of the Group in the past few years, various unique technologies have been fully developed with its resources and were highly recognised by the industry. The cost-effective non-coke reduction refinery technology will be industrialised in the Ferro-Nickel Project in Lianyungang. The construction of the project commenced in October 2009 and is expected to commence operation in the third quarter of the year. The development of the first-ever Integrated Processing of Limonitic Lateritic Nickel Ore technology in the world was successfully completed. The Group is currently undergoing a trial-run for such technology in a well-established factory in Henan Province, the PRC, before its commencement of large-scale operation. In order to optimise its product mix and strengthen its profitability, the Group carried out technology upgrade and improvement in the existing plants in Zhengzhou and Luoyang, Henan Province, and commenced production of high value added special steel products.

However, 2009 was also a year full of challenges. On the one hand, as the global economy had yet to bottom out in the first half of 2009, the demand of the international market for steel fell, resulting in decreases in steel export and price. In particular, the prices of nickel and steel in the first quarter of the year hit a record low in recent years. The hardship of business environment for domestic production of the fourth quarter of 2008 remained in the beginning of the year. Most of the steel enterprises and their downstream enterprises continued to cut production scale, resulting in higher average unit cost of production. On the other hand, the Group's substantial capital injection in the research and development, expansion and upgrade and improvement projects for existing plants led to higher operating expenses as compared with 2008. With the effort and dedication of all members of the Group, the management believes that all difficulties in the changes of operation have been overcome. With significant reduction in amortization charge of the initial expenses of the above projects in the coming years, the cost effectiveness of products will improve in general. In spite of the global financial crisis, the cost structure of the Group is greatly improved, laying a solid foundation for future growth.

Chairman's Statement

Prospects

As of today, the progress of the Ferro-Nickel Project in Lianyungang and technological improvement of Yongtong Special Steel and Yongan Special Steel are satisfactory. Coupled with the Group's resources and the excellent geographical advantages of new plants, it is believed that sales volume and profit will increase significantly in 2010 following the commencement of operation of the new plants and the optimization of the product mix resulting from the upgrade and improvement of the existing plants. Based on current economic data, the average direct cost to produce one tonne of ferro-nickel alloy (Ni = 1.6%) by using the non-coke technology under a mass scale environment will be approximately RMB1,600 per tonne while the current market price for such product is approximately RMB3,300 per tonne. As such, liquidity as well as profitability of the Group will be strengthened.

Dong Shutong
Chairman & CEO

Hong Kong, 27 April 2010

Management Discussion and Analysis

Realize Resources Advantages by Hi-tech Research and Development

Management Discussion and Analysis

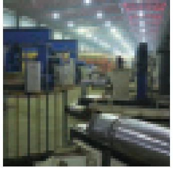
Financial Highlights

	2009 Full Year RMB'000	Change Y on Y %	2009 Second Half RMB'000	2009 First Half RMB'000	2008 Full Year RMB'000	2008 Second Half RMB'000	2008 First Half RMB'000
Revenue/Turnover	**887,734**	**(40%)**	**381,015**	**506,719**	1,481,594	468,856	1,012,738
Gross (Loss)/Profit	**(196,175)**	**N/A**	**(106,314)**	**(89,861)**	152,334	(51,299)	203,633
(Loss)/Earning before Interest, Tax, Depreciation and Amortization ("(LBITDA)"/"EBITDA")	**(221,447)**	**N/A**	**(193,286)**	**(28,161)**	223,617	(28,636)	252,253
(Loss)/Profit before Income Tax	**(439,317)**	**N/A**	**(329,374)**	**(109,943)**	(24,163)	(138,684)	114,521
(Loss)/Profit Attributable to Owners of the Parent	**(332,145)**	**N/A**	**(252,295)**	**(79,850)**	37,361	(59,982)	97,343
Gross (Loss)/Profit Margin	**(22%)**	**N/A**	**(28%)**	**(18%)**	10%	(11%)	20%
(LBITDA)/EBITDA Margin	**(25%)**	**N/A**	**(51%)**	**(6%)**	15%	(6%)	25%
(Loss)/Profit before Tax Margin	**(49%)**	**N/A**	**(86%)**	**(22%)**	(2%)	(30%)	11%
Net (Loss)/Profit Margin	**(37%)**	**N/A**	**(66%)**	**(16%)**	3%	(13%)	10%

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 2009 was approximately RMB887.7 million, representing a decrease of 40% as compared to 2008. Audited loss attributable to owners of the parent was approximately RMB332.1 million. Audited basic loss per share for 2009 was RMB0.159. Basic loss per share was calculated based on the loss attributable to the owners of the parent of RMB332.1 million divided by the weighted average of 2,093.3 million shares in issue in 2009. The Directors do not recommend the payment of final dividend for the year ended 31 December 2009. The audited consolidated financial statements for the year ended 31 December 2009 have been reviewed by the Company's Audit Committee.

Market Review

The global economic downturn dragged on in the first half of 2009. Demand from the international steel market decreased, resulting in a fall in exports and prices of steel in China. In the first quarter of the year in particular, the prices of nickel and steel were at their lows in recent years. The price of nickel quoted at LME fell to as low as US$9,500 per tonne and the spot price of steel billet in Far East also reached its record low of US$250 per tonne. At the beginning of the year, the domestic production and sales were still mired in adverse impacts of the economic turmoil broken out in the last quarter of 2008. The prices and sales of steel in domestic and overseas market fell due to the shrinkage in external demand and escalation of trade protection. Many steel makers and other producers in downstream industries were forced to further cut down their production.



Since the second quarter of the year, the industrial output saw signs of recovery in line with the economy. With the implementation of the economic stimulus plan and effective fiscal and monetary policies, the PRC's steel industry began to be stabilized in the second half of the year. However, affected by the uncertainties arising from the ore price negotiation with international suppliers, the price of raw materials began to pick up again. The overall performance of the PRC's steel industry was still not satisfactory in 2009.

Due to the gloomy global economy, the world production of nickel products, such as stainless steel and nickel-steel alloy, decreased in 2009 as compared with last year. According to statistics, the total demand for nickel decreased by 1.8% to 1,247,000 tonnes in 2009. However, the nickel market in China was encouraging and there was increase in the production of stainless steel and nicke-steel alloy. Consumption of nickel increased by 32% to 377,000 tonnes in the PRC in 2009.

The world annual consumption of nickel per capita was approximately 0.2 kilograms in 2009, while that in the developed countries and regions such as USA and Europe were 0.42 kilograms and 0.48 kilograms respectively; and more than 1.2 kilograms in industrial countries such as Germany, Japan and Korea; and the figure of nearby regions such as Taiwan was as high as 3.2 kilograms. The annual consumption of nickel per capita in the PRC was approximately 0.28 kilograms, which was close to the world's average consumption but far lower than those of developed countries and regions. According to the forecast of an expert in the industry in the end of 2009, the consumption of nickel in China will be increased by 157% from 2009 to 970,000 tonnes in 2020. China will have huge demand for nickel to narrow the difference in consumption of nickel from developed and industrial countries in the next decade. On the other hand, according to the forecast, the production of nickel in the PRC will rise by only 14% from 226,000 tonnes in 2009 to 257,000 tonnes in 2020, which will be far behind the growth in consumption. The price of nickel quoted at LME surged from US$9,500 per tonne in the beginning of 2009 to approximately US$26,800 per tonne in mid-April this year. It is expected that the price of nickel will further increase.

Business Review

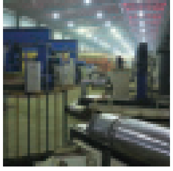
Project Progress

The Company fully capitalized on the advantage of owning abundant of limonitic lateritic nickel ore. In November 2007, the study on the "new technology of the integrated efficient and clean processing of limonitic lateritic nickel ore" was jointly conducted with Beijing General Research Institute of Mining and Metallurgy and the Institute of Process Engineering, Chinese Academy of Sciences. The Company later acquired a steel company in Gongyi in January 2008 and changed its name to Henan Yongtong Nickel Co., Ltd. ("Yongtong Nickel"). Construction of a large-scale pilot plant then commenced in order to prepare for the commercial production. The construction of the plant for trial production completed in 2009 with an annual processing capacity of 330,000 tonnes of ore (dry basis). The testing, adjustment and verification of all new technologies were completed by the end of the year, and ready for large scale production. As such, the Group invited eight renowned experts in the industry in the PRC at an accreditation meeting organized by China Nonferrous Metals Industry Association in Gongyi, Henan Province on 16 January 2010. The Project was granted a certificate of accreditation by China Nonferrous Metals Industry Association on 20


January 2010. The technology was thereby officially registered as an innovative and applicable technology at an internationally leading level and the research and development of which achieved satisfactory results. For such new technologies, selective extraction of chromium and aluminum by alkaline solution method, production of chromium oxide by liquid reduction process, selective extraction of nickel and cobalt by unconventional media, recycling of leaching agent and production of calcium sulphate whisker, were used to directly produce refined iron ore which contains more than 62% of iron thereby facilitating the efficient use of valuable components of lateritic nickel ores such as chromium, aluminum, nickel, cobalt and iron in lateritic ore in an integrated process. As such, the production cost will decrease significantly and the output and emission of wastes will be reduced and controlled in their sources.

Leveraged on the advantages of owning overseas resources, the Group further optimized the self-developed technology of ore processing since 2008 and expanded and established existing and new production plants in the PRC and Indonesia. Affected by numerous variables, the project timeframe of establishing a steel plant near the mine in Indonesia has to be extended. However, the project was recognised as a key project by the Indonesia government with their support. In addition, the Business Delegation of Henan Province, China, and the Ministry of Industry of Indonesia entered into the "Memorandum of Understanding for the Reinforcement of Industrial and Technological Cooperation" on the first session of the economic cooperation meeting co-organised by both parties on 24 August 2009. Both parties witnessed the signatory of a number of commercial cooperation contracts. Among which, the most significant one was the special steel project which was entered into between the Group, through Henan Yongtong Special Steel Co. Ltd, and PT Mandan Steel in Kalimantan in South Indonesia, which is wholly owned by CNR Group Holdings Pte. Ltd., in Singapore. The application of land use rights and the feasibility study of the project will be completed in near future and the environmental assessment will be carried out soon. It is expected that the construction will be commenced by the end of 2010.

Based on the progress of the projects in Indonesia and the satisfactory results of the Yongtong Nickel project, the Group decided to make flexible adjustment in the projects in the PRC. In order to alleviate the pressure in logistics and reduce inland transportation costs, the Group conducted research in coastal ports in the PRC in the past two years and plans to establish an ore processing centre in coastal area. After lengthy negotiation, the Group acquired a construction project in Lianyungang, Jiangsu in the PRC on 28 October 2009 and changed the name of the project company as Lianyungang City East Harvest Mining Company Limited ("East Harvest Mining"). The progress of the establishment is satisfactory and the installation works of production facilities were commenced. It is expected that the construction of the first phase with an annual production capacity of 1 million tonnes of ferro-nickel, or 30,000 tonnes of nickel equivalent, will be completed and operation will be commenced in the second half of 2010. Due to the geographical advantage of the port close to East Harvest Mining, the inland transportation costs were reduced significantly. The Group saved high coke costs by capitalizing on the non-coke reduction refinery technology so that the Group can continue its cost advantage.



In addition to the above new projects, the Group facilitated technology upgrade and improvement in the existing plants in Zhengzhou, Henan Province in the PRC, including the newly built 18 sets of 3-tonne electric flag furnaces, 2 Φ1.2m vertical casters (the world's largest caster), a 1,600-tonne fast forging unit, wide slab casting unit and stainless steel wire products, enabling the production of special steel and nickel based products with higher added value. The existing plant in Luoyang in the PRC also conducted facility improvement for the production capacity of stainless steel since the fourth quarter of 2009. It is expected that the improvement will be completed by mid 2010. The stainless steel base material and ferro-nickel alloy will be processed into stainless steel products with higher margins.

Having considered the recovery of macro-economic environment and the upward trend of the prices of major commodities, the management of the Group is confident that the revenue and profit of the Company will see rapid growth in the coming years after the technology upgrade completed in the fourth quarter in the year.

Production/Trading Targets

Operating Unit	Product	2010 First Half *(tonnes)*	2010 Second Half *(tonnes)*
Yongtong Special Steel and Yongan Special Steel	Ni-Cr alloy steel	**25,000**	**25,000**
	Ferro-nickel alloy (blast furnace technology)	**50,000**	**10,000**
	Stainless steel		**60,000**
East Harvest Mining	Ferro-nickel alloy (non-coke technology)		**120,000 (Ni > 6%) or 300,000 (Ni > 1.6%)**
Overseas Trading Unit	Ore trading to third parties	**600,000**	**600,000**

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

(2) *The Group also sets a target to gradually reach 6,000,000 tonnes of ore processing capacity per annum in five years.*

Management Discussion and Analysis

Revenue/turnover and sales volume

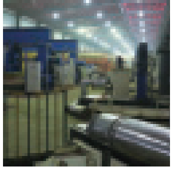
Major products of the Group were stainless steel base material and bearing steel. The table below sets out the turnover and sales volume of our major products for the years indicated:

Turnover

	For the year ended 31 December 2009		2009 Second Half		2009 First Half		For the year ended 31 December 2008		2008 Second Half		2008 First Half	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Stainless steel base material	582,305	66%	129,101	34%	453,204	89%	1,207,962	82%	356,885	76%	851,077	84%
Bearing steel	73,847	8%	71,393	19%	2,454	1%	104,213	7%	15,031	3%	89,182	9%
Ni-Cr alloy steel ingot	73,874	8%	37,582	10%	36,292	7%	152,074	10%	86,741	19%	65,333	6%
Ni-Cr bearing steel	4,433	–	1,649	–	2,784	1%	14,449	1%	10,122	2%	4,327	1%
Ferro-nickel alloys and others	112,258	13%	100,273	26%	11,985	2%	2,896	–	77	–	2,819	–
Lateritic nickel ores	41,017	5%	41,017	11%	–	–	–	–	–	–	–	–
Total	887,734	100%	381,015	100%	506,719	100%	1,481,594	100%	468,856	100%	1,012,738	100%

Sales volume

	For the year ended 31 December 2009		2009 Second Half		2009 First Half		For the year ended 31 December 2008		2008 Second Half		2008 First Half	
	(tonnes)	%	(tonnes)	%	(tonnes)	%	(tonnes)	%	(tonnes)	%	(tonnes)	%
Stainless steel base material	142,712	40%	47,738	19%	94,974	89%	158,475	79%	53,856	74%	104,619	82%
Bearing steel	19,959	6%	19,211	8%	748	1%	20,383	10%	7,635	11%	12,748	10%
Ni-Cr alloy steel ingot	11,100	3%	6,237	2%	4,863	5%	20,194	10%	10,319	14%	9,875	8%
Ni-Cr bearing steel	489	–	194	–	295	–	920	1%	613	1%	307	–
Ferro-nickel alloys and others	38,185	11%	32,978	13%	5,207	5%	549	–	29	–	520	–
Lateritic nickel ores	144,864	40%	144,864	58%	–	–	–	–	–	–	–	–
Total	357,309	100%	251,222	100%	106,087	100%	200,521	100%	72,452	100%	128,069	100%




In 2009, the domestic market was still mired in adverse impacts of the economic turmoil which resulted in decrease in demand. In addition, the Group began to upgrade its existing production facilities of subsidiaries in Henan Province in the second half of 2009. In view of these major reasons, the Group downsized its production of major products in 2009 as compared with 2008. As a result, the Group's turnover in 2009 decreased by RMB593.9 million, or 40%, to approximately RMB887.7 million (2008: RMB1,481.6 million). On the other hand, the Group conducted trial production of ferro nickel products in its existing factories in Henan Province with satisfactory results. To improve the cost effectiveness on an economies scale, the Group planned to commence mass production of ferro-nickel products in its new plant in Lianyungang in the third quarter of 2010.

To capitalise on the Group's resources, the Group began to sell ore to third parties. Management believed this will increase the Group's income and further diversified the sources of income.

In 2009, raw material costs came down. The Group's average selling price per tonne for stainless steel base material was RMB4,080 (2008: RMB7,622) while the average unit selling price per tonne for bearing steel was RMB3,700 (2008: RMB5,113).

Cost of sales

The cost of sales in 2009 decreased by RMB245.4 million, or 18%, to approximately RMB1,083.9 million (2008: RMB1,329.3 million).

The unit cost of sales for stainless steel base material was RMB4,919 per tonne in 2009 (2008: RMB6,701 per tonne). The unit cost of bearing steel in 2009 decreased by RMB1,402 per tonne, or 25%, to RMB4,117 per tonne (2008: RMB5,519).

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

Cost of sales

	For the year ended 31 December 2009		2009 Second Half		2009 First Half		For the year ended 31 December 2008		2008 Second Half		2008 First Half	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Raw Materials	493,404	46%	218,202	45%	275,202	46%	603,242	45%	207,207	40%	396,035	49%
Fuel	405,545	37%	182,851	38%	222,694	37%	512,787	39%	232,863	45%	279,924	35%
Utilities	79,987	7%	38,376	8%	41,611	7%	98,052	7%	35,037	7%	63,015	8%
Depreciation	66,054	7%	27,113	6%	38,941	7%	61,007	5%	26,647	5%	34,360	4%
Staff Cost	26,965	2%	12,136	2%	14,829	2%	29,087	2%	6,758	1%	22,329	3%
Repair	2,095	–	1,875	–	220	–	7,643	1%	1,437	–	6,206	–
Others	9,859	1%	6,776	1%	3,083	1%	17,442	1%	10,206	2%	7,236	1%
Total	1,083,909	100%	487,329	100%	596,580	100%	1,329,260	100%	520,155	100%	809,105	100%

Management Discussion and Analysis

Gross (loss)/profit

The unit gross loss for stainless steel base material in 2009 was RMB839 per tonne (2008: Unit gross profit RMB921 per tonne). The unit gross loss for bearing steel in 2009 was RMB417 per tonne (2008: Unit gross loss RMB406 per tonne).

As a result of the factors discussed above, the Group turned from a gross profit of RMB152.3 million in 2008 to a gross loss of RMB196.2 million in 2009.

The unit gross loss (excluding ore trading) in 2009 was RMB868 per tonne (2008: Unit gross profit RMB760 per tonne).

Other income and gains

Other income in 2009 decreased by RMB164.9 million, to RMB110.5 million (2008: RMB275.4 million). This is mainly due to the decrease in gain arising from the drop in repurchase and cancellation of the Company's convertible bonds from market at a lower (discounted) price than their carrying amount.

Selling and distribution costs

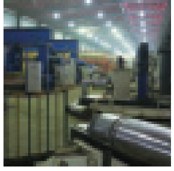
Selling and distribution costs in 2009 decreased by RMB5.9 million to RMB24.9 million (2008: RMB30.8 million). Unit selling and distribution cost per tonne of product sold (excluding ore trading) in 2009 decreased by RMB36 to RMB117 as a result of better cost control.

Administrative costs

Administrative costs in 2009 decreased by RMB4.8 million, or 3%, to RMB134.0 million (2008: RMB138.8 million), representing 15% of turnover (2008: 9%).

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 RMB1.5 million in 2009 (2008: RMB9.1 million). According to relevant IFRSs, estimated future cash flows 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 RMB92.4 million in 2009 (2008: RMB138.9 million), of which RMB24.0 million was capitalised as part of the cost of construction in progress. Finance costs in 2009 was RMB86.5 million (2008: RMB153.9 million). The decrease in interest expenses was mainly due to the effect from redemption of 3% Coupon Convertible Bonds due 2012 done in May 2009.



Management Discussion and Analysis

Income tax credit

The applicable Hong Kong corporate income rate of the Company which operates in Hong Kong is 16.5% based on prevailing legislation. The entities within the Group which operate in Mainland China are subject to corporate income tax rate of 25% for the year ended 31 December 2009.

(Loss)/profit attributable to owners of the parent

As a result of the factors discussed above, the loss attributable to owners of the parent in 2009 was RMB332.1 million (2008: profit attributable to owners of the parent RMB37.4 million).

Key financial ratios

		For the year ended 31 December	
	Note	**2009**	2008
Current ratio	*1*	**71%**	193%
Inventories turnover days	*2*	**296 days**	277 days
Debtor turnover days	*3*	**20 days**	34 days
Creditor turnover days	*4*	**195 days**	222 days
Interest cover	*5*	**N/A**	0.8 times
Interest-bearing gearing ratio	*6*	**49%**	46%
Debt to (LBITDA)/EBITDA ratio	*7*	**(8.2) times**	8.4 times
Net debt/Capital and net debt ratio	*8*	**35%**	25%

Notes:

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

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

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

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

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

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

7 $$\frac{\text{Interest-bearing loans and other borrowings}}{\text{EBITDA/(LBITDA)}}$$

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


Management Discussion and Analysis

Construction in progress

Construction in progress as at 31 December 2009 was increased to RMB507.2 million (2008: RMB217.7 million) which comprised of acquisition of new facilities and conversion of existing facilities in PRC to accommodate the production of new products in China.

Investment in Associate

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

Cash and cash equivalents and pledged time deposits

The decrease in cash and bank balances by approximately RMB764.9 million, or 53%, to RMB679.8 million as at 31 December 2009, as compared to that as at 31 December 2008 was mainly due to the net cash outflow generated from operation by approximately RMB360.7 million, acquisition of property, plant and equipment and other long-term assets by approximately RMB253.5 million, decrease in pledged time deposits of RMB139.9 million, interest payment of RMB26.1 million, and the consideration for repurchase of convertible bonds of RMB212.0 million.

Trade and notes receivables

The debtor turnover days decreased from 34 days in 2008 to 20 days in 2009. As at 31 December 2009, trade and notes receivables balance decreased by RMB87.9 million, or 64%, to RMB49.8 million. This was mainly due to the decrease in sales in the second half of 2009.

Inventories

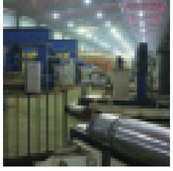
The inventories turnover days increased from 277 days in 2008 to 296 days in 2009. This was mainly due to the slowing down of procurement plan in 2009 to cope with the major customers' revision on their production plan. As at 31 December 2009, inventories balance decreased by RMB128.9 million, or 13%, to RMB879.3 million.

Prepayments, deposits and other receivables

As at 31 December 2009, prepayments, deposits and other receivables balance increased by RMB141.0 million, or 99% to RMB287.5 million. This was mainly due to the increases in prepayment to suppliers by RMB12.3 million, value-added tax receivable by RMB25.9 million, and prepayment to PT Yiwan Mining by RMB50.2 million.

Trade and notes payables

The creditor turnover days decreased from 222 days in 2008 to 195 days in 2009. As at 31 December 2009, trade and notes payables balance decreased by RMB229 million, or 28%, to RMB579.3 million. This was mainly due to the decrease in notes payable by RMB225 million as settlements with suppliers of production material and contractors of factory expansion projects were done during the year.



Interest-bearing loans and other borrowings

As at 31 December 2009, the total interest-bearing loans and other borrowings balance increased by RMB143 million, or 40%, to RMB499.5 million. The gearing ratio increased from 46% in 2008 to 49% in 2009.

Use of proceeds

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

As at 31 December 2009, the planned applications of the net proceeds were shown 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	733.9
General working capital	487.5	487.5

The Group repurchased Convertible Bonds for a total amount of approximately HK$595 million for a consideration of approximately HK$268.0 million. Part of the amounts of Convertible Bonds was subsequently utilized to repurchase part of Convertible Bonds. The unutilized balance was placed in short term bank deposits.

Liquidity and capital resources

The working capital has been mainly derived from cash generated from operations and long- and short-term debts. Advances received from customers were also applied to finance part of our working capital requirements. As at 31 December 2009, the advances from customers amounted to RMB69.4 million. Prepayments made to our suppliers amounted to RMB58.0 million as at 31 December 2009.

As at 31 December 2009, we had current liabilities of RMB2,700.2 million, of which RMB401.1 million were interest-bearing loans repayable within one year, and RMB579.3 million were trade and notes payables arising from purchase of raw materials.

The Company has recently invited existing holders of convertible bonds to enter into any agreement to the effect that such holders will not exercise their right to put in the consideration of a consent fee on the payment date. The Company considered that will reduce the short term liability and further improve the Company's financial position.

Management Discussion and Analysis

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

Foreign currency risk

Since 2004, the Group has begun purchase of iron ore from overseas suppliers. As in practice, the purchases are quoted in US$ and now RMB is expected to get stronger, 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 2009, all bank loans are denominated in RMB.

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

Security

As at 31 December 2009, the Group had following assets pledged: 1) time deposits of RMB304.4 million (2008: RMB446.9 million) were secured for notes payables of RMB344.4 million (2008: RMB569.4 million); 2) time deposits of RMB82.7 million (2008: RMB80.0 million) were secured for a bank loan of RMB70 million (2008: RMB83.0 million); 3) cash and bank balance of RMB3.8 million was secured for issuance a banker's guarantee; and 4) certain parcels of the Group's leasehold lands situated in the PRC with the carrying amounts of RMB13.4 million and of RMB76.3 million were secured for a bank loan granted to the Group of RMB 15.0 million and certain other payables of the Group of RMB75.9 million, respectively.

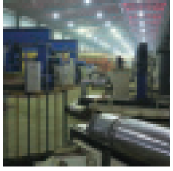
Capital commitment

As at 31 December 2009, the Group had capital commitments in the amount of approximately RMB403.6 million for remaining parts of equipment refinement project.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2009, the Group had approximately 3,400 employees, of whom 23 were management personnel.

The Group implemented remuneration policy to link duties with efficiency. Remuneration of employees consists of basic salary and performance-based bonus. For 2009, the staff costs of the Group amounted to RMB63.6 million (2008: RMB80.8 million).



Directors and Audit Committee

DIRECTORS

Executive Directors

Mr. Dong Shutong, aged 58, is the Chairman, an executive Director ("Executive Director") and the CEO of the Company. He is responsible for formulating the Group's overall business plans and strategies. He has been the director of Zhengzhou Yongtong Special Steel Company Limited ("Yongtong Special Steel"), an indirect wholly owned subsidiary of the Company, and a number of other subsidiaries since 1993, and has been involved in their management and day-to-day operations on a full time basis. He has served as the vice manager and senior economics and technology consultant of Ministry of Metallurgical Industry's Metallurgy News Information Development Company (冶金工業部冶金報社信息開發公司) in 1989. Formerly, the said company was the Ministry's department responsible for news and major reports about the metallurgical industry. Mr. Dong was also appointed as the director of Synthesis Department of the World Metallurgical Products Exhibition in 1990. The said organisation was primarily involved in 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 research and development of industrial technologies. Between October 1984 and April 2004, the business of its refractory materials factory, a factory principally involved in production and management of refractory materials, was contracted out to and managed by Mr. Dong. Mr. Dong was both the plant manager and the sole legal representative of the refractory materials factory from 1984 to 2004. 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 the Graduate School of the Chinese Academy of Social Sciences in 2000 too. During the years from 1985 to 1994, he has been honoured many times by various PRC government authorities for his outstanding achievement in advancement of technology. He has also been awarded the "Award for Achievement in Development of the World Patented Technologies" for his outstanding contribution to the area of patented technologies. In addition, he won a gold medal from Hong Kong Organising Committee of the International Patent Technology Expo for his project of condenser type bicomponent nozzle in 2001, and was named "The World's Outstanding Chinese Entrepreneur" by the World's Chinese Entrepreneur Association in 2004. Moreover, he was appointed as a member of Zhengzhou Overseas Exchange Association, and elected as a joint-committee member as well as the member representative of Zhengzhou Enterprises Association in 2003. In 2004, he was appointed a representative of Zhengzhou's Twelfth National People's Congress. Mr. Dong was awarded one of the Hundred Outstanding People of the Year in Industrial Economics by the People of the Year in China's Industrial Economics Award's Organising Committee in April 2005.

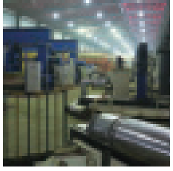
Directors and Audit Committee

Mr. Dong also published two books,《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 Transformation of the Chinese Economy) in 2002. Mr. Dong is the father of Mr. Dong Chengzhe, an Executive Director of the Company.

Mr. He Weiquan, aged 56, is an Executive Director and the chief operation officer ("Chief Operation Officer") — special steel & China of the Company and responsible for implementing the Group's plans and strategies relating to production and financial matters. He had worked as a department head of Handan Steel Company (邯鄲鋼鐵公司), a company involved in steel production, and then as their factory superintendent, for 17 years. After that, he spent two years as the factory superintendent 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 joining the Group in May 2000, first as the deputy general manager and then advanced to the general manager. He was awarded as a senior professional by Hebei Provincial Office of the Leading Task Force for Revamp of Property Rights in 1997. He has also published several articles on techniques of steel smelting and continuous casting. He graduated with a Bachelor 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 44, is an Executive Director and company secretary ("Company Secretary") of the Company. Mr. Lau is also the chief financial officer ("Chief Financial Officer") of the Company. He holds a Master Degree in Business Administration from University of Strathclyde in the UK. He is a Certified Public Accountant and a Fellow Member of both Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants in the UK. He is also a U.S. Chartered Financial Analyst and an associate member of Taxation Institution of Hong Kong. Mr. Lau has over 20 years of working experience in the areas of financial controls and compliance, corporate finance and business administration. He has held various senior financial positions in financial institutions, multinational and manufacturing companies.

Mr. Song Wenzhou, aged 42, is an Executive Director and responsible for the Group's administrative, marketing and staff development matters. Prior to joining the Group in July 1995, he had been a teacher at Zhengzhou Institute of Technology. He graduated from Beijing Open University in 1987 with a Bachelor Degree in Linguistics and Phonetics. He also received a Bachelor Degree in Chinese Language and Literature from Henan Normal University in 1992, and a Bachelor Degree in Legal Studies from Central Broadcast and Television University in 2003. Up to February 2004, Mr. Song was also responsible for the administrative matters of the refractory materials factory.



Directors and Audit Committee

Mr. Zhao Ping, aged 46, is an Executive Director and Chief Operating Officer — non-ferrous & overseas of the Company. He graduated from Chongqing Industrial Institute of Steel in 1982. He also studied Industrial Management at Shenyang Technical Institute of Metallurgy and Political Economics at Xinjiang University. In addition, he was trained in prominent steel factories in Germany and Denmark. He obtained a Master Degree in Business Administration at Beijing University in 2005 and is now studying for a Doctorate Degree in Steel Metallurgy at the School of Metallurgy of Beijing University of Science and Technology. He worked as a technician, an assistant engineer, an engineer and then a senior engineer for Xinjiang August the First Steel Corporation. He was appointed senior engineer (Professor Grade) in 2001. He led development of various projects that were subsequently awarded prizes, commendations and distinctions in Xinjiang Uygur Autonomous Region.

Mr. Dong Chengzhe, aged 31, is an Executive Director of the Company. He graduated from Wuhan University of Science and Technology with a Diploma in International Trade, and obtained a Bachelor Degree in Accountancy from Royal Melbourne Institute of Technology in Australia. He joined the Group in 2007 and was primarily responsible for financial and international trade activities of Yongtong Special Steel. Before joining the Group, he was an owner of an International trade company in Australia. He is the son of Mr. Dong Shutong, an Executive Director and the controlling shareholder of the Company.

Non-executive Director

Mr. Yang Tianjun, aged 66, is a non-executive Director ("Non-executive Director") of the Company. He worked for Ministry of Metallurgy's Fortieth Company (冶金部四零公司) and then Angang Steelwork Company (鞍鋼煉鋼廠) for a total of 14 years as a technician and then an engineer. He was the Principal of Beijing University of Science and Technology for the period from 1993 to July 2004, and is currently their professor and mentor of doctorate students of the Metallurgy Department.

Since 1989, he was honoured with nine first-, second- or third-grade State Scientific and Technological Progress Awards in both the national and the provincial levels for his outstanding contributions to the State by conducting scientific researches in metallurgical projects. He was the Chairman of Sino-German Co-operative Research Project studying the multi-purposes of niobium. He was invited by Research Institute of Industrial Science and Technology of Korea to lead the research in air-refined coal spray in blast furnace, and participated in a research with Metallurgical Research Institute in coal spray in blast furnace and the mathematical model. He published over 70 academic papers locally or overseas and six books specifically about metallurgy. He was appointed the Vice Chairman of Chinese Society of Metals in 2001 and a Member of State Council's Fifth Committee for Graduates (國務院學位委員會) in 2003.

Directors and Audit Committee

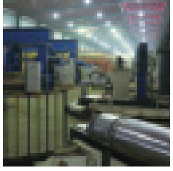
He graduated from the Metallurgical Department of Beijing Iron and Steel College in 1965. He finished his postgraduate study in 1981 and obtained a Master Degree in Metallurgy from Beijing Iron and Steel College. In 1985, he was granted the scholarship from Humboldt-University zu Berlin and conducted a research with RWTH-Aachen University in Germany. He was then awarded a Doctorate Degree in 1986.

Independent non-executive Directors

Mr. Bai Baohua, aged 68, is an independent non-executive director ("Independent Non-executive Director") of the Company. He has almost 42 years experience in metallurgy. He worked as an engineer, a manager and then the general manager of China Metallurgical Products' Import & Export Company (中國冶金進出口公司), a company primarily involved in trading of metals. He was also appointed as the general manager of China International Steel Investment Company (中國國際鋼鐵投資公司), a company primarily involved in promotion of foreign investment in the steel industry in the PRC. In addition, he was the general manager, the vice chairman and the legal representative of China Iron and Steel Industry and Trade Group Corporation, a company primarily involved in production and trading of steel. He graduated from Metal Pressure Processing Department at Beijing Iron and Steel College in 1965.

Mr. Huang Changhuai, aged 74, is an Independent Non-executive Director of the Company. He worked for a printing and dyeing mill as a production supervisor, a political director and then a deputy director. He was appointed the deputy director of the Municipal Economic System Reform Committee of Zhengzhou Municipal Government, and as the director of the Municipal Industrial and Communication 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 55, is an Independent Non-executive Director. He holds a Master Degree in Business Administration from University of Adelaide in Australia. He is a fellow member of Hong Kong Institute of Certified Public Accountants, Association of Chartered Certified Accountants and CPA Australia. He is also an associate member of both Institute of Chartered Secretaries and Administrators and 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 (provisional liquidators appointed), Golden Eagle Retail Group Limited, Great Wall Motor Company Limited, International Entertainment Corporation, 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 33 years of experience in finance, accounting and management.

COMPANY SECRETARY

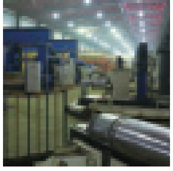
Mr. Lau Hok Yuk is the Group's Executive Director and Company Secretary. Mr. Lau's personal particulars are set out in the paragraph headed "Directors" above.

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. Wong Chi Keung is elected the chairman of the audit committee.

Report of the Directors

Equipment Upgrade and Product Mix Optimization



Report of the Directors

The Directors present their report and the audited consolidated financial statements of the Company and it's subsidiaries (the "Group") for the year ended 31 December 2009.

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 18 to the financial statements.

SEGMENT INFORMATION

Details of segmental information are set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2009 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 47 to 156.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2009.

FIVE YEAR FINANCIAL SUMMARY

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 12 to the financial statements.

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 29, 31 and 28 to the financial statements.

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.


SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2009.

REPURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company redeemed a total of HK$156,000,000 principal amount of 3% Convertible Bonds on 18 May 2009 and repurchased a total of HK$145,000,000 principal amount of Zero Coupon Convertible Bonds between 25 February 2009 and 4 March 2009 at an average price of 42% of the principal amount, respectively. The redemption and the repurchases involved a total cash outlay of HK$240.7 million which also resulted in a reduction of the liability component of the convertible bonds by HK$319.9 million and a gain of HK$89.9 million (equivalent to RMB79.3 million) was recorded in the consolidated income statement accordingly.

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

RESERVES

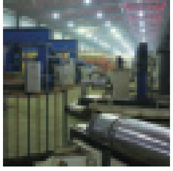
Details of movements in the reserves of the Company and the Group during the year are set out in note 30 to the financial statements and statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2009, 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 RMB2,980,651,000.

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 be distributed by way of a dividend is determined by reference to their profits as reflected in the Mainland China PRC statutory financial statements which are prepared in accordance with accounting principles generally accepted in Mainland PRC. These profits differ from those that are reflected in the Group's consolidated financial statements and prepared in accordance with International Financial Reporting Standards ("IFRS").




MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 96% of the total sales for the year and sales to the largest customer included therein accounted for 87%. Purchases from the Group's five largest suppliers accounted for 50% of the total purchases for the year and purchases from the largest supplier accounted for 12%.

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, owned 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.

DIRECTORS

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

Executive Directors

Mr. Dong Shutong (Chairman)
Mr. He Weiquan
Mr. Lau Hok Yuk
Mr. Song Wenzhou
Mr. Zhao Ping
Mr. Dong Chengzhe

Non-executive Directors

Mr. Yang Tianjun

Independent Non-executive Directors

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

Pursuant to article 87 of the Company's article of association, Mr. Dong Shutong, Mr. He Weiquan, Mr. Song Wenzhou and Mr. Huang Changhuai will retire as Directors by rotation at the forthcoming annual general meeting of the Company and all retiring Directors, being eligible for re-election, will offer themselves for re-election thereat.

The Company has received annual confirmation of independence from Mr. Bai Baohua, Mr. Huang Changhuai and Mr. Wong Chi Keung on 12 April 2010 and considers them to be independent.

Report of the Directors

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company are set out on pages 23 to 27.

DIRECTORS' SERVICE CONTRACTS

During the year, 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.

DIRECTORS' REMUNERATION

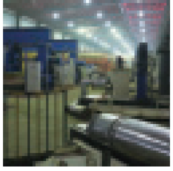
The remuneration of the Directors is determined by the Board of Directors with reference to the Directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

On 5 March 2007, S.E.A. Mineral Limited ("S.E.A.M") entered into an Exclusive Offtake Agreement with PT Yiwan Mining ("Yiwan Mining") (the "Exclusive Offtake Agreement"), a limited company incorporated in Indonesia, 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, which has subsequently been extended by a supplemental agreement to 24 January 2036.

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

Further details of the transaction undertaken in connection therewith are included in note 35 to 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 2009, the interests and short positions of the Directors and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which (a) were required to be notified to the Company and the Stock Exchange 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 SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Rules Governing the Listing of Securities in the Stock Exchange ("Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

(i) Long positions in the 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	1,496,326,705 (note 1)	71.47%

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

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

Save as disclosed above, as at 31 December 2009, 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.

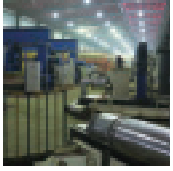
SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2009, shareholders (other than the interest disclosed above in respect of the Director or the chief executive of the Company who is also a 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 2009:

		Number of shares/ underlying shares held		Approximate percentage to the issued share capital of the Company	
Name of Shareholder	**Capacity in which interests are held**	**Long positions**	**Short positions**	**Long positions**	**Short positions**
Easyman Assets Management Limited (Note)	Beneficial owner	1,481,074,705	Nil	70.74%	Nil

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



(ii) Long positions in the underlying Shares of the 2010 convertible notes of the Company as at 31 December 2009:

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	8.72%

Note: As at 31 December 2009, Mr. Soen Bin Kuan was the holder of a convertible notes in the principal amount of HK$316.13 million which are obliged to be converted into shares of the Company at the conversion price of HK$1.73 per share, upon maturity on 18 May 2010. This constituted a long position in physically settled equity derivatives under the SFO.

Save as disclosed above, as at 31 December 2009, 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.

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 exercise period of the option will be from the date of acceptance of the option (i.e. 16 August 2005) up to 30 July 2015, both dates inclusive, which is in compliance with the terms of the share option scheme, subject to the following conditions:

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

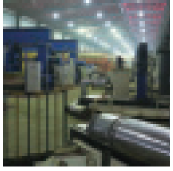
Details of movements in the Company's share options during the year are as follows:

	No. of share options						Price of Company's shares at exercise date of options** HK$
	Outstanding at beginning of year	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding as at 31 December 2009	Exercise price of share options* HK$	
Name of Director							
Mr. Dong Shutong	5,000,000	–	–	–	5,000,000	1.07	–
Mr. He Weiquan	4,250,000	–	–	–	4,250,000	1.07	–
Mr. Lau Hok Yuk	3,000,000	–	–	–	3,000,000	1.91	–
Mr. Song Wenzhou	1,020,000	–	–	–	1,020,000	1.07	–
Mr. Zhao Ping	4,250,000	–	–	–	4,250,000	1.91	–
Mr. Dong Chengzhe	1,275,000	–	–	–	1,275,000	1.91	–
Sub-total for number of share options to Directors	18,795,000	–	–	–	18,795,000		
Other employees	8,415,000	–	(510,000)	(255,000)	7,650,000	1.07	1.45
	1,275,000	–	–	–	1,275,000	1.91	–
	3,000,000	–	–	–	3,000,000	2.37	–
	14,520,000	–	–	(305,000)	14,215,000	2.45	–
Sub-total for number of share options to other employees	27,210,000	–	(510,000)	(560,000)	26,140,000		
Total	46,005,000	–	(510,000)	(560,000)	44,935,000		

Notes:

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

** The price of the Company's share as at the date of exercise of the share options means the Stock Exchange's closing price on the trading date immediately prior to the date on which the share options were exercised.




DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme as set out in note 31 to the financial statements, at no time during the year ended 31 December 2009 there 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 28 January 2010, 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 S.E.A.M., an indirect wholly owned subsidiary of the Company, in connection with purchasing of ore, Yiwan Mining agreed to supply ore to the S.E.A.M. with effect from 1 January 2010 to 31 December 2012. According to the Exclusive Offtake Agreement, the prices for these continuing connected 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 ending 31 December 2010, 2011 and 2012 will not exceed HK$483.8 million, HK$483.8 million and HK$725.7 million, respectively.

During the year, the Company purchased ores at a total of US$6.7 million (approximately HK$52.0 million) (2008: US$13.8 million (approximately HK$107.3 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 2009 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 with 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, 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.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 38 to the 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. Mr. Wong Chi Keung is the chairman of the audit committee.

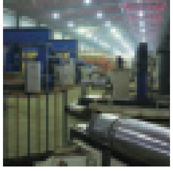
REMUNERATION COMMITTEE

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 the Executive Director, Mr. Dong Shutong.

EMPLOYEES REMUNERATION POLICY

The remuneration policy of the Group to reward its employees and Executive Directors is based on their performance, qualifications, competence displayed, market comparables and the performance of the Group. Remuneration packages typically comprises salary, housing allowances, discretionary bonus, other fringe benefits and the Group's contribution to retirement benefits schemes. The remuneration of executive Directors/senior management are determined by the Remuneration Committee which will review them regularly. To provide incentive to relevant participants, including the Directors and eligible employees, the Company has adopted a Share Option Scheme, details of which are set out in note 31 to the financial statements.



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

27 April 2010

Report of Corporate Governance

CORPORATE GOVERNANCE PRACTICES

For the year ended 31 December 2009, in the opinion of the Board of Directors of the Company, 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 Code in respect of the segregation of the role of Chairman and Chief Executive Officer and A.4.1 of the Code in respect of the service term of Independent Non-executive Directors.

The Board of Directors of the Company considered that the Group's prevailing structures and systems satisfy 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 of them, all of the Company Directors have confirmed that they have complied with the requirements set out in the Model Code during the year ended 31 December 2009.

THE BOARD

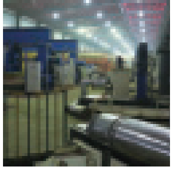
Composition and appointment

As at 31 December 2009, 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 23 to 27 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 who possesses the requisite appropriate professional qualifications. The Board confirmed that the independence and the eligibility of the Independent Non-executive Directors are in compliance with relevant requirements of the Listing Rules.

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

The Board has effectively overseen and monitored the activities of the Company and decisions relating to the Company were made in its best interests. During the year, the Board convened a total of seventeen meetings, performing its duties in considering, inter alia, continuing connected transactions, financial and other matters under the provisions of the articles of association of the Company. Real-time teleconference system was adopted at the meetings when necessary, to increase the attendance rate.



Under Code Provision A.4.1, Non-executive Directors should be appointed for a specific term. The existing Non-executive Directors of the Company were not appointed for a specific term. This constitutes a deviation from Code Provision A.4.1. However, according to the articles of association of the Company, one-third of the Directors for the time being shall retire from office by rotation at each annual general meeting and the Directors to retire by rotation shall be those who have been longest in office since their last re-election or appointment. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are in line with those provided in the Code.

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

	Attendance		
Name of Director	**Times**	**Rate (%)**	**Title**
Dong Shutong	17/17	100%	Chairman, Executive Director, Chief Executive Officer
He Weiquan	2/17	12%	Executive Director, Chief Operation Officer
Lau Hok Yuk	17/17	100%	Executive Director, Chief Financial Officer
Song Wenzhou	3/17	18%	Executive Director
Zhao Ping	2/17	12%	Executive Director
Dong Chengzhe	7/17	41%	Executive Director
Yang Tianjun	2/17	12%	Non-Executive Director
Bai Baohua	2/17	12%	Independent Non-Executive Director
Huang Changhuai	2/17	12%	Independent Non-Executive Director
Wong Chi Keung	2/17	12%	Independent Non-Executive Director

Chairman and Chief Executive Officer

The Executive Director, Dong Shutong, serves also as the Chairman and the Chief Executive Officer of the Company. The Chairman is responsible for overseeing the Company's operations in respect of compliance with both internal rules and statutory requirements, and promoting the corporate governance of the Company, whereas the Company did not appoint another individual to act as a chief executive for the year ended 31 December 2009 and up to the date of the report. This constitutes a deviation from code provision A.2.1. The Board believes that it is in the best interest of the Company and the shareholders as a whole for Mr. Dong Shutong is knowledgeable in the business of the Group and possesses the essential leadership skills to guide discussions of the Board. Important decision-making and day-to-day management of the Company are carried out by all of the Executive Directors. Although the roles of the Chairman and the Chief Executive Officer of the Company are not segregated, the functions of the Chief Executive were carried out by all of the Executive Directors collectively.

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 a meeting on 8 September 2009 and all committee members attended the meeting to review the performance and incentives of Executive Directors and terms of employment of the management staff within the Group in 2009.

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 establishment of formal and transparent procedures for developing on such remuneration policies and schemes;

(2) to determine specific remuneration packages for 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 for the remuneration of Non-executive Directors. The remuneration committee should consider such factors as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions within the Group and effectiveness of performance-based remuneration;

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

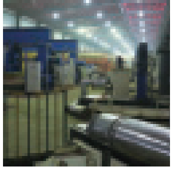
(4) to review and approve the compensation payable to Executive Directors and senior management in connection with any loss or termination of their office or appointment;

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

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

AUDITORS' REMUNERATION

For the year ended 31 December 2009, the auditors of the Company, Ernst & Young, have carried out the statutory audit for the Company. The total fees paid to Ernst & Young amounted to RMB3,261,000.



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, one on 29 April 2009 and the other on 8 September 2009. The attendance of the committee members is shown 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 2009, the audit committee performed the following works:

(1) reviewed the financial reports for the year ended 31 December 2008 and for the six months ended 30 June 2009;

(2) reviewed the effectiveness of internal control system;

(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 2009;

(5) reviewed the 2009 audit scope and fees and recommended for approval by the Board.

Responsibilities of the audit committee include:

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

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

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


(4) to review the interim and the annual accounts.

The audit committee has reviewed the auditing performance, the internal controls and the audited accounts of the Company for the year ended 31 December 2009.

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, 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.

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

The Board is of the view that the system of internal controls is in place for the year under review and up to the date of issuance of the annual report and the consolidated financial statements. It is sound and 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 approved policies and procedures, identifying their risks and controls assessing the level of risks to be taken, and participating in design, execution and monitoring of suitable internal controls to mitigate and control these risks.

DIRECTOR'S AND AUDITOR'S 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. To prepare the financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. The Independent Auditors' Report which states their reporting responsibilities is set out on pages 45 and 46.

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 set out on pages 47 to 156, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards 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.

Independent Auditors' Report

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 2009 and of the Group's loss 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.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 2.1 to the financial statements which indicates that the Group incurred a loss of RMB330,558,000 during the year ended 31 December 2009, and, as of that date, the Group's current liabilities exceeded its current assets by RMB803,798,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Ernst & Young

Certified Public Accountants

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

27 April 2010

Consolidated Income Statement

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
REVENUE	5	**887,734**	1,481,594
Cost of sales		**(1,083,909)**	(1,329,260)
Gross (loss)/profit		**(196,175)**	152,334
Other income and gains	5	**110,497**	275,445
Selling and distribution costs		**(24,909)**	(30,754)
Administrative expenses		**(133,999)**	(138,839)
Finance costs	7	**(86,500)**	(153,943)
Other expenses		**(108,231)**	(128,406)
LOSS BEFORE TAX	6	**(439,317)**	(24,163)
Income tax credit	9	**108,759**	62,337
(LOSS)/PROFIT FOR THE YEAR		**(330,558)**	38,174
Attributable to:			
Owners of the parent	10	**(332,145)**	37,361
Minority interests		**1,587**	813
		(330,558)	38,174
Dividends	10	**—**	31,320
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
— Basic (RMB)	11	**(0.159)**	0.018
— Diluted (RMB)	11	**N/A**	0.016

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

	2009 RMB'000	2008 RMB'000
(LOSS)/PROFIT FOR THE YEAR	**(330,558)**	38,174
OTHER COMPREHENSIVE INCOME/(EXPENSE)		
Exchange differences on translation of foreign operations	**15,395**	(18,870)
OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR, NET OF TAX	**15,395**	(18,870)
TOTAL COMPREHENSIVE (EXPENSE)/INCOME FOR THE YEAR	**(315,163)**	19,304
ATTRIBUTABLE TO:		
Owners of the parent	**(316,750)**	18,491
Minority interests	**1,587**	813
	(315,163)	19,304

Consolidated and Company Statements of Financial Position

As at 31 December 2009

		Group		Company	
		2009	2008	**2009**	2008
	Notes	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Non-current assets					
Property, plant and equipment	12	**939,834**	1,000,042	**27,597**	3,600
Construction in progress	13	**507,159**	217,704	**—**	—
Prepaid land lease payments	14	**391,865**	203,639	**11,669**	—
Goodwill	15	**58,394**	58,394	**—**	—
Intangible asset	16	**2,640,288**	2,656,572	**—**	—
Deferred tax assets	17	**226,530**	112,505	**—**	193
Investment in an associate	19	**50**	—	**—**	—
Interests in subsidiaries	18	**—**	—	**4,704,949**	4,417,136
Other non-current assets	20	**38,351**	70,760	**—**	21,679
Total non-current assets		**4,802,471**	4,319,616	**4,744,215**	4,442,608
Current assets					
Inventories	21	**879,278**	1,008,220	**—**	—
Trade and notes receivables	22	**49,826**	137,704	**—**	—
Prepayments, deposits and other receivables	23	**287,543**	146,139	**16,236**	4,973
Pledged time deposits	24	**387,055**	526,912	**82,652**	80,001
Cash and cash equivalents	24	**292,745**	917,763	**20,455**	558,171
Total current assets		**1,896,447**	2,736,738	**119,343**	643,145
TOTAL ASSETS		**6,698,918**	7,056,354	**4,863,558**	5,085,753
Current liabilities					
Trade and notes payables	25	**579,294**	808,337	**1,137**	1,137
Other payables and accruals	26	**376,369**	210,506	**28,775**	4,714
Interest-bearing bank and other borrowings	27	**401,089**	236,089	**—**	—
Current portion of convertible bonds	28	**1,336,076**	145,859	**1,336,076**	145,859
Tax payable		**7,417**	16,620	**—**	—
Total current liabilities		**2,700,245**	1,417,411	**1,365,988**	151,710

Consolidated and Company Statements of Financial Position

As at 31 December 2009

		Group		Company	
		2009	2008	**2009**	2008
	Notes	**RMB'000**	RMB'000	**RMB'000**	RMB'000
NET CURRENT (LIABILITIES)/ ASSETS		**(803,798)**	1,319,327	**(1,246,645)**	491,435
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,998,673**	5,638,943	**3,497,570**	4,934,043
Non-current liabilities					
Interest-bearing bank and other borrowings	27	**98,439**	120,457	**—**	—
Convertible bonds	28	**—**	1,382,398	**—**	1,382,398
Deferred tax liabilities	17	**27,917**	25,921	**—**	—
Total non-current liabilities		**126,356**	1,528,776	**—**	1,382,398
NET ASSETS		**3,872,317**	4,110,167	**3,497,570**	3,551,645
EQUITY					
Equity attributable to owners of the parent					
Issued capital	29	**210,006**	209,961	**210,006**	209,961
Equity component of convertible bonds	28	**45,920**	54,043	**45,920**	54,043
Reserves	30	**3,495,165**	3,791,159	**3,241,644**	3,287,641
		3,751,091	4,055,163	**3,497,570**	3,551,645
Minority interests		**121,226**	55,004	**—**	—
TOTAL EQUITY		**3,872,317**	4,110,167	**3,497,570**	3,551,645

Mr. Dong Shutong
Chairman

Mr. Lau Hok Yuk
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2009

		Attributable to owners of the parent												
	Notes	Issued capital RMB'000 (Note 29)	Share premium account RMB'000 (Note 30)	Contributed surplus RMB'000 (Note 30)	Capital reserve RMB'000 (Note 30)	Share option reserves RMB'000 (Note 30)	Equity component of convertible bonds RMB'000 (Note 28)	Statutory surplus reserves and statutory reserve fund RMB'000 (Note 30)	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
Year ended 31 December 2009														
At 1 January 2009		209,961	2,660,771	51,599	417,963	16,300	54,043	75,250	(31,841)	601,117	–	4,055,163	55,004	4,110,167
Total comprehensive income/ (expense) for the year		–	–	–	–	–	–	–	15,395	(332,145)	–	(316,750)	1,587	(315,163)
Exercise of share options	31	45	580	–	–	(144)	–	–	–	–	–	481	–	481
Equity-settled share option arrangements	31	–	–	–	–	6,303	–	–	–	–	–	6,303	–	6,303
Repurchases and redemption of convertible bonds	28	–	–	–	–	–	(8,123)	–	–	(1,302)	–	(9,425)	–	(9,425)
Transferred from retained profits		–	–	–	–	–	–	296	–	(296)	–	–	–	–
Contributions from minority shareholders		–	–	–	15,319	–	–	–	–	–	–	15,319	64,635	79,954
At 31 December 2009		210,006	2,661,351*	51,599*	433,282*	22,459*	45,920	75,546*	(16,446)*	267,374*	–	3,751,091	121,226	3,872,317

* These reserve accounts comprise the consolidated reserves of RMB3,495,165,000 in the consolidated statement of financial position as at 31 December 2009.

Consolidated Statement of Changes in Equity

Year ended 31 December 2009

		Attributable to owners of the parent												
	Notes	Issued capital RMB'000 (Note 29)	Share premium account RMB'000 (Note 30)	Contributed surplus RMB'000 (Note 30)	Capital reserve RMB'000 (Note 30)	Share option reserves RMB'000 (Note 30)	Equity component of convertible bonds RMB'000 (Note 28)	Statutory surplus reserves and statutory reserve fund RMB'000 (Note 30)	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
Year ended 31 December 2008 (Restated)														
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 comprehensive income/ (expense) for the year		–	–	–	–	–	–	–	(18,870)	37,361	–	18,491	813	19,304
Exercise of share options	31	23	568	–	–	(154)	–	–	–	–	–	437	–	437
Equity-settled share option arrangements	31	–	–	–	–	8,918	–	–	–	–	–	8,918	–	8,918
Forfeited share option reserves		–	–	–	–	(400)	–	–	–	400	–	–	–	–
Repurchases of convertible bonds	28	–	–	–	–	–	(19,155)	–	–	19,155	–	–	–	–
Transferred from retained profits		–	–	–	–	–	–	133	–	(133)	–	–	–	–
Adjustment on proposed final 2007 dividend for new shares issued		–	(3)	–	–	–	–	–	–	–	3	–	–	–
Final 2007 dividend declared		–	–	–	–	–	–	–	–	–	(24,402)	(24,402)	–	(24,402)
Interim 2008 dividend		–	(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

* These reserve accounts comprise the consolidated reserves of RMB3,791,159,000 in the consolidated statement of financial position as at 31 December 2008.

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Cash flow from operating activities			
Loss before tax		**(439,317)**	(24,163)
Adjustments for:			
Finance costs	7	**86,500**	153,943
Bank interest income	5	**(15,386)**	(28,261)
Amounts waived by creditors	5	**(987)**	(1,734)
Gain on repurchase and redemption of convertible bonds	5	**(79,275)**	(237,679)
Loss/(gain) on disposal of items of property, plant and equipment, net	6	**1,657**	(3,209)
Depreciation	6	**100,809**	88,440
Amortisation of prepaid land lease payments	6	**5,185**	4,434
Amortisation of intangible asset and other non-current assets	6/16	**25,378**	963
Provision of impairment for trade receivables and other receivables	6	**726**	2,118
Provision of impairment for items of property, plant and equipment	6	**2,600**	—
Write-down of inventories to net realisable value	6	**32,832**	103,194
Write-off of construction in progress	6	**—**	3,486
Foreign exchange loss, net		**—**	13,733
Goodwill adjustment due to recognition of unrecognised pre-acquisition tax losses		**—**	6,658
Equity-settled share option expense	31	**6,303**	8,918
		(272,975)	90,841
Decrease/(increase) in inventories		**96,110**	(290,198)
Decrease in trade and notes receivables		**86,698**	70,229
Increase in prepayments, deposits and other receivables		**(35,978)**	(68,004)
Decrease/(increase) in trade and notes payables		**(229,043)**	249,554
Increase/(decrease) in other payables and accruals		**13,918**	(7,680)
Increase in other non-current assets		**(6,994)**	(63,130)
Cash used in operations		**(348,264)**	(18,388)
Income tax paid		**(12,473)**	(81,074)
Net cash flows used in operating activities		**(360,737)**	(99,462)

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Net cash flows used in operating activities		**(360,737)**	(99,462)
Cash flows from investing activities			
Interest received	5	**15,386**	28,261
Acquisition of a subsidiary	18(c)	**(1,000)**	—
Investment in an associate	19	**(50)**	—
Advance to an associate		**(50,161)**	—
Purchases of items of property, plant and equipment and construction in progress		**(253,473)**	(248,057)
Proceeds from disposal of items of property, plant and equipment		**—**	46,491
Additions to prepaid land lease payments		**(22,161)**	(6,672)
Decrease/(increase) in pledged time deposits		**139,857**	(199,270)
Net cash flows used in investing activities		**(171,602)**	(379,247)
Cash flows from financing activities			
Proceeds from issue of shares		**481**	437
Considerations for repurchases and redemption of convertible bonds		**(211,917)**	(353,086)
New bank loans and other borrowings		**397,060**	280,536
Repayment of bank loans and other borrowings		**(269,078)**	(189,071)
Dividends paid		**—**	(55,719)
Interest paid		**(26,091)**	(38,781)
Net cash flows used in financing activities		**(109,545)**	(355,684)
Net decrease in cash and cash equivalents		**(641,884)**	(834,393)
Cash and cash equivalents at beginning of year		**917,763**	1,909,959
Effect of foreign exchange rate changes, net		**16,866**	(157,803)
Cash and cash equivalents at end of year		**292,745**	917,763
Analysis of balances of cash and cash equivalent			
Cash and bank balances	24	**260,488**	770,259
Unrestricted time deposits with original maturity of less than three months	24	**32,257**	147,504
		292,745	917,763

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 11 March 2004 under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands, British West Indies. The principal place of business of the Group is located at No. 24, Jinshui Road, Zhengzhou, Henan Province, the People's Republic of China (the "PRC"). The principal place of business of the Company is Rooms 917 and 918, 9th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

The principal activities of the Company are investment holding and the trading of ore. The Group is principally engaged in the manufacture and sale of special steel products in the PRC. Details of the principal activities of the subsidiaries are set out in note 18 to the financial statements.

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

2.1 BASIS OF PREPARATION

These 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.

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of presentation

The Group incurred a loss of RMB330,558,000 during the year ended 31 December 2009. As at 31 December 2009, the Group had net current liabilities of RMB803,798,000, which included bank and other borrowings of RMB401,089,000 and the "HK$2,000,000,000 zero coupon convertible bonds due 2012" issued on 12 December 2007 ("Zero Coupon Convertible Bonds") of RMB1,336,076,000. The Zero Coupon Convertible Bonds are redeemable by their holders on 12 December 2010, at their option, based on the outstanding principal amount of Zero Coupon Convertible Bonds of HK$1,405,000,000 multiplied by 117.68%.

To better confront the global economic downturn, the Group began to upgrade its existing production facilities of subsidiaries in Henan Province, the PRC to produce more value-added products with higher margins since early 2009. Trial production of these subsidiaries has been commenced in early 2010 with satisfactory results and management planned mass production in the second quarter of 2010.

Besides, in October 2009, the Group acquired Lianyungang City East Harvest Mining Company Limited (formerly known as Lianyungang Yinlijia Enterprise Company Limited) in Lianyungang, the PRC (the Group's major port in the PRC for importing iron ores under the exclusive offtake right as mentioned in note 16) to enhance its expansion plan due to its favourable location that could save huge domestic transportation and storage costs. Immediate following the acquisition, the Group commenced constructing a new plant at Lianyungang City East Harvest Mining Company Limited to produce ferro-nickel using the Group's internally developed new technology "Non-coke Reduction Refinery Technology" which was successfully developed in October 2007 and subsequently taken into experimental production in one of the Group's subsidiaries in Henan Province, the PRC with satisfactory results. By using thermal coal, instead of coking coal, the production costs for the ferro-nickel products will be significantly lower. The construction of these production facilities will be completed in June 2010 and management expects production will be commenced in July/August 2010.

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

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of presentation (continued)

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

(a) On 16 April 2010, the Company signed an agreement with a bank which indicates its willingness to arrange a financing of approximately US$200 million that is subject to conditions set out therein the agreement including, amongst others, the bank's internal approval and signing of the formal documentation relating to the financing. The Directors expect that the formal financing arrangement with the bank will likely be concluded with the bank before August 2010.

(b) On 15 April 2010, the Company invited each holder of Zero Coupon Convertible Bonds, by way of a solicitation memorandum of 15 April 2010 sent to them, to enter into an "Agreement" with the Company to the effect that such bondholder will not exercise its right to require the Company to redeem its Zero Coupon Convertible Bonds held by such bondholder pursuant to the condition 8(D), in relation to the redemption option, of Zero Coupon Convertible Bonds in consideration for the payment by the Company to such bondholder. Holders of Zero Coupon Convertible Bonds entered into the Agreement with the Company shall be eligible to receive HK$20,000 per HK$100,000 in the principal amount of Zero Coupon Convertible Bonds. Further details of which are set out in the Company's announcement of 15 April 2010.

    Up to the approval date of these financial statements, certain holders of Zero Coupon Convertible Bonds entered into the Agreement with the Company and agreed not to exercise their right to redeem their Zero Coupon Convertible Bonds pursuant to the condition 8(D) of Zero Coupon Convertible Bonds in a total principal amount of HK$210,700,000. Further details of which are set out in the Company's announcement of 23 April 2010.

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

(d) The Group has been actively negotiating with PRC banks for the renewal of PRC bank borrowings when those borrowings fall due in 2010.

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of presentation (continued)

On the basis that the Group would obtain the financing from the bank, the Directors are satisfied that the Group will be able to meet its financial obligations as and when they fall due for the foreseeable future, and are of the opinion that it is appropriate to prepare the financial statements on a going concern basis.

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2009. 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 are eliminated on consolidation in full.

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 REPORT STANDARDS ("IFRSs")

The Group has adopted the following amendments and interpretations ("new IFRSs") issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB which are or have become effective.

IFRS 1 and IAS 27 (Amendments)	*First-time Adoption of IFRSs and Consolidated and Separate Financial Statements — Cost of an Investment in a Subsidiary, Jointly-Controlled Entity or Associate*
IFRS 2 (Amendments)	*Share-based Payment — Vesting Conditions and Cancellations*
IFRS 8	*Operating Segments*
IFRS 7 (Amendments)	*Financial Instruments: Disclosures — Improvement Disclosures about Financial Instruments*
IAS 1 (Revised)	*Presentation of Financial Statements*
IAS 18 (Amendment)	*Revenue — Determining whether an entity is acting as a principal or as an agent (Appendix)*
IAS 23 (Revised)	*Borrowing Costs*

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

IAS 32 and IAS 1 (Amendments)	*Financial Instruments: Presentation and Presentation of Financial Statements — Puttable Financial Instruments and Obligations Arising on Liquidation*
IFRIC 9 and IAS 39 (Amendments)	*Reassessment of Embedded Derivatives and Financial Instruments: Recognition and Measurement — Embedded Derivatives*
IFRIC 13	*Customer Loyalty Programmes*
IFRIC 15	*Agreements for the Construction of Real Estate*
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation*
IFRIC 18	*Transfers of Assets from Customers*
Annual Improvements Project	*Improvements to IFRSs (issued in May 2008)*

Other than as further explained below regarding the impact of IAS 1 (Revised), the adoption of these new and revised IFRSs has had no significant financial effect on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

IAS 1 (Revised) Presentation of Financial Statements

IAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but not yet effective.

IFRS 1 (Revised)	*First-time Adoption of IFRSs*[1]
IFRS 1 (Amendments)	*First-time Adoption of IFRSs — Additional Exemption for First-time Adopters*[2]
IAS 24 (Revised)	*Related Party Disclosure*[5]
IFRS 2 (Amendments)	*Share-based Payment — Group Cash-settled Share-based Payment Transactions*[2]
IFRS 3 (Revised)	*Business Combinations*[1]
IFRS 9	*Financial Instruments*[6]
IFRS 1 (Amendments)	*Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters*[2]
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
IAS 32 (Amendment)	*Financial Instruments: Presentation — Classification of Rights Issues*[3]
IAS 39 (Amendment)	*Financial Instruments: Recognition and Measurement — Eligible Hedged Items*[1]
IFRIC 14 (Amendment)	*Prepayments of a Minimum Funding Requirement*[5]
IFRIC 17	*Distributions of Non-cash Assets to Owners*[1]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*[4]
Annual Improvements Project	*Improvements to IFRSs 2009*

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2010
3 Effective for annual periods beginning on or after 1 February 2010
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods ending on or after 1 January 2011
6 Effective for annual periods ending on or after 1 January 2013

The Directors anticipate that the application of these new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group except for the adoption of IFRS 3 (Revised) Business Combinations and IAS 27 (Revised) Consolidation and Separate Financial Statements. IFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 July 2009. IAS 27 (Revised) will affect the accounting treatment on changes in a parent's ownership interest in a subsidiary.

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 interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

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

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

A joint venture is treated as:

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interest in an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of the associate is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associate is eliminated to the extent of the Group's interest in an associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

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 statement of financial position as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill (continued)

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, deferred tax assets, 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.

An assessment is made at the end of each reporting period 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 an associate;

(c) the party is a jointly-controlled entity;

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

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

(f) 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 (d) or (e); or

(g) 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 the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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 25 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 financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in 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)

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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.

The Group's financial assets include cash and cash equivalents, pledged time deposit, trade, notes and other receivables, and an amount due from an associate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

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

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial investments or held-to-maturity investments depends on the nature of the assets.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Loans and receivables

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

Derecognition of financial assets

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

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

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement;

- and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets (continued)

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of 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). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

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

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

Financial liabilities

Initial recognition and measurement
Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

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

The Group's financial liabilities include trade, notes and other payables, and interest-bearing bank and other borrowings and convertible bonds.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)

Subsequent measurement
The measurement of financial liabilities depends on their classification as follows:

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

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

Financial guarantee contracts
Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. 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 end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, 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 remeasured 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)

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.

Offsetting of financial instruments

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

Fair value of financial instruments

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

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

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

Provisions

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

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

Income tax

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

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

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

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income 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 for grants after 7 November 2002 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 31.

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. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to 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 equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification, that increases the total fair value of the share-based payment transaction, 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. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

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.

As stipulated by the PRC State regulations, 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"), Henan Yongtong Nickel Co. Ltd. ("Yongtong Nickel"), Lianyungang East Harvest Minerals Company Limited ("East Harvest Minerals") and Lianyungang City East Harvest Mining Company Limited ("East Harvest Mining"), subsidiaries of the Company, participate in a defined contribution retirement plan. All employees of these 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, Yongtong Nickel, East Harvest Minerals and East Harvest Mining 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 contributions are charged to the income statement as they become payable.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement benefit schemes (continued)

The Group also 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 Steel ("PT Mandan"), a subsidiary of the Company, 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 Pte. Ltd. ("CNR Group Holdings"), a subsidiary of the Company, 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.

Borrowing costs

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Dividends

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

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

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 recorded by the entities in the Group are initially recorded using their respective 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 end of the reporting period. 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.

As at the end of the reporting period, the assets and liabilities of the Group's non-PRC entities are translated into RMB at the exchange rates ruling at the end of the reporting period and their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a non-PRC operation, the component of other comprehensive income relating to that particular non-PRC entity is recognised in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

For the purpose of the consolidated statement of cash flows, 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 end of the reporting period. 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.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Going concern consideration

The assessment of the going concern assumption involves making a judgement by the Directors, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The Directors consider that the Group has the capability to continue as a going concern and the major events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt upon the going concern assumption are set out in note 2.1 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty

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

(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.

(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 2009 was RMB49,826,000 (2008: RMB137,704,000) as set out in note 22 to the financial statements. The carrying amount of other receivables as at 31 December 2009 was RMB24,357,000 (2008: RMB20,757,000) as set out in note 23 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 2009 was RMB939,834,000 (2008: RMB1,000,042,000) as set out in note 12 to the financial statements.

(d) *Initial recognition of an 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 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 prices 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 2009 was RMB2,640,288,000 (2008: RMB2,656,572,000). Further details which are included in note 16 to the financial statements.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

(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 judgement 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 of which are included in note 16 to the financial statements.

(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 2009 was RMB58,394,000 (2008: RMB58,394,000) as set out in note 15 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 the end of each reporting period. 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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

(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 financial year end. The carrying amount of inventories as at 31 December 2009 was RMB879,278,000 (2008: RMB1,008,220,000) as set out in note 21 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 2009 was RMB144,129,000 (2008: RMB21,258,000). The amount of unrecognised tax losses at 31 December 2009 was RMB5,965,000 (2008: Nil). Further details of which are included in note 17 and note 9 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised as a single business unit focusing on the manufacture and sale of special steel products in the PRC, and, therefore, has only one operating segment.

The geographical location of the Group's non-current assets is analysed as follows:

	2009	2008
	RMB'000	RMB'000
The PRC (including Hong Kong)	**1,926,117**	1,546,657
Overseas	**2,649,824**	2,660,454
	4,575,941	4,207,111

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

The Group has significant sale transactions with established manufacturers of stainless steel and hence has a significant concentration of customers. The Group's sales to its top five customers accounted for approximately 96% of its total sales for the year.

Revenue of approximately RMB772,991,000 (2008: RMB814,953,000) was derived from a single customer.

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:

	2009 RMB'000	2008 RMB'000
Revenue		
Sale of goods:		
Stainless steel base materials	**582,305**	1,207,962
Bearing steel	**73,847**	104,213
Ni-Cr alloy steel ingot	**73,874**	152,074
Ni-Cr bearing steel	**4,433**	14,449
Lateritic nickel ores	**41,017**	—
Ferro-nickel alloys and others	**112,258**	2,896
Total revenue	**887,734**	1,481,594
Other income		
Bank interest income	**15,386**	28,261
Sales of scrap materials and others	**3,973**	3,442
Others	**623**	670
	19,982	32,373
Gains		
Gain on repurchase and redemption of convertible bonds	**79,275**	237,679
Gain on disposal of items of property, plant and equipment, net	**—**	3,209
Amounts waived by creditors	**987**	1,734
Government grants*	**10,253**	450
	90,515	243,072
Total other income and gains	**110,497**	275,445

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

6. LOSS BEFORE TAX

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

	Notes	2009 RMB'000	2008 RMB'000
Staff costs (including Directors' remuneration as set out in note 8):			
Salaries and other staff costs		**50,749**	64,342
Retirement benefit scheme contributions		**6,568**	7,577
Equity-settled share-based expense	31	**6,303**	8,918
Total staff costs		**63,620**	80,837
Amortisation of an intangible asset:			
Accumulated amortisation of exclusive offtake right	16	**57,997**	41,713
Less: Capitalised as cost of inventories		**(37,671)**	(26,980)
Less: Accumulated amortisation charged to income statement in prior years		**(14,733)**	(5,343)
		5,593	9,390

6. LOSS BEFORE TAX (CONTINUED)

	Notes	2009 RMB'000	2008 RMB'000
Costs of inventories sold		**1,083,909**	1,329,260
Research costs		**4,093**	4,195
Auditors' remuneration		**3,261**	3,089
Depreciation	12	**100,809**	88,440
Provision of impairment for items of property, plant and equipment*	12	**2,600**	—
Amortisation of prepaid land lease payments	14	**5,185**	4,434
Amortisation of other non-current assets	20	**9,094**	963
Loss/(gain) on disposal of items of property, plant and equipment, net		**1,657**	(3,209)
Provision of impairment of trade receivables and other receivables*		**726**	2,118
Write-down of inventories to net realisable value*		**32,832**	103,194
Write-off of construction in progress*	13	**—**	3,486
Bank interest income	5	**(15,386)**	(28,261)
Gain on repurchase and redemption of convertible bonds	5	**(79,275)**	(237,679)
Foreign exchange losses, net*		**17,001**	13,733
Minimum lease payments under operating leases in respect of buildings and other assets		**4,104**	2,841

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

7. FINANCE COSTS

		Group	
		2009	2008
	Note	**RMB'000**	RMB'000
Interest on bank loans and other borrowings		**25,962**	32,314
Interest on convertible bonds	28	**92,034**	138,947
Total interest expenses		**117,996**	171,261
Less: Interest capitalised	13	**(31,496)**	(17,318)
		86,500	153,943

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

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

	Group	
	2009	2008
	RMB'000	RMB'000
Fees	**704**	728
Salaries, allowances and benefits in kind	**3,722**	4,071
Equity-settled share option expense	**1,235**	1,924
Retirement benefit scheme contributions	**34**	36
	5,695	6,759

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

In July 2005, March 2007, April 2007 and March 2008, certain Directors and 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 31 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 grant and the amount included in the financial statements for the current year is included in the above.

(a) Independent non-executive Directors

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

	Group	
	2009	2008
	RMB'000	RMB'000
Mr. Bai Baohua	**176**	182
Mr. Huang Changhuai	**176**	182
Mr. Wong Chi Keung	**176**	182
	528	546

There were no other emoluments payable to the independent non-executive Directors during the year. (2008: Nil)

8. DIRECTORS' REMUNERATION AND 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 scheme contributions RMB'000	Total remuneration RMB'000
2009					
Executive Directors:					
Mr. Dong Shutong	–	1,154	88	11	1,253
Mr. He Weiquan	–	591	75	–	666
Mr. Lau Hok Yuk	–	643	371	11	1,025
Mr. Song Wenzhou	–	210	18	1	229
Mr. Zhao Ping	–	662	525	–	1,187
Mr. Dong Chengzhe	–	462	158	11	631
	–	3,722	1,235	34	4,991
Non-executive Director:					
Mr. Yang Tianjun	176	–	–	–	176
	176	3,722	1,235	34	5,167

8. DIRECTORS' REMUNERATION AND 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 scheme 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

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

During the year, no Directors waived or agreed to waive any emoluments; and no emoluments were paid by the Group to the Directors as a inducement to join or upon joining the Group or as compensation for loss of office.

During the year ended 31 December 2009, the five highest paid individuals of the Group included five Directors (2008: five). Information relating to these Directors' emoluments has been disclosed above.

9. INCOME TAX

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

The applicable income tax rate of CNR Group Holdings, a subsidiary of the Company incorporated in Singapore, was 5% for the year ended 31 December 2009 (2008:18%). CNR Group Holdings was entitled to a five-year tax concessionary rate of 5% as it was awarded the Global Trader Programme status by International Enterprise Singapore, for the five years ending 31 December 2013, on the condition that it meets a certain amount of revenue within this five years.

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

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

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 was entitled to a 50% reduction in corporate income tax in the PRC for the three years ended 31 December 2008.

9. INCOME 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 income tax 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	**2009** **RMB'000**	2008 RMB'000
Group:			
Provision for income tax in respect of profit for the year:			
Current — PRC		**2,863**	1,396
Prior year — Utilisation of unrecognised pre-acquisition tax losses from a subsidiary		**—**	(10,966)
Current — Hong Kong and others		**407**	36,413
Deferred	17	**(112,029)**	(89,180)
Total tax credit for the year		**(108,759)**	(62,337)

9. INCOME TAX (CONTINUED)

A reconciliation of the income tax credit applicable to loss before tax at the statutory rate to the income tax expense at the effective tax rate is as follows:

	2009	2008
	RMB'000	RMB'000
Loss before tax	**(439,317)**	(24,163)
Tax at statutory tax rate of 25%	**(109,829)**	(6,041)
Tax effect of:		
Lower income tax rate for Hong Kong and other non-PRC subsidiaries	**(104)**	(25,284)
Income not subject to tax	**(30,239)**	(42,288)
Expenses not deductible for tax	**27,253**	22,242
Utilisation of unrecognised deferred tax for previous year	**(1,805)**	(10,966)
Tax losses not recognised	**5,965**	—
Tax credit at the Group's effective rate	**(108,759)**	(62,337)

10. (LOSS)/PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT AND DIVIDENDS

The consolidated (loss)/profit attributable to owners of the parent for the year ended 31 December 2009 includes a loss of RMB48,291,000 (2008: a profit of RMB80,683,000) which has been dealt with in the financial statement of the Company (Note 30(b)).

Dividends

(a) On 12 June 2008, the shareholders at the annual general meeting approved the Company's declaration of 2007 final dividend, including the adjustment of 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 per ordinary share. The interim dividend totaling HK$35,583,000 (equivalent to RMB31,317,000) was paid on 20 October 2008 based on the number of ordinary shares registered on 10 October 2008.

(c) The Directors do not recommend the payment of a final dividend for the year ended 31 December 2009.

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

The calculation of basic loss per share is based on the loss for the year attributable to owners of the parent of the Group, and the weighted average number of ordinary shares of 2,093,271,289 (2008: 2,093,039,635) in issue during the year.

Diluted loss per share for the year ended 31 December 2009 has not been disclosed, as the share options, convertible notes and convertible bonds outstanding had an anti-dilutive effect on the basic loss per share for the year.

The calculation of diluted earnings per share for the year ended 31 December 2008 is based on the profit for the year attributable to owners of the parent of the Group, adjusted to reflect the interest on convertible bonds. 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.

The calculations of basic and diluted earnings per share for the year ended 31 December 2008 are based on:

	2008 RMB'000
Profit attributable to owners of the parent used in the basic earnings per share calculation	37,361
Interest on convertible bonds (3% Convertible Bonds)	29,264*
Interest on convertible bonds (Zero Coupon Convertible Bonds)	92,365*
Profit attributable to owners of the parent before interest on convertible bonds	158,990

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

	Number of shares 2008 '000
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	2,093,040
Effect of dilution — weighted average number of ordinary shares:	
— Share options	5,512
— Convertible bonds (3% Convertible Bonds)	147,790*
— Convertible bonds (Zero Coupon Convertible Bonds)	333,401*
— Convertible notes (stock options) (Note 16)	182,736
	2,762,479

* Because the diluted earnings per share amount would be increased when taking the 3% Convertible Bonds and Zero Coupon Convertible Bonds into account, the 3% Convertible Bonds and Zero Coupon Convertible Bonds had an anti-dilutive effect on the basic earnings per share for the year 2008 and were ignored in the calculation of diluted earnings per share. Therefore, the diluted earnings per share amount of the year 2008 was based on the profit attributable to owners of the parent for the year of RMB37,361,000 and the weighted average number of ordinary shares of 2,281,288,000 in issue during the year.

12. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles and others RMB'000	Total RMB'000
Cost:					
As at 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 (Note 13)	16,155	118,919	—	—	135,074
Disposals	—	(975)	—	(42,879)	(43,854)
As at 31 December 2008 and 1 January 2009	254,719	1,087,193	10,794	20,125	1,372,831
Additions	10,070	1,275	2,064	364	13,773
Transferred from other non-current assets (Note 20)	—	—	—	22,642	22,642
Acquisition of a subsidiary (Note 18(c))	397	153	2	—	552
Transferred from construction in progress (Note 13)	408	9,774	356	436	10,974
Disposals	(147)	(1,531)	(3,685)	(64)	(5,427)
As at 31 December 2009	**265,447**	**1,096,864**	**9,531**	**43,503**	**1,415,345**

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group (continued)

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles and others RMB'000	Total RMB'000
Accumulated depreciation and provision for impairment losses:					
At 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 and 1 January 2009	43,801	309,032	6,134	13,822	372,789
Depreciation charge for the year	8,987	85,239	1,295	5,288	100,809
Disposals	—	—	(659)	(28)	(687)
Impairment (Note 6)	—	—	—	2,600	2,600
At 31 December 2009	**52,788**	**394,271**	**6,770**	**21,682**	**475,511**
Net carrying amount:					
At 31 December 2009	**212,659**	**702,593**	**2,761**	**21,821**	**939,834**
At 31 December 2008	210,918	778,161	4,660	6,303	1,000,042

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company

	Buildings RMB'000	Office equipment RMB'000	Motor vehicles and others RMB'000	Total RMB'000
Cost:				
As at 1 January 2008	—	650	—	650
Additions	—	3,784	42,699	46,483
Disposals	—	—	(42,699)	(42,699)
As at 31 December 2008 and 1 January 2009	—	4,434	—	4,434
Additions	10,070	386	—	10,456
Transferred from other non-current assets (Note 20)	—	—	22,642	22,642
Disposals	—	(3,687)	—	(3,687)
As at 31 December 2009	**10,070**	**1,133**	**22,642**	**33,845**

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company (continued)

	Buildings RMB'000	Office equipment RMB'000	Motor vehicles and others RMB'000	Total RMB'000
Accumulated depreciation and provision for impairment losses:				
At 1 January 2008	—	291	—	291
Depreciation charge for the year	—	543	392	935
Disposals	—	—	(392)	(392)
At 31 December 2008 and 1 January 2009	—	834	—	834
Depreciation charge for the year	123	514	2,837	3,474
Disposals	—	(660)	—	(660)
Impairment	—	—	2,600	2,600
At 31 December 2009	**123**	**688**	**5,437**	**6,248**
Net carrying amount:				
At 31 December 2009	**9,947**	**445**	**17,205**	**27,597**
At 31 December 2008	—	3,600	—	3,600

13. CONSTRUCTION IN PROGRESS

		Group	
		2009	2008
	Notes	**RMB'000**	RMB'000
At 1 January		**217,704**	168,294
Acquisition of a subsidiary	18(c)	**22,303**	—
Additions		**278,126**	187,970
Transferred to property, plant and equipment	12	**(10,974)**	(135,074)
Written off		**—**	(3,486)
At 31 December		**507,159**	217,704

During the year, interest of RMB31,496,000 (2008: RMB17,318,000) was capitalised in construction in progress at the capitalisation rate of 6.44% (Note 7).

14. PREPAID LAND LEASE PAYMENTS

		Group		Company	
		2009	2008	**2009**	2008
	Notes	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Carrying amount at 1 January		**208,073**	205,835	**—**	—
Acquisition of a subsidiary	18(c)	**175,042**	—	**—**	—
Additions		**22,161**	6,672	**11,669**	—
Amortisation during the year		**(5,185)**	(4,434)	**—**	—
Carrying amount at 31 December		**400,091**	208,073	**11,669**	—
Less: Current portion included in prepayments, deposits and other receivables	23	**(8,226)**	(4,434)	**—**	—
Non-current portion		**391,865**	203,639	**11,669**	—

14. PREPAID LAND LEASE PAYMENTS (CONTINUED)

As at 31 December 2009, the carrying amounts of the Group's prepaid land lease payments, which are related to lands situated in the PRC, Indonesia and Australia amounted to RMB384,539,000 (under medium term lease), RMB3,883,000 (under long term lease) and RMB11,669,000 (under long term lease), respectively.

At 31 December 2009, certain parcels of the Group's leasehold lands situated in the PRC with the carrying amounts of RMB13,447,000 and of RMB76,336,000 were pledged for a bank loan granted to the Group (Note 27) and certain other payables of the Group (Note 18(c)), respectively.

15. GOODWILL

Group

	Note	RMB'000
As at 1 January 2008		65,052
Adjustment for utilisation of unrecognised pre-acquisition tax losses from a subsidiary	(a)	(6,658)
As at 31 December 2008 and 31 December 2009		**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 assets 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.

15. GOODWILL (CONTINUED)

Impairment testing of goodwill

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

- Special steel products cash-generating unit; and

- Electricity generating cash-generating unit.

Special steel products cash-generating unit

The recoverable amount of the special steel products cash-generating unit has been determined based on a value in use calculation using cash flow projections based on 3 years' financial budgets approved by senior management. The discount rate applied to cash flow projections is 13% and cash flow beyond the three year period are extrapolated using zero growth rate.

Electricity generating cash-generating unit

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 3 years' financial budgets approved by senior management. The discount rate applied to cash flow projections is 13% and cash flows beyond the three year period are extrapolated using zero growth rate.

15. GOODWILL (CONTINUED)

Impairment testing of goodwill (continued)

The carrying amounts of goodwill allocated to each of the cash-generating units are as follows:

	Special steel products cash-generating unit 2009 RMB'000	Electricity generating cash-generating unit 2009 RMB'000	Total 2009 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 2009 as follows:

Budgeted sales and gross margins

Budgeted sales and gross margins are determined based on past performance of these cash generating units, planned production strategy and management's expectation for the market development.

Discount rates

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

16. INTANGIBLE ASSET

	Group 2009 RMB'000	Group 2008 RMB'000
Exclusive offtake right		
Carrying amount at 1 January	**2,656,572**	2,682,095
Amortisation during the year	**(16,284)**	(25,523)
Carrying amount at 31 December	**2,640,288**	2,656,572
Cost	**2,698,285**	2,698,285
Accumulated amortisation	**(57,997)**	(41,713)
Carrying amount at 31 December	**2,640,288**	2,656,572

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 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.

17. DEFERRED TAX

The movements in the deferred tax accounts are as follows:

Deferred tax assets

Group

	2009 RMB'000	2008 RMB'000
At beginning of year	**112,505**	24,290
Deferred tax credited to the income statement during the year (Note 9)	**114,025**	88,215
At end of year	**226,530**	112,505
Provisions in respect of:		
Losses available for offsetting against future taxable profits	**144,129**	21,258
Inventory provision	**8,208**	25,877
Unrealised profit eliminated on consolidation	**50,190**	57,880
Decelerated tax depreciation	**5,937**	7,490
Liabilities for accrued expenses that are deductible for tax purpose only when paid	**18,066**	—
	226,530	112,505

17. DEFERRED TAX (CONTINUED)

Deferred tax assets (continued)

Company

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).

The Group's deferred tax assets as at 31 December 2009 mainly arose from the operations of Yongtong Special Steel and Yongan Special Steel. Based on the five-year forecasts of these companies, the Directors believe that sufficient taxable profit will be available to allow these deferred tax assets to be utilised.

Key assumptions in the five-year forecasts include the budgeted sales and gross margins that are determined by the Directors based on the planned production strategy and management's past experience and expectation on the selling price strategy (by reference to market reports on future market price of nickel), cost of production, sales volume and the market development.

17. DEFERRED TAX (CONTINUED)

Deferred tax liabilities

Group

	2009 RMB'000	2008 RMB'000
At beginning of year	**25,921**	26,886
Deferred tax charged/(credited) to the income statement during the year (Note 9)	**1,996**	(965)
At end of year	**27,917**	25,921
Provisions in respect of:		
Fair value adjustments arising from acquisition of a subsidiary	**23,244**	24,095
Others	**4,673**	1,826
	27,917	25,921

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

At 31 December 2009, there was no unrecognised deferred tax liability (2008: Nil) for taxes that would be payable on the unremitted earnings of the Group's subsidiaries as these subsidiaries did not have profits available for distribution.

18. INTERESTS IN SUBSIDIARIES

	Company 2009 RMB'000	2008 RMB'000
Unlisted investments/shares, at cost	**322,204**	322,204
Advances to subsidiaries	**4,382,745**	4,094,932
	4,704,949	4,417,136

The amounts advanced to the subsidiaries included in the interests in subsidiaries above are denominated in HK$, US$ and Singapore dollar ("SG$"), are unsecured and have no fixed terms of repayment. In the opinion of the 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.

Particulars of the Company's subsidiaries as at 31 December 2009 are as follows:

Name of companies	Notes	Place of incorporation and operations	Nominal value of issued shares/ paid-up capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
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 ores
Group Rise		British Virgin Islands/ Hong Kong	US$1	–	100	Dormant

18. INTERESTS IN SUBSIDIARIES (CONTINUED)

Name of companies	Notes	Place of incorporation and operations	Nominal value of issued shares/ paid-up capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
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	Under construction
Yongtong Special Steel		PRC	RMB636,760,000	–	100	Manufacture and sale of special steel products
Yongan Special Steel	(a)	PRC	RMB336,000,000	–	51	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	Under construction
East Harvest Minerals	(b)	PRC	USD49,000,000	–	100	Trading of mineral products and Investment holding
East Harvest Mining	(c)	PRC	RMB50,000,000	–	100	Under construction

18. INTERESTS IN SUBSIDIARIES (CONTINUED)

Notes:

(a) 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 by an annual fixed payment of RMB6,310,000 for a period of 15 years from 5 January 2007. Such profits have been capitalised in other non-current assets and subject to a straight-line amortisation based on 15 years.

(b) The Company established a new wholly-owned subsidiary, Lianyungang East Harvest Minerals Company Limited, in September 2009.

(c) On 28 October 2009, through a wholly-owned subsidiary, Lianyungang East Harvest Minerals Company Limited, the Group acquired 100% of equity interests in Lianyungang Yinlijia Enterprise Company Limited ("YLJ"). YLJ is a company established on 27 March 2007 in PRC with limited liability and has not commenced any operation since its inception. The acquisition does not qualify as business combinations in accordance with IFRS 3. YLJ was subsequently renamed as Lianyungang City East Harvest Mining Company Limited after the acquisition.

The total cash consideration for this acquisition was RMB1,000,000 and the fair value of the assets acquired and liabilities assumed in the acquisition are as follows:

	Notes	RMB'000
Property, plant and equipment	12	552
Construction in progress	13	22,303
Prepaid land lease payments*	14	175,042
Other current assets		3,015
Bank loans		(15,000)
Other payables*#	26	(184,912)
		1,000

* On acquisition date, certain of these payables of RMB117,974,000 were secured by the prepaid land lease payments of carrying amount of RMB129,124,000.

\# Subsequent to the acquisition date, a portion of other payables of RMB64,687,000 was paid before 31 December 2009.

19. INTEREST IN AN ASSOCIATE

	Group	
	2009	2008
	RMB'000	RMB'000
Unlisted shares, at cost	**50**	—
Advance to an associate (Notes 23 and 35(g))	**54,943**	—
	54,993	—

Particulars of the associate are as below:

Name	Particulars of issued shares held	Place of incorporation	Percentage of ownership interest attributable to the Group	Principal activity
Full Harvest Development Limited	Ordinary Shares of US$1 each	Republic of Seychelles	47.4%	Investment holding

The associate did not have any income and expense during the year and the following table illustrates its summarised financial information as at 31 December 2009:

	RMB'000
Assets	110,617
Liabilities	110,511

As at 31 December 2009, the carrying amounts of above said assets and liabilities denominated in US$ were of US$16,200,000 and US$16,185,000 respectively.

20. OTHER NON-CURRENT ASSETS

Group

	Notes	Prepayment for an operating lease RMB'000	Prepayment for purchases of raw materials RMB'000	Others RMB'000 (Note 18(a))	Total RMB'000
2009					
Carrying amount at 1 January 2009		**22,642**	**90,089**	**–**	**112,731**
Additions		**–**	**15,723**	**32,300**	**48,023**
Reclassification to property, plant and equipment	12	**(22,642)**	**–**	**–**	**(22,642)**
Utilisation/Amortisation		**–**	**(8,729)**	**(9,094)**	**(17,823)**
Carrying amount at 31 December 2009		**–**	**97,083**	**23,206**	**120,289**
Less: Current portion included in prepayments, deposits and other receivables	23	**–**	**(81,938)**	**–**	**(81,938)**
Non-current portion		**–**	**15,145**	**23,206**	**38,351**

20. OTHER NON-CURRENT ASSETS (CONTINUED)

Group (continued)

	Note	Prepayment for an operating lease RMB'000	Prepayment for purchases of raw materials RMB'000	Others RMB'000 (Note 18(a))	Total RMB'000
2008					
Carrying amount at 1 January 2008		23,605	26,959	—	50,564
Additions		—	81,591	—	81,591
Utilisation/Amortisation		(963)	(18,461)	—	(19,424)
Carrying amount at 31 December 2008		22,642	90,089	—	112,731
Less: Current portion included in prepayments, deposits and other receivables	23	(963)	(41,008)	—	(41,971)
Non-current portion		21,679	49,081	—	70,760

20. OTHER NON-CURRENT ASSETS (CONTINUED)

Company

	Note	Prepayment for an operating lease RMB'000
2009		
Carrying amount at 1 January 2009		22,642
Reclassification to property, plant and equipment	12	(22,642)
Carrying amount at 31 December 2009		—
2008		
Carrying amount at 1 January 2008		23,605
Utilisation		(963)
Carrying amount at 31 December 2008		22,642
Less: Current portion included in prepayments, deposits and other receivables	23	(963)
Non-current portion		21,679

21. INVENTORIES

	Group	
	2009	2008
	RMB'000	RMB'000
Raw materials	**339,673**	327,404
Work in progress	**36,079**	222,936
Finished goods	**477,768**	418,099
Spare parts and consumables	**25,758**	39,781
	879,278	1,008,220

22. TRADE AND NOTES RECEIVABLES

	Group	
	2009	2008
	RMB'000	RMB'000
Trade receivables	**30,792**	107,332
Notes receivable	**19,034**	30,372
	49,826	137,704

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

22. TRADE AND NOTES RECEIVABLES (CONTINUED)

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

	Group	
	2009	2008
	RMB'000	RMB'000
Outstanding balances aged:		
Within 90 days	**38,543**	119,267
91 to 180 days	**3,944**	13,186
181 to 365 days	**—**	3,724
Over 1 year	**10,883**	3,891
	53,370	140,068
Less: Provision for impairment of trade receivables	**(3,544)**	(2,364)
	49,826	137,704

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

	Group	
	2009	2008
	RMB'000	RMB'000
At 1 January	**2,364**	928
Impairment losses recognised	**1,180**	1,436
At 31 December	**3,544**	2,364

As at 31 December 2009, included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB3,544,000 (2008: RMB2,364,000) with a carrying amount before provision of RMB3,544,000 (2008: RMB2,364,000). The individually impaired trade receivables relate to customers that were in financial difficulties. The Group does not hold any collateral or other credit enhancements over these balances.

22. TRADE AND NOTES RECEIVABLES (CONTINUED)

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

	Group	
	2009	2008
	RMB'000	RMB'000
Neither past due nor impaired	**42,042**	125,004
Less than 90 days past due	**445**	7,448
91 to 180 days past due	**—**	1,862
181 to 365 days past due	**—**	2,234
Past due over 1 year	**7,339**	1,156
	49,826	137,704

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 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.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

		Group		Company	
		2009	2008	**2009**	2008
	Notes	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Prepayments to suppliers		**57,960**	45,660	**275**	513
Other prepayments		**1,581**	734	**—**	—
Other receivables		**29,733**	26,587	**15,961**	3,497
Value-added tax receivable		**58,538**	32,583	**—**	—
Current portion of long-term prepayments	20	**81,938**	41,971	**—**	963
Advance to an associate	19	**54,943**	—	**—**	—
Current portion of prepaid land lease payments	14	**8,226**	4,434	**—**	—
		292,919	151,969	**16,236**	4,973
Less: Provision for impairment of other receivables		**(5,376)**	(5,830)	**—**	—
		287,543	146,139	**16,236**	4,973

The carrying amounts of other receivables and an amount due from an associate approximate to their fair values.

24. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**260,488**	770,259	**14,055**	551,168
Time deposits on demand	**419,312**	674,416	**89,052**	87,004
	679,800	1,444,675	**103,107**	638,172
Less: Pledged time deposits for a bank loan (Note 27)	**(82,652)**	(80,001)	**(82,652)**	(80,001)
Pledged time deposits for issuing notes payables (Note 25)	**(304,403)**	(446,911)	**—**	—
	(387,055)	(526,912)	**(82,652)**	(80,001)
Cash and cash equivalents	**292,745**	917,763	**20,455**	558,171

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 time deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the pledged time deposits approximate to their fair values.

As of 31 December 2009, a banker's guarantee was issued for the salvage services provided by a third party. The banker's guarantee was secured by cash and bank balance of US$550,000 (equivalent to RMB3,755,000). Further details of the guarantee are set out in note 32 to the financial statements.

25. TRADE AND NOTES PAYABLES

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

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 90 days	**354,290**	460,104	**—**	377
91 to 180 days	**118,430**	265,684	**—**	760
181 to 365 days	**36,082**	36,761	**—**	—
1 to 2 years	**31,543**	9,760	**1,137**	—
2 to 3 years	**8,325**	31,579	**—**	—
Over 3 years	**30,624**	4,449	**—**	—
	579,294	808,337	**1,137**	1,137

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

		Group		Company	
		2009	2008	**2009**	2008
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Trade payables		**234,891**	238,900	**1,137**	1,137
Bills payable	(a)	**344,403**	569,437	**—**	—
		579,294	808,337	**1,137**	1,137

Note:

(a) As at 31 December 2009, notes payable of RMB344,403,000 (2008: RMB569,437,000) were secured by time deposits amounting to RMB304,403,000 (2008: RMB446,911,000) (Note 24).

26. OTHER PAYABLES AND ACCRUALS

		Group		Company	
		2009	2008	**2009**	2008
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Advances from customers		**69,430**	10,239	**—**	—
Payables related to purchases of items of property, plant and equipment and construction in progress		**62,806**	55,876	**—**	—
Accrued interest expenses		**1,409**	1,538	**—**	—
Payroll payable		**6,122**	4,823	**117**	—
Amounts due to minority shareholders of a subsidiary		**47,074**	88,633	**2,056**	—
Loan from a related party		**—**	507	**—**	—
Government grants		**—**	3,500	**—**	—
Liabilities assumed in the acquisition of a subsidiary	18(c)	**120,225**	—	**—**	—
Others		**69,303**	45,390	**26,602**	4,714
		376,369	210,506	**28,775**	4,714

Other payables are non-interest-bearing and have no fixed terms of repayment.

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	Notes	2009 Effective interest rate(%)	2009 Maturity	2009 RMB'000	2008 Effective interest rate(%)	2008 Maturity	2008 RMB'000
Current							
Bank loans — unsecured		**5.3–8.6**	**2010**	**303,000**	6.1–7.5	2009	140,000
Bank loans — secured	(a)	**4.8–6.6**	**2010**	**85,000**	6.7	2009	83,000
Other borrowings — unsecured	(b)	**0–7.5**	**2010**	**13,089**	0–7.5	2009	13,089
				401,089			236,089
Non-current							
Bank loans — unsecured		**–**	**–**	**–**	7.4–8.6	2010	43,000
Other borrowings — unsecured	(c)	**6.9-8.0**	**2011–2012**	**98,439**	6.9	2012	77,457
				98,439			120,457
				499,528			356,546

27. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

Group (continued)

The aforesaid interest-bearing bank and other borrowings are further analysed as follows:

	2009	2008
	RMB'000	RMB'000
Bank loans repayable:		
Within one year	**388,000**	223,000
In the second year	**—**	43,000
	388,000	266,000
Other borrowings repayable:		
Within one year	**13,089**	13,089
In the second year	**17,060**	—
In the third to fifth years, inclusive	**81,379**	77,457
	111,528	90,546
	499,528	356,546

27. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

Group (continued)

Notes:

(a) As at 31 December 2009, the secured bank loans were comprised of: (i) a bank loan of RMB70,000,000 (2008: RMB83,000,000) secured by time deposits of RMB82,652,000 (2008: RMB80,001,000) (Note 24); and (ii) a bank loan of RMB15,000,000 (2008: Nil) secured by a leasehold land in the PRC with the carrying amount of RMB13,447,000 (2008:Nil) (Note 14).

(b) As at 31 December 2009, the unsecured other borrowings included: (i) an interest-free loan of RMB10,000,000 (2008: RMB10,000,000) from Luoyang Municipal Ministry of Finance, whose renewal has been negotiated since the due repayment date before 31 December 2009; and (ii) a loan of RMB3,089,000 (2008: RMB3,089,000) from Xianghe Group Shangjie Power Engineering Co., Ltd., which bore interest at a floating rate from 5.4% to 7.5% per annum.

(c) As at 31 December 2009, the unsecured other borrowings included: (i) a loan of RMB81,379,000 (2008: RMB77,457,000) from Anyang Steel Group Company Limited, which bore interest at rate of 6.93% (2008:6.93%) per annum; and (ii) a loan from a shareholder of the Company of US$2,500,000 (equivalent to RMB17,060,000) (2008: Nil), which bore interest at a rate of 8% per annum.

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

28. CONVERTIBLE BONDS

Group and Company

	Notes	**2009 RMB'000**	2008 RMB'000
Liability component:			
3% Convertible Bonds	(i)	**–**	145,859
Zero Coupon Convertible Bonds	(ii)	**1,336,076**	1,382,398
		1,336,076	1,528,257
Less: Current portion	(i)/(ii)	**(1,336,076)**	(145,859)
Non-current portion of liability component of convertible bonds		**–**	1,382,398
Equity component:			
3% Convertible Bonds	(i)	**–**	3,385
Zero Coupon Convertible Bonds	(ii)	**45,920**	50,658
		45,920	54,043

28. CONVERTIBLE BONDS (CONTINUED)

(i) HK$625 million 3% convertible bonds due 2012 (“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.

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

(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 of 3% Convertible Bonds based on the valuation 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%.

28. CONVERTIBLE BONDS (CONTINUED)

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

The movements in the liability component and equity component of 3% Convertible Bonds during the year ended 31 December 2009 are as follows:

	Liability component of convertible bonds RMB'000	Equity component of convertible bonds RMB'000	Total RMB'000
At 1 January 2008	341,087	7,833	348,920
Interest expenses	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 and 1 January 2009	145,859	3,385	149,244
Interest expenses	5,542	—	5,542
Redeemed	(151,200)	(3,385)	(154,585)
Exchange realignment	(201)	—	(201)
At 31 December 2009	**—**	**—**	**—**

On 18 May 2009, the Company redeemed and cancelled 3% Convertible Bonds of a principal amount of HK$156,000,000 with a cash consideration of HK$179,260,000 (equivalent to RMB157,874,000), at bondholders' put option in accordance with the terms and conditions of the subscription agreement.

As at 31 December 2009, 3% Convertible Bonds were fully redeemed and cancelled.

28. CONVERTIBLE BONDS (CONTINUED)

(ii) HK$2,000 million zero coupon convertible bonds due 2012 ("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 aggregate nominal value of HK$2,000,000,000, which were subsequently listed on the Hong Kong Stock Exchange.

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

(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) 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 of Zero Coupon Convertible Bonds based on the valuation 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%.

28. CONVERTIBLE BONDS (CONTINUED)

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

The movements in the liability component and equity component of Zero Coupon Convertible Bonds during the year ended 31 December 2009 are as follows:

	Liability component of convertible bonds RMB'000	**Equity component of convertible bonds** RMB'000	**Total** RMB'000
At 1 January 2008	1,772,784	65,365	1,838,149
Interest expenses	109,683	—	109,683
Repurchased and cancelled	(395,806)	(14,707)	(410,513)
Exchange realignment	(104,263)	—	(104,263)
At 31 December 2008 and 1 January 2009	1,382,398	50,658	1,433,056
Interest expenses	**86,492**	**—**	**86,492**
Repurchased and cancelled	**(130,567)**	**(4,738)**	**(135,305)**
Exchange realignment	**(2,247)**	**—**	**(2,247)**
At 31 December 2009	**1,336,076**	**45,920**	**1,381,996**

On 25 February 2009 and 4 March 2009, the Company repurchased and cancelled certain Zero Coupon Convertible Bonds of principal amounts of HK$5,000,000 and HK$140,000,000 with cash considerations of HK$1,900,000 (equivalent to RMB1,675,000) and HK$59,550,000 (equivalent to RMB52,499,000), respectively.

As at 31 December 2009, the principal amount of Zero Coupon Convertible Bonds outstanding was HK$1,405,000,000. Further details of Zero Coupon Convertible Bonds are set out in notes 2.1 and 38(b) to the financial statements.

29. SHARE CAPITAL

	Year ended 31 December 2009 Number of ordinary shares	RMB'000	Year ended 31 December 2008 Number of ordinary shares	RMB'000
Authorised (HK$0.1 each):				
At 1 January	**5,000,000,000**	**479,200**	3,000,000,000	302,420
Increase during the year	**–**	**–**	2,000,000,000	176,780
At 31 December	**5,000,000,000**	**479,200**	5,000,000,000	479,200
Issued and fully paid (HK$0.1 each):				
At 1 January	**2,093,120,385**	**209,961**	2,092,865,385	209,938
Exercise of share options (Note)	**510,000**	**45**	255,000	23
At 31 December	**2,093,630,385**	**210,006**	2,093,120,385	209,961

Note: On 15 September 2009, 510,000 ordinary shares of HK$0.10 each of the Company were issued at HK$1.07 per ordinary share to an employee pursuant to the exercise of share options granted on 30 July 2005.

30. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 51 to 52 of the financial statements.

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 reserve

It mainly related to the convertible notes (stock options) with a principal of HK$316,130,000 (equivalent to RMB311,135,000) issued by the Company as part of the consideration for the exclusive offtake right in May 2007.

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 31 to the financial statements.

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.

30. 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, Yongtong Nickel, East Harvest Minerals and East Harvest Mining, 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 the PRC Generally Accepted Accounting Principles (the "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.

30. 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 RMB'000	Total RMB'000
Year ended 31 December 2009								
At 1 January 2009		2,660,771	314,784	311,135	16,300	(69,458)	54,109	3,287,641
Total comprehensive expenses for the year		–	–	–	–	(3,143)	(48,291)	(51,434)
Exercise of share options	31	580	–	–	(144)	–	–	436
Equity-settled share option arrangements	31	–	–	–	6,303	–	–	6,303
Repurchases and redemption of convertible bonds		–	–	–	–	–	(1,302)	(1,302)
At 31 December 2009		2,661,351	314,784	311,135	22,459	(72,601)	4,516	3,241,644

30. 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
Year ended 31 December 2008 (Restated)								
At 1 January 2008		2,691,523	314,784	311,135	7,936	(46,297)	(46,129)	3,232,952
Total comprehensive income/(expense) for the year		–	–	–	–	(23,161)	80,683	57,522
Exercise of share options	31	568	–	–	(154)	–	–	414
Equity-settled share option arrangements	31	–	–	–	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		(3)	–	–	–	–	–	(3)
Interim 2008 dividend		(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. 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 Group 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 Hong Kong 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 Hong Kong 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, 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.

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

31. SHARE OPTION SCHEME (CONTINUED)

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

	2009 Weighted average exercise price HK$ per share	**2009** Number of options '000	2008 Weighted average exercise price HK$ per share	2008 Number of options '000
At 1 January	**1.77**	**46,005**	1.47	32,760
Granted during the year	**—**	**—**	2.45	15,000
Forfeited during the year	**1.07**	**(255)**	1.91	(1,020)
Forfeited during the year	**2.45**	**(305)**	2.45	(480)
Exercised during the year	**1.07**	**(510)**	1.91	(255)
At 31 December	**1.78**	**44,935**	1.77	46,005

The weighted average share price at the date of exercise for share options exercised during the year was HK$1.49 (2008: HK$2.27) per share.

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2009

Number of options '000	**Exercise price* HK$ per share**	**Exercise period**
17,920	**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**
14,215	**2.45**	**20 March 2009 to 19 March 2018**
44,935		

31. SHARE OPTION SCHEME (CONTINUED)

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		

* 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 Group recognised a net share option expense of RMB6,303,000 during the year ended 31 December 2009 (2008: RMB8,918,000).

The 510,000 share options exercised during the year resulted in the issue of 510,000 ordinary shares of the Company and new share capital of HK$51,000 (equivalent to RMB45,000) and share premium of HK$657,900 (equivalent to RMB580,000), including the amount transferred from share option reserves of HK$163,200 (equivalent to RMB144,000).

As the end of the reporting period, the Company had 44,935,000 share options outstanding under the Share Option Scheme, which represented approximately 2.1% of the Company's shares in issue as at 31 December 2009. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 44,935,000 additional ordinary shares of the Company and an additional share capital of HK$4,493,500 (equivalent to RMB3,957,000) and share premium of HK$75,335,650 (equivalent to RMB66,333,000) (before issue expenses).

32. CONTINGENT LIABILITIES

Group

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

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

While the Group received the cargo of iron ores in January 2010 without quality or quantity damage, no arbitration has been initiated by the salvors up to the approval date of these financial statements, and therefore the awards to the salvors have not been determined and are subject to arbitrators' further adjustment of portions among CNR Group Holdings, its carrier and the owner of the vessel and no provision for the Group's share of the salvage expenses was made as at 31 December 2009.

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

33. OPERATING LEASE ARRANGEMENT

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 31 December 2009, the Group and Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**2,078**	2,473	**1,670**	1,043
In the second to fifth years, inclusive	**2,530**	2,337	**1,636**	310
	4,608	4,810	**3,306**	1,353

34. COMMITMENTS

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

	Group	
	2009	2008
	RMB'000	RMB'000
Capital commitments in respect of property, plant and equipment, contracted but not provided for	**403,552**	297,762

35. RELATED PARTY TRANSACTIONS

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

Names of related parties	Nature of transactions	2009 RMB'000	2008 RMB'000
Yiwan Mining (Note a)	Purchase of iron ores (Note b)	**44,085**	97,420
Yiwan Mining (Note a)	Loan (Note c)	**—**	507
PT Yiwan Shipping (Note d)	Sale of property, plant and equipment (Note e)	**1,910**	45,509
Full Harvest Development Limited (Note f)	Advance (Note g)	**54,943**	—

Notes:

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

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

(c) The loan from Yiwan Mining bore interest at the prevailing market interest rate, and has been repaid in October 2009.

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

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

(f) This company is an associate of the Group.

(g) The advance to Full Harvest Development Limited is unsecured, interest-free and has no fixed terms of repayment.

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

In the opinion of the Directors, key management personnel of the Group consist of all Directors. Further details of Directors' remuneration are set out in note 8 to the financial statements.

36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of reporting period are as follows:

Group

Financial assets

	2009 Loans and receivables RMB'000	2008 Loans and receivables RMB'000
Trade and notes receivables	**49,826**	137,704
Financial assets included in prepayments, deposits and other receivables	**79,300**	20,757
Cash and cash equivalents	**292,745**	917,763
Pledged time deposits	**387,055**	526,912
	808,926	1,603,136

Financial liabilities

	2009 Financial liabilities at amortised cost RMB'000	2008 Financial liabilities at amortised cost RMB'000
Trade and notes payables	**579,294**	808,337
Financial liabilities included in other payables and accruals	**299,408**	115,406
Liability component of convertible bonds	**1,336,076**	1,528,257
Interest-bearing bank and other borrowings	**499,528**	356,546
	2,714,306	2,808,546

36. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

Company

Financial assets

	2009 Loans and receivables RMB'000	2008 Loans and receivables RMB'000
Financial assets included in prepayments, deposits and other receivables	**15,961**	3,497
Cash and cash equivalents	**20,455**	558,171
Pledged time deposits	**82,652**	80,001
	119,068	641,669

Financial liabilities

	2009 Financial liabilities at amortised cost RMB'000	2008 Financial liabilities at amortised cost RMB'000
Trade and notes payables	**1,137**	1,137
Financial liabilities included in other payables and accruals	**28,658**	4,714
Liability component of convertible bonds	**1,336,076**	1,528,257
	1,365,871	1,534,108

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments 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 and notes receivables and 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 2009, approximately 64% (2008: 65%) of the Group's interest-bearing borrowings bore interest at fixed rates.

As at 31 December 2009, changes in market interest rates could have an insignificant impact on the Group's total equity apart from the retained profits. The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variable held constant, of the Group's (loss)/ profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	(Increase)/ decrease in loss before tax RMB'000
2009	**25**	**(444)**
	(25)	**444**

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest rate risk (continued)

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

Credit risk

As at December 2009, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position 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 receivable 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 are performed 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 96% (2008: 84%) 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.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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$, HK$, SG$ and Euro ("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 currencies.

The following table demonstrates the sensitivity at the end of the reporting period 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 loss/profit 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 before tax RMB'000	Increase/ (decrease) in equity RMB'000
2009			
If RMB weakens against US$	**5**	**9,213**	**7,395**
If RMB strengthens against US$	**5**	**(9,213)**	**(7,395)**
If RMB weakens against HK$	**5**	**651**	**543**
If RMB strengthens against HK$	**5**	**(651)**	**(543)**
If RMB weakens against EUR	**5**	**2,189**	**1,828**
If RMB strengthens against EUR	**5**	**(2,189)**	**(1,828)**
If RMB weakens against S$	**5**	**2,669**	**2,233**
If RMB strengthens against S$	**5**	**(2,669)**	**(2,233)**

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk (continued)

	Fluctuation in foreign currency rate %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity 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

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. As at 31 December 2009, 96% (2008: 46%) of the Group's financial liabilities are due to repayment within one year and management has taken measures as set out in note 2.1 to strengthen the Group's working capital so as to improve its liquidity.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

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

Group

	2009				
	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*	**—**	**—**	**1,455,822**	**—**	**1,455,822**
Interest-bearing bank and other borrowings	**13,089**	**70,137**	**329,618**	**103,726**	**516,570**
Trade and notes payables	**234,891**	**249,364**	**95,039**	**—**	**579,294**
Other payables	**250,884**	**48,480**	**44**	**—**	**299,408**
	498,864	**367,981**	**1,880,523**	**103,726**	**2,851,094**

	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	—	83,168	158,521	127,574	369,263
Trade and notes payables	238,900	336,480	232,957	—	808,337
Other payables	59,023	55,876	507	—	115,406
	297,923	475,524	529,561	1,494,519	2,797,527

* The maturity date of Zero Coupon Convertible Bonds defined in the relevant agreement was 12 December 2012. Since Zero Coupon Convertible Bonds are redeemable at the option of their holders on 12 December 2010 at the principal amount multiplied by 117.68% according to the aforesaid agreement, the Company prepared the above analysis with an assumption that all bondholders will redeem the Zero Coupon Convertible Bonds on 12 December 2010.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

Company

	2009				
	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*	**—**	**—**	**1,455,822**	**—**	**1,455,822**
Trade and notes payables	**1,137**	**—**	**—**	**—**	**1,137**
Other payables	**28,658**	**—**	**—**	**—**	**28,658**
	29,795	**—**	**1,455,822**	**—**	**1,485,617**

	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 payables	1,137	—	—	—	1,137
Other payables	4,714	—	—	—	4,714
	5,851	—	137,576	1,366,945	1,510,372

* The maturity date of Zero Coupon Convertible Bonds defined in the relevant agreement was 12 December 2012. Since Zero Coupon Convertible Bonds are redeemable at the option of their holders on 12 December 2010 at the principal amount multiplied by 117.68% according to the aforesaid agreement, the Company prepared the above analysis with an assumption that all bondholders will redeem the Zero Coupon Convertible Bonds on 12 December 2010.

37. 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 2009 and 2008.

The Group monitors capital using a gearing ratio, which is net debt divided by capital and net debt. Net debt includes interest-bearing bank 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 time deposits. Capital represents equity attributable to the owners of the parent. The gearing ratios as at 31 December 2009 and 2008 were as follows:

	2009	2008
	RMB'000	RMB'000
Interest-bearing loans and other borrowings	**499,528**	356,546
Trade and notes payables	**579,294**	808,337
Other payables and accruals	**376,369**	210,506
Convertible bonds, the liability component	**1,336,076**	1,528,257
Less: Cash and cash equivalents and pledged time deposits	**(679,800)**	(1,444,675)
Net debt	**2,111,467**	1,458,971
Equity attributable to owners of the parent	**3,751,091**	4,055,163
Capital and net debt	**5,862,558**	5,514,134
Gearing ratio	**36%**	26%

38. EVENTS AFTER THE REPORTING PERIOD

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

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

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

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

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

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

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

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

38. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

(b) On 15 April 2010, the Company invited each holder of Zero Coupon Convertible Bonds, by way of a solicitation memorandum of 15 April 2010 sent to them, to enter into an "Agreement" with the Company to the effect that such bondholder will not exercise its right to require the Company to redeem its Zero Coupon Convertible Bonds held by such bondholder pursuant to the condition 8(D), in relation to the redemption option, of Zero Coupon Convertible Bonds in consideration for the payment by the Company to such bondholder. Holders of Zero Coupon Convertible Bonds entered into the Agreement with the Company shall be eligible to receive HK$20,000 per HK$100,000 in the principal amount of Zero Coupon Convertible Bonds. Further details of which are set out in the Company's announcement of 15 April 2010.

Up to the approval date of these financial statements, certain holders of Zero Coupon Convertible Bonds entered into the Agreement with the Company and agreed not to exercise their right to redeem their Zero Coupon Convertible Bonds pursuant to the condition 8(D) of Zero Coupon Convertible Bonds in a total principal amount of HK$210,700,000.

(c) On 16 April 2010, the Company signed an agreement with a bank which indicates its willingness to arrange a financing of approximately US$200 million that is subject to conditions set out therein the agreement including, amongst others, the bank's internal approval and signing of the formal documentation relating to the financing. The Directors expect that the formal financing arrangement with the bank will likely be concluded with the bank before August 2010.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of Directors on 27 April 2010.