中國鎳資源控股有限公司

CHINA NICKEL RESOURCES HOLDINGS COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock code：2889

2010 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.

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Dong Shutong *(Chairman)*
Mr. Lau Hok Yuk
Mr. Song Wenzhou
Mr. Zhao Ping
Mr. Dong Chengzhe
Mr. Yang Fei^

Non-executive Director

Mr. Yang Tianjun

Independent Non-executive Directors

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

^ Appointed on 30 August 2010
# Appointed on 24 August 2010

AUDIT COMMITTEE

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

COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

Mr. Dong Shutong
Mr. Lau Hok Yuk

REGISTERED OFFICE

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

HEAD OFFICE IN PRC

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

AUDITORS

Ernst & Young

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

Hong Kong:

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

PRC:

CITIC Bank
Pudong Development Bank
China Construction Bank
Bank of China

Singapore:

Oversea — Chinese Banking Corporation Limited
Malayan Banking Berhad

WEBSITE

www.cnrholdings.com

STOCK CODE

02889

Five Year Financial Summary

Summary Financial Information

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

Results

	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000
Revenue	**1,535,862**	887,734	1,481,594	1,874,591	879,796
Cost of sales	**(1,366,576)**	(1,083,909)	(1,329,260)	(1,288,493)	(691,564)
Gross profit/(loss)	**169,286**	(196,175)	152,334	586,098	188,232
Other income and gains	**81,114**	110,497	275,445	72,965	9,553
Selling and distribution costs	**(23,327)**	(24,909)	(30,754)	(43,988)	(34,179)
Administrative costs	**(146,430)**	(133,999)	(138,839)	(75,442)	(32,280)
Finance costs	**(90,440)**	(86,500)	(153,943)	(68,100)	(23,420)
Other expenses	**(31,961)**	(108,231)	(128,406)	(786)	(332)
Share of profit of an associate	**18,710**	—	—	—	—
(Loss)/profit before tax	**(23,048)**	(439,317)	24,163	470,747	107,574
Income tax credit/(expense)	**25,611**	108,759	62,337	(110,085)	(17,332)
Profit/(loss) for the year	**2,563**	(330,558)	38,174	360,662	90,242
Attributable to:					
Owners of the parent	**1,467**	(332,145)	37,361	359,291	90,272
Non-controlling interests	**1,096**	1,587	813	1,371	(30)
	2,563	(330,558)	38,174	360,662	90,242
Dividends	**3,972**	—	31,320	121,732	32,369

Assets, Liabilities and Minority Interests

	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000
Total assets	**7,042,112**	6,698,918	7,056,354	7,402,043	1,593,043
Total liabilities	**3,200,738**	2,826,601	2,946,187	3,264,816	753,252
Non-controlling interests	**120,572**	121,226	55,004	54,191	7
Net assets	**3,841,374**	3,872,317	4,110,167	4,137,227	839,791

The consolidated results of the Group for the year ended 31 December 2006, 2007, 2008 and 2009 are extracted from the Annual Report 2006, 2007, 2008 and 2009 of the Group respectively and while those for the year ended 31 December 2010 were prepared based on the consolidate income statement and consolidated statement of financial position as set out on page 51 and page 53 to 54. This summary does not form part of the audited financial statements.

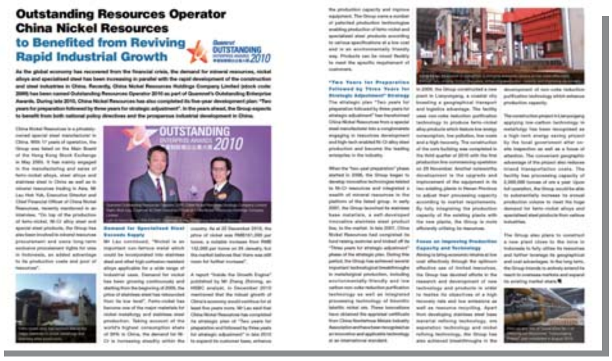
Corporate Responsibility

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.

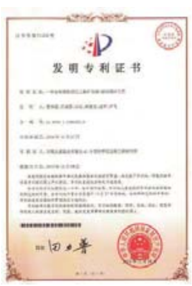
Awards

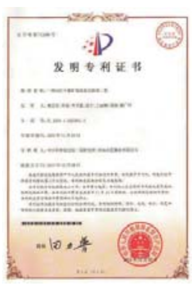
Hong Kong Awards:

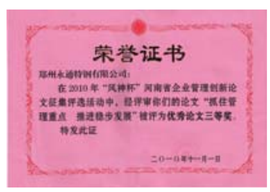

Outstanding Resources Operator
China Nickel Resources
to Benefited from Reviving
Rapid Industrial Growth

1. China Nickel Resources Holdings Company Limited was awarded as “Quamnet Outstanding Enterprise Awards — 2010 Outstanding Resources Operator”.

China Awards:







1. Subsidiaries of the Group in the People’s Republic of China were granted certificates of invention patent by the State Intelligent Properties Offices of the People’s Republic of China.

2. Zhengzhou Yongtong Special Steel Company Ltd. (“Yongtong Special Steel”) was awarded various honorary certificates for its corporate management and industrialization development.

3. Mr. Dong Shutong, the Chairman, was granted honorary certificates for his contribution to the industrial growth and development in Henan in 2010.

Projects Progress

Commercialization of self-developed technologies and patents

2009 to 2010

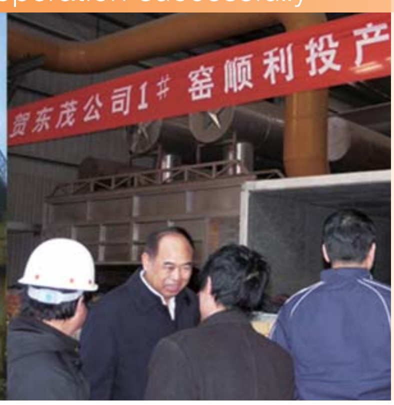
The Group has development a number of innovative technologies and has been granted patents throughout these years. The Group's existing and new plants successfully commenced commercialization during 2009 and 2010.

Technological Upgrades and Improvements of Two Plants in the PRC

The fourth quarter of 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 1.2m 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.

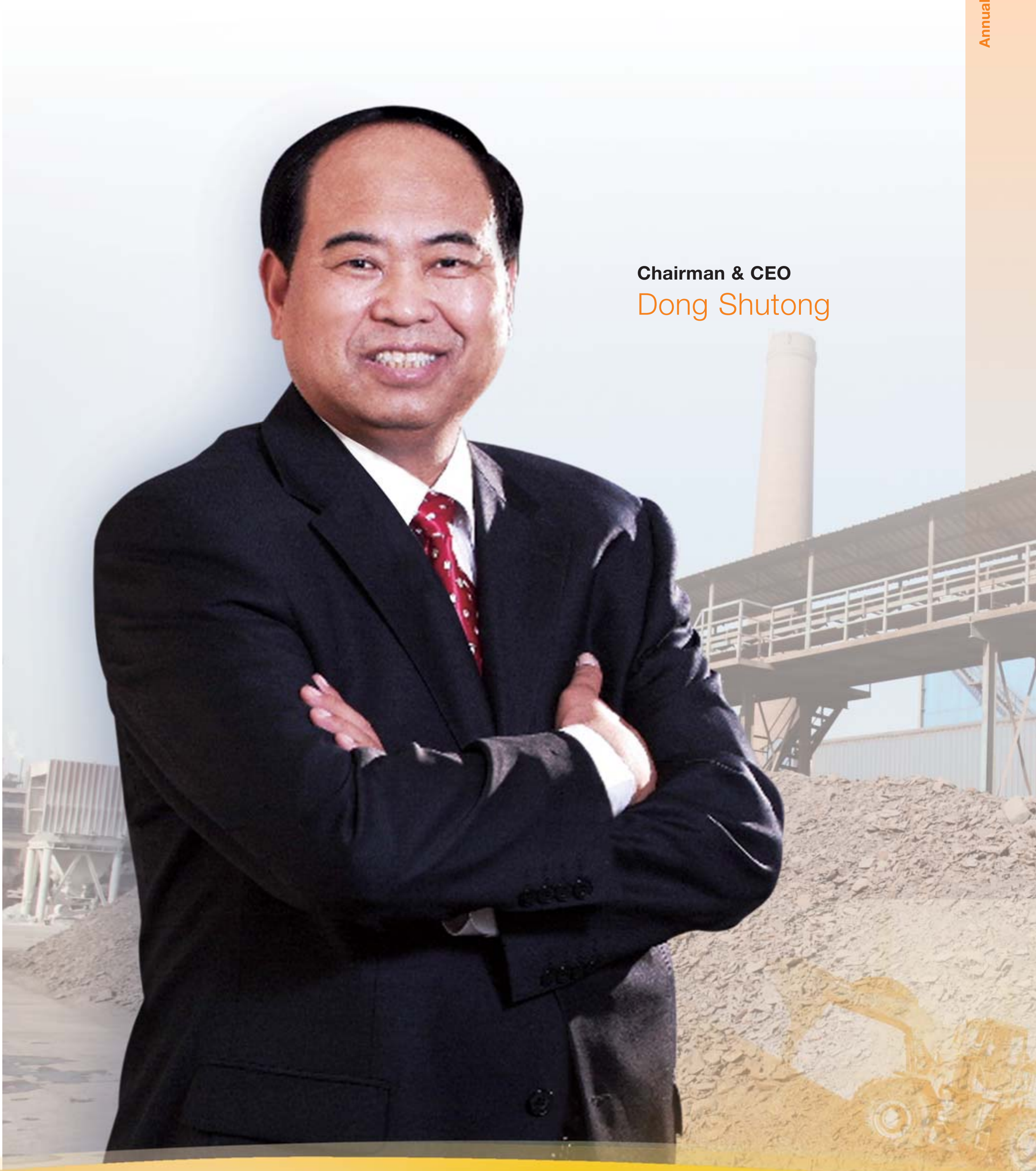
First production line of the "Lianyungang project" commenced operation successfully



29 November 2010

On 28 October 2009, the Group acquired a project in construction in Lianyungang City, Jiangsu Province, the PRC. The construction of the project commenced at the end of 2009. The first production line of the project has been put into operation successfully on 29 November 2010.

Chairman's Statement



Chairman & CEO
Dong Shutong

Chairman's Statement

Dear Shareholders,

I am pleased to present the Annual Report of the Group for the year ended 31 December 2010 and extend my gratitude to all the shareholders on behalf of the Board of China Nickel Resources Holdings Company Limited.

Review

2010 marks the conclusion of the Eleventh Five Year Plan and the start of the Twelfth Five Year Plan. It is also a meaningful year to China Nickel Resources. During the "Eleventh Five Years", the Group had the following major three achievements: 1. Consolidation of resources; 2. Research and development of new technology; and 3. Commercialised of research results and optimisation of product portfolio. With great excitement, I hereby announce that the Group has successfully completed its 5-year strategic plan of "two-year preparation and three-year adjustment" at the end of 2010, and China Nickel Resources has transformed from a special steel producer into an integrated enterprise engaging in resources development and production of nickel-chromium steel alloy of high technology.

However, 2010 was also a year full of challenges. On the one hand, the Group strengthened its management of the construction of new plants and accelerated the upgrade and renovation of existing production plants and optimisation of product portfolio in order to enrich the recurrent income source of the Group by capitalizing on the overall global economic recovery and expanding the ore trading business. On the other hand, the Group initiated negotiation with investors and financial institutions for proper financing arrangement, and the Group's financial condition was significantly improved.

Prospects

For the rapid growth in the "Twelfth Five Years", the Group will continue to focus in the following areas of works: 1. Further consolidation of resources; 2. Further research and development of new technologies; and 3. Global expansion of operations. Leveraging on the above foundation, the Company believes that it will further evolve upward in 2011. Therefore, various indicators are implemented by the Group. It is encouraging that the Group has achieved the production and trading targets of the first quarter according to the statistics as at the end of March 2011.

On behalf of the Board, I would like to express my sincere gratitude to all staff for their contribution to the above projects. We are committed to achieving targets of the "Twelfth Five Years" through the cooperation with all staff and to bring satisfactory returns for our shareholders.

Dong Shutong
Chairman & CEO

Hong Kong, 30 March 2011

Management Discussion and Analysis

Realize Resources Advantages by Hi-tech Research and Development

Financial Highlights

	For the year ended 31 December 2010 RMB'000	2009 RMB'000	Change %
Turnover	**1,535,862**	887,734	**73%**
Gross Profit/(Loss)	**169,286**	(196,175)	**N/A**
Earning/(Loss) before Interest, Tax, Depreciation and Amortization ("EBITDA"/"LBITDA")	**200,691**	(221,447)	**N/A**
Loss before Income Tax	**(23,048)**	(439,317)	**95%**
Profit/(Loss) for the year	**2,563**	(330,558)	**N/A**
Gross Profit/(Loss) Margin	**11%**	(22%)	**N/A**
EBITDA/(LBITDA) Margin	**13%**	(25%)	**N/A**
Loss before Tax Margin	**(2%)**	(49%)	**47%**
Net Profit/(Loss) Margin	**0.2%**	(37.2%)	**N/A**

The board of directors (the "Board" or the "Directors") of China Nickel Resources Holdings Company Limited (the "Company") is pleased to announce that the audited consolidated turnover of the Company and its subsidiaries (the "Group") for the year 2010 was approximately RMB1,535.9 million, representing an increase of 73% as compared to 2009. Audited EBITDA was approximately RMB200.7 million, RMB422.1 million higher than the LBITDA of RMB221.4 million in 2009. Audited profit for the year was approximately RMB2.6 million, RMB333.1 million higher than the loss for the year of RMB330.6 million in 2009. Audited basic earnings per share for 2010 was RMB0.0007. Basic earnings per share was calculated based on the profit attributable to the shareholders of RMB1.47 million divided by the weighted average of 2,208.2 million shares in issue in 2010. The Directors do not recommend the payment of final dividend for the year ended 31 December 2010. The audited consolidated financial statements for the year ended 31 December 2010 have been reviewed by the Company's Audit Committee.

Operating Environment Analysis

The global financial market fluctuated in the first half of 2010 due to the sovereign debt crisis. Most of the developed countries cut debts while maintaining a loose monetary policy to minimize the structural risks in the financial market. On the other hand, the emerging markets were capable to lead the economy back to rising trend by implementing economic stimulus policies when necessary. Inflation pressure, however, is the concern of most developing countries and the currency supply is expected to be tightened in the future. In general, the financial market has become stable and the world economy is on the road of steady recovery.

Management Discussion and Analysis

The economy in Hong Kong and mainland China showed healthy growth in the second half of 2010. Based on the experience of the Eleventh Five-Year Plan, the PRC government formulated the Twelfth Five-Year Plan. The Draft Resolution on Outline of the Twelfth Five-Year Socioeconomic Development Plan（國民經濟和社會發展第十二個五年規劃綱要的決議草案）(the "Outline") was adopted in the Eleventh National People's Congress on 14 March 2011, which stressed on enhancing "efficiency" and "quality" in economic development. The Outline also redefined the directions of development for various industries that low carbon concept aiming to save energy and reduce emission, and advanced energy-saving technology and products will be promoted through developing cyclic economy and raising resources output efficiency, with an ultimate goal to develop low carbon economy, stimulate domestic demands and promote prosperous development.

In the light of an upturn in world economy and increasing demand in the international steel market, the prices of resources and steel kept increasing, in which prices of nickel and special steel recovered to the pre-crisis level three years ago. Recently, various countries have suffered from earthquakes and tsunamis, which will lead to a significant increase in steel and related resources for reconstruction of infrastructure. At present, the PRC economy continues to grow steadily, and fixed asset investment and demands of steel consumption industries have increased. According to "Twelfth Five-Year Plan", the development of steel industry will focus on efficiency, which include low energy consumption, low carbon, low emission, high recycle rate and high value-added product outputs. Domestic markets will become quality-oriented, which will impose higher requirements on products in terms of environmental-friendliness, safe and durability, sustainability and recycling. It is expected that quantitative demand for steel will increase significantly, and product development will incline to the high-end market. Therefore, the Group believes that the demand and market shares of special steel, alloy steel and nickel base stainless steel products will increase in the future.

Business Review

Project Progress

Lianyungang commenced construction on 28 October 2009 and the project company was renamed as Lianyungang East Harvest Minerals Co., Ltd ("East Harvest Minerals"). The project has commenced partial operation after overcoming various challenges arising from technologies, construction, weather and other uncontrollable factors during the construction period. It is expected that the project will be in full operation in the second half of the year, and will produce high-quality ferro-nickel for other steel plants to process into stainless steel or alloy steel. Lianyungang project applies low carbon metallurgical technology and innovative technology developed by the Group. Ordinary coal, rather than coke used in traditional process, is used in the reduction purification process, under which the consumption of carbon may decrease by up to 40% and the cost of nickel is much lower than that of general production process. The project is highly recognised by the local government. Moreover, the plant of East Harvest Minerals is situated at the port and enjoys geographical advantages. Ores and other raw materials from overseas can be conveniently transported to the plant of East Harvest Minerals, largely reducing the inland transportation costs and logistics pressure. This project plays an important role in the Group's development of an operating mode with high efficiency and low costs.

Yongtong and Yongan completed the facilities upgrade and construction of stainless steel equipment in the fourth quarter of 2010, which can support the production of East Harvest Minerals and facilitate flexible readjustment of production volume and optimization of product mix based on the market situation and the overall needs of the Group. In current, the production volume of the two plants has already bounced back to the level before financial crisis. With the expansion of production capacity, the two plants can produce more high-end products with better profit margin to cater for the demand of customers.

Business Development

The Group purchases ore from Indonesia through exclusive offtake agreement at fixed low price for self-use or sales, and has started to sell ore to third parties since the end of 2009. Thanks to the growth of the industry and the increasing demand of resources and steel materials, the Group achieved a remarkable results in 2010 with an annual sales volume reaching 1,451,301 tonnes, exceeding the sales target of 1.2 million tonnes. The Group is actively developing relationship with up and down-stream trading partners to further expand the resources trading business in order to bring a steady growth of revenue. The sales target of ores in 2011 is above 3 million tonnes.

Financing Arrangement

The Company issued Convertible Bonds of HK$2 billion ("Existing Bonds") on 12 December 2007. Pursuant to which, the holders of outstanding Convertible Bonds with a principal amounting to HK$1.405 billion were entitled to request an early redemption by the Company on 12 December 2010. In order to meet the capital requirement of the above projects which are going to start their operation, the Company negotiated and agreed on a resolution with the bondholders. The Company issued new bonds in the principal amount of approximately HK$1,374.8 million on 12 November 2010 and the cash consideration in the total amount of HK$275 million was paid by the Company to those Existing Bondholders who have accepted the offer on 13 December 2010. Existing holders holding approximately 97.85% of the outstanding principal amount of the Existing Bonds have accepted the offer, and the outstanding principal amount of the Existing Bonds reduced to HK$8.8 million as at the end of December, 2010. The New Bonds have not attached any early redemption option and will be due on 12 December 2012.

On 2 December 2010, the Company and Asia Equity Value Limited entered into an agreement in connection with a US$ loan facility in an amount equivalent to RMB330 million (equivalent to approximately HK$384 million) and the issue of warrants to the lender. The term of the facility is two years. The Company intended to apply the proceeds to pay for the cash consideration to the Existing holders who have accepted the above offer and as the funds for the development of East Harvest Minerals.

The Group received supports and assistance from various banks for developing trading business and bringing the new projects into operation. These banks provided additional trading financial facilities to our subsidiaries in Singapore and additional working fund to East Harvest Minerals. Besides, the Company has received offers of financing arrangement proposals and loan facilities plans from several banks. Negotiations are under progress and it is expected that those plans will be taken into practice in next few months.

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

Conclusion And Prospects

Realization of strategic plans of "two-year preparation and three-year adjustment"

2010 marks the conclusion of the Eleventh Five Year Plan and the start of the Twelfth Five Year Plan. It is also a meaningful year to China Nickel Resources. During the past five years, the Group had the following major three achievements:

1. Consolidation of resources;

2. Research and development of new technology;

3. Commercialised of research results and optimisation of product portfolio.

The Group completed its strategic plan of "two-year preparation and three-year adjustment" at the end of 2010.

The "two-year preparation and three-year adjustment" refers to the strategic plan to transform China Nickel Resources from a special steel producer into an integrated enterprise engaging in resources development and production of nickel-chromium steel alloy of high technology. During the "two-year preparation" since 2006, the Group focused on the development of innovative technology of Ni-Cr resources. Through the listing platform of the Group and capitalized on our abundant mineral resources, and we seized the opportunities to launch the stainless steel base materials, an innovative stainless steel product series developed by the Company at the beginning of 2007. By the end of 2007, China Nickel Resources raised fund successfully and entered the new period of "three-year adjustment". The Group also made several breakthroughs in production technology of metallurgy, including the green and low carbon non-coke reduction purification technology, and the Integrated Processing of Limonitic Lateritic Nickel Ore technology, which was granted a certificate of accreditation by China Nonferrous Metals Industry Association and accredited as a leading innovative application process in the world.

In the three years, the Group was committed to putting the achievement of research and development into commercial operation. Yongtong and Yongan focused on the development of stainless steel business by accentuating high value-added special steel through various adjustments. In 2009, the Group established a new plant in Lianyungang, a coastal city with excellent geographical environment. Non-coke reduction purification technology was applied to produce ferro-nickel alloy products, which were energy-saving and with low pollution, low costs and high recovery rate. Major construction of the project was successfully completed in the third quarter of 2010 and the first production line commenced production on 29 November 2010. Generally speaking, the Group has substantially completed the restructuring project. The existing production plants can adjust the processing capability with the renovated and upgraded facilities according to the market and economic situation, and effectively coordinate with the production capacity of new production plants, so to utilize resources in a more efficient way.

Although the restructuring process was affected by the financial crisis, the Group successfully overcame the challenges and achieved the targets in our Eleventh Five Year Plan.

Rapid Growth in the "Twelfth Five Years"

In the next five years, the Group will continue to focus in the following areas of works:

1. Further consolidation of resources;

2. Further research and development of new technologies;

3. Global expansion of operations.

Leveraging on the above foundation, the Company believes that it will further expand in 2011. Moreover, being the first year of the five-year development period, various indicators will record substantial growth in 2011, primarily driven by the expanded capacity after the facility improvement of Yongtong and Yongan, the commencement of production of Lianyungang project, and the rapid growth of the trading of ore. According to the plan of the Company, the targets of 2011 of the Group are as follows:

Production/Trading Targets

Product	First half of 2011		Second half of 2011		For the year of 2011	
	Weight (tonnes)	Nickel equivalent (tonnes)	Weight (tonnes)	Nickel equivalent (tonnes)	Weight (tonnes)	Nickel equivalent (tonnes)
Nickel-based — nickel metal equivalent *(Note 1)*	**N/A**	**5,500**	**N/A**	**7,900**	**N/A**	**13,500**
Special steel base — Stainless steel and other special steel *(Note 2)*	**25,000**	**500**	**45,000**	**2,100**	**70,000**	**2,500**
Minerals base — Trades of ores	**1,200,000**	**N/A**	**1,800,000**	**N/A**	**3,000,000**	**N/A**

Note:

(1) Nickel-based products are sold as high nickel stainless steel based materials.

(2) Stainless steel products under the category of special steel base products have an average of 8% nickel per tonne, while other special steel products have an average of 2% nickel per tonne.

(3) According to our preliminary data, most of the production/trading targets for the first quarter of 2011 are achieved.

Growth targets

Product	2011 Weight (tonnes)	2011 Nickel equivalent (tonnes)	2010 Weight (tonnes)	2010 Nickel equivalent (tonnes)	%
Nickel-based	**N/A**	**13,500**	N/A	4,550	297%
Special steel base	**70,000**	**2,500**	22,235	450	315%(Note)
Minerals base	**3,000,000**	**N/A**	1,451,301	N/A	207%

Note: The growth in special steel base products is based on the weight of the products.

As a general practice of nickel market related to statistical data, production of high-nickel products is measured in terms of "nickel equivalent". Nickel-based products sold by the Group in 2010 amounted to approximately 5,000 tonnes (nickel equivalent). The production target of nickel based and special steel products for 2011 is 16,000 tonnes (nickel equivalent).

The Group's steel mill project in Kalimantan Island, Indonesia was in progressive development. The project is selected as a key project of Indonesia. The project has completed the acquisition of land and feasibility studies, and environmental assessment is almost completed. Construction of the project is expected to commence in this year. Upon completion of the first phase of the project, it will have an annual production capacity of steel of 1,000,000 tonnes. When compared to production in China, the project will save shipping fee, loading and unloading charges and inland port charges of approximately USD80 millions per year, based on the current market prices.

With the strong profitability of our major business, completion of upgrade and renovation of existing production plants, successful operation of new projects, growth of resources trading business and implementation of financing arrangement, the Group is confident that the Company will have another year of strong performance and bring satisfactory returns for investors.

Turnover and sales volume

Major products of the Group were stainless steel base material and ferro-nickel alloys. Sale of limonitic ores has also become one of the major contributors to the turnover for the year ended 31 December 2010. 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 2010		For the year ended 31 December 2009	
	RMB'000	**%**	RMB'000	%
Stainless steel base material	**408,030**	**27%**	582,305	66%
Bearing steel	**26,598**	**2%**	73,847	8%
Ni-Cr alloy steel ingot	**107,422**	**7%**	73,874	8%
Ni-Cr bearing steel	**2,371**	**—**	4,433	—
Ferro-nickel alloys and others	**496,865**	**32%**	112,258	13%
Limonitic ores	**494,576**	**32%**	41,017	5%
Total	**1,535,862**	**100%**	887,734	100%

Sales volume

	For the year ended 31 December 2010		For the year ended 31 December 2009	
	(tonnes)	**%**	(tonnes)	%
Stainless steel base material	**56,711**	**3%**	142,712	40%
Bearing steel	**6,632**	**—**	19,959	6%
Ni-Cr alloy steel ingot	**15,391**	**1%**	11,100	3%
Ni-Cr bearing steel	**212**	**—**	489	—
Ferro-nickel alloys and others	**139,211**	**8%**	38,185	11%
Limonitic ores	**1,451,301**	**88%**	144,864	40%
Total	**1,669,458**	**100%**	357,309	100%

The Group's turnover in 2010 increased by RMB648.2 million, or 73%, to approximately RMB1,535.9 million (2009: RMB887.7 million). This increase was principally due to the increase in trading of limonitic ore and sales of ferro-nickel alloys.

The Group's sales volume of steel products in 2010 increased by 5,712 tonnes, or 3%, to approximately 218,157 tonnes (2009: 212,445 tonnes). Group's sales volume of limonitic ores in 2010 increased sharply by 1,306,437 tonnes to approximately 1,451,301 tonnes (2009: 144,864 tonnes).

During 2010, the Group's average selling price per tonne for stainless steel base material and ferro-nickel alloys were RMB7,195 (2009: RMB4,080) and RMB6,980 (2009: RMB6,655) respectively while the average unit selling price per tonne for limonitic ores was RMB341 (2009: RMB283), reflecting the result of increasing ore demand and prices in the market.

Cost of sales

The cost of sales in 2010 increased by RMB282.7 million, or 26%, to approximately RMB1,366.6 million (2009: RMB1,083.9 million). Comparing to the increase in turnover of 73%, the cost effectiveness was improved significantly.

The unit cost of sales for stainless steel base material and ferro-nickel alloys were RMB6,525 and RMB3,447 per tonne respectively in 2010 (2009: RMB4,919 and RMB3,882 per tonne respectively). The unit cost of limonitic ores in 2010 decreased by RMB94 per tonne, or 26%, to RMB270 per tonne (2009: RMB364 per tonne).

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

Cost of sales

	For the year ended 31 December 2010		For the year ended 31 December 2009	
	RMB'000	**%**	RMB'000	%
Raw Materials	**785,406**	**57%**	493,404	46%
Fuel	**389,589**	**29%**	405,545	37%
Utilities	**83,846**	**6%**	79,987	7%
Depreciation	**72,863**	**5%**	66,054	7%
Staff Cost	**21,417**	**2%**	26,965	2%
Repair	**2,623**	**—**	2,095	—
Others	**10,832**	**1%**	9,859	1%
Total	**1,366,576**	**100%**	1,083,909	100%

Gross profit/(loss)

The unit gross profit for stainless steel base material and ferro-nickel alloys in 2010 was RMB670 and RMB106 per tonne respectively (2009: Unit gross loss RMB839 and RMB943 per tonne respectively). The unit gross profit for limonitic ores in 2010 was RMB71 per tonne (2009: Unit gross loss RMB81 per tonne).

As a result of the factors discussed above, the Group turnaround from gross loss RMB196.2 million in 2009 to gross profit RMB169.3 million in 2010.

The unit gross profit (exclude ore trading) in 2010 was RMB306 per tonne (2009: Unit gross loss RMB868 per tonne).

Other income and gains

Other income in 2010 decreased by RMB29.4 million, to RMB81.1 million (2009: RMB110.5 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 2010 decreased by RMB1.6 million to RMB23.3 million (2009: RMB24.9 million), representing 2% of turnover (2009: 3%).

Administrative costs

Administrative costs in 2010 increased by RMB12.4 million, or 9%, to RMB146.4 million (2009: RMB134.0 million), representing 10% of turnover (2009: 15%).

Finance costs

In November 2010, principal amount HK$1,374.8 million out of total outstanding principal amount HK$1,405.0 million of the Zero Coupon Convertible Bonds due 2012 ("Existing Bonds") agreed to exchange each HK$100,000 in principal amount of their Existing Bonds for a combination of (a) 10.00 per cent Convertible Bonds due 2012 (the "New Bonds") and (b) HK$20,000 in cash. In December 2010, the Company entered into a term loan with warrant in the amount equivalent of RMB330.0 million. Interest paid and accrued in the form of coupon payment amounted to RMB16.2 million in 2010 (2009: RMB1.5 million). According to relevant IFRSs, estimated future cash flow for convertible bonds were discounted at effective interest rates. Therefore, the deemed effective interest included both coupon payment and financial charges accrued for redemption in the future. The total financial charges for convertible bonds based on effective interest method amounted to RMB121.6 million in 2010 (2009: RMB92.4 million), of which RMB59.7 million was capitalised as part of the cost of construction in progress. Finance costs in 2010 was RMB90.4 million (2009: RMB86.5 million).

Loss before tax

As a result of the factors discussed above, the loss before income tax for the year ended 31 December 2010 was RMB23.0 million (2009: RMB439.0 million).

The Group's loss before tax margin was 2% (2009: 49%) The earnings before interest, tax, depreciation and amortization (EBITDA) margin was 13% (2009: loss before interest, tax, depreciation and amortization (LBITDA) margin: 25%).

Income tax credit

The applicable Hong Kong corporate income tax rate of the Company which operates in Hong Kong is 16.5% based on existing legislation. The entities within the Group which operate in Mainland China and Singapore are subject to corporate income tax at a rate of 25% and 5% respectively for the year ended 31 December 2010.

Profit/(loss) for the year

The Group turnaround from 2009 loss for the year RMB330.6 million to 2010 profit for the year RMB2.6 million.

Profit/(loss) attributable to shareholders

As a result of the factors discussed above, the profit attributable to shareholders in 2010 was RMB1.5 million (2009: loss attributable to shareholders RMB332.1 million).

Key financial ratios

		For the year ended 31 December	
	Note	**2010**	2009
Current ratio	*1*	**104%**	71%
Inventories turnover days	*2*	**230 days**	296 days
Debtor turnover days	*3*	**28 days**	20 days
Creditor turnover days	*4*	**180 days**	195 days
Interest cover	*5*	**0.75 times**	N/A
Interest-bearing gearing ratio	*6*	**50%**	49%
Debt to EBITDA/(LBITDA) ratio	*7*	**9.3 times**	(8.2) times
Net debt/Capital and net debt ratio	*8*	**42%**	35%

Note:

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

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

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

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

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

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

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

8. $\dfrac{\text{Net debt*}}{\text{Capital and net debt}}$

* Net debt includes interest-bearing bank and other borrowings, the liability component of convertible bonds, trade and notes payables, accruals and other payables and derivative financial instrument less cash and cash equivalent and pledged time deposits.

Construction in progress

Our construction in progress as at 31 December 2010 was increased to RMB1,034.9 million (2009: RMB507.2 million) which comprised of addition of new facilities and conversion of existing facilities in PRC to accommodate the production of new products in China.

Cash and cash equivalents and pledged time deposit

The decrease in cash and bank balances by approximately RMB205.7 million, or 30%, to approximately RMB474.1 million as at 31 December 2010 compared to that as at 31 December 2009 was mainly due to the net cash inflow generated from operation by approximately RMB172.8 million, offset by the acquisition of property, plant and equipment and other long-term assets by approximately RMB470.9 million, net increase in bank loans and other borrowings RMB387.2 million, interest payment of RMB28.4 million, dividend payment of RMB4.0 million to the shareholders of the Company, and the cash consideration for exchange of New Bonds of RMB234.7 million.

Trade and notes receivables

The debtor turnover days increased from 20 days in 2009 to 28 days in 2010. As at 31 December 2010, trade and notes receivables balance increased by RMB69.5 million, or 1.4 times, to RMB119.3 million. This was mainly due to the expansion of trading business.

Inventories

The inventories turnover days decreased from 296 days in 2009 to 230 days in 2010. As at 31 December 2010, inventories balance decreased by RMB19.6 million, or 2%, to RMB859.7 million. This was mainly due to stronger sales since the fourth quarter of 2010 and the management's effort paid for better control over the inventories.

Prepayments, deposits and other receivables

As at 31 December 2010, prepayment, deposit and other receivables balance decreased by RMB14.8 million, or 5% to RMB272.7 million. This was mainly due to the decrease of value-added tax receivable by RMB16.6 million.

Trade and notes payables

The creditor turnover days decreased from 195 days in 2009 to 180 days in 2010. As at 31 December 2010, trade and notes payables balance increased by RMB93.2 million, or 16%, to RMB672.5 million. This was mainly due to the expansion of the trading business and commissioning of new plant in Lianyungang.

Interest-bearing loans and other borrowings

As at 31 December 2010, the total interest-bearing loans and other borrowings balance increased by RMB320.2 million, or 64%, to RMB819.7 million. The gearing ratio increased slightly from 49% in 2009 to 50% in 2010.

Use of proceeds

In December 2007, the net proceeds from the issue of the Existing Bonds were approximately HK$1,950 million. As at 31 December 2010, the planned usage of net proceeds was as follows:

Use of proceeds	Usage as disclosed in prospectus HK$' million	Utilised HK$' million
Capital expenditures of steel mill expansion in the PRC and Indonesia	1,462.5	1,113.0
General working capital	487.5	487.5

The Group has repurchase of Existing Bonds for a total amount of approximately HK$595 million for consideration of approximately HK$268 million and has redemption of Convertible Bond for a total amount of approximately HK$21.4 million for consideration of approximately HK$25.2 million. The utilized amount of Existing Bonds include the consideration paid for respective repurchase and redemption of Existing Bonds. The unutilized balance was placed in short term bank deposits.

On 19 October 2010, the Company proposed an offer to exchange the Existing Bonds for the consideration comprising a combination of the 10.00 per cent convertible bonds due 2012 ("New Bonds") and the cash portion of the Exchange Consideration payable by the Company, being HK$20,000 in respect of each HK$100,000 in principal amount of Existing Bonds validly tendered and accepted for exchange by the Company. The New Bonds in the principal amount of HK$1,374,800,000 has been issued by the Company on 12 November 2010.

Liquidity and capital resources

Our working capital has been principally sourced from cash generated from operations and from long-term and shorten term debt. We also utilise advances we received from our customers to finance part of our working capital requirements. As at 31 December 2010, the advance from customers amounted to RMB108.4 million. We also make prepayments to our suppliers which amounted to RMB77.5 million as at 31 December 2010.

As at 31 December 2010, we had current liabilities of RMB1,667.4 million, of which RMB476.0 million were interest-bearing loans repayable within one year, and RMB672.5 million were trade and notes payables in respect of purchase of raw materials.

Foreign currency risk

Since 2004, the Group has begun the purchase of iron ore from overseas suppliers. Since the contracts are in US$ and the RMB is in a favourable trend now, no hedging is considered necessary at the moment. However, the Group will closely monitor the foreign currency risk and consider to use necessary financial instruments for hedging purposes. As at 31 December 2010, 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 has no significant foreign currency risk.

Security

As at 31 December 2010, the Group had following assets pledged: 1) certain parcels of the Group's leasehold lands situated in the PRC with the carrying amounts of RMB159.8 million and building and plant and machinery with net carry amounts of RMB56.5 million were secured for bank loans granted to the Group of RMB177.7 million (2009: RMB15 million); and 2) The entire registered capital of Lianyungang East Harvest Minerals Co., Ltd. ("East Harvest Minerals"), a subsidiary of the Company, is pledged in favor of Asia Equity Value Ltd. for the availability of a term loan. At 31 December 2010, the paid-up capital of East Harvest Minerals amounted to US$109,000,000 (equivalent to RMB740,207,000).

Capital commitment

As at 31 December 2010, the Group had capital commitments in the amount of approximately RMB380.7 million for remaining parts of equipment refinement project.

Directors and Audit Committee

DIRECTORS

Executive Directors

Mr. Dong Shutong, aged 59, was appointed as Director of the Company on 16 March 2004 and is currently an Executive Director. the Chairman, the Chief Executive Officer and the Chairman of the Remuneration Committee of the Company. He is responsible for formulating the Group's overall business plans and strategies. Mr. Dong is the founder of the Group. 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 subsidiaries of the Company since 1993. He has been involved in the 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 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 the activities relating to exhibitions of metallurgical products. In 1992, he was appointed as the general manager of Henan Sanen Industry Sci-Tech Industrial Company (河南三恩工業科技實業公司). The said company was primarily involved in research and development of industrial technologies. Between October 1984 and April 2004, the business of refractory materials factory, a factory principally involved in production and management of refractory materials, was contracted out to and managed by Mr. Dong. He 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 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 Chinese Entrepreneur Association in 2004. Moreover, he was appointed as a member of Zhengzhou Overseas Exchange Association, and was elected as a joint-committee member as well as the member representative of Zhengzhou Enterprises Association in 2003. In 2004, he was appointed as a representative of the 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. 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 the Transformation of the Chinese Economy) in 2002. Mr. Dong is the father of Mr. Dong Chengzhe, an Executive Director of the Company. He is also the sole shareholder and sole director of Easyman Assets Management Limited, the substantial and controlling shareholder of the Company.

Mr. Lau Hok Yuk, MBA, FCPA, FCCA, ATIHK, FLMI, CFA, CTA, aged 45, is an Executive Director and Company Secretary of the Company since 1 November 2006. Mr. Lau is also the Chief Financial Officer of the Company. He is also the Company Secretary of China Special Steel Holdings Company Limited, an indirect wholly owned subsidiary of the Company. Mr. Lau holds a Master Degree in Business Administration from University of Strathclyde in the U.K. He is a Certified Public Accountant and a Fellow Member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the U.K. and a Certified Tax Adviser. He is also a U.S. Chartered Financial Analyst, an Associate Member of the Taxation Institution of Hong Kong. Mr. Lau has over 21 years of working experience in the areas of financial controls and compliance, corporate finance and business administration. He has previously held various senior financial positions in financial institutions, multinational and manufacturing companies.

Mr. Song Wenzhou, aged 43, is an Executive Director of the Company since 2 May 2005 and is 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 the Zhengzhou Institute of Technology. He graduated from Beijing Open University in 1987 with a Bachelor Degree in Linguistics and Phonetics. He also received his Bachelor Degree in Chinese Language and Literature from Henan Normal University in 1992 and Bachelor Degree in Legal Studies from Central Broadcast and Television University in 2003. Since joining the Group in 1995 until February 2004, Mr. Song was also responsible for the administrative matters at the refractory materials factory.

Mr. Zhao Ping, aged 47, is an Executive Director and Chief Operating Officer — non-ferrous & overseas, of the Company since 18 September 2006. He joined the Group in 2006. 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 (Professorial Grade) in 2001. He led development of various projects that were subsequently awarded prizes, commendations and distinctions in the Xinjiang Uygur Autonomous Region.

Mr. Dong Chengzhe, aged 32, is an Executive Director of the Company since 12 March 2007. 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. Prior to joining the Group, he was an owner of an international trade company in Australia. He is the son of Mr. Dong Shutong, Executive Director and the substantial and controlling shareholder of the Company.

Mr. Yang Fei, aged 33, is an Executive Director of the Company since 30 August 2010. He has joined the Company as the assistant to the Chairman of the Company since 2006. Mr. Yang was the manager of the Information Technology Department (October 2002 to August 2003) and the general manager of the Market Development Department (August 2003 to August 2006) of China Life — CMG Life Assurance Company Limited. Prior to joining China Life — CMG Life Assurance Company Limited, Mr. Yang was the assistant manager of the International Business Department of Guangdong Branch, China Life Insurance Company Limited from August 1998 to June 2001. Mr. Yang graduated with a Bachelor Degree in Economics from Beijing University in June 1998 and a Master of Science Degree in Economics from London School of Economics and Political Science in June 2002.

Non-executive Director

Mr. Yang Tianjun, aged 67, is a Non-executive Director of the Company since 2 May 2005. He joined the Group in 2005. Mr. Yang worked in Ministry of Metallurgy Forty Company (冶金部四零公司) and then in Angang Steelwork (鞍鋼煉鋼廠) for a total of 14 years as a technician and then an engineer. He was the Principal of University of Beijing Science and Technology for the period from 1993 to July 2004, and is currently a professor and mentor of doctorate students of the Metallurgy Department of University of Beijing Science and Technology.

Since 1989, he was honoured with nine first-grade, second-grade or third-grade State Scientific and Technological Progress Awards in both national and 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-purpose uses of niobium. He was invited by the 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 the 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 specialised in metallurgy. He was appointed as the vice chairman of Chinese Society of Metals in 2001 and a member of the Fifth Graduate Committee of the State Council (國務院學位委員會) in 2003.

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

Independent Non-executive Directors

Mr. Bai Baohua, aged 69, is an Independent Non-executive Director of the Company since 2 May 2005. He is also a member of the Audit Committee and Remuneration Committee of the Company. He has almost 43 years' experience in the 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 the 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 People's Republic of China. 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 trade of steel. He graduated from the Metal Pressure Processing Department at Beijing Iron and Steel College in 1965.

Mr. Huang Changhuai, aged 75, is an Independent Non-executive Director of the Company since 2 May 2005. He is also a member of the Audit Committee and Remuneration Committee of the Company. He worked for a printing and dyeing mill as production supervisor, a political director and then 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 56, is an Independent Non-executive Director of the Company since 2 May 2005. He is the Chairman of the Audit Committee and member of the Remuneration Committee of the Company. He joined the Company in May 2005. Mr. Wong holds a Master Degree in Business Administration from University of Adelaide in Australia. He is a Fellow Member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and CPA Australia. He is also an Associate Member of both the Institute of Chartered Secretaries and Administrators and the Chartered Institute of Management Accountants. Mr. Wong was an executive director, the deputy general manager, group financial controller and company secretary of Guangzhou Investment Company Limited (now known as Yuexiu Property Company Limited) for over ten years. Mr. Wong has over 34 years of experience in finance, accounting and management.

Mr. Wong 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, ENM 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, Ngai Lik Industrial Holdings Limited, PacMOS Technologies Holdings Limited, Paliburg Holdings Limited, Regal Hotels International Holdings Limited and TPV Technology Limited, all of which are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He was formerly an independent non-executive director of International Entertainment Corporation (up to 23 September 2008) and Great Wall Motor Company Limited (up to 5 June 2009).

Mr. Fahmi Idris, aged 67, is an Independent Non-executive Director of the Company since 14 August 2010. Mr. Idris, graduated with a Degree in Law from University of Padjadjaran in 2010 and a Degree in Economics from University of Indonesia in 1969. He is currently the Commissioner of Maskapai Asuransi Parolamas (an insurance company), PT. Parama Bina Tani (an agrochemical company), PT. Kodel Invesindo Nusa (a trading and investment company), PT. Krama Yudha (an automotive company) and the President Commissioner of each of PT. Permadani Khatulistiwa Nusantara (a hotel and tourism company), PT. Permadani Propertindo Development (a property company), PT. Tamarindo Nusa Hotel, PT. Permadani Khatulistiwa Dewata (a hotel and tourism company) and PT. Kodel (a trade and investment company). From 1981 to 1987, he was the President Commissioner of PT. Encontrade Pratama Indonesia (an engineering and construction of electrical and mechanical installation company). From 1984 to 1987, he was the Vice President Commissioner of PT. Wahana Muda Indonesia (a construction and engineering firm). From 1986 to 1992, he was the Commissioner of Bank Susila Bhakti. From 1987 to 1990, he was the President of PT. Permadani Teleconsult Pratama. From 1987 to 2004, he was the President Director of PT. Niigata Santana (a diesel engine and injection and moulding machine manufacturing company). From 1991 to 2003, he was the President Commission of PT. Bintara Tani Nusantara (a company engages in the plantation of palm oil and cocoa). From 1991 to 1994, he was the Commissioner of PT. Java Indonusa Motors and from 2000 to 2003, he was the President Commissioner of PT. Kodel Margahayu Telindo.

Mr. Idris is currently the member of the Board of Fund Supporters of Andalas University, Padang, West Sumatera. From 1967 to 1968, he was Member of People's Consultative Assembly of the Republic of Indonesia. From 1987 to 2004, he was the member of Parliament of the Republic of Indonesia. From 1967 to 1968, he was the Treasurer of the Indonesian Chambers of Commerce and Industry. From 1994 to 1998, he was the Vice Chairman of the Supervisory Council Indonesian Chamber of Commerce and Industry. Mr. Idris was the Minister of Manpower of the Republic of Indonesia from 1998 to 1999 and from 2004 to 2005, he was also the Ministry of Industry of the Republic of Indonesia from 2005 to 2009.

COMPANY SECRETARY

Mr. Lau Hok Yuk, is the Executive Director and Company Secretary of the Company. 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 (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 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

The directors of the Company (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 2010.

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 consolidated financial statements.

SEGMENT INFORMATION

The Group's turnover and profit for the year ended 31 December 2010 were mainly derived from the manufacture and sale of special steel products to customers in the PRC. Accordingly, no segmental analysis by business is provided for the year ended 31 December 2010. Geographical segment analysis is set out in note 4 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2010 and the state of affairs of the Company and the Group as at 31 December 2010 are set out in the consolidated financial statements on pages 51 to 160.

An interim dividend of HK$0.002 per share was paid to the shareholders during the year (2009: Nil). The Directors do not recommend the payment of a final dividend for the year ended 31 December 2010 (2009: Nil). Further details of dividends are set out in note 11 to the consolidated financial statements.

FINANCIAL SUMMARY

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

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 13 to the consolidated financial statements.

SHARE CAPITAL, SHARE OPTIONS, WARRANTS AND CONVERTIBLE BONDS

Details of movements in the Company's share capital, share options, warrants and convertible bonds during the year are set out in notes 31, 33, 28 and 29 to the consolidated financial statements respectively.

PRE-EMPTIVE RIGHTS

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

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2010.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company redeemed a total of HK$21,400,000 principal amount of zero coupon convertible bonds due 2012 (the "Zero Coupon Convertible Bonds") on 13 December 2010. The redemption involved a total cash outlay of HK$25.2 million. The redemption resulted in a reduction in the liability component of the Zero Coupon Convertible Bonds by HK$24.6 million and a gain of HK$3.1 million (equivalent to RMB2.7 million) was recorded in the consolidated income statement for the year.

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 32 to the consolidated financial statements and consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2010, the Company's reserves, including the share premium account, available for distribution, calculated in accordance with the provisions of Companies Law (2007 Revision) of the Cayman Islands, amounted to RMB3,197,033.

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 PRC statutory financial statements which are prepared in accordance with accounting principles generally accepted in the PRC. These profits differ from those that are reflected in the Group's consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 46% of the total sales for the year and sales to the largest customer accounted for 19%. Purchases from the Group's five largest suppliers accounted for 70% of the total purchases for the year and purchases from the largest supplier accounted for 24%.

None of the Directors 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 or customers.

DIRECTORS

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

Executive Directors

Mr. Dong Shutong (Chairman)
Mr. He Weiquan (resigned on 1 December 2010)
Mr. Lau Hok Yuk
Mr. Song Wenzhou
Mr. Zhao Ping
Mr. Dong Chengzhe
Mr. Yang Fei (appointed on 30 August 2010)

Non-executive Directors
Mr. Yang Tianjun

Independent Non-executive Directors
Mr. Bai Baohua
Mr. Huang Changhuai
Mr. Wong Chi Keung
Mr. Fahmi Idris (appointed on 24 August 2010)

Pursuant to article 87 of the Company's article of association, Mr. Lau Hok Yuk, Mr. Yang Tianjun and Mr. Wong Chi Keung will retire as Directors by rotation at the forthcoming annual general meeting of the Company, whereas Mr. Yang Fei and Mr. Fahmi Idris shall retire at the forthcoming annual general meeting pursuant to article 86(3) of the Company's article of association. All retiring Directors, being eligible for re-election, will offer themselves for re-election at the forthcoming annual general meeting.

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors are set out on pages 26 to 29 of this annual report.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming annual general meeting has entered into a 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 (the "Board") 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"), Executive Director and Chairman of the Board. Mr. Dong had an indirect interest in the Exclusive Offtake Agreement.

Further details of the transaction undertaken in connection therewith are included in note 37 to the consolidated financial statements. Save as disclosed above and in the paragraph headed "CONNECTED TRANSACTIONS" as set out on page 40 of this annual report, 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' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2010, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the

Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules (the "Model Code"), to be notified to the Company and the Stock Exchange were as follows:

(i) Long positions in the shares of the Company as at 31 December 2010:

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	Held by controlled corporations	1,394,106,705 (note 1)	61.07%
Mr. Dong Chengzhe	Beneficial owner	200,000	0.01%

(ii) Long positions in the underlying shares of the Company

Name of Director	Number of underlying shares held	Capacity in which interests are held	Approximate percentage to the issued share capital of the Company
Mr. Dong Shutong	5,000,000	Beneficial owner (note 2)	0.22%
Mr. Lau Hok Yuk	3,000,000	Beneficial owner (note 2)	0.13%
Mr. Song Wenzhou	1,020,000	Beneficial owner (note 2)	0.04%
Mr. Zhao Ping	4,250,000	Beneficial owner (note 2)	0.19%
Mr. Dong Chengzhe	1,275,000	Beneficial owner (note 2)	0.06%
Mr. Yang Fei	1,275,000	Beneficial owner (note 2)	0.06%

Notes:

1. 1,371,074,705 shares and 23,032,000 shares are held by Easyman and Sino Regent Worldwide Limited ("Sino Regent") respectively, which are wholly owned by Mr. Dong. By virtue of the SFO, Mr. Dong is deemed to have beneficial interests in the above shares.

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

Save as disclosed above, as at 31 December 2010, none of the Directors and their associates had any other interests 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 2010, shareholders (other than the interest disclosed above in respect of the Director who is also substantial shareholder of the Company) who had interests and short positions in the shares and underlying shares of the Company which have been disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long/Short positions in the shares of the Company as at 31 December 2010:

		Number of shares/ underlying shares held		Approximate percentage to the issued share capital of the Company	
Name of shareholders	Capacity in which interests are held	Long positions	Short positions	Long positions	Short positions
Asia Equity Value Limited	Beneficial owner	373,226,563 (note 1)	110,000,000 (note 2)	16.35%	4.82%
Easyman Assets Management Limited	Beneficial owner	1,371,074,705	Nil	60.06%	Nil
Soen Bin Kuan	Beneficial owner	182,734,104	Nil	8.00%	Nil

Notes:

1. These include 263,226,563 non-listed warrants issued by the Company pursuant to the Term Loan Agreement entered into between the Company and Asia Equity on 2 December 2010.

2. These represent the right of Easyman to acquire from Asia Equity 110,000,000 shares in the Company pursuant to the Option Agreement.

Save as disclosed above, as at 31 December 2010, 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 (the "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 Share Option Scheme will remain in force for a period of 10 years from adoption of such scheme and will expire on 2 May 2015.

The options granted under the Share Option Scheme have an exercise period of 10 years from the date of acceptance of the options, 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 options is exercisable 12 months after the date of acceptance of the options and an additional 20% of the options shall be exercisable by the grantee in each subsequent year until the last day of the 5-year period after the date of acceptance of the options when 100% of the options become exercisable.

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

	No. of share options						
	Outstanding at beginning of year	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2010	Exercise price of share options (Note a) HK$	Price of Company's shares at exercise date of options (Note b) HK$
Name of Director							
Mr. Dong Shutong	5,000,000	–	–	–	5,000,000	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	–
Mr. Yang Fei (Note c)	1,275,000	–	–	–	1,275,000	1.91	–
Sub-total for number of share options to Directors	15,820,000	–	–	–	15,820,000		
Other employees (Note d)	11,900,000	–	–	–	11,900,000	1.07	–
	3,000,000	–	–	–	3,000,000	2.37	–
	14,215,000	–	–	(1,260,000)	12,955,000	2.45	–
Sub-total for number of share options to other employees	29,115,000	–	–	(1,260,000)	27,855,000		
Total	44,935,000	–	–	(1,260,000)	43,675,000		

Notes:

(a) 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.

(b) The price of the shares of the Company as at the date of exercise of the share options is the Stock Exchange's closing price on the trading date immediately prior to the date on which the share options were exercised.

(c) During the year ended 31 December 2010, the status of Mr. Yang Fei was changed from other employee to Director. As such, his share options of 1,275,000 were reclassified from the category of other employees to Director.

(d) During the year ended 31 December 2010, the status of Mr. He Weiquan was changed from Director to other employee. As such, his share options of 4,250,000 were reclassified from the category of Director to other employees.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the Share Option Scheme as set out in note 33 to the consolidated financial statements, at no time during the year ended 31 December 2010 was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, 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 the purchasing of ore, Yiwan Mining agreed to supply ore to 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 had purchased US$25.8 million (approximately HK$200.9 million) (2009: US$6.7 million (approximately HK$52.0 million)) ore from Yiwan Mining.

Pursuant to Rule 14A.38 of the Listing Rules, the Board 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.

The Independent Non-executive Directors have reviewed the continuing connected transactions in 2010 and confirm that the transactions have been entered into:

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

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

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

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

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year, none of the Directors 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 34 to the consolidated financial statements.

AUDIT COMMITTEE

The Company established an audit committee pursuant to a resolution of the Directors passed on 2 May 2005 in compliance with Rule 3.21 of the Listing Rules. The primary duties of the audit committee are to review the financial reporting process and internal control procedures of the Group. The audit committee consists of Mr. Wong Chi Keung, Mr. Bai Baohua and Mr. Huang Changhuai — Independent Non-executive Directors of the Company, and Mr. Wong Chi Keung is the Chairman of the audit committee.

REMUNERATION COMMITTEE

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

The remuneration committee consists of Mr. Wong Chi Keung, Mr. Bai Baohua, Mr. Huang Changhuai — Independent Non-executive Directors of the Company, and Mr. Dong Shutong, Executive Director of the Company.

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 comprise salary, housing allowances, discretionary bonus, other fringe benefits and the Group's contribution to retirement benefits schemes. The remuneration of Executive Directors/senior management are determined by the Remuneration Committee which will review them regularly. To provide incentive to the relevant participants, including the Directors and eligible employees, the Company has adopted the Share Option Scheme, details of which are set out in note 33 to the consolidated financial statements.

AUDITORS

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

ON BEHALF OF THE BOARD

Dong Shutong
Chairman

30 March 2011

Report of Corporate Governance

CORPORATE GOVERNANCE PRACTICES

For the year ended 31 December 2010, in the opinion of the Board, the Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules except for the deviations from code provision A1.1 in respect of the holding of four regular board meetings, 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, details of which are explained below.

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

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 the Directors. Having made specific enquiries, all Directors have confirmed that they have complied with the requirements set out in the Model Code during the year ended 31 December 2010.

THE BOARD

Composition and Appointment

As at 31 December 2010, the Board comprises ten Directors, including six Executive Directors, one Non-executive Director and four Independent Non-executive Directors. Names and biographies of the Directors are set out on pages 26 to 29 of this annual report.

The Company has complied with Rules 3.10 (1) and (2) of the Listing Rules of having one Independent Non-executive Director possesses the requisite appropriate professional qualifications. The Board confirmed that the independence and eligibility of the Independent Non-executive Directors are in compliance with the 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, relation or other significant events or relevant matters.

The Board has effectively overseen and monitored the activities of the Company and the decisions were made in the best interests of the Company. During the year, the Board convened a total of eight meetings, performing its duties in considering, inter alia, continuing connected transactions and financial and other matters under the provisions of the articles of association of the Company.

During the year, eight Board meetings, two of which were regular meetings, were held and the attendance of each Director is set out as follows:

Name of Directors	Attendance/No. of meetings held during the tenure of directorship Times	Title
Dong Shutong	8/8	Chairman, Executive Director, Chief Executive Officer
He Weiquan*	2/7	Executive Director, Chief Operating Officer
Lau Hok Yuk	8/8	Executive Director, Chief Financial Officer
Song Wenzhou	2/8	Executive Director
Zhao Ping	2/8	Executive Director, Chief Operating Officer
Dong Chengzhe	1/8	Executive Director
Yang Fei #	3/3	Executive Director
Yang Tianjun	2/8	Non-Executive Director
Bai Baohua	2/8	Independent Non-Executive Director
Huang Changhuai	2/8	Independent Non-Executive Director
Wong Chi Keung	2/8	Independent Non-Executive Director
Fahmi Idris ^	1/5	Independent Non-Executive Director

Only two regular Board meetings were held as the Company is not required under the listing Rules to announce its quarterly results.

* resigned effective from 1 December 2010

\# appointed effective from 30 August 2010

^ appointed effective from 24 August 2010

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

Chairman and Chief Executive

The Executive Director, Dong Shutong, served as the Chairman and Chief Executive Officer of the Company. The Chairman is responsible for overseeing the Company's operations in respect of compliance with both internal rules and statutory requirements, and promoting the corporate governance of the Company. The Company did not appoint another individual to act as the Chief Executive Officer for the year ended 31 December 2010 and up to the date of this report. This constitutes a deviation from code provision A.2.1. The Board believes that it is in the best interests of the Company and the shareholders as a whole since Mr. Dong Shutong is knowledgeable in the business of the Group and possesses the essential leadership skills to guide discussions of the Board.

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

During the year, the remuneration committee held two meetings on 26 April 2010 and 23 August 2010 respectively 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 2010.

Responsibilities of the remuneration committee include:

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

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

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

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

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

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

AUDITORS' REMUNERATION

For the year ended 31 December 2010, the auditors of the Company, Ernst & Young, have carried out the statutory audit for the Company.

For the year ended 31 December 2010, the total fee paid/payable in respect of audit and non-audit services provided by the Group's external auditors is set out below:

	For the year ended 31 December 2010 approximately RMB'000
Audit services	
Annual audit and Interim review services	3,810
Non-audit services	
Tax advisory services	90

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 meetings on 26 April 2010 and 23 August 2010 respectively. The attendance of members of the audit committee is set out as follows:

Name of members	Attendance/No. of meetings held during the tenure of directorship Times	Title
Wong Chi Keung	2/2	Independent Non-Executive Director
Bai Baohua	2/2	Independent Non-Executive Director
Huang Changhuai	2/2	Independent Non-Executive Director

During the meetings held in 2010, the audit committee had performed the following work:

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

Responsibilities of the audit committee include:

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

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

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

(4) to review the interim and annual accounts.

The audit committee has reviewed the auditing performance, the internal controls and the audited accounts of the 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. Such a system is designed to manage the Company's risks within an acceptable risk profile, rather than to eliminate the risk of failure to achieve the policies and business objectives of the Company. Accordingly, it can only provide reasonable assurance but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

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

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

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

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

DIRECTORS' AND 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. In preparing the financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. The statement of the external auditors about the reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report on pages 49 and 50 of this annual report.

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 consolidated financial statements of China Nickel Resources Holdings Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 51 to 160, which comprise the consolidated and company statements of financial position as at 31 December 2010, 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 information.

Directors' responsibility for the consolidated financial statements
The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility
Our responsibility is to express an opinion on these consolidated 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 about whether the consolidated 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 consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

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

30 March 2011

Consolidated Income Statement

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
REVENUE	5	**1,535,862**	887,734
Cost of sales		**(1,366,576)**	(1,083,909)
Gross profit/(loss)		**169,286**	(196,175)
Other income and gains	5	**81,114**	110,497
Selling and distribution costs		**(23,327)**	(24,909)
Administrative expenses		**(146,430)**	(133,999)
Finance costs	7	**(90,440)**	(86,500)
Other expenses		**(31,961)**	(108,231)
Share of profit of an associate		**18,710**	—
LOSS BEFORE TAX	6	**(23,048)**	(439,317)
Income tax credit	9	**25,611**	108,759
PROFIT/(LOSS) FOR THE YEAR		**2,563**	(330,558)
Attributable to:			
Owners of the parent	10	**1,467**	(332,145)
Non-controlling interests		**1,096**	1,587
		2,563	(330,558)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
— Basic (RMB)	12	**0.00066**	(0.159)
— Diluted (RMB)	12	**(0.00323)**	(0.159)

Details of the dividends payable and proposed for the year are disclosed in note 11 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
PROFIT/(LOSS) FOR THE YEAR		**2,563**	(330,558)
OTHER COMPREHENSIVE (EXPENSE)/INCOME			
Exchange differences on translation of foreign operations		**(36,628)**	15,395
OTHER COMPREHENSIVE (EXPENSE)/ INCOME FOR THE YEAR, NET OF TAX		**(36,628)**	15,395
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR		**(34,065)**	(315,163)
Attributable to:			
Owners of the parent	10	**(35,161)**	(316,750)
Non-controlling interests		**1,096**	1,587
		(34,065)	(315,163)

Consolidated and Company Statements of Financial Position

31 December 2010

		Group		Company	
		2010	2009	**2010**	2009
	Notes	**RMB'000**	RMB'000	**RMB'000**	RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	13	**2,008,210**	1,446,993	**21,289**	27,597
Prepaid land lease payments	14	**383,542**	391,865	**11,276**	11,669
Goodwill	15	**58,394**	58,394	**—**	—
Intangible asset	16	**2,531,910**	2,640,288	**—**	—
Deferred tax assets	17	**256,763**	226,530	**7,176**	—
Investments in subsidiaries	18	**—**	—	**4,709,572**	4,704,949
Investment in an associate	19	**18,760**	50	**—**	—
Other non-current assets	20	**58,698**	38,351	**—**	—
Total non-current assets		**5,316,277**	4,802,471	**4,749,313**	4,744,215
CURRENT ASSETS					
Inventories	21	**859,709**	879,278	**—**	—
Trade and notes receivables	22	**119,318**	49,826	**—**	—
Prepayments, deposits and other receivables	23	**272,712**	287,543	**20,219**	16,236
Pledged time deposits	24	**301,505**	387,055	**—**	82,652
Cash and cash equivalents	24	**172,591**	292,745	**26,656**	20,455
Total current assets		**1,725,835**	1,896,447	**46,875**	119,343
CURRENT LIABILITIES					
Trade and notes payables	25	**672,531**	579,294	**1,100**	1,137
Other payables and accruals	26	**472,095**	376,369	**5,980**	28,775
Derivative financial instruments	27	**31,312**	—	**31,312**	—
Dividend payable		**1,756**	—	**6**	—
Interest-bearing bank and other borrowings	28	**475,990**	401,089	**141,429**	—
Current portion of convertible bonds	29	**—**	1,336,076	**—**	1,336,076
Tax payable		**13,697**	7,417	**—**	—
Total current liabilities		**1,667,381**	2,700,245	**179,827**	1,365,988

Consolidated and Company Statements of Financial Position

31 December 2010

		Group		Company	
		2010	2009	**2010**	2009
	Notes	**RMB'000**	RMB'000	**RMB'000**	RMB'000
NET CURRENT ASSETS/ (LIABILITIES)		**58,454**	(803,798)	**(132,952)**	(1,246,645)
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,374,731**	3,998,673	**4,616,361**	3,497,570
NON-CURRENT LIABILITIES					
Interest-bearing bank and other borrowings	28	**343,672**	98,439	**109,224**	—
Convertible bonds	29	**1,036,179**	—	**1,036,179**	—
Derivative financial instruments	27	**105,465**	—	**105,465**	—
Deferred tax liabilities	17	**23,890**	27,917	**—**	—
Other long term payables	30	**24,151**	—	**—**	—
Total non-current liabilities		**1,533,357**	126,356	**1,250,868**	—
Net assets		**3,841,374**	3,872,317	**3,365,493**	3,497,570
EQUITY					
Equity attributable to owners of the parent					
Issued capital	31	**228,553**	210,006	**228,553**	210,006
Equity component of convertible bonds	29	**—**	45,920	**—**	45,920
Reserves	32	**3,492,249**	3,495,165	**3,136,940**	3,241,644
		3,720,802	3,751,091	**3,365,493**	3,497,570
Non-controlling interests		**120,572**	121,226	**—**	—
TOTAL EQUITY		**3,841,374**	3,872,317	**3,365,493**	3,497,570

Dong Shutong
Chairman

Lau Hok Yuk
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2010

		Attributable to owners of the parent												
	Notes	Issued capital RMB'000 (note 31)	Share premium account RMB'000 (note 32)	Contributed surplus RMB'000 (note 32)	Capital reserve RMB'000 (note 32)	Share option reserves RMB'000 (note 32)	Equity component of convertible bonds RMB'000 (note 29)	Statutory surplus reserves and statutory reserve fund RMB'000 (note 32)	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
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	33	45	580	–	–	(144)	–	–	–	–	–	481	–	481
Equity-settled share option arrangements	33	–	–	–	–	6,303	–	–	–	–	–	6,303	–	6,303
Repurchases and redemption of convertible bonds	29	–	–	–	–	–	(8,123)	–	–	(1,302)	–	(9,425)	–	(9,425)
Transferred from retained profits		–	–	–	–	–	–	296	–	(296)	–	–	–	–
Contributions from non-controlling 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 2010

		Attributable to owners of the parent												
	Notes	Issued capital RMB'000 (note 31)	Share premium account RMB'000 (note 32)	Contributed surplus RMB'000 (note 32)	Capital reserve RMB'000 (note 32)	Share option reserves RMB'000 (note 32)	Equity component of convertible bonds RMB'000 (note 29)	Statutory surplus reserves and statutory reserve fund RMB'000 (note 32)	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2010		210,006	2,661,351	51,599	433,282	22,459	45,920	75,546	(16,446)	267,374	–	3,751,091	121,226	3,872,317
Total comprehensive income/ (expense) for the year		–	–	–	–	–	–	–	(36,628)	1,467	–	(35,161)	1,096	(34,065)
Equity-settled share option arrangements	33	–	–	–	–	4,246	–	–	–	–	–	4,246	–	4,246
Repurchases and redemption of convertible bonds	29	–	–	–	–	–	(699)	–	–	(2,541)	–	(3,240)	–	(3,240)
Conversion of convertible bonds	29	563	8,054	–	–	–	–	–	–	–	–	8,617	–	8,617
Conversion of convertible notes		17,984	293,151	–	(311,135)	–	–	–	–	–	–	–	–	–
Extinguishment of convertible bonds	29	–	45,221	–	–	–	(45,221)	–	–	–	–	–	–	–
Forfeited share option reserve		–	–	–	–	(779)	–	–	–	–	–	(779)	–	(779)
Interim 2010 dividend		–	(3,972)	–	–	–	–	–	–	–	–	(3,972)	–	(3,972)
Dividends paid to non-controlling shareholders		–	–	–	–	–	–	–	–	–	–	–	(1,750)	(1,750)
Transferred from retained profits		–	–	–	–	–	–	193	–	(193)	–	–	–	–
At 31 December 2010		228,553	3,003,805*	51,599*	122,147*	25,926*	–	75,739*	(53,074)*	266,107*	–	3,720,802	120,572	3,841,374

* These reserve accounts comprise the consolidated reserves of RMB3,492,249,000 in the consolidated statement of financial position as at 31 December 2010.

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(23,048)**	(439,317)
Adjustments for:			
Finance costs	7	**90,440**	86,500
Bank interest income	5	**(8,233)**	(15,386)
Amounts waived by creditors	5	**—**	(987)
Gain on repurchase and redemption of convertible bonds	5	**(2,704)**	(79,275)
Loss on disposal of items of property, plant and equipment, net		**—**	1,657
Gain on extinguishment of convertible bonds	5	**(20,300)**	—
Gain on fair value adjustment of derivative financial instruments	5	**(28,000)**	—
Transaction costs of restructure of convertible bonds	6	**19,160**	—
Depreciation	6	**92,119**	100,809
Amortisation of prepaid land lease payments	6	**8,575**	5,185
Amortisation of an intangible asset and other non-current assets	6	**21,710**	25,378
Provision of impairment for trade receivables and other receivables	6	**—**	726
Provision of impairment for items of property, plant and equipment	6	**4,274**	2,600
Write-down of inventories to net realisable value		**—**	32,832
Share of profit of an associate		**(18,710)**	—
Equity-settled share option expense	33	**3,467**	6,303
		138,750	(272,975)
Decrease in inventories		**45,580**	96,110
(Increase)/decrease in trade and notes receivables		**(69,492)**	86,698
Increase in prepayments, deposits and other receivables		**(11,747)**	(35,978)
Increase/(decrease) in trade and notes payables		**93,237**	(229,043)
(Decrease)/increase in other payables and accruals		**(5,760)**	13,918
Increase in other non-current assets		**(15,359)**	(6,994)
Cash generated from/(used in) operations		**175,209**	(348,264)
Income tax paid		**(2,370)**	(12,473)
Net cash flows from/(used in) operating activities		**172,839**	(360,737)

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Net cash flows from/(used in) operating activities		**172,839**	(360,737)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	5	**8,233**	15,386
Acquisition of a subsidiary		**—**	(1,000)
Investment in an associate		**—**	(50)
Shareholder's loan to an associate		**—**	(50,161)
Purchases of items of property, plant and equipment		**(470,285)**	(253,473)
Additions to prepaid land lease payments		**(683)**	(22,161)
Decrease in pledged time deposits		**85,550**	139,857
Net cash flows used in investing activities		**(377,185)**	(171,602)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**—**	481
Considerations for repurchases and redemption of convertible bonds		**(21,584)**	(211,917)
Consent fee paid for exchange of convertible bonds		**(234,695)**	—
Transaction costs paid for restructure of convertible bonds		**(19,160)**	—
Addition of bank loans and other borrowings		**735,232**	397,060
Repayment of bank loans and other borrowings		**(348,074)**	(269,078)
Dividends paid		**(3,965)**	—
Interest paid		**(28,431)**	(26,091)
Net cash flows from/(used in) financing activities		**79,323**	(109,545)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(125,023)**	(641,884)
Cash and cash equivalents at beginning of year		**292,745**	917,763
Effect of foreign exchange rate changes, net		**4,869**	16,866
CASH AND CASH EQUIVALENTS AT END OF YEAR		**172,591**	292,745
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	**172,100**	260,488
Unrestricted time deposits with original maturity of less than three months	24	**491**	32,257
Cash and cash equivalents as stated in the statement of financial position		**172,591**	292,745

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, except for derivative financial instruments which have been measured at fair value. 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 consolidation

Basis of consolidation from 1 January 2010

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 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Losses within a subsidiary are attributable to the non-controlling interest even if that results in a deficit balance.

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

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

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

IFRS 1 (Revised)	*First-time Adoption of International Financial Reporting Standards*
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Additional Exemptions for First-time Adopters*
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment — Group Cash-settled Share-based Payment Transactions*
IFRS 3 (Revised)	*Business Combinations*
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*
IFRIC 17	*Distribution of Non-cash Assets to Owners*
IFRS 5 Amendments included in *Improvements to IFRSs* issued in May 2008	Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations — Plan to sell the controlling interest in a subsidiary*
Improvements to IFRSs 2009	Amendments to a number of IFRSs issued in April 2009

Other than as further explained below regarding the impact of IFRS 3 (Revised), IAS 27 (Revised), and amendments to IAS 7 and IAS 17 included in *Improvements to IFRSs 2009*, the adoption of the new and revised IFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised IFRSs are as follows:

(a) IFRS 3 (Revised) *Business Combinations* and IAS 27 (Revised) *Consolidated and Separate Financial Statements*

IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

(a) IFRS 3 (Revised) *Business Combinations* and IAS 27 (Revised) *Consolidated and Separate Financial Statements* (continued)

IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) *Improvements to IFRSs 2009* issued in April 2009 sets out amendments to a number of IFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of key amendments most applicable to the Group are as follows:

- IAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

- IAS 17 *Leases*: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in IAS 17.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

IFRS 1 Amendment	Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters*[2]
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[4]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*[4]
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*[5]
IFRS 9	*Financial Instruments*[6]
IAS 24 (Revised)	*Related Parties Disclosures*[3]
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation — Classification of Rights Issues*[1]
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*[3]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*[2]

Apart from the above, the IASB has issued *Improvements to IFRSs 2010* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 3 and IAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to IFRS 1, IFRS 7, IAS 1, IAS 34 and IFRIC 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2012
6 Effective for annual periods beginning on or after 1 January 2013

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Further information about those changes that are expected to significantly affect the Group is as follows:

IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

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

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 from 1 January 2013.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Improvements to IFRSs 2010 issued in May 2010 sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) IFRS 3 *Business Combinations*: Clarifies that the amendments to IFRS 7, IAS 32 and IAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008).

In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another IFRS.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

(b) IAS 1 *Presentation of Financial Statements*: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

(c) IAS 27 *Consolidated and Separate Financial Statements*: Clarifies that the consequential amendments from IAS 27 (as revised in 2008) made to IAS 21, IAS 28 and IAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if IAS 27 is applied earlier.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with IFRS 5 are stated at cost less any impairment losses.

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 investment 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 are eliminated to the extent of the Group's investment in an associate, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combinations and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (continued)

Business combinations from 1 January 2010 (continued)
When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations and goodwill (continued)

Business combinations from 1 January 2010 (continued)

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

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

Business combinations prior to 1 January 2010 but after 1 January 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets

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.

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;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties (continued)

(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.

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 item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of items 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (continued)

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.

Construction in progress representing property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds 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)

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

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 lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor 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 investments, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)
The Group's financial assets include cash and cash equivalents, pledged time deposits, and trade, notes and other receivables.

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 by 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 other income in the income statement. The loss arising from impairment is recognised in the income statement in other 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; or

- 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

The carrying amount of the asset is reduced 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)
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 other expenses in 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, derivative financial instruments, interest-bearing bank and other borrowings, convertible bonds and other long term payables.

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

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling 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. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)

Convertible bonds (continued)

If the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the income statement.

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.

Loans with detachable warrants

The warrants that are attached to the host loan contract but are contractually transferable independently are separate financial instruments, and are designated as financial liabilities with fair value through profit or loss at initial recognition. The debt feature of the host loan contract after bifurcation of warrants was then classified as a loan in financial liabilities upon initial recognition and subsequently measured at amortised cost.

Derecognition of financial liabilities

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial liabilities (continued)

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.

Extinguishment of the original financial liability

A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The Group shall remove a financial liability from its statement of financial position when, and only when, it is extinguished – i.e., when the obligation specified in the contract is discharged or cancelled, or expires. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment.

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; a discounted cash flow analysis; and option pricing models.

Derivative financial instruments

The derivative financial instruments of the Group represent the warrants as a whole bifurcated from the host loan contract and conversion option and redeem option bifurcated from the host contract of convertible bonds. Such derivative financial instruments are initially recognised at fair value upon the initial recognition and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in fair value of derivatives are taken directly to the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Current versus non-current classification of derivative financial instruments

Derivative financial instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into a current or non-current portion based on an assessment of the facts and circumstances.

Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

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, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less all further costs expected to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated 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, and 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 tax is provided using the liability method on all 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.

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

- where the deferred tax liability arises from the initial recognition of goodwill or 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 and associates, 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, carry forward 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 carry forward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred 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 and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

The carrying amount of deferred tax assets is reviewed at 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.

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.

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 exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, 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 33 to the financial statements.

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement benefit schemes (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement benefit schemes (continued)

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.

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$"), the functional currency of its subsidiaries incorporated outside the PRC are HK$ or United States dollars ("US$") 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

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.

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.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

(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 2010 was RMB119,318,000 (2009: RMB49,826,000) as set out in note 22 to the financial statements. The carrying amount of other receivables as at 31 December 2010 was RMB272,712,000 (2009: RMB287,543,000) as set out in note 23 to the financial statements.

(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 2010 was RMB2,008,210,000 (2009: RMB1,446,993,000) as set out in note 13 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

(d) *Impairment of an exclusive offtake right*

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 in the impairment test. 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 2010 was RMB2,531,910,000 (2009: RMB2,640,288,000). Further details are included in note 16 to the financial statements.

(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 2010 was RMB58,394,000 (2009: RMB58,394,000) as set out in note 15 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

(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.

(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 the end of each reporting period. The carrying amount of inventories as at 31 December 2010 was RMB859,709,000 (2009: RMB879,278,000) 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 2010 was RMB221,824,000 (2009: RMB144,129,000). The amount of unrecognised tax losses at 31 December 2010 was RMB1,164,000 (2009: RMB5,965,000). Further details are contained in note 17 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

(j) Fair value of derivative financial instruments

As described in notes 28 and 29, the Company's Term Loan and 10% Convertible Bonds contain a number of derivative financial instruments that are measured at fair value through profit or loss. The Company engaged an independent appraiser to assist it in determining the fair values of these derivative financial instruments. The determination was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, where some of which cannot be easily quantified or ascertained. The carrying amount of derivative financial instruments at 31 December 2010 was RMB136,777,000 (2009: Nil) as set out in note 27 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purpose, the Group has one reportable operating segment: production and sale of special steel and other related products. Management monitors the operating results of its business units as a whole for the purpose of making decisions about resource allocation and performance assessment.

Geographical information

(a) Revenue from external customers

	2010	2009
	RMB'000	RMB'000
Mainland China	**1,465,245**	887,734
Other countries	**70,617**	—
	1,535,862	887,734

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

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information (continued)

(b) *Non-current assets*

	2010	2009
	RMB'000	RMB'000
Mainland China	**2,412,486**	1,926,117
Other countries	**2,647,028**	2,649,824
	5,059,514	4,575,941

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

Information about major customers

Revenue of approximately RMB445,438,000 (2009: RMB772,991,000) was derived from sales to two major customers.

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:

	2010 RMB'000	2009 RMB'000
Revenue		
Sale of goods:		
Stainless steel base materials	**408,030**	582,305
Bearing steel	**26,598**	73,847
Ni-Cr alloy steel ingot	**107,422**	73,874
Ni-Cr bearing steel	**2,371**	4,433
Ferro-nickel alloys and others	**496,865**	112,258
Limonitic ores	**494,576**	41,017
Total revenue	**1,535,862**	887,734
Other income		
Bank interest income	**8,233**	15,386
Sales of scrap materials and others	**3,381**	3,973
Others	**12,045**	623
	23,659	19,982
Gains		
Gain on repurchase and redemption of convertible bonds	**2,704**	79,275
Gain on extinguishment of convertible bonds	**20,300**	—
Gain on fair value adjustment of derivative financial instruments	**28,000**	—
Amount waived by creditors	**—**	987
Government grants*	**1,697**	10,253
Others	**4,754**	—
	57,455	90,515
Total other income and gains	**81,114**	110,497

* 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	2010 RMB'000	2009 RMB'000
Staff costs (including Directors' remuneration as set out in note 8):			
Salaries and other staff costs		**46,594**	50,749
Retirement benefit scheme contributions		**4,999**	6,568
Equity-settled share-based expense	33	**3,467**	6,303
Total staff costs		**55,060**	63,620
Amortisation of an intangible asset:			
Total amortisation of exclusive offtake right		**67,146**	43,264
Less: Capitalised as cost of inventories		**(48,566)**	(37,671)
		18,580	5,593

6. LOSS BEFORE TAX (CONTINUED)

	Notes	2010 RMB'000	2009 RMB'000
Costs of inventories sold		**1,366,576**	1,083,909
Research costs		**1,275**	4,093
Auditors' remuneration		**3,810**	3,261
Depreciation	13	**92,119**	100,809
Provision for impairment for items of property, plant and equipment*	13	**4,274**	2,600
Amortisation of prepaid land lease payments	14	**8,575**	5,185
Amortisation of other non-current assets	20	**3,130**	9,094
Loss on disposal of items of property, plant and equipment, net*		**—**	1,657
Provision for impairment of trade receivables and other receivables*		**—**	726
Write-down of inventories to net realisable value*		**—**	32,832
Transaction costs of restructure of convertible bonds*		**19,160**	—
Bank interest income	5	**(8,233)**	(15,386)
Gain on repurchase and redemption of convertible bonds	5	**(2,704)**	(79,275)
Gain on extinguishment of convertible bonds	5	**(20,300)**	—
Gain on fair value adjustment of derivative financial instruments	5	**(28,000)**	—
Foreign exchange losses, net*		**2,004**	17,001
Minimum lease payments under operating leases in respect of buildings and other assets		**4,456**	4,104

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

7. FINANCE COSTS

An analysis of finance costs is as follows:

		Group	
		2010	2009
	Notes	**RMB'000**	RMB'000
Interest on bank loans and other borrowings		**41,800**	25,962
Interest on convertible bonds	29	**121,624**	92,034
Total interest expenses		**163,424**	117,996
Less: Interest capitalised	13	**(72,984)**	(31,496)
		90,440	86,500

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	
	2010	2009
	RMB'000	RMB'000
Fees	**754**	704
Salaries, allowances and benefits in kind	**3,876**	3,722
Equity-settled share option expense	**717**	1,235
Retirement benefit scheme contributions	**40**	34
	5,387	5,695

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 33 to the financial statements. The fair value of such 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 director's remuneration disclosures.

(a) Independent non-executive Directors

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

	2010	2009
	RMB'000	RMB'000
Mr. Bai Baohua	**173**	176
Mr. Huang Changhuai	**173**	176
Mr. Wong Chi Keung	**173**	176
Mr. Fahmi Idris	**62**	—
	581	528

There were no other emoluments payable to the independent non-executive Directors during the year (2009: 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
2010					
Executive Directors:					
Mr. Dong Shutong	–	1,194	33	13	1,240
Mr. He Weiquan	–	668	26	–	694
Mr. Lau Hok Yuk	–	620	218	10	848
Mr. Song Wenzhou	–	203	7	3	213
Mr. Zhao Ping	–	708	309	–	1,017
Mr. Dong Chengzhe	–	306	93	10	409
Mr. Yang Fei	–	177	31	4	212
	–	3,876	717	40	4,633
Non-executive Director:					
Mr. Yang Tianjun	173	–	–	–	173
	173	3,876	717	40	4,806

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
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

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

During the year ended 31 December 2010, no Directors waived or agreed to waive any emolument; and no emoluments were paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office.

During the year ended 31 December 2010, the five highest paid individuals of the Group included five (2009: five) Directors. 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 Trading Limited ("Group Rise") and S.E.A. Mineral Limited ("S.E.A.M"), which operates in Hong Kong is 16.5% based on existing legislation. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

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

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.

	Note	**2010** **RMB'000**	2009 RMB'000
Group:			
Current — Mainland China		**513**	2,863
Current — Singapore		**8,136**	—
Current — Hong Kong and others		**—**	407
Deferred	17	**(34,260)**	(112,029)
Total tax credit for the year		**(25,611)**	(108,759)

9. INCOME TAX (CONTINUED)

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

	2010	2009
	RMB'000	RMB'000
Loss before tax	**(23,048)**	(439,317)
Tax at statutory tax rate of 25%	**(5,762)**	(109,829)
Tax effect of:		
Lower income tax rate for Hong Kong and other non-PRC subsidiaries	**6,350**	(104)
Lower income tax rate for a Singapore subsidiary	**(32,345)**	—
Profits attributable to an associate	**(3,087)**	—
Income not subject to tax	**(9,080)**	(30,239)
Expenses not deductible for tax	**22,420**	27,253
Utilisation of unrecognised deferred tax for previous years	**(4,731)**	(1,805)
Tax losses not recognised	**624**	5,965
Tax credit at the Group's effective rate	**(25,611)**	(108,759)

10. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit (2009: loss) attributable to owners of the parent for the year ended 31 December 2010 includes a loss of RMB128,729,000 (2009: a loss of RMB48,291,000) which has been dealt with in the financial statements of the Company (note 32(b)).

11. DIVIDENDS

(a) Pursuant to the Directors' resolution dated 24 August 2010, the Directors proposed and declared an interim dividend of HK$0.002 per ordinary share (2009: Nil). The interim dividend was distributed from the share premium account of the Company in accordance with Companies Law of the Cayman Islands. More details are given in note 32 to the financial statements.

(b) The Directors do not recommend the payment of a final dividend for the year ended 31 December 2010 (2009: Nil).

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

Basic

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 2,208,205,624 (2009: 2,093,271,289) in issue during the year.

Diluted

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

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

	2010 RMB'000
Earnings	
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation	**1,467**
Interest on Zero Coupon Convertible Bonds	***43,415**
Interest on 10% Convertible Bonds	**18,466**
Interest on Term Loan with Warrants	***5,861**
Less: Gain on extinguishment of Zero Coupon Convertible Bonds	***(20,300)**
Gain on redemption of Zero Coupon Convertible Bonds	***(2,704)**
Gain on fair value adjustment of the derivative component of 10% Convertible Bonds	**(27,704)**
Gain on fair value adjustment of Warrants	***(296)**
	18,205

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

Shares	Number of shares 2010
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	2,208,205,624
Effect of dilution — weighted average number of ordinary shares:	
— Share options	5,513,634
— Convertible notes	68,587,869
— Zero Coupon Convertible Bonds	*210,658,341
— 10% Convertible Bonds	121,994,435
— Term Loan with Warrants	*15,054,843
	2,630,014,746

	Earnings/(loss) RMB'000	Number of shares
	18,205	2,630,014,746
Less the impact of:		
— Zero Coupon Convertible Bonds*	(20,411)	(210,658,341)
— Term Loan with Warrants*	(5,565)	(15,054,843)
Amount adjusted and used in the diluted loss per share calculation	(7,771)	2,404,301,562

* Because the diluted earnings per share amount for the year ended 31 December 2010 is increased when taking Zero Coupon Convertible Bonds and the Term Loan with Warrants into account, Zero Coupon Convertible Bonds and the Term Loan with Warrants had an anti-dilutive effect on the basic earnings per share for the year and were ignored in the calculation of diluted loss per share. Therefore, diluted loss per share amount for the year ended 31 December 2010 is based on the loss for the year attributable to ordinary equity holders of the parent of RMB7,771,000 and the weighted average of 2,404,301,562 ordinary shares in issue during the year.

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

No adjustment has been made to the basic loss per share amount presented for the year ended 31 December 2009 in respect of a dilution as the impact of the share options, convertible notes and convertible bonds outstanding had an anti-dilutive effect on the basic loss per share amount presented.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Plant and machinery	Office equipment	Motor vehicles and others	Constru-ction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
At 1 January 2009	254,719	1,087,193	10,794	20,125	217,704	1,590,535
Additions	10,070	1,275	2,064	364	278,126	291,899
Transferred from other non-current assets (note 20)	—	—	—	22,642	—	22,642
Acquisition of a subsidiary	397	153	2	—	22,303	22,855
Transfers	408	9,774	356	436	(10,974)	—
Disposals	(147)	(1,531)	(3,685)	(64)	—	(5,427)
At 31 December 2009 and 1 January 2010	265,447	1,096,864	9,531	43,503	507,159	1,922,504
Additions	793	1,983	1,749	3,739	650,347	658,611
Transfers	303	118,694	1,229	2,384	(122,610)	—
Exchange realignment	(369)	—	(43)	(771)	—	(1,183)
At 31 December 2010	**266,174**	**1,217,541**	**12,466**	**48,855**	**1,034,896**	**2,579,932**

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group (continued)

	Buildings	Plant and machinery	Office equipment	Motor vehicles and others	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Accumulated depreciation and provision for impairment losses:						
At 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 and 1 January 2010	52,788	394,271	6,770	21,682	—	475,511
Depreciation charge for the year	13,496	75,479	93	3,051	—	92,119
Exchange realignment	69	—	5	(256)	—	(182)
Impairment (note 6)	—	—	—	4,274	—	4,274
At 31 December 2010	**66,353**	**469,750**	**6,868**	**28,751**	**—**	**571,722**
Net carrying amount:						
At 31 December 2010	**199,821**	**747,791**	**5,598**	**20,104**	**1,034,896**	**2,008,210**
At 31 December 2009	212,659	702,593	2,761	21,821	507,159	1,446,993

During the year, interest of RMB72,984,000 (2009: RMB31,496,000) was capitalised in construction in progress at the capitalisation rate ranging 5.85% to 10.30% (2009: 6.44%) as set out in note 7 to the financial statements.

At 31 December 2010, certain of the Group's buildings and plant and machinery with a net carrying amount of approximately RMB56,503,000 (2009: Nil) were pledged to secure a bank loan granted to the Group (note 28(a)).

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company

	Buildings RMB'000	Office equipment RMB'000	Motor vehicles and others RMB'000	Total RMB'000
Cost:				
At 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)
At 31 December 2009 and 1 January 2010	10,070	1,133	22,642	33,845
Additions	—	260	—	260
Exchange realignment	(339)	(38)	(761)	(1,138)
At 31 December 2010	**9,731**	**1,355**	**21,881**	**32,967**

13. 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 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 and 1 January 2010	123	688	5,437	6,248
Depreciation charge for the year	389	189	861	1,439
Exchange realignment	(4)	(23)	(256)	(283)
Impairment	—	—	4,274	4,274
At 31 December 2010	**508**	**854**	**10,316**	**11,678**
Net carrying amount:				
At 31 December 2010	**9,223**	**501**	**11,565**	**21,289**
At 31 December 2009	9,947	445	17,205	27,597

14. PREPAID LAND LEASE PAYMENTS

		Group		Company	
		2010	2009	**2010**	2009
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Carrying amount at 1 January		**400,091**	208,073	**11,669**	—
Acquisition of a subsidiary		**—**	175,042	**—**	—
Additions		**683**	22,161	**—**	11,669
Exchange realignment		**(509)**	—	**(393)**	—
Amortisation during the year		**(8,575)**	(5,185)	**—**	—
Carrying amount at 31 December		**391,690**	400,091	**11,276**	11,669
Less: Current portion included in prepayments, deposits and other receivables	23	**(8,148)**	(8,226)	**—**	—
Non-current portion		**383,542**	391,865	**11,276**	11,669

At 31 December 2010, the carrying amounts of the Group's prepaid land lease payments, which are related to land situated in Mainland China, Indonesia and Australia, amounted to RMB376,217,000 (2009: RMB384,539,000) (under a medium term lease), RMB4,197,000 (2009: RMB3,883,000) (under a long term lease) and RMB11,276,000 (2009: RMB11,669,000) (under a long term lease), respectively.

At 31 December 2010, certain parcels of the Group's leasehold land situated in Mainland China with a net carrying amount of RMB159,797,000 (2009: RMB89,783,000) were pledged for bank loans granted to the Group (note 28(a)).

15. GOODWILL

Group

	RMB'000
At 31 December 2009 and 31 December 2010	**58,394**

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
- 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 financial budgets of three years approved by senior management. The discount rate applied to cash flow projections is 13% (2009: 13%) and cash flows beyond the 3-year period are extrapolated using a 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 financial budgets of three years approved by senior management. The discount rate applied to cash flow projections is 13% (2009: 13%) and cash flows beyond the 3-year period are extrapolated using a zero growth rate.

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

	Special steel products RMB'000	**Electricity generating** RMB'000	**Total** RMB'000
Carrying amount of goodwill			
2010	**50,036**	**8,358**	**58,394**
2009	50,036	8,358	58,394

Key assumptions were used in the value in use calculation of the cash-generating units for 31 December 2010 and 31 December 2009. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

15. GOODWILL (CONTINUED)

Impairment testing of goodwill (continued)

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.

The values assigned to key assumptions are consistent with external information sources.

16. INTANGIBLE ASSET

	Group	
	2010	2009
	RMB'000	RMB'000
Exclusive offtake right		
Carrying amount at 1 January	**2,640,288**	2,656,572
Amortisation provided during the year	**(29,475)**	(16,284)
Exchange realignment	**(78,903)**	—
Carrying amount at 31 December	**2,531,910**	2,640,288

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 limonitic 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. 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 are neither transferable nor redeemable. On 18 May 2010, the convertible notes were fully converted to 182,734,104 ordinary shares of the Company as set out in note 31 to the financial statements.

16. INTANGIBLE ASSET (CONTINUED)

The Group measured 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 the income approach by applying the 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 the cost of this intangible asset.

17. DEFERRED TAX

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

Deferred tax assets

Group

	2010	2009
	RMB'000	RMB'000
At beginning of year	**226,530**	112,505
Deferred tax credited to the income statement during the year (note 9)	**30,233**	114,025
At end of year	**256,763**	226,530
The deferred tax balance is respect of:		
Losses available for offsetting against future taxable profits	**221,824**	144,129
Inventory provision	**630**	8,208
Unrealised profit eliminated on consolidation	**21,054**	50,190
Decelerated tax depreciation	**18**	5,937
Liabilities for accrued expenses that are deductible for tax purpose only when paid	**13,237**	18,066
	256,763	226,530

17. DEFERRED TAX (CONTINUED)

Deferred tax assets (continued)

Company
The Company's deferred tax assets at 31 December 2010 related to tax losses in Hong Kong of RMB43,491,000.

The Group's deferred tax assets as at 31 December 2010 mainly arose from the operations of Yongtong Special Steel, Yongan Special Steel and East Harvest Minerals. 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.

Deferred tax liabilities

Group

	2010	2009
	RMB'000	RMB'000
At beginning of year	**27,917**	25,921
Deferred tax (credited)/charged to the income statement during the year (note 9)	**(4,027)**	1,996
At end of year	**23,890**	27,917
Provisions in respect of:		
Fair value adjustments arising from acquisition of a subsidiary	**22,439**	23,244
Others	**1,451**	4,673
	23,890	27,917

17. DEFERRED TAX (CONTINUED)

Deferred tax liabilities (continued)

Group (continued)

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 2010, there was no unrecognised deferred tax liability (2009: 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. INVESTMENTS IN SUBSIDIARIES

	Company	
	2010	2009
	RMB'000	RMB'000
Unlisted investments/shares, at cost	**322,204**	322,204
Advances to subsidiaries	**4,387,368**	4,382,745
	4,709,572	4,704,949

The amounts advanced to the subsidiaries included in the investments in subsidiaries above are denominated in HK$, US$ and Singapore dollar ("SG$"), and 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.

18. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Particulars of the Company's subsidiaries are as follows:

Name of companies	Place of incorporation and operations	Nominal value of issued shares/ paid-up capital	Percentage of equity interest attributable to the 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
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	PRC	RMB336,000,000	—	51	Manufacture and sale of special steel products
Yongtong Alloy Metals	PRC	RMB3,000,000	—	95	Trading of scrap steel

18. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Name of companies	Place of incorporation and operations	Nominal value of issued shares/ paid-up capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
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	PRC	USD109,000,000	—	100	Trading of mineral products and investment holding
East Harvest Mining	PRC	RMB390,000,000	—	100	Under construction

19. INVESTMENT IN AN ASSOCIATE

	Group 2010 RMB'000	2009 RMB'000
Share of net assets	**18,760**	50

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

19. INVESTMENT IN AN ASSOCIATE (CONTINUED)

The following table illustrates the summarised financial information of the Group's associate extracted from its financial statements:

	2010 **RMB'000**	2009 RMB'000
Assets	**377,055**	110,617
Liabilities	**336,032**	110,511
Revenue	**315,369**	—
Profit	**39,473**	—

20. OTHER NON-CURRENT ASSETS

Group

	Note	**Prepayment for an operating lease RMB'000**	**Prepayment for purchases of raw materials RMB'000**	**Others RMB'000 (Note 30)**	**Total RMB'000**
2010					
Carrying amount at 1 January 2010		**—**	**97,083**	**23,206**	**120,289**
Additions		**—**	**15,359**	**—**	**15,359**
Utilisation/amortisation		**—**	**(15,116)**	**(3,130)**	**(18,246)**
Exchange realignment		**—**	**(3,267)**	**—**	**(3,267)**
Carrying amount at 31 December 2010		**—**	**94,059**	**20,076**	**114,135**
Less: Current portion included in prepayments, deposits and other receivables	23	**—**	**(55,437)**	**—**	**(55,437)**
Non-current portion		**—**	**38,622**	**20,076**	**58,698**

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 30)	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	13	(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)

Company

	Note	Prepayment for an operating lease RMB'000
2009		
Carrying amount at 1 January 2009		22,642
Reclassification to property, plant and equipment	13	(22,642)
Carrying amount at 31 December 2009		—

21. INVENTORIES

	Group 2010 RMB'000	Group 2009 RMB'000
Raw materials	**418,921**	339,673
Work in progress	**108,059**	36,079
Finished goods	**282,203**	477,768
Spare parts and consumables	**50,526**	25,758
	859,709	879,278

22. TRADE AND NOTES RECEIVABLES

	Group	
	2010	2009
	RMB'000	RMB'000
Trade receivables	**108,125**	30,792
Notes receivable	**11,193**	19,034
	119,318	49,826

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 large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing. The carrying amounts of trade and notes receivables approximate to their fair values.

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

	2010	2009
	RMB'000	RMB'000
Within 90 days	**104,758**	38,543
91 to 180 days	**9,052**	3,944
181 to 365 days	**32**	—
Over 1 year	**9,020**	10,883
	122,862	53,370
Less: Provision for impairment of trade receivables	**(3,544)**	(3,544)
	119,318	49,826

22. TRADE AND NOTES RECEIVABLES (CONTINUED)

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

	Group	
	2010	2009
	RMB'000	RMB'000
At 1 January	**3,544**	2,364
Impairment losses recognised	**—**	1,180
At 31 December	**3,544**	3,544

At 31 December 2010, included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB3,544,000 (2009: RMB3,544,000) with a carrying amount before provision of RMB3,544,000 (2009: RMB3,544,000). 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.

The aged analysis of trade and notes receivables that are not individually nor collectively considered to be impaired is as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Neither past due nor impaired	**113,810**	42,042
Less than 90 days past due	**—**	445
91 to 180 days past due	**—**	—
181 to 365 days past due	**32**	—
Past due over 1 year	**5,476**	7,339
	119,318	49,826

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

22. TRADE AND NOTES RECEIVABLES (CONTINUED)

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	
		2010	2009	**2010**	2009
	Notes	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Prepayments to suppliers		**77,465**	57,960	**4,613**	275
Other prepayments		**7,652**	1,581	**5,775**	—
Other receivables		**39,034**	29,733	**9,831**	15,961
Value-added tax receivable		**41,927**	58,538	**—**	—
Shareholder's loan to an associate		**48,414**	54,943	**—**	—
Current portion of other non-current assets	20	**55,437**	81,938	**—**	—
Current portion of prepaid land lease payments	14	**8,148**	8,226	**—**	—
		278,077	292,919	**20,219**	16,236
Less: Provision for impairment of other receivables		**(5,365)**	(5,376)	**—**	—
		272,712	287,543	**20,219**	16,236

The carrying amounts of other receivables and the shareholder's loan to an associate approximate to their fair values at the end of the reporting period.

24. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**172,100**	260,488	**26,656**	14,055
Time deposits on demand	**301,996**	419,312	**–**	89,052
	474,096	679,800	**26,656**	103,107
Less: Pledged time deposits for a bank loan	**–**	(82,652)	**–**	(82,652)
Pledged time deposits for issuing bank acceptance notes (note 25)	**(301,505)**	(304,403)	**–**	–
	(301,505)	(387,055)	**–**	(82,652)
Cash and cash equivalents	**172,591**	292,745	**26,656**	20,455

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.

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to RMB105,625,000 (2009: RMB210,815,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

25. TRADE AND NOTES PAYABLES

		Group		Company	
		2010	2009	**2010**	2009
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Trade payables		**249,412**	234,891	**1,100**	1,137
Notes payable	(a)	**423,119**	344,403	**—**	—
		672,531	579,294	**1,100**	1,137

Note:

(a) At 31 December 2010, notes payable of RMB423,119,000 (2009: RMB344,403,000) were secured by time deposits amounting to RMB301,505,000 (2009: RMB304,403,000) (note 24).

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

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 90 days	**162,969**	354,290	**—**	—
91 to 180 days	**410,474**	118,430	**—**	—
181 to 365 days	**47,145**	36,082	**—**	—
1 to 2 years	**16,036**	31,543	**—**	1,137
2 to 3 years	**11,987**	8,325	**1,100**	—
Over 3 years	**23,920**	30,624	**—**	—
	672,531	579,294	**1,100**	1,137

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

26. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Advances from customers	**108,389**	69,430	**—**	—
Payables related to purchases of items of property, plant and equipment	**178,149**	62,806	**—**	—
Accrued interest expenses	**3,705**	1,409	**—**	—
Payroll payable	**11,765**	6,122	**142**	117
Amounts due to non-controlling shareholders of a subsidiary	**31,766**	47,074	**1,993**	2,056
Liabilities assumed in the acquisition of a subsidiary	**25,982**	120,225	**—**	—
Others	**112,339**	69,303	**3,845**	26,602
	472,095	376,369	**5,980**	28,775

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

27. DERIVATIVE FINANCIAL INSTRUMENTS

Group and Company

	Notes	**2010 Liabilities RMB'000**
Warrants bifurcated from the host contract of Term Loan	28	**73,062**
Conversion option and redemption option bifurcated from the host contract of 10% Convertible Bonds	29	**63,715**
		136,777
Less: Portion classified as current:		
Warrants bifurcated from the host contract of Term Loan	28	**(31,312)**
Non-current portion		**105,465**

28. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

		2010			2009		
	Notes	**Contractual interest rate (%)**	**Maturity**	**RMB'000**	Contractual interest rate (%)	Maturity	RMB'000
Current							
Bank loans — unsecured		**4.8–6.8**	**2011**	**129,078**	5.3–8.6	2010	303,000
Bank loans — secured	(a)	**5.3–6.6**	**2011**	**177,723**	4.8–6.6	2010	85,000
Other borrowings — unsecured	(b)	**0–7.5**	**2011**	**27,760**	0–7.5	2010	13,089
Other borrowings — secured	(c)	**9.5**	**2011**	**141,429**	—	—	—
				475,990			401,089
Non-current							
Bank loans — unsecured		**5.0–6.2**	**2012 -2013**	**93,000**	—	—	—
Other borrowings — unsecured	(b)	**5.7–8.0**	**2012**	**141,448**	6.9–8.0	2011–2012	98,439
Other borrowings — secured	(c)	**9.5**	**2012**	**109,224**	—	—	—
				343,672			98,439
				819,662			499,528

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

Company

		2010			2009		
	Notes	**Contractual interest rate (%)**	**Maturity**	**RMB'000**	Contractual interest rate (%)	Maturity	RMB'000
Current							
Other borrowings — secured	(c)	**9.5**	**2011**	**141,429**	–	–	–
Non-current							
Other borrowings — secured	(c)	**9.5**	**2012**	**109,224**	–	–	–
				250,653			–

	Group		Company	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Analysed into:				
Bank loans repayable:				
Within one year	**306,801**	388,000	**–**	–
In the second year	**43,000**	–	**–**	–
In the third year	**50,000**	–	**–**	–
	399,801	388,000	**–**	–
Other borrowings repayable:				
Within one year	**169,189**	13,089	**141,429**	–
In the second year	**250,672**	17,060	**109,224**	–
In the third to fifth years, inclusive	**–**	81,379	**–**	–
	419,861	111,528	**250,653**	–
	819,662	499,528	**250,653**	–

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

Company (continued)

Notes:

(a) At 31 December 2010, the secured bank loans comprised of: (i) bank loans of RMB77,723,000 (2009: RMB15,000,000) secured by a leasehold land in Mainland China with a net carrying amount of RMB70,456,000 (2009: RMB13,447,000); (ii) a bank loan of RMB50,000,000 (2009: Nil) secured by a leasehold land in Mainland China with a net carrying amount of RMB71,329,000 (2009: Nil); and (iii) a bank loan of RMB50,000,000 (2009: Nil) secured by a leasehold land in Mainland China and buildings and plant and machinery with net carrying amounts of RMB18,012,000 and RMB56,503,000, respectively.

(b) At 31 December 2010, the unsecured other borrowings included: (i) a renewed interest-free loan of RMB10,000,000 (2009: RMB10,000,000) from Luoyang Municipal Ministry of Finance; (ii) a loan of RMB589,000 (2009: RMB3,089,000) from Xianghe Group Shangjie Power Engineering Co., Ltd., which bore interest at a floating rate from 5.4% to 7.5% per annum; (iii) a loan from a shareholder of the Company of US$2,500,000 (equivalent to RMB16,486,000) (2009: RMB17,060,000), which bore interest at a rate of 8% per annum; (iv) a loan of RMB85,447,000 (2009: RMB81,379,000) from Anyang Steel Group Company Limited, which bore interest at rate of 5.97% (2009: 6.93%) per annum; (v) a loan from the ultimate holder the Company consisting of amounts of US$2,000,000, SG$5,643,000, and HK$5,000,000 (equivalent to RMB44,101,000) (2009: Nil), which bore interest at a rate of 8% per annum; and (vi) a loan from the ultimate holder of the Company of US$1,900,000 (equivalent to RMB12,585,000) (2009: Nil), which bore interest at a rate of 8% per annum.

(c) In December 2010, the Company executed a term loan agreement (the "Agreement") with Asia Equity Value Ltd. (the "Lender"), for a facility of a US$ equivalent amount of RMB330,000,000 (the "Term Loan") and the Company agreed, as a condition to the availability of the Term Loan, to issue to the Lender warrant instruments (the "Warrants").

The principal terms of the Agreement are as follows:

Term Loan

(i) Interest rate: 9.5% per annum

(ii) Maturity date: 24 months since the Drawdown Date, 8 December 2010

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

Term Loan (continued)

(iii) **Repayment:** The Company shall repay the Term Loan in seven equal instalments on the dates falling 6, 9, 12, 15, 18, 21 and 24 months after the Drawdown Date.

(iv) **Equity pledge:** The entire registered capital of East Harvest Minerals, a subsidiary of the Company, is pledged in favour of the Lender for the availability of the Term Loan. At 31 December 2010, the paid-up capital of East Harvest Minerals amounted to US$109,000,000 (equivalent to RMB740,207,000).

Warrants

The Warrants carry the rights to subscribe at any time and from time to time during the Subscription Period for up to 263,226,563 shares of the Company. The other principal terms of the Warrants are as follows:

(i) **Subscription Price:** Initially HK$1.68 per share and subject to adjustments.

(ii) **Subscription period:** Three years since the Commencement Date, 8 December 2010.

(iii) **Loan cancellation method:** Each holder of the Warrants (the "Warrant holder") may elect to pay the Subscription Price of the Warrants by discharging the Company's obligations to repay the outstanding principal of the Term Loan and any accrued but unpaid interest and other sums payable under the Agreement.

(iv) **The Company's call option:** If, on any date after the expiry of a period of six months commencing on the Commencement Date, the volume weighted average price ("VWAP") per share of the Company is greater than 180% of the initial Subscription Price, the Company may require the Warrant holder to exercise the subscription rights attaching to the Warrants in whole or in part within the aforesaid period of 30 trading days.

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

Warrants (continued)

The net proceeds less the transaction costs, received from the Term Loan of approximately RMB318,750,000 have been split into a liability component and a derivative financial instrument as follows:

(i) Liability component initially recognised at its fair value, which was measured as the residual amount after deducting the fair value of the derivative component as at 8 December 2010, and is subsequently carried at amortised cost.

(ii) The Warrants as a whole as derivative financial instrument recognised at its fair value, which is valued by Greater China. The trinomial lattice model was used in the valuation of the derivative.

The movements of the components are set out below:

	Liability component RMB'000	**Derivative** RMB'000	**Total** RMB'000
Drawdown of the Term Loan on 8 December 2010	244,792	73,958	318,750
Interest expenses	5,861	—	5,861
Changes in fair value	—	(296)	(296)
Exchange realignment	—	(600)	(600)
As at 31 December 2010	**250,653**	**73,062**	**323,715**
Portion classified as current:	**(141,429)**	**(31,312)**	**(172,741)**
Non-current portion	**109,224**	**41,750**	**150,974**

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

29. CONVERTIBLE BONDS

Group and Company

	Notes	**2010** **RMB'000**	2009 RMB'000
Liability component:			
Zero Coupon Convertible Bonds	(i)	**7,521**	1,336,076
10% Convertible Bonds	(ii)	**1,028,658**	—
		1,036,179	1,336,076
Less: Current portion	(i)/(ii)	**—**	(1,336,076)
Non-current portion of liability component of convertible bonds		**1,036,179**	—
Equity component:			
Zero Coupon Convertible Bonds	(i)	**—**	45,920
10% Convertible Bonds	(ii)	**—**	—
		—	45,920

(i) 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%;

29. CONVERTIBLE BONDS (CONTINUED)

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

(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 any time 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) to 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.

On 19 October 2010, the Company announced an extraordinary resolution (the "Extraordinary Resolution") to the existing Zero Coupon Convertible Bonds holders (the "Existing Bondholders"), the main effect of which would be the removal of the right of Existing Bondholders to require the Company to redeem all or some of the Zero Coupon Convertible Bonds on 12 December 2010 (term (b) above) (the "Amendments").

In conjunction with the announcement, the Company also invited eligible holders of the outstanding Zero Coupon Convertible Bonds to tender their existing bonds in exchange for (1) a cash payment of HK$20,000 for each HK$100,000 in principal amount of Zero Coupon Convertible Bonds; and (2) HK$100,000 in nominal amount of new bonds ("10% Convertible Bonds") for each HK$100,000 in principal amount of Zero Coupon Convertible Bonds (the "Offer").

The Extraordinary Resolution was duly passed by the Existing Bondholders at a meeting held on 10 November 2010. The Existing Bondholders holding Zero Coupon Convertible Bonds of an aggregate principal amount of HK$1,374,800,000 tendered their existing bonds for exchange pursuant to the Offer.

29. CONVERTIBLE BONDS (CONTINUED)

(i) 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 2010 are as follows:

	Liability component of convertible bonds RMB'000	Equity component of convertible bonds RMB'000	Total RMB'000
At 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 and 1 January 2010	**1,336,076**	**45,920**	**1,381,996**
Interest expenses (note 7)	**77,550**	**—**	**77,550**
Extinguishment	**(1,344,596)**	**(45,221)**	**(1,389,817)**
Redeemed	**(21,086)**	**(699)**	**(21,785)**
Exchange realignment	**(40,423)**	**—**	**(40,423)**
At 31 December 2010	**7,521**	**—**	**7,521**

On 12 December 2010, the Company redeemed and cancelled Zero Coupon Convertible Bonds of a principal amount of HK$21,400,000 with a cash consideration of HK$25,184,000 (equivalent to RMB21,584,000), at the Existing Bondholders' put option in accordance with term (b) above.

At 31 December 2010, the principal amount of Zero Coupon Convertible Bonds outstanding was HK$8,800,000.

29. CONVERTIBLE BONDS (CONTINUED)

(ii) HK$1,374.8 million 10% convertible bonds due 2012 ("10% Convertible Bonds")

On 12 November 2010, pursuant to the Offer, the Company issued 13,748 10% convertible bonds due 2012 at HK$100,000 each with an aggregate nominal value of HK$1,374,800,000.

Some of the key terms of the 10% Convertible Bonds are as follows:

(a) convertible at the option of the bond holders into fully paid ordinary shares at any time from 12 November 2010 to 2 December 2012 at a conversion price of HK$1.541 per share (the "Initial Conversion Price"). (The Initial Conversion Price is subject to adjustment on 12 November 2011 so that the it may be adjusted to a price that is equal to the VWAP of the shares of the Company for the period of 90 consecutive trading days immediately prior to 12 November 2011 provided that, among other things, any such adjustment to the Initial Conversion Price shall only be downwards and shall be limited such that the adjusted Initial Conversion Price shall be in no event less than 70% of the Initial Conversion Price prevailing on 12 November 2011);

(b) redeemable in cash at the option of the Company at their early redemption amount calculated by using the bond principal at an interest rate of 13.68% on a semi-annual basis, at any time from 12 November 2010 to 12 December 2012, providing the prices of the Company's shares for each 20 out of 30 consecutive trading days are at least 130% of the early redemption amount divided by a conversion ratio; and

(c) to be redeemed at 131.17% of its principal amount on 12 December 2012. The 10% Convertible Bonds carry interest at a rate of 10% per annum, which is payable semi-annually in arrears on 12 June and 12 December in each year.

The Company determined the fair value of the liability component of 10% Convertible Bonds based on the valuation performed by Greater China using an equivalent market interest rate for a similar bond without a conversion option.

29. CONVERTIBLE BONDS (CONTINUED)

(ii) HK$1,374.8 million 10% convertible bonds due 2012 (“10% Convertible Bonds”) (continued)

The Company also recognised a number of derivatives, the values of which comprise:

(a) The fair value of the option of the bond holders to convert the 10% Convertible Bonds into ordinary shares of the Company at the conversion price; and

(b) The fair value of the option of the Company to redeem the 10% Convertible Bonds.

These options are interdependent as only one of these options can be exercised. Therefore, they are not able to be accounted for separately and a single compound derivative financial instrument was recognised.

The fair values of the derivatives were valued by Greater China, using the trinomial model.

The movements of the liability component and derivatives of the 10% Convertible Bonds are set out below:

	Liability component RMB'000	**Derivatives** RMB'000	**Total** RMB'000
10% Convertible Bonds issued on 12 November 2010	997,043	91,827	1,088,870
Interest expenses (note 7)	44,074	—	44,074
Conversion	(7,506)	495	(7,011)
Changes in fair value	—	(27,704)	(27,704)
Exchange realignment	(4,953)	(903)	(5,856)
At 31 December 2010	**1,028,658**	**63,715**	**1,092,373**

At 31 December 2010, the principal amount of 10% Convertible Bonds outstanding was HK$1,364,600,000.

30. OTHER LONG TERM PAYABLES

Group

	2010 RMB'000
At 1 January	–
Reclassification from other payables and accruals	27,346
Interest increment	1,865
Payment	(3,410)
	25,801
Classified as current portion	(1,650)
Non-current portion	24,151

According to a management agreement entered into between Yongtong Special Steel and the non-controlling shareholders of Yongan Special Steel, Yongtong Special Steel is entitled to all remaining undistributable profits of Yongan Special Steel in return for an annual fixed payment of RMB6,310,000 for a period of 15 years from 5 January 2007. The benefit of this arrangement has been capitalised in other non-current assets (note 20) while the net present value of the liability has been recognised as other long term payables and is subject to a straight-line amortisation based on 15 years.

31. ISSUED CAPITAL

	Year ended 31 December 2010 Number of ordinary shares	RMB'000	Year ended 31 December 2009 Number of ordinary shares	RMB'000
Authorised (HK$0.1 each):				
At 1 January and 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	**2,093,630,385**	**210,006**	2,093,120,385	209,961
Conversion of convertible bonds	**6,619,076**	**563**	—	—
Conversion of convertible notes (note 16)	**182,734,104**	**17,984**	—	—
Exercise of share options (note 33)	**—**	**—**	510,000	45
At 31 December	**2,282,983,565**	**228,553**	2,093,630,385	210,006

32. 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 55 to 56 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.

32. RESERVES (CONTINUED)

(a) Group (continued)

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. On 18 May 2010, the convertible notes were fully converted and the capital reserve was transferred to issued capital and share premium account.

The remaining capital reserve is non-distributable and represents the additional contribution by the shareholder in 2003 amounting to RMB37,147,000, and the capitalisation of payable to the shareholder amounting to RMB85,000,000 in respect of which Mr. Dong Shutong waived his rights and benefits to the debts owed to him by Yongtong Special Steel in 2004.

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 33 to the financial statements.

The share option reserves include 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.

32. 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 Generally Accepted Accounting Principles ("PRC GAAP"), to the statutory surplus reserves (the "SSR") until such reserves reach 50% of the registered capital.

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

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

Distributable reserves

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

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

32. RESERVES (CONTINUED)

(b) Company

	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 2010							
At 1 January 2010	2,661,351	314,784	311,135	22,459	(72,601)	4,516	3,241,644
Total comprehensive expenses for the year	–	–	–	–	(13,418)	(123,531)	(136,949)
Conversion of convertible bonds	8,054	–	–	–	–	–	8,054
Redemption of convertible bonds	–	–	–	–	–	(2,541)	(2,541)
Extinguishment of convertible bonds	45,221	–	–	–	–	–	45,221
Conversion of convertible notes	293,151	–	(311,135)	–	–	–	(17,984)
Equity-settled share option arrangements (note 33)	–	–	–	4,246	–	–	4,246
Forfeited share option reserve	–	–	–	(779)	–	–	(779)
Interim 2010 dividend	(3,972)	–	–	–	–	–	(3,972)
At 31 December 2010	3,003,805	314,784	–	25,926	(86,019)	(121,556)	3,136,940

32. RESERVES (CONTINUED)

(b) Company (continued)

	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 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 (note 33)	580	–	–	(144)	–	–	436
Equity-settled share option arrangements (note 33)	–	–	–	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

33. 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.

33. SHARE OPTION SCHEME (CONTINUED)

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. 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.

33. SHARE OPTION SCHEME (CONTINUED)

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

	2010		2009	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	**1.78**	**44,935**	1.77	46,005
Forfeited during the year	**–**	**–**	1.07	(255)
Forfeited during the year	**2.45**	**(1,260)**	2.45	(305)
Exercised during the year	**–**	**–**	1.07	(510)
At 31 December	**1.76**	**43,675**	1.78	44,935

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

2010

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**
12,955	**2.45**	**20 March 2009 to 19 March 2018**
43,675		

33. SHARE OPTION SCHEME (CONTINUED)

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		

* 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 approximately RMB3,467,000 during the year ended 31 December 2010 (2009: RMB6,303,000).

At the end of the reporting period, the Company had 43,675,000 share options outstanding under the Share Option Scheme, which represented approximately 1.9% of the Company's shares in issue as at 31 December 2010. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 43,675,000 additional ordinary shares of the Company and an additional share capital of HK$4,367,500 (equivalent to RMB3,716,306) and share premium of HK$72,374,650 (equivalent to RMB61,583,590) (before issue expenses).

34. CONTINGENT LIABILITIES

Group

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

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

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 2010.

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

34. CONTINGENT LIABILITIES (CONTINUED)

Group (continued)

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

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

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

(iii) as the further alternative, damages for breach of contract in respect of 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 was secured, amongst others, by the aircraft which was 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 repayment of the advance.

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 above 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.

35. 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 2010, the Group and Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**2,704**	2,078	**2,342**	1,670
In the second to fifth years, inclusive	**1,288**	2,530	**752**	1,636
	3,992	4,608	**3,094**	3,306

36. COMMITMENTS

Group

In addition to the operating lease commitments detailed in note 35 above, the Group had the following capital commitments at the end of the reporting period:

	2010	2009
	RMB'000	RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**380,659**	403,552

37. 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 during the year:**

Names of related parties	Nature of transactions	2010 RMB'000	2009 RMB'000
Yiwan Mining (Note a)	Purchases of iron ores (Note b)	**173,239**	44,085
Easyman	Loan provided by the related company (Note c)	**56,686**	—
Easyman	Interest expense (Note c)	**1,870**	—
PT Yiwan Shipping (Note d)	Sales of property, plant and equipment (Note e)	**—**	1,910
Full Harvest Development Limited (Note f)	Shareholder's loan (Note g)	**—**	54,943
Anyang Steel Group Company Limited (Note h)	Interest expense (Note i)	**4,068**	—

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.

The transactions constitute continuing connected transactions of the Group under Chapter 14A of the Listing Rules for the year ended 31 December 2010. The Group confirmed that it has compiled with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of the transactions.

(c) The loan in the amount of RMB56,686,000 is provided by Easyman and is unsecured, repayable by 2012 and bears an interest rate of 8% per annum as set out in note 28(b) to the financial statements.

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

37. RELATED PARTY TRANSACTIONS (CONTINUED)

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

Notes: (continued)

(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 shareholder's loan to Full Harvest Development Limited is unsecured, interest-free and repayable by 31 December 2011.

(h) This company is a non-controlling shareholder of a subsidiary of the Group.

(i) The loan in the amount of RMB68,096,000 was provided by Anyang Steel Group Company Limited and is unsecured, repayable by 2012 and bears an interest rate of 5.97% per annum as set out in note 28(b) to the financial statements.

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

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

38. 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

	2010 Loans and receivables RMB'000	2009 Loans and receivables RMB'000
Trade and notes receivables	**119,318**	49,826
Financial assets included in prepayments, deposits and other receivables	**82,083**	79,300
Cash and cash equivalents	**172,591**	292,745
Pledged time deposits	**301,505**	387,055
	675,497	808,926

Financial liabilities

	2010		2009
	Financial liabilities at fair value through profit or loss RMB'000	**Financial liabilities at amortised cost RMB'000**	Financial liabilities at amortised cost RMB'000
Trade and notes payables	**—**	**672,531**	579,294
Financial liabilities included in other payables and accruals	**—**	**348,236**	299,408
Derivative financial instruments	**136,777**	**—**	—
Liability component of convertible bonds	**—**	**1,036,179**	1,336,076
Interest-bearing bank and other borrowings	**—**	**819,662**	499,528
Other long term payables	**—**	**24,151**	—
	136,777	**2,900,759**	2,714,306

38. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Company

Financial assets

	2010 Loans and receivables RMB'000	2009 Loans and receivables RMB'000
Financial assets included in prepayments, deposits and other receivables	**9,831**	15,961
Cash and cash equivalents	**26,656**	20,455
Pledged time deposits	**—**	82,652
	36,487	119,068

Financial liabilities

	2010		2009
	Financial liabilities at fair value through profit or loss RMB'000	**Financial liabilities at amortised cost RMB'000**	Financial liabilities at amortised cost RMB'000
Trade and notes payables	**—**	**1,100**	1,137
Financial liabilities included in other payables and accruals	**—**	**5,838**	28,658
Derivative financial instruments	**136,777**	**—**	—
Liability component of convertible bonds	**—**	**1,036,179**	1,336,076
Interest-bearing bank and other borrowings	**—**	**250,653**	—
	136,777	**1,293,770**	1,365,871

39. FAIR VALUE AND FAIR VALUE HIERARCHY

Fair value

Except for derivative financial instruments, the fair values of the financial assets and liabilities of the Group and the Company approximate to their carrying amounts, as presented in note 38 to the financial statements. The fair values of derivative financial instruments are the same as their carrying amounts.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, pledged time deposits, trade and notes receivables, financial assets included in prepayments, deposits and other receivables, trade and notes payables, financial liabilities included in other payables and accruals, and the current portion of interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the non-current portion of interest-bearing bank and other borrowings and other long term payables have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities. The fair value of the liability component of convertible bonds is estimated using an equivalent market interest for a similar convertible bond. The fair values of these instruments approximate to their carrying amounts.

Derivative financial instruments are measured using trinomial model as the valuation techniques. The model incorporates various market observable inputs including risk-free rate, volatility and dividend yield. The carrying amounts of derivative financial instruments are the same as their fair values.

39. FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Liabilities measure at fair value as at 31 December 2010 (2009: Nil):

	Group and Company			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
Derivative financial instruments	—	136,777	—	136,777

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2009: Nil).

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, convertible bonds, 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 trade payables, which arise directly from its operations.

The Group's derivative financial instruments are bifurcated from the host contracts of convertible bonds and other interest-bearing loans.

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 risks arising from the Group's financial instruments are interest rate risk, credit risk, foreign currency risk and liquidity risk. The board of Directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

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 2010, approximately 82% (2009: 65%) of the Group's interest-bearing borrowings bore interest at fixed rates.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest rate risk (continued)

As at 31 December 2010, 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 variables held constant, of the Group's loss before tax (through the impact on floating rate borrowings).

Group:

	Increase/ (decrease) in basis points	(Increase)/ decrease in loss before tax RMB'000
2010	**75**	**(1,078)**
	(25)	**359**
2009	25	(444)
	(25)	444

Credit risk

As at 31 December 2010, the maximum exposure to credit risk was 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 Mainland China, Hong Kong, Singapore and Indonesia, which management believes are of high credit quality.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk (continued)

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. Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 22 to the financial statements.

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 intercompany trade and loan balances which are denominated in US$, HK$, SG$ and Euro ("EUR"). Therefore, the fluctuations in the exchange rates of RMB against these 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.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk (continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the US$, HK$, EUR and SG$ exchange rates, with all other variables held constant, of the Group's loss before tax (due to changes in the fair value of monetary liabilities).

	Fluctuation in foreign currency rate %	(Increase)/ decrease in loss before tax RMB'000
2010		
If RMB weakens against US$	**5**	**1,980**
If RMB strengthens against US$	**5**	**(1,980)**
If RMB weakens against HK$	**5**	**8,027**
If RMB strengthens against HK$	**5**	**(8,027)**
If RMB weakens against SG$	**5**	**1,167**
If RMB strengthens against SG$	**5**	**(1,167)**
2009		
If RMB weakens against US$	5	9,213
If RMB strengthens against US$	5	(9,213)
If RMB weakens against HK$	5	651
If RMB strengthens against HK$	5	(651)
If RMB weakens against EUR	5	2,189
If RMB strengthens against EUR	5	(2,189)
If RMB weakens against SG$	5	2,669
If RMB strengthens against SG$	5	(2,669)

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.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

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 2010, 52% (2009: 96%) of the Group's debts would mature in less than one year based on the carrying value of borrowings reflected in the financial statements.

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

Group

	2010				
	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*	—	—	—	1,532,887	1,532,887
Other long term payables	—	—	3,410	34,100	37,510
Interest-bearing bank and other borrowings	—	198,075	277,915	423,019	899,009
Trade and notes payables	—	162,969	457,619	51,943	672,531
Financial liabilities included in other payables and accruals	316,470	31,766	—	—	348,236
	316,470	392,810	738,944	2,041,949	3,490,173

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

Group (continued)

	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
Financial liabilities included in other payables and accruals	250,884	48,480	44	—	299,408
	498,864	367,981	1,880,523	103,726	2,851,094

* The maturity dates of Zero Coupon Convertible Bonds and 10% Convertible Bonds defined in the relevant agreements were both 12 December 2012. Since Zero Coupon Convertible Bonds and 10% Convertible Bonds are both redeemable at the option of their holders on 12 December 2012 at the principal amount multiplied by 131.17% according to the aforesaid agreements, the management prepared the above analysis with an assumption that all bondholders will redeem the Zero Coupon Convertible Bonds and 10% Convertible Bonds on 12 December 2012.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

Company

	2010				
	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*	**—**	**—**	**—**	**1,532,887**	**1,532,887**
Interest-bearing bank and other borrowings	**—**	**—**	**141,429**	**188,571**	**330,000**
Trade and notes payables	**—**	**—**	**—**	**1,100**	**1,100**
Financial liabilities included in other payables and accruals	**5,838**	**—**	**—**	**—**	**5,838**
	5,838	**—**	**141,429**	**1,722,558**	**1,869,825**

	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
Financial liabilities included in other payables and accruals	28,658	—	—	—	28,658
	29,795	—	1,455,822	—	1,485,617

* The maturity dates of Zero Coupon Convertible Bonds and 10% Convertible Bonds defined in the relevant agreements were both 12 December 2012. Since Zero Coupon Convertible Bonds and 10% Convertible Bonds are both redeemable at the option of their holders on 12 December 2012 at the principal amount multiplied by 131.17% according to the aforesaid agreements, the management prepared the above analysis with an assumption that all bondholders will redeem the Zero Coupon Convertible Bonds and 10% Convertible Bonds on 12 December 2012.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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 2010 and 2009.

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 2010 and 2009 were as follows:

	2010 **RMB'000**	2009 RMB'000
Interest-bearing loans and other borrowings	**819,662**	499,528
Trade and notes payables	**672,531**	579,294
Other payables and accruals	**472,095**	376,369
Convertible bonds, the liability component	**1,036,179**	1,336,076
Less: Cash and cash equivalents and pledged time deposits	**(474,096)**	(679,800)
Net debt	**2,526,371**	2,111,467
Equity attributable to owners of the parent	**3,720,802**	3,751,091
Capital and net debt	**6,247,173**	5,862,558
Gearing ratio	**40%**	36%

41. COMPARATIVE AMOUNTS

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

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of Directors on 30 March 2011.