CVM Minerals Limited

南亞礦業有限公司

(Incorporated in Hong Kong with limited liability)

Stock Code: 705

INTERIM REPORT 2012

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Ji Kuang *(Executive Chairman)*
(Appointed effective from 7 August 2012)
Mr. Lim Ooi Hong
(Re-designated as Vice Chairman effective from 7 August 2012)
Mr. Leung Wai Kwan
(Appointed as Group Chief Executive Officer effective from 7 August 2012)
Mr. Liang Hai Yang
(Appointed effective from 7 August 2012)
Mr. Goh Sin Huat
(Resigned effective from 7 August 2012)

Independent Non-executive Directors

Ms. Wong Choi Kay
Mr. Chong Lee Chang
Mr. Tony Tan

COMPANY SECRETARY

Ms. Au Man Wai Annie

AUDIT COMMITTEE

Ms. Wong Choi Kay *(Chairperson)*
Mr. Chong Lee Chang
Mr. Tony Tan

REMUNERATION COMMITTEE

Ms. Wong Choi Kay *(Chairperson)*
Mr. Lim Ooi Hong
(Appointed effective from 7 August 2012)
Mr. Chong Lee Chang
Mr. Goh Sin Huat
(Resigned effective from 7 August 2012)

NOMINATION COMMITTEE

Mr. Lim Ooi Hong *(Chairman)*
(Appointed effective from 7 August 2012)
Ms. Wong Choi Kay
Mr. Chong Lee Chang
Mr. Goh Sin Huat
(Resigned effective from 7 August 2012)

AUTHORISED REPRESENTATIVES

Mr. Leung Wai Kwan
Ms. Au Man Wai Annie

LEGAL ADVISERS

As to Hong Kong Law
Michael Li & Co.
Richards Butler
in association with Reed Smith LLP

As to Malaysian Law
Tan, Goh & Associates

As to Indonesian Law
Wibowo Hadiwijaya & Co

AUDITOR

Baker Tilly Hong Kong Limited
Certified Public Accountants

PRINCIPAL BANKERS

Bank Kerjasama Rakyat Malaysia Berhad
RHB Bank Berhad
HSBC Bank Malaysia Berhad
Standard Chartered Bank (Hong Kong) Limited
Dah Sing Bank Limited

SHARE REGISTRAR AND TRANSFER OFFICE

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

REGISTERED OFFICE AND BRANCH OFFICE IN HONG KONG

Suite 5103A, 51st Floor
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

CORPORATE INFORMATION

HEAD OFFICE AND PRINCIPAL OFFICE IN MALAYSIA

3rd Floor, Wisma Ho Wah Genting
No. 35, Jalan Maharajalela
50150 Kuala Lumpur
Malaysia

SMELTER ADDRESS IN MALAYSIA

Lot P.T. 14133, Kamunting Raya
Industrial Estate Phase III
Mukim Assam Kumbang
34000 Taiping
State of Perak
Malaysia

STOCK CODE

705

LISTING DATE

22 December 2008

COMPANY WEBSITE

www.cvmminerals.com

MANAGEMENT DISCUSSION AND ANALYSIS

CVM Minerals Limited (the "**Company**"), via its wholly owned subsidiary, CVM Magnesium Sdn. Bhd. ("**CVMSB**"), operates in the State of Perak, Malaysia and is the first primary magnesium producer in South East Asia. Except for mining of dolomite and producing magnesium ingots, the Group has ventured into exploration of iron ore, coal and manganese.

In the month of April 2012, in order to source for profitable business and to diversify from the mineral industry, the Group had acquired subsidiaries engaged in the extraction and bottling of mineral water in the People's Republic of China (the "**PRC**").

BUSINESS REVIEW

The Perak Magnesium Smelter (the "Smelter")

The first half of 2012 was a difficult year for most businesses; almost every sector of the economy was struggling with the uncertainties surrounding the global economy. The nonferrous metals industry was also confronted with difficult challenges in its operating environment and faced downward trend pricing pressure during the first half of 2012.

The Smelter had undergone hot and cold tests during the second half of 2011. These testing concluded in early 2012. However, the Smelter underwent further maintenance and improvement work ("**new improvement works**") for the period ended 30 June 2012 in order to improve future production and achieve higher quality grades in its output. Moreover, no dolomite was extracted from the dolomite hills due to the Smelter temporarily slowdown of production of magnesium ingots (six months ended 30 June 2011: 201.83 metric tonnes ("**MT**") was produced).

The Mineral Water Bottling Plant in the PRC ("Bottling Plant")

In order to diversify and broaden the Group's earnings, the Company had indirectly invested in a company involved in the extraction and bottling of mineral water in the PRC. In this aspect, on 12 January 2012, an agreement (the "**Agreement**") was entered into between the Company's wholly owned subsidiary, Nice Tone Enterprises Ltd. ("**NTEL**") and Voice Key Group Limited ("**First Vendor**"), Chinacorp International Consultants Limited and Champion Tone Development Limited (collectively known as the "**Vendors**"), pursuant to which NTEL has conditionally agreed to purchase and the Vendors have conditionally agreed to sell 51% of the issued share capital of Victory Dragon Holdings Limited ("**Victory Dragon**") for a consideration of HK$200,000,000, which was satisfied by the payment of deposit in cash of HK$10,000,000 to the First Vendor upon signing the Agreement and by the issue of an aggregate of 660,000,000 ordinary shares of the Company to the Vendors and HK$106,840,000 of convertible bonds to the First Vendor.

Under the terms of the acquisition, the First Vendor and Mr. Chu Yuk Lung, the ultimate beneficial owner of the First Vendor, guaranteed to the Group that the audited consolidated net profit of Victory Dragon and its subsidiary for the twelve months period commencing from the effective date of the acquisition shall be not less than Renminbi ("**RMB**") 30 million (equivalent to approximately HK$36.8 million).

The acquisition was approved by the members of the Company in the extraordinary general meeting held on 13 April 2012. The effective date of the acquisition was 18 April 2012.

Please refer to the Company's announcements dated 12 January 2012 and 18 April 2012 and the circular dated 23 March 2012 for further details.

The Company believes that this acquisition will be able to increase shareholders' wealth in the foreseeable future.

In view that the acquisition was only completed before the financial period ended 30 June 2012, the effect of this acquisition to the Group's result was minimal. Victory Dragon managed to contribute to the Group's results approximately HK$296,400 in gross profit and turnover of approximately HK$601,700 since the date of the Company's acquisition. The Company hopes to give a more comprehensive business review at the financial year end.

Indonesian subsidiaries operations

The Group's subsidiaries in Indonesia which holds the various exploration mining permits for iron ore, coal and manganese are now operating at a much slower mode as the Group is trying to reallocate its limited cash resources.

Financing of the Smelter

In order to finance the operations of the Smelter, CVMSB obtained banking facilities totalling approximately Malaysian Ringgit ("**RM**") 184.6 million (equivalent to approximately HK$450.5 million), which comprises a ten-years term loan from Bank Kerjasama Rakyat Malaysia Berhad ("**Bank Rakyat**").

Up to 30 June 2012, the total utilised facilities amounted to approximately RM171.4 million (equivalent to approximately HK$418.3 million) (31 December 2011: approximately RM171.3 million (equivalent to approximately HK$420.0 million)).

On 25 July 2011, CVMSB has negotiated a re-scheduling of the loan repayment with Bank Rakyat. The monthly instalments have been revised to RM670,000 (equivalent to approximately HK$1,635,000) with effect from August 2011 to December 2013 and increasing to RM4.2 million (equivalent to approximately HK$10,251,000) from January 2014 to the end of the term of the loan in 2018.

Capital raising exercise

The Company had announced on 1 August 2012 that the appointed placing agent, Cheong Lee Securities Limited had procured three placees, who and their ultimate beneficial owners are independent third parties of the Company, to subscribe for an aggregate of 835,000,000 ordinary shares of the Company at HK$0.05 each raising an aggregate of HK$41,750,000 which will be used for the Group's general working capital.

Please refer to the Company's announcements dated 5 July 2012 and 1 August 2012 for further details.

Licences, approvals and permits

The Malaysian legal advisers of the Company have opined that CVMSB has obtained all major/material licences, approvals and permits in relation to the operation of the Smelter.

The PRC legal advisers of the Company have opined that Victory Dragon and its subsidiary have obtained all major/material licences, approvals and permits in relation to the operation of the Bottling Plant.

Outlook

The Company is excited about the future of the Bottling Plant and its prospect in contributing higher sales and profit to the Group. The extraordinary economic development in the PRC in the past decade has made it the world's second largest economy and created higher disposable income to its citizen. In view of changing lifestyle, higher disposable income and increasing awareness of health risks in the PRC municipal water supplies, the sale of bottled mineral water is expected to increase. The Group hopes to capture this growth in the bottled water market by becoming a brand which is recognised by the public in the PRC.

The Bottling Plant intends to have a comprehensive development of its mineral water resources with the aim of increasing its profit margin and create substantial long term growth. Strategic plans in 2012 include: positioning the Group's mineral water brand to target middle to high end market segments by using multiple brands, redesigning the packaging of the bottled mineral water to give an impression that it is a premium product and adding more production lines in order to further automate the bottling process in second half of 2012.

The Bottling Plant also intends to carry out throughout the year promotion and advertising through billboards, sponsorships and exhibitions to achieve the above plans.

The Smelter will continue its production once the new improvement works and testing are concluded later this year and provided the selling prices of magnesium ingots are higher than present levels. It is envisaged that the production output shall be improved with these modifications installed and better grades of magnesium ingots can be produced for sale at higher prices.

However, in view of the current challenging economic environment and with stronger and more experienced competitors, the Smelter will continue to face pressure to lower its cost of production and to improve its gross margin. The Group also plans to improve the marketing network and to allocate more resources to human capital, internal controls and research and development which may yield higher profit in the future.

In the meantime, the Group is always on the look-out for new and profitable ventures for its long term growth plans.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover and other revenue

The Group's turnover for the six months ended 30 June 2012 was HK$5,393,429 (six months ended 30 June 2011: HK$5,690,103). The Group received interest income of HK$31,684 from money deposited with approved financial institutions and rental income from leasing of drilling machines of HK$61,396 for the six months ended 30 June 2012 (six months ended 30 June 2011: HK$176,813 and nil, respectively).

Cost of sales

The cost of sales amounted to HK$27,756,702 (six months ended 30 June 2011: HK$11,716,733) which mainly includes staff costs, depreciation and amortisation. The increase in the cost of sales is mainly due to increase in all components of the cost of sales.

Administrative expenses

The administrative expenses increased by 28.2% to approximately HK$17.7 million in the first half of 2012 from approximately HK$13.8 million in the same period of 2011. This was mainly due to the expenses incurred for professional parties on corporate exercises carried out during the current period. Higher expenses were incurred as more professional parties were engaged during the six months ended 30 June 2012 due to the major transaction of acquiring Victory Dragon.

Exploration, development and mining production activities

Geological exploration

As at 30 June 2012, the Group has 5 exploration rights, covering an area of approximately 24,180 hectares, namely two exploration rights for coal covering an area of approximately 19,825 hectares, one exploration right for iron ore covering an area of approximately 450 hectares and one exploration right for manganese covering an area of approximately 3,710 hectares, all of them are located in Aceh Province, Indonesia. The Group also has 1 production operation mining permit right for manganese covering an area of approximately 195 hectares in Yogyakarta Province, Indonesia.

During the six months ended 30 June 2012, the Group's geological exploration expenditure amounting to approximately HK$0.19 million (six months ended 30 June 2011: approximately HK$3.19 million) was incurred on general survey and geological survey for the above rights.

Mining of dolomite

As at 30 June 2012, the Group did not extract any dolomite from the dolomite hills. Hence, the accumulated dolomite extracted up to 30 June 2012 was 19,064 MT (Up to 30 June 2011: approximately 15,737 MT).

The expenditure incurred on dolomite mining production activities for the six months ended 30 June 2012 was approximately HK$0.88 million (six months ended 30 June 2011: approximately HK$0.72 million).

Iron ore, coal and manganese

There were no mining production activities carried out for iron ore, coal and manganese.

The total proved reserves of the Group's minerals as at 30 June 2012 after mining depletion is as below:

(Classified under JORC Code, 2004)

Minerals	**Total proved reserves as at 1 January 2012** (MT)	**Minerals mined for the six months ended 30 June 2012** (MT)	**Total proved reserves as at 30 June 2012** (MT)
Dolomite	19,973,352	—	19,973,352

The reserves estimation for iron ore, coal and manganese are under exploration and had not been determined under JORC Code yet.

Net foreign exchange losses

The net losses of approximately HK$0.07 million (six months ended 30 June 2011: net gains of approximately HK$0.2 million) on foreign exchange mainly represented the net realised gains on money deposited by the Group with approved financial institutions in Malaysia offset against realised losses on payments to suppliers and creditors in Malaysia and Indonesia.

Looking forward, the Group will be exposed to foreign currency risk primarily through exposures in sales and purchases that are denominated in foreign currencies other than the Group's functional currency (e.g. US dollars ("US$"), RM, RMB and Rupiah). During the first half of 2012, the Group did not use any financial instruments for any hedging purposes.

Finance costs

The Group's finance costs mainly consisted of interest expense of approximately HK$4.5 million (six months ended 30 June 2011: approximately HK$11.4 million) for convertible bonds issued by the Company, interest expense of approximately HK$10.4 million (six months ended 30 June 2011: Nil) on loans from third parties and interest on the Group's bank loans of approximately HK$18.6 million (six months ended 30 June 2011: approximately HK$14.5 million).

Loss before taxation

The Group incurred a loss before taxation of approximately HK$73.9 million for the six months ended 30 June 2012 (six months ended 30 June 2011: approximately HK$44.7 million) mainly as a result of loss from operations of approximately HK$40.1 million (six months ended 30 June 2011: approximately HK$16.7 million) and finance cost of approximately HK$33.8 million (six months ended 30 June 2011: approximately HK$28.1 million).

Loss from operations increased substantially as compared to the same period in the previous year was mainly due to higher cost of inventories sold.

Higher finance costs were incurred in the six months ended 30 June 2012 as the Group increased its borrowings from third parties to HK$150.0 million as at 30 June 2012; (30 June 2011: HK$50.0 million).

Loss per share

The loss per share for the six months ended 30 June 2012 increased to 1.93 HK cents (six months ended 30 June 2011: 1.50 HK cents) as the loss attributable to owners of the Company increased substantially to approximately HK$72.9 million coupled with the higher number of weighted average ordinary shares in issue during the six months ended 30 June 2012.

Liquidity and financial resources

Net current liabilities of the Group stood at approximately HK$660.5 million as at 30 June 2012 (31 December 2011: approximately HK$480.8 million). Included in current liabilities were secured bank loans and finance lease creditors of approximately HK$419.5 million (31 December 2011: approximately HK$421.1 million) and convertible bonds of approximately HK$173.5 million (31 December 2011: approximately HK$26.2 million) which are payable within one year. The borrowings from Bank Rakyat bears an interest rate of 8.6% per annum as at 30 June 2012 (31 December 2011: 8.6%) based on floating rate of Bank Rakyat's base financing rate plus 2% per annum. The Group had a gearing ratio of approximately 1.80 (which is calculated on the basis of total finance leases, borrowings and convertible bonds over total equity attributable to owners of the Company) as at 30 June 2012. The gearing ratio was approximately 1.49 as at 31 December 2011.

The Group's bank and cash balances as at 30 June 2012 was approximately HK$3.7 million (31 December 2011: approximately HK$28.2 million). The Group's prepayments, deposits and other receivables of approximately HK$22.4 million (31 December 2011: approximately HK$21.1 million) are expected to be recovered or recognised as expenses within one year.

The Directors have taken and/or will take the following actions to mitigate the liquidity issues faced by the Group:

(i) The Directors review the Group's cash position regularly and if need be, will re-negotiate with the unsecured loan holders to restructure the repayment terms;

(ii) Subsequent to the end of the reporting period, the Company had announced on 1 August 2012 that the appointed placing agent, Cheong Lee Securities Limited had procured three placees, who and their ultimate beneficial owners are independent third parties of the Company, to subscribe for an aggregate of 835,000,000 ordinary shares of the Company at HK$0.05 each raising an aggregate of HK$41,750,000 which will be used for the Group's general working capital; and

(iii) The Group is seeking investors or strategic partners for the Group's projects in Indonesia.

Capital expenditure

The carrying amount of the Group's property, plant and equipment, and interest in leasehold land held for own use under operating lease as at 30 June 2012 had decreased by 1.4% and 1% respectively to approximately HK$664.2 million and approximately HK$13.4 million respectively (31 December 2011: approximately HK$673.9 million and HK$13.6 million respectively) mainly due to depreciation and amortisation charges incurred during the six months ended 30 June 2012.

Charge on assets

The bank loans are granted to CVMSB and secured by way of:

(i) a legal charge over the land and factory building to be erected thereon held by CVMSB;

(ii) assignment of trade receivables derived by CVMSB;

(iii) a debenture creating fixed and floating legal charge over all present and future assets of CVMSB excluding the performance bonds;

(iv) assignment of all CVMSB's rights, entitlement and interest in and to all building contracts, design drawings and other contracts pertaining to the magnesium ingot project (the "**Project**");

(v) an assignment of all CVMSB rights, benefits and interest under insurance undertaken by CVMSB as part of its operations for the Project;

(vi) an assignment over the existing revenue accounts maintained at Bank Rakyat and monies standing to the credit of the revenue account in favour of the bank, the revenue account shall be operated solely by the bank;

(vii) a first fixed charge/assignment over the retorts of CVMSB;

(viii) an assignment over the insurance policies of the retorts of CVMSB; and

(ix) any other securities as may be advised by the appointed legal counsel.

Human resources

As at 30 June 2012, the Group had a total of approximately 297 employees (31 December 2011: 224 employees). Total staff costs (including Directors' remuneration) for the six months ended 30 June 2012 were approximately HK$11.6 million (six months ended 30 June 2011: HK$6.0 million) representing approximately 26% (six months ended 30 June 2011: 24%) of the Group's total cost of sales and administrative expenses. Employees are remunerated based on their performance, experience and industry practice. Bonuses are rewarded based on individual staff performance and in accordance with the Group's overall remuneration policies. The Group's management reviewed the remuneration policies and packages on a regular basis.

Capital commitments and contingent liabilities

As at 30 June 2012, the Group has HK$4.0 million of capital commitments (31 December 2011: HK$20.1 million).

As at 30 June 2012, the Company has issued corporate guarantees totalling approximately RM184,600,000 (equivalent to approximately HK$450,538,400) (31 December 2011: approximately RM184,600,000 (equivalent to approximately HK$450,538,000)) to a bank in respect of bank loan facilities granted to CVMSB.

The Directors do not consider it probable that a claim will be made against the Company under the corporate guarantees. The maximum liability of the Company as at 30 June 2012 under the corporate guarantees issued is approximately RM171,383,600 (equivalent to approximately HK$418,282,200) (31 December 2011: approximately RM171,300,000 (equivalent to approximately HK$420,000,000)).

In addition, as at 30 June 2012, the Company has issued corporate guarantees totalling RM1,850,000 (equivalent to approximately HK$4,515,100) (31 December 2011: RM1,850,000 (equivalent to approximately HK$4,535,900)) to two suppliers in respect of the purchase of liquefied petroleum gas made by CVMSB.

As at 30 June 2012, the Company has issued corporate guarantees totalling approximately RM1,636,900 (equivalent to approximately HK$3,995,000) (31 December 2011: approximately RM1,272,026 (equivalent to approximately HK$3,118,800)) for finance lease creditors in respect of the purchase of motor vehicles and equipment by CVMSB.

The Company has not recognised any deferred income in respect of the corporate guarantees as its fair value cannot be reliably measured and its transaction price was nil for the six months ended 30 June 2012 and year ended 31 December 2011.

LITIGATION

On 6 June 2012, the Company has been served with a Summons in a Civil Case issued on 7 March 2012 by the District Court of New Jersey, the United States of America (the "**Court**") and a complaint (the "**Complaint**") dated 2 March 2012 served by Magnesium.com Inc. (the "**Plaintiff**"), in which the Company is named as one of seven defendants (the "**Defendants**").

The Complaint relates, inter alia, to alleged breaches of a non-disclosure and non-circumvention agreement and a magnesium sale and purchase agreement, both made between the Company and the Plaintiff. In the Complaint, the Plaintiff claims against the Defendants, jointly and severally, damages in excess of US$10,000,000.

The Company has appointed a firm of legal counsel in New Jersey (the "**US lawyer**s") to represent the Company to defend itself against the Complaint. Given that the litigation process is still at an early stage, the Board considers that it is not practical to assess its potential impact on the Group at the moment, although, at this stage, its assessment is that the allegations in the Complaint have no substance.

On 28 August 2012 the US lawyer had filed the motion to dismiss at the Court.

Please refer to the Company's announcement dated 19 June 2012 for further details.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2012

(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2012 HK$ (Unaudited)	2011 HK$ (Unaudited)
Turnover	4	**5,393,429**	5,690,103
Cost of sales		**(27,756,702)**	(11,716,733)
Gross loss		**(22,363,273)**	(6,026,630)
Other revenue	5	**93,080**	176,813
Other net (loss)/income	6	**(111,845)**	3,260,893
Selling and distribution expenses		**(26,655)**	(287,230)
Administrative expenses		**(17,660,276)**	(13,778,664)
Loss from operations		**(40,068,969)**	(16,654,818)
Finance costs	7(a)	**(33,820,874)**	(28,080,787)
Loss before taxation	7	**(73,889,843)**	(44,735,605)
Income tax	8	**—**	—
Loss for the period		**(73,889,843)**	(44,735,605)
Attributable to:			
Owners of the Company		**(72,915,568)**	(45,491,238)
Non-controlling interests		**(974,275)**	755,633
Loss for the period		**(73,889,843)**	(44,735,605)
Loss per share	9		
Basic and diluted		**(1.93 cents)**	(1.50 cents)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2012	2011
	HK$	HK$
	(Unaudited)	(Unaudited)
Loss for the period	**(73,889,843)**	(44,735,605)
Other comprehensive income for the period		
Exchange differences on translation of financial statements of overseas subsidiaries, net of nil tax	**536,071**	6,273,072
Total comprehensive loss for the period	**(73,353,772)**	(38,462,533)
Attributable to:		
Owners of the Company	**(72,322,807)**	(39,221,888)
Non-controlling interests	**(1,030,965)**	759,355
Total comprehensive loss for the period	**(73,353,772)**	(38,462,533)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

(Expressed in Hong Kong dollars)

	Note	As at 30 June 2012 HK$ (Unaudited)	As at 31 December 2011 HK$ (Audited)
Non-current assets			
Property, plant and equipment	12		
— Property, plant and equipment		**664,170,276**	673,894,736
— Interest in leasehold land held for own use under operating lease		**13,448,095**	13,580,986
Goodwill	13	**419,723,626**	220,209,759
Exploration and evaluation assets	14	**84,175,753**	84,374,090
Mining deposit		**219,655**	220,664
		1,181,737,405	992,280,235
Current assets			
Inventories	15	**35,778,446**	39,741,240
Trade receivables	16	**2,029,824**	—
Prepayments, deposits and other receivables	17	**28,161,686**	26,089,992
Pledged deposit	18	**321,366**	48,338
Cash at bank and in hand		**3,728,070**	28,194,751
		70,019,392	94,074,321
Current liabilities			
Trade and other payables	19	**37,030,534**	26,878,722
Obligations under finance leases	20	**1,168,011**	1,138,117
Amounts due to related parties		**511,029**	660,969
Convertible bonds	21	**173,533,353**	26,159,373
Bank loans — secured	22	**418,282,214**	419,997,065
Unsecured loans from third parties	23	**100,000,000**	100,000,000
		730,525,141	574,834,246
Net current liabilities		**(660,505,749)**	(480,759,925)
Total assets less current liabilities		**521,231,656**	511,520,310

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

(Expressed in Hong Kong dollars)

	Note	**As at 30 June 2012 HK$ (Unaudited)**	As at 31 December 2011 HK$ (Audited)
Non-current liabilities			
Obligations under finance leases	20	**2,321,700**	2,924,904
Unsecured loan from a third party	23	**50,000,000**	50,000,000
Deferred tax liabilities		**16,649,071**	16,649,071
		68,970,771	69,573,975
Net assets		**452,260,885**	441,946,335
Capital and reserves			
Share capital	24(a)	**104,442,014**	87,942,014
Reserves		**310,123,931**	315,786,738
Total equity attributable to owners of the Company		**414,565,945**	403,728,752
Non-controlling interests		**37,694,940**	38,217,583
Total equity		**452,260,885**	441,946,335

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012
(Expressed in Hong Kong dollars)

		Attributable to owners of the Company									
	Note	Share capital HK$	Share premium HK$	Exchange reserve HK$	Capital reserve HK$	Convertible bond equity reserve HK$	Other reserve HK$	Accumulated losses HK$	Total HK$	Non-controlling interests HK$	Total equity HK$
At 1 January 2011		62,988,889	271,608,063	29,344,462	–	–	30,856,527	(75,912,290)	318,885,651	159	318,885,810
Changes in equity for the period:											
(Loss)/profit for the period		–	–	–	–	–	–	(45,491,238)	(45,491,238)	755,633	(44,735,605)
Other comprehensive income		–	–	6,269,350	–	–	–	–	6,629,350	3,722	6,273,072
Total comprehensive income/(loss) for the period		–	–	6,269,350	–	–	–	(45,491,238)	(39,221,888)	759,355	(38,462,533)
Acquisition of subsidiaries		–	–	–	–	–	–	–	–	(59,059)	(59,059)
Shares issued pursuant to the share placing		8,500,000	69,020,000	–	–	–	–	–	77,520,000	–	77,520,000
Expenses incurred for placing of shares		–	(1,938,000)	–	–	–	–	–	(1,938,000)	–	(1,938,000)
Shares issued for acquisition of subsidiaries		16,328,125	192,671,875	–	–	–	–	–	209,000,000	–	209,000,000
Capital contribution from non-controlling interests		–	–	–	–	–	–	–	–	520,434	520,434
Warrants issued pursuant to the warrant placing		–	–	–	819,500	–	–	–	819,500	–	819,500
Conversion of warrants to shares		125,000	1,250,000	–	(25,000)	–	–	–	1,350,000	–	1,350,000
At 30 June 2011 (Unaudited)		87,942,014	532,611,938	35,613,812	794,500	–	30,856,527	(121,403,528)	566,415,263	1,220,889	567,636,152
At 1 January 2012		**87,942,014**	**532,611,938**	**18,072,409**	**1,338,136**	**16,197,675**	**30,856,527**	**(283,289,947)**	**403,728,752**	**38,217,583**	**441,946,335**
Changes in equity for the period:											
Loss for the period		**–**	**–**	**–**	**–**	**–**	**–**	**(72,915,568)**	**(72,915,568)**	**(974,275)**	**(73,889,843)**
Other comprehensive income/(loss)		**–**	**–**	**592,761**	**–**	**–**	**–**	**–**	**592,761**	**(56,690)**	**536,071**
Total comprehensive income/(loss) for the period		**–**	**–**	**592,761**	**–**	**–**	**–**	**(72,915,568)**	**(72,322,807)**	**(1,030,965)**	**(73,353,772)**
Acquisition of subsidiaries		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**467,068**	**467,068**
Shares issued for acquisition of subsidiaries	24(b)	**16,500,000**	**66,660,000**	**–**	**–**	**–**	**–**	**–**	**83,160,000**	**–**	**83,160,000**
Capital contribution from non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**41,254**	**41,254**
Expiration of warrants		**–**	**–**	**–**	**(794,500)**	**–**	**794,500**	**–**	**–**	**–**	**–**
At 30 June 2012 (Unaudited)		**104,442,014**	**599,271,938**	**18,665,170**	**543,636**	**16,197,675**	**31,651,027**	**(356,205,515)**	**414,565,945**	**37,694,940**	**452,260,885**

Note: On 17 February 2011, the Company issued 163,900,000 warrants at HK$0.005 each to ten independent third parties. These warrants entitled the holders to subscribe for 163,900,000 new shares of the Company at a subscription price of HK$0.27 each for a period of 12 months commencing from the date of issue of the warrants. Only 5,000,000 warrants were exercised leaving a balance of 158,900,000 warrants which were expired on 16 February 2012.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 June 2012 HK$ (Unaudited)	2011 HK$ (Unaudited)
Operating activities			
Net cash used in operating activities		**(26,572,367)**	(17,273,125)
Investing activities			
Acquisition of subsidiaries, net of cash acquired	25	**(9,973,980)**	(10,987,341)
Payment for purchase of property, plant and equipment		**(2,281,109)**	(70,374,461)
Others		**(250,494)**	1,543,772
Net cash used in investing activities		**(12,505,583)**	(79,818,030)
Financing activities			
Payment of transaction costs on issue of shares		**—**	(1,938,000)
Proceeds from the issue of shares		**—**	77,520,000
Proceeds from bank loans, net of transaction costs		**—**	335,008,375
Proceeds from the issue of warrants		**—**	819,500
Proceeds from an unsecured loan		**—**	50,000,000
Proceeds from convertible bonds, net of transaction costs		**36,075,000**	—
Conversion of warrants to shares		**—**	1,350,000
Repayment of bank loans		**—**	(308,181,228)
Interest paid on bank loans		**(10,374,113)**	(16,523,851)
Interest paid on unsecured loans from third parties		**(10,500,000)**	—
Interest paid on convertible bonds		**—**	(8,700,000)
Others		**(637,788)**	(597,927)
Net cash generated from financing activities		**14,563,099**	128,756,869
Net (decrease)/increase in cash and cash equivalents		**(24,514,851)**	31,665,714
Cash and cash equivalents at beginning of the period		**28,194,751**	44,039,009
Effect of foreign exchange rate changes		**48,170**	(395,872)
Cash and cash equivalents at end of the period		**3,728,070**	75,308,851

1 COMPANY INFORMATION

CVM Minerals Limited (the "**Company**") is a company incorporated in Hong Kong. The condensed consolidated interim financial statements of the Company as at and for the six months ended 30 June 2012 comprises the Company and its subsidiaries (together referred to as the "**Group**"). The Group is primarily involved in mining of dolomite and manufacture of magnesium ingots, exploration of iron ore, coal and manganese, and extraction and bottling of mineral water (see note 11).

2 BASIS OF PREPARATION OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements of the Group have been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 31 December 2011. These condensed consolidated interim financial statements do not include all the information and disclosures required for the full annual financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2011.

The condensed consolidated interim financial statements have been prepared under the historical cost convention.

In preparing the condensed consolidated interim financial statements, the Directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that:

(i) The Group incurred a loss attributable to owners of the Company of HK$72,915,568 for the six months ended 30 June 2012 (six months ended 30 June 2011: HK$45,491,238) and, as at 30 June 2012 the Group's current liabilities exceeded its current assets by HK$660,505,749 (31 December 2011: HK$480,759,925);

(ii) Included in current liabilities in the condensed consolidated interim financial statements are unsecured loans from third parties of HK$100,000,000 (31 December 2011: HK$100,000,000) which are scheduled for repayment in May 2013; and

(iii) Secured bank loans of HK$418,282,214 (31 December 2011: HK$419,997,065) will be due immediately if the Group is unable to fulfill the covenants set out in the facilities agreements.

2 BASIS OF PREPARATION OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

The Directors of the Company have taken and/or will take the following actions to mitigate the liquidity issues faced by the Group:

(i) The Directors of the Company review the Group's cash position regularly and if need be, will re-negotiate with the unsecured loan holders to restructure the repayment terms;

(ii) Subsequent to the end of the reporting period, the Company had announced on 1 August 2012 that the appointed placing agent, Cheong Lee Securities Limited had procured three placees, who and their ultimate beneficial owners are independent third parties of the Company, to subscribe for an aggregate 835,000,000 ordinary shares of the Company at HK$0.05 each raising an aggregate of HK$41,750,000 which will be used for the Group's general working capital; and

(iii) The Group is seeking investors or strategic partners for the Group's projects in the Republic of Indonesia ("**Indonesia**").

The Directors of the Company consider that taking into account the above, the cash requirements of the Group for the next twelve months from the end of the reporting period and the Group's ability to attain future profitable operations in CVM Magnesium Sdn. Bhd. ("**CVMSB**") and a newly acquired subsidiary, Long Chuan Shen Long Mineral Water Co. Ltd (龍川升龍礦泉有限公司), all existing banking facilities will be continuously available for the Group's use and the Group will have sufficient working capital to meet in full their financial obligations as they fall due for the foreseeable future. Accordingly, the condensed consolidated interim financial statements have been prepared on a going concern basis.

Should the Group be unable to operate as a going concern, adjustments would have to be made to write down the value of all assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these potential adjustments have not been reflected in the condensed consolidated interim financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Group in the condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2011.

The HKICPA has issued a number of new and revised HKFRSs. For those which are effective for accounting periods beginning on 1 January 2012, the adoption has no significant impact on the Group's results and financial position; and for those which are not yet effective, the Group is in the process of assessing their impact on the Group's results and financial position.

4 TURNOVER

Turnover represents the sales value of magnesium ingots and bottled mineral water supplied to customers during the period.

(Expressed in Hong Kong dollars unless otherwise indicated)

5 OTHER REVENUE

	Six months ended 30 June	
	2012	2011
	HK$	HK$
	(Unaudited)	(Unaudited)
Interest income	**31,684**	176,813
Rental income from drilling machines	**61,396**	—
	93,080	176,813

6 OTHER NET (LOSS)/INCOME

	Six months ended 30 June	
	2012	2011
	HK$	HK$
	(Unaudited)	(Unaudited)
Gain on disposal of property, plant and equipment	**—**	51,540
Net foreign exchange (losses)/gains	**(67,214)**	219,866
Waiver of debts due to other creditors	**—**	2,989,487
Written off of property, plant and equipment	**(44,631)**	—
	(111,845)	3,260,893

The waiver of debts in the six months ended 30 June 2011 was due to other creditors of the subsidiaries acquired in prior years.

(Expressed in Hong Kong dollars unless otherwise indicated)

7 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	Six months ended 30 June	
	2012	2011
	HK$	HK$
	(Unaudited)	(Unaudited)
(a) Finance costs:		
Interest on bank loans*:		
— wholly repayable within five years	**—**	7,672,609
— wholly repayable after five years	**18,598,817**	6,853,628
	18,598,817	14,526,237
Interest on convertible bonds	**4,458,980**	11,427,516
Interest on unsecured loans from third parties:		
— wholly repayable within five years	**7,459,016**	—
— wholly repayable after five years	**2,980,495**	—
	10,439,511	—
Amortisation of loan transaction costs	**210,041**	246,695
Finance charges on obligations under finance leases	**107,734**	129,420
Other borrowing costs	**5,791**	1,750,919
	15,222,057	13,554,550
	33,820,874	28,080,787

* The analysis of the finance costs on bank loans, including term loans which contain a repayment on demand clause, in accordance with the agreed scheduled repayment dates set out in the loan agreements. For the six months ended 30 June 2012 and 2011, the interest on bank loans which contain a repayment on demand clause amounted to HK$18,598,817 and HK$14,526,237, respectively.

(Expressed in Hong Kong dollars unless otherwise indicated)

7 LOSS BEFORE TAXATION *(continued)*

	Six months ended 30 June 2012 HK$ (Unaudited)	Six months ended 30 June 2011 HK$ (Unaudited)
(b) Staff costs (including directors' remuneration):		
Salaries, wages, bonuses and other benefits	**11,063,779**	5,736,405
Contributions to defined contribution retirement plan	**628,223**	310,596
	11,692,002	6,047,001

	Six months ended 30 June 2012 HK$ (Unaudited)	Six months ended 30 June 2011 HK$ (Unaudited)
(c) Other items:		
Amortisation of exploration and evaluation assets	**102,218**	104,432
Amortisation of interest in leasehold land held for own use under operating lease	**72,922**	74,502
Auditors' remuneration:		
— provision for current period	**407,320**	290,771
— over-provision for previous years	**(7,992)**	—
	399,328	290,771
Cost of inventories sold	**27,756,702**	11,716,733
Depreciation	**12,566,098**	13,052,248
Exploration and evaluation assets written off	**—**	592,644
Operating lease charges in respect of:		
— office premises	**813,234**	671,936
— office equipment	**94,768**	29,989
— staff housing	**6,030**	—
Provision for doubtful debts	**—**	10,687

For the six months ended 30 June 2012, the cost of inventories sold of HK$10,310,353 (six months ended 30 June 2011: HK$13,489,783) relating to staff costs, depreciation and amortisation which amount is also included in the respective total amounts disclosed separately above or in note 7(b) for each of these types of expenses.

(Expressed in Hong Kong dollars unless otherwise indicated)

8 INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operated.

No provision for Hong Kong Profits Tax has been made as the Group did not have assessable profit which is subject to Hong Kong Profits Tax for the six months ended 30 June 2012 and 2011.

No provision for Malaysian Income Tax has been made as the Group did not have assessable profit which is subject to Malaysian Income Tax for the six months ended 30 June 2012 and 2011.

No provision for Indonesian Income Tax has been made as the Group did not have assessable profit which is subject to Indonesian Income Tax for the six months ended 30 June 2012 and 2011.

No provision for Income Tax of the People's Republic of China (the "**PRC**") has been made as the Group did not have assessable profit which is subject to the PRC Income Tax for the six months ended 30 June 2012.

Pursuant to the rules and regulations of the British Virgin Islands, the Group is not subject to any income tax in this jurisdiction.

As at 30 June 2012, the Group has not recognised deferred tax assets in respect of accumulated tax losses (31 December 2011: approximately HK$96,224,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions. The tax losses do not expire under current tax legislation except for those losses made by the PRC subsidiary which will be expired within five years from the year of incurrence. Other temporary differences are not material.

9 LOSS PER SHARE

(a) Basic loss per share

The calculation of loss per share is based on the loss attributable to owners of the Company of HK$72,915,568 (six months ended 30 June 2011: HK$45,491,238) and the weighted average of 3,786,032,204 (30 June 2011: 3,042,114,258) ordinary shares in issue during the six months ended 30 June 2012, calculated as follows:

Weighted average number of ordinary shares:

	Note	**2012**	2011
Issued ordinary shares as at 1 January		**3,517,680,556**	2,519,555,556
Effect of issue of new shares pursuant to an acquisition	24(b)	**268,351,648**	263,415,056
Effect of issue of new shares pursuant to the share placing		**—**	257,348,066
Effect of issue of new shares pursuant to conversion of warrants		**—**	1,795,580
Weighted average number of ordinary shares as at 30 June		**3,786,032,204**	3,042,114,258

9 LOSS PER SHARE *(continued)*

(b) Diluted loss per share

The computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible bonds and warrants since their exercise would result in a decrease in loss per share.

10 INTERIM DIVIDENDS

The Directors do not recommend the payment of any dividend for the six months ended 30 June 2012 and 2011.

11 SEGMENT REPORTING

The Group has identified the reportable segments set out below. The segment information reported internally to the Group's most senior executive management (being the chief operating decision maker) ("**CODM**") for the purposes of resources allocation and performance assessment is the same as those reported in the condensed consolidated interim financial statements.

Mining of dolomite and manufacture of magnesium ingots	This segment includes trading of magnesium ingots. Currently, the Group's trading activities are mainly carried out in Japan and Malaysia.
Exploration of iron ore, coal and manganese	This segment is engaged in the exploration of iron ore, coal and manganese in Indonesia. The activities carried out in Indonesia are through non-wholly owned subsidiaries.
Extraction and bottling of mineral water	This segment is engaged in the extraction and bottling of mineral water in the PRC. The activities carried out in the PRC are through non-wholly owned subsidiaries.

Extraction and bottling of mineral water segment is a new reportable segment in the current period through the acquisition of Victory Dragon and its subsidiary (see note 25(b)).

The accounting policies of the reportable segments are the same as those used for the preparation of the condensed consolidated interim financial statements.

(a) Segment results, assets and liabilities

For the purpose of assessing segment performance and allocating resources between segments, the Group's CODM monitors the results and liabilities attributable to each reportable segment on the following basis:

Segment assets included all non-current assets and current assets with the exception of pledged deposit, cash at bank and in hand and other corporate assets. Segment liabilities included non-current liabilities and current liabilities with the exception of secured bank loans, convertible bonds, deferred tax liabilities, unsecured loans from third parties and other corporate liabilities.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from depreciation or amortisation of assets attributable to those segments.

(Expressed in Hong Kong dollars unless otherwise indicated)

11 SEGMENT REPORTING *(continued)*

(a) Segment results, assets and liabilities *(continued)*

Segment loss represents loss resulted by each segment without allocation of central administration costs including interest on secured bank loans, convertible bonds and unsecured loans from third parties, and directors' emoluments, etc. This is the measure reported to the Group's CODM for the purpose of resources allocation and assessment of segment performance.

	Mining of dolomite and manufacture of magnesium ingots HK$	Exploration of iron ore, coal and manganese HK$	Extraction and bottling of mineral water HK$	Total HK$
Six months ended 30 June 2012 (Unaudited)				
Reportable segment revenue	**4,791,729**	**—**	**601,700**	**5,393,429**
Segment loss	**(15,540,651)**	**(1,559,331)**	**(1,437,165)**	**(18,537,147)**
Interest income	**31,306**	**—**	**378**	**31,684**
Finance costs	**(18,909,597)**	**—**	**—**	**(18,909,597)**
Depreciation and amortisation	**(12,592,518)**	**(24,819)**	**(61,498)**	**(12,678,835)**
Written off of property, plant and equipment	**(44,631)**	**—**	**—**	**(44,631)**
Additions to segment non-current assets	**1,950,731**	**—**	**203,115,188**	**205,065,919**
As at 30 June 2012 (Unaudited)				
Segment assets	**731,645,610**	**301,629,383**	**206,734,427**	**1,240,009,420**
Segment liabilities	**(12,691,199)**	**(5,130,826)**	**(230,602)**	**(18,052,627)**

	Mining of dolomite and manufacture of magnesium ingots HK$	Exploration of iron ore, coal and manganese HK$	Extraction and bottling of mineral water HK$	Total HK$
Six months ended 30 June 2011 (Unaudited)				
Reportable segment revenue	5,690,103	—	—	5,690,103
Segment profit	1,555,197	1,414,064	—	2,969,261
Interest income	164,961	1,128	—	166,089
Finance costs	(16,653,271)	—	—	(16,653,271)
Depreciation and amortisation	(13,192,245)	(18,911)	—	(13,211,156)
Gain on disposal of property, plant and equipment	39,299	12,241	—	51,540
Additions to segment non-current assets	69,969,608	223,575,627	—	293,545,235
As at 31 December 2011 (Audited)				
Segment assets	750,810,759	301,571,025	—	1,052,381,784
Segment liabilities	(10,597,078)	(5,199,008)	—	(15,796,086)

(Expressed in Hong Kong dollars unless otherwise indicated)

11 SEGMENT REPORTING *(continued)*

(b) Reconciliations of reportable segment revenue, profit or loss, assets and liabilities

	Six months ended 30 June 2012 HK$ (Unaudited)	2011 HK$ (Unaudited)
Revenue		
Reportable segment revenue	**5,393,429**	5,690,103
Loss		
Reportable segment (loss)/profit	**(18,537,147)**	2,969,261
Depreciation and amortisation	**(12,741,238)**	(13,231,182)
Finance costs	**(33,820,874)**	(28,080,787)
Written off of property, plant and equipment	**(44,631)**	—
Gain on disposal of property, plant and equipment	**—**	51,540
Interest income	**31,684**	176,813
Other unallocated amounts	**(8,777,637)**	(6,621,250)
Consolidated loss before taxation	**(73,889,843)**	(44,735,605)

	As at 30 June 2012 HK$ (Unaudited)	As at 31 December 2011 HK$ (Audited)
Assets		
Reportable segment assets	**1,240,009,420**	1,052,381,784
Unallocated corporate assets:		
— Pledged bank deposit	**321,366**	48,338
— Cash at bank and in hand	**3,728,070**	28,194,751
— Others	**7,697,941**	5,729,683
Consolidated total assets	**1,251,756,797**	1,086,354,556
Liabilities		
Reportable segment liabilities	**(18,052,627)**	(15,796,086)
Unallocated corporate liabilities:		
— Bank loans, secured	**(433,552,215)**	(427,042,362)
— Convertible bonds	**(173,533,353)**	(26,159,373)
— Unsecured loans from third parties	**(156,313,594)**	(156,374,083)
— Deferred tax liabilities	**(16,649,071)**	(16,649,071)
— Others	**(1,395,052)**	(2,387,246)
Consolidated total liabilities	**(799,495,912)**	(644,408,221)

(Expressed in Hong Kong dollars unless otherwise indicated)

11 SEGMENT REPORTING *(continued)*

(c) Geographical information

The following tables set out information about geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, goodwill, exploration and evaluation assets and mining deposit ("**specified non-current assets**"). The geographical location of customers is based on the location at which the goods are delivered. The geographical location of the specific non-current assets is based on: (1) the physical location of the asset in case of property, plant and equipment; and (2) the location of the operations to which they are allocated, in case of goodwill.

	Japan Six months ended 30 June		Malaysia Six months ended 30 June		Others* Six months ended 30 June		Total Six months ended 30 June	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	HK$	HK$	**HK$**	HK$	**HK$**	HK$	**HK$**	HK$
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
Turnover	**4,629,247**	974,384	**162,482**	143,488	**601,700**	4,572,231	**5,393,429**	5,690,103

* Others principally included the PRC and the United States of America (the "USA").

	Hong Kong		Malaysia		Indonesia		PRC		Total	
	As at 30 June	As at 31 December	**As at 30 June**	As at 31 December	**As at 30 June**	As at 31 December	**As at 30 June**	As at 31 December	**As at 30 June**	As at 31 December
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
	HK$	HK$	**HK$**	HK$	**HK$**	HK$	**HK$**	HK$	**HK$**	HK$
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)	**(Unaudited)**	(Audited)
Specified non-current assets	**905,184**	957,993	**676,524,041**	690,011,102	**301,192,992**	301,311,140	**203,115,188**	–	**1,181,737,405**	992,280,235

(d) Information about major customers

Revenue from sales of goods to customers represents 10% or more of the Group's total revenue is shown as follows:

	Six months ended 30 June	
	2012	2011
	HK$	HK$
	(Unaudited)	(Unaudited)
Customer a	**2,758,333**	2,856,620
Customer b	**1,870,913**	1,716,610

(Expressed in Hong Kong dollars unless otherwise indicated)

12 PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2012, the Group acquired property, plant and equipment with a cost of approximately HK$5,619,590 (six months ended 30 June 2011: approximately HK$70,441,000), including assets acquired through business combination (see note 25) of HK$3,338,481 (six months ended 30 June 2011: HK$56,964), and no assets acquired under finance leases (six months ended 30 June 2011: HK$459,495).

Assets with a net carrying amount of HK$44,631 were written off during the six months ended 30 June 2012, which has been included in other revenue in the condensed consolidated income statement.

During the six months ended 30 June 2011, assets with carrying amount of HK$103,154 were disposed, resulting in a gain on disposal of HK$51,540, which has been included in other revenue in the condensed consolidated income statement.

13 GOODWILL

	2012 **HK$** **(Unaudited)**	2011 HK$ (Audited)
Cost:		
At 1 January	**299,735,666**	79,525,907
Additions through acquisition of subsidiaries	**199,513,867**	220,209,759
At 30 June/31 December	**499,249,533**	299,735,666
Accumulated impairment losses:		
At 1 January	**79,525,907**	—
Impairment loss	**—**	79,525,907
At 30 June/31 December	**79,525,907**	79,525,907
Carrying amount:		
At 30 June/31 December	**419,723,626**	220,209,759

The goodwill which has arisen from the acquisition of subsidiaries during the period ended 30 June 2012 is set out in note 25(b). In the opinion of the Directors of the Company, the goodwill represents the future economic benefits arising from the potential growth in the business acquired.

The goodwill which has arisen from the acquisition of subsidiaries during the period ended 30 June 2012 was determined on a provisional basis. In the opinion of the Directors of the Company, the provisional goodwill represents the potential fair value adjustments on the identified assets and liabilities acquired from the acquisition and consideration in terms of shares and convertible bonds, which included production operating mining permit for mineral water in the PRC. Goodwill was determined on a provisional basis as the Company is unable to complete the initial accounting of the acquisition during the period. As further discussed in note 25, goodwill arisen from the acquisition of subsidiaries during the current period was determined on a provisional basis as the Company is unable to complete the initial accounting of the acquisition during the current period.

(Expressed in Hong Kong dollars unless otherwise indicated)

14 EXPLORATION AND EVALUATION ASSETS

	2012 HK$ (Unaudited)	2011 HK$ (Audited)
Cost:		
At 1 January	**107,429,287**	108,257,732
Additions	**8,929**	—
Arising on acquisition of subsidiaries	**—**	252,884
Written off	**—**	(919,646)
Exchange adjustments	**(109,786)**	(161,683)
At 30 June/31 December	**107,328,430**	107,429,287
Accumulated amortisation and impairment:		
At 1 January	**23,055,197**	205,291
Charge for the period/year	**102,218**	207,108
Impairment loss	**—**	22,656,172
Exchange adjustments	**(4,738)**	(13,374)
At 30 June/31 December	**23,152,677**	23,055,197
Carrying amount:		
At 30 June/31 December	**84,175,753**	84,374,090

(i) The subsidiary, CVMSB, has undertaken various feasibility studies in relation to the mining and extraction of dolomite in Peninsular Malaysia since 2004. On 15 June 2006, CVMSB entered into an agreement (the "**Mining Agreement**") with Harta Perak Corporation Sdn. Bhd. ("**HPC**"), a subsidiary of the Perak State Development Corporation, a shareholder of the Company. Pursuant to the Mining Agreement, CVMSB has been granted, at no initial cost, an exclusive right to mine and extract magnesium dolomite from two pieces of land in the state of Perak, Malaysia for a period of 20 years, with an option to renew for a further period of 10 years. The Mining Agreement can be terminated early by the Group by giving one month's written notice to HPC. CVMSB is required to pay royalties to HPC based on the volume of dolomite extracted, subject to a monthly minimum payment (see note 26(b)).

Mining activities for this dolomite project had started and the amortisation charge relating to the project for the period is included in "administrative expenses" (six months ended 30 June 2011: "administrative expenses") in the condensed consolidated income statement.

(ii) PT. Commerce Venture Iron Ore ("**PTCV Iron**") and PT. Commerce Venture Coal ("**PTCV Coal**"), both indirectly held subsidiaries of the Company, are undertaking various feasibility studies in relation to the mining and extraction of coal, iron ore and manganese in Indonesia.

PTCV Coal holds exploration mining permits for (i) coal exploration in an area of 10,000 hectares in Beutong and Tadu Raya Subdistrict, Nagan Raya Regency, Nanggroe Aceh Darussalam Province of Indonesia, valid until 7 October 2013 ("**Permit 1**"); and (ii) manganese exploration in an area of 3,710 hectares in Bakongan Subdistrict, South Aceh Regency, Nanggroe Aceh Darussalam Province of Indonesia, valid until 5 November 2012 ("**Permit 2**").

(Expressed in Hong Kong dollars unless otherwise indicated)

14 EXPLORATION AND EVALUATION ASSETS *(continued)*

(ii) (Continued)

PTCV Iron holds exploration mining permits for (i) coal exploration in an area of 9,825 hectares in Kuala and Tadu Raya Subdistrict, Nagan Raya Regency, Nanggroe Aceh Darussalam Province of Indonesia, valid until 5 March 2014 ("**Permit 3**"); and (ii) iron ore exploration in an area of 450 hectares in Panangalan Subdistrict, Subulussalam City, Nanggroe Aceh Darussalam Province of Indonesia, valid until 14 December 2012 ("**Permit 4**").

Based on Indonesian Mining Law (Law No. 4 of 2009), an exploration mining permit for coal can be given for a maximum period of 7 years while an exploration mining permit for iron ore or manganese can only be given for a maximum period of 8 years. Production operation mining permits are guaranteed to be granted for undertaking the production operation stage activity which may be valid for up to 20 years and may be extended two times for 10 years each time. In the opinion of the Directors of the Company, applications for extension will be granted to the Group ultimately without material additional costs.

(iii) PT. Laksbang Mediatama ("**PTLM**") has been granted a production operation mining permit for manganese in an area of 195 hectares in the Jatimulyo Village, Girimulyo Subdistrict, Kulon Progo Regency, Daerah Istimewa Yogyakarta Province, Indonesia, ("**Mining area**"). The permit is used for mining activities including construction, mining, processing and refining or smelting as well as hauling and sales of manganese in the Mining area. The production operation mining permit is valid for a period of 10 years from 24 February 2011 and is capable of being extended for two further terms of 10 years each at the maximum. PTLM has been undertaking various feasibility studies in relation to the mining of and exploration for manganese in the Mining area.

15 INVENTORIES

Inventories in the condensed consolidated statement of financial position comprise:

	As at 30 June 2012 HK$ (Unaudited)	As at 31 December 2011 HK$ (Audited)
Raw materials	**6,675,173**	6,473,544
Work-in-progress	**17,249,527**	17,391,362
Finished goods	**11,853,746**	15,876,334
	35,778,446	39,741,240

(Expressed in Hong Kong dollars unless otherwise indicated)

16 TRADE RECEIVABLES

	As at 30 June 2012 HK$ (Unaudited)	As at 31 December 2011 HK$ (Audited)
Trade receivables	**2,029,824**	—

All of the trade receivables are expected to be recovered within 1 year.

(a) Ageing analysis

An ageing analysis of trade receivables, based on the invoice date, is as follows:

	As at 30 June 2012 HK$ (Unaudited)	As at 31 December 2011 HK$ (Audited)
Current, neither past due nor impaired	**2,029,824**	—

Trade receivables related to sales of magnesium ingots and bottled mineral water are due within 15 days from the date of the bill of lading for export sales or date of invoice for local sales and 60 days from date of invoice, respectively. Receivables that were neither past due nor impaired related to independent customers that have a good track record with the Group. Based on past experience, the Directors of the Company believed that no impairment allowance was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable. The Group does not hold any collateral over these balances.

(b) As at 30 June 2012, trade receivables of HK$1,712,192 (31 December 2011: Nil) are pledged as collateral for banking facilities granted to the Group (see note 22).

(Expressed in Hong Kong dollars unless otherwise indicated)

17 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 30 June 2012 HK$ (Unaudited)	As at 31 December 2011 HK$ (Audited)
Other receivables	**3,131,731**	3,857,672
Advance payment to a contractor	**9,561,084**	9,604,967
Government grant receivables	**—**	922,714
Deposits and prepayments	**15,468,871**	11,699,988
Amount due from a related party	**—**	4,651
	28,161,686	26,089,992

Apart from certain of the Group's deposits and prepayments of HK$5,780,868 as at 30 June 2012 (31 December 2011: HK$4,976,918), the remaining prepayments, deposits and other receivables of the Group are expected to be recovered or recognised as expenses within 1 year.

Amount due from a related party disclosed pursuant to section 161B of the Hong Kong Companies Ordinance is as follows:

		The Group		
Name	**Term of loan**	**Balance at 30 June 2012 HK$ (Unaudited)**	Balance at 31 December 2011 HK$ (Audited)	Maximum amount of repayment during the year HK$ (Unaudited)
HWG Tin Mining Sdn. Bhd. ("**HWGTM**")	Interest-free, unsecured and has no fixed terms of repayment	**—**	4,651	4,651

HWGTM is a subsidiary of Ho Wah Genting Berhad which is a shareholder of the Company. The amount was non-trade in nature.

18 PLEDGED DEPOSIT

The Group's deposit of HK$321,366 (31 December 2011: HK$48,338) is pledged to a bank for loan facilities granted to the Group (see note 22).

The pledged deposit was in Ringgit Malaysia with interest rates ranging from 1.67% p.a. to 3.68% p.a. (31 December 2011: rates ranging from 2.16% p.a. to 2.78% p.a.).

(Expressed in Hong Kong dollars unless otherwise indicated)

19 TRADE AND OTHER PAYABLES

	As at 30 June 2012 HK$ (Unaudited)	As at 31 December 2011 HK$ (Audited)
Trade payables	**355,799**	1,651,591
Accrued interest on secured bank loans	**15,270,001**	7,045,297
Accrued interest on unsecured loans	**6,313,594**	6,374,083
Payables for installation of equipment	**5,725,384**	—
Other payables and accrued expenses	**9,365,756**	11,807,751
	37,030,534	26,878,722

All of the above payables are expected to be settled or recognised as income within 1 year, or are repayable on demand.

An ageing analysis of trade payables is as follows:

	As at 30 June 2012 HK$ (Unaudited)	As at 31 December 2011 HK$ (Audited)
Current	**4,884**	1,529,829
Due within 3 months	**104,305**	105,663
Due after 3 months but within 12 months	**246,610**	16,099
	355,799	1,651,591

(Expressed in Hong Kong dollars unless otherwise indicated)

20 OBLIGATIONS UNDER FINANCE LEASES

As at 30 June 2012, the Group had obligations under finance leases repayable as follows:

	As at 30 June 2012		As at 31 December 2011	
	Present value of the minimum lease payments HK$ (Unaudited)	**Total minimum lease payments HK$ (Unaudited)**	Present value of the minimum lease payments HK$ (Audited)	Total minimum lease payments HK$ (Audited)
Within 1 year	**1,168,011**	**1,326,538**	1,138,117	1,331,768
After 1 year but within 2 years	**1,213,231**	**1,303,061**	1,207,103	1,331,768
After 2 years but within 5 years	**1,108,469**	**1,172,537**	1,648,493	1,748,121
After 5 years	**—**	**—**	69,308	70,495
	2,321,700	**2,475,598**	2,924,904	3,150,384
	3,489,711	**3,802,136**	4,063,021	4,482,152
Less: total future interest expenses		**(312,425)**		(419,131)
Present value of lease obligations		**3,489,711**		4,063,021

The policies of the Group are to lease certain of its motor vehicles and equipment under finance leases expiring in 4 to 9 years (31 December 2011: 4 to 9 years). As at 30 June 2012, the average effective borrowing rate of the Group was 6.2% p.a. (31 December 2011: 6.8% p.a.). Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. At the end of each lease term, the Group has an option to purchase the motor vehicles and equipment at nominal prices.

(Expressed in Hong Kong dollars unless otherwise indicated)

21 CONVERTIBLE BONDS

(a) On 1 September 2011, the Company entered into a placing agreement with a placing agent, Cheong Lee Securities Limited for the issue of convertible bonds with maturity date on the third anniversary of the date of issue for an aggregate principal amount of HK$80,000,000. The convertible bonds bear interest at 10% p.a. payable annually and are unsecured. As at the end of reporting period, the aggregate amount of convertible bonds being available was HK$80,000,000 (31 December 2011: HK$43,000,000).

The bondholders at any time before maturity can convert the whole or part of the principal amount of the convertible bonds into ordinary shares of the Company at the conversion price of HK$0.10 per share.

Upon maturity any unredeemed and unconverted bonds will be redeemed at 100% of the outstanding principal amount in cash.

The convertible bonds may be early redeemed at 100% of the outstanding principal amount of the bond at any time at the option of the Company up to maturity provided that the Company has given not less than 7 business days' prior notice to the bondholder(s) of its intention to make that redemption.

Drawdown date Drawdown amount	2 December 2011 HK$26,000,000 Tranche 1 HK$	30 December 2011 HK$17,000,000 Tranche 2 HK$	16 January 2012 HK$10,000,000 Tranche 3 HK$	5 March 2012 HK$10,000,000 Tranche 4 HK$	23 March 2012 HK$17,000,000 Tranche 5 HK$	Total HK$
At 1 January 2012	16,119,801	10,039,572	–	–	–	26,159,373
Nominal value of convertible bonds issued	–	–	10,000,000	10,000,000	17,000,000	37,000,000
Interest charged for the period	1,293,650	845,353	471,535	318,798	457,978	3,387,314
Capitalisation of transaction costs	–	–	(250,000)	(250,000)	(425,000)	(925,000)
At 30 June 2012	17,413,451	10,884,925	10,221,535	10,068,798	17,032,978	65,621,687

With regard to tranches 1 and 2, the interest charged for the six months ended 30 June 2012 is calculated by applying an effective interest rate with a range from 32.03% p.a. to 33.73% p.a. (six months ended 30 June 2011: Nil).

With regard to tranches 3, 4 and 5, no fair values were determined for the convertible bonds issued on 16 January 2012, 5 March 2012 and 23 March 2012. The interest charged for the six months ended 30 June 2012 is calculated by applying their coupon interest rate, i.e. 10% p.a. for the number of days to the end of reporting period since the bonds were issued (six months ended 30 June 2011: Nil).

(Expressed in Hong Kong dollars unless otherwise indicated)

21 CONVERTIBLE BONDS *(continued)*

(b) On 18 April 2012, the Company issued convertible bonds with maturity date on the fifth anniversary of the date of issue for an aggregate principal amount of HK$106,840,000 as part consideration for the acquisition of Victory Dragon (see note 25(b)). The convertible bonds bear interest at 5% p.a. payable annually and are unsecured. As at the end of reporting period, the aggregate amount of convertible bonds being available was HK$106,840,000 (31 December 2011: Nil).

The bondholder of the convertible bonds at any time before maturity can convert the whole or part of the principal amount of the convertible bonds into ordinary shares of the Company at the conversion price of HK$0.12 per share.

Upon maturity any unredeemed and unconverted bonds will be redeemed at 100% of the outstanding principal amount in cash.

The convertible bonds may be early redeemed at 100% of the outstanding principal amount of the bond at any time at the option of the Company up to maturity provided that the Company has given not less than 7 business days' prior notice to the bondholder of its intention to make that redemption.

Drawdown date	**18 April 2012**
Drawdown amount	**HK$106,840,000**
	HK$
Nominal value of convertible bonds issued	106,840,000
Interest charged for the period	1,071,666
At 30 June 2012	107,911,666

No fair value was determined for the convertible bonds issued on 18 April 2012. The interest charged for the six months ended 30 June 2012 is calculated by applying their coupon interest rate, i.e. 5% p.a. for the number of days to the end of reporting period since the bonds were issued (six months ended 30 June 2011: Nil).

22 BANK LOANS — SECURED

	As at 30 June 2012			As at 31 December 2011		
		Less:			Less:	
	Nominal value	**Unamortised costs**	**Total**	Nominal value	Unamortised costs	Total
	HK$	**HK$**	**HK$**	HK$	HK$	HK$
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	(Audited)	(Audited)	(Audited)
Bank loans, secured	**421,304,226**	**(3,022,012)**	**418,282,214**	423,237,934	(3,240,869)	419,997,065

(Expressed in Hong Kong dollars unless otherwise indicated)

22 BANK LOANS — SECURED *(continued)*

As at 30 June 2012, interest bearing bank loans are due for repayment as follows:

	As at 30 June 2012 HK$ (Unaudited)	As at 31 December 2011 HK$ (Audited)
Portion of term loans due for repayment within 1 year	**—**	—
Term loans due for repayment after 1 year:		
After 1 year but within 2 years	**41,999,370**	—
After 2 years but within 5 years	**295,095,544**	255,435,464
After 5 years	**81,187,300**	164,561,601
	418,282,214	419,997,065
	418,282,214	419,997,065

The amounts due are based on the scheduled repayment dates set out in the loan agreement and ignored the effect of any repayment on demand clause.

	2012 HK$ (Unaudited)	2011 HK$ (Audited)
Transaction costs		
Cost:		
At 1 January	**9,609,383**	9,978,097
Exchange adjustments	**43,556**	(368,714)
At 30 June/31 December	**9,652,939**	9,609,383
Accumulated amortisation:		
At 1 January	**6,368,514**	6,189,969
Amortisation for the period/year	**210,041**	457,410
Exchange adjustments	**52,372**	(278,865)
At 30 June/31 December	**6,630,927**	6,368,514
Unamortised transaction costs at 30 June /31 December	**3,022,012**	3,240,869

22 BANK LOANS — SECURED *(continued)*

The secured bank loans as at 30 June 2012 are interest bearing at 8.6% p.a. (31 December 2011: 8.6% p.a.). These bank loans were restructured on 25 July 2011 by Bank Kerjasama Rakyat Malaysia Berhad ("**Bank Rakyat**"). In accordance with the restructured bank loans agreement, the Group is required to repay the bank loans by monthly instalment of RM670,000 (equivalent to HK$1,635,215) with effect from August 2011 to December 2013 and increasing to RM4,200,000 (equivalent to HK$10,250,603) from January 2014 to the second last repayment of the loans in 2018.

The bank loans are granted to CVMSB and secured by way of:

(i) a legal charge over the land and factory building to be erected thereon held by CVMSB;

(ii) assignment of trade receivables derived by CVMSB;

(iii) a debenture creating fixed and floating legal charge over all present and future assets of CVMSB excluding the performance bonds;

(iv) assignment of all CVMSB's rights, entitlement and interest in and to all building contracts, design drawings and other contracts pertaining to the magnesium ingot project (the "**Project**");

(v) an assignment of all CVMSB's rights, benefits and interest under insurance undertaken by CVMSB as part of its operations for the Project;

(vi) an assignment over the existing revenue accounts maintained at Bank Rakyat and monies standing to the credit of the revenue account in favour of the bank, the revenue account shall be operated solely by the bank;

(vii) a first fixed charge/assignment over the retorts of CVMSB;

(viii) an assignment over the insurance policies of the retorts of CVMSB; and

(ix) any other securities as may be advised by the appointed legal counsel.

All of the Group's banking facilities are subject to the fulfillment of covenants, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group is required to comply with the covenants when CVMSB's production operation commences, which was in or around February 2011. As at 30 June 2012, none of the covenants relating to the drawndown facilities had been breached (31 December 2011: Nil).

(Expressed in Hong Kong dollars unless otherwise indicated)

23 UNSECURED LOANS FROM THIRD PARTIES

	As at 30 June 2012 HK$ (Unaudited)	As at 31 December 2011 HK$ (Audited)
Within 1 year	**100,000,000**	100,000,000
After 1 year but within 2 years	**50,000,000**	—
After 2 years but within 5 years	**—**	50,000,000
	50,000,000	50,000,000
	150,000,000	150,000,000

The amounts due are based on the scheduled repayment dates set out in the loan agreements which do not have a repayment on demand clause.

On 13 June 2011, the Company entered into a loan agreement with an independent third party for an unsecured loan of HK$50,000,000 at an interest rate of 12% p.a. payable half yearly. The loan is wholly repayable on or before June 2014.

On 14 October 2011, the Company entered into loan agreements with various holders of convertible bonds. Pursuant to which the holders of convertible bonds agreed to make available to the Company with aggregate loan facilities of HK$100,000,000. The Company applied these loans for repayment of the outstanding amount due under the convertible bonds issued by the Company in September 2010 in the principal sum of respective amount and registered in the name of the lenders. The unsecured loans are recognised initially at fair value less attributable transaction costs. In the opinion of the Directors of the Company, the principal value of the unsecured loans is approximate to its fair value. These loans are unsecured, interest bearing at 15% p.a. payable half yearly and repayable within 12 months from the drawdown date. In March 2012, the Company had successfully negotiated with these lenders to defer the repayment by six months and eighteen days to May 2013.

The Directors of the Company will review the Group's cash position regularly and if need be, will re-negotiate with these lenders to restructure the repayment terms. The Company is confident that any future negotiations with these lenders will result in a positive outcome for both parties.

(Expressed in Hong Kong dollars unless otherwise indicated)

24 SHARE CAPITAL

(a) Authorised and issued share capital

	Note	2012 Number of shares	2012 Amount HK$	2011 Number of shares	2011 Amount HK$
Authorised:					
At 30 June/31 December		**10,000,000,000**	**250,000,000**	10,000,000,000	250,000,000
Issued and fully paid:					
At 1 January		**3,517,680,556**	**87,942,014**	2,519,555,556	62,988,889
Shares issued pursuant to a share placing		**—**	**—**	340,000,000	8,500,000
Shares issued for acquisition of subsidiaries	(b)	**660,000,000**	**16,500,000**	653,125,000	16,328,125
Conversion of warrants to shares		**—**	**—**	5,000,000	125,000
At 30 June/31 December		**4,177,680,556**	**104,442,014**	3,517,680,556	87,942,014

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(b) Issue of shares

On 18 April 2012, the Company issued 660,000,000 ordinary shares to the shareholders of Victory Dragon pursuant to the agreement for the sale and purchase of shares dated 12 January 2012.

25 BUSINESS COMBINATIONS

(a) Acquisition of Step Pacific Development Limited ("Step Pacific") and its subsidiaries

To diversify the dolomite and magnesium business, on 23 February 2011, an agreement (the "**Acquisition agreement**") was entered into between the Company, Mr. Teoh Tek Siong and United Fortune Enterprises Limited (the "**vendors**"), pursuant to which the Company has conditionally agreed to purchase and the vendors have conditionally agreed to sell 51% of the entire issued share capital of Step Pacific for a consideration of HK$220,000,000, which was satisfied by the payment of deposit in cash of HK$11,000,000 to the vendors upon signing the Acquisition agreement and by the issue of an aggregate of 653,125,000 ordinary shares of the Company to the vendors.

The acquired business contributed no revenue and a net loss of HK$358,720 to the Group for the period from 19 April 2011 to 30 June 2011. Had the above acquisition occurred on 1 January 2011, the Directors of the Company estimate that the Group's revenue and loss before taxation would remain unchanged. These amounts have been calculated using the Group's accounting policies and by assuming the control dates of the subsidiaries being held by Step Pacific remain unchanged.

(Expressed in Hong Kong dollars unless otherwise indicated)

25 BUSINESS COMBINATIONS *(continued)*

(a) Acquisition of Step Pacific Development Limited ("Step Pacific") and its subsidiaries *(continued)*

The above acquisition was approved by the members of the Company in the extraordinary general meeting held on 8 April 2011. The effective date of the acquisition was 19 April 2011.

	Acquiree's carrying amount and provisional fair value at acquisition date HK$ (Unaudited)
Net assets acquired:	
Property, plant and equipment (note 12)	56,964
Exploration and evaluation assets	253,166
Prepayments, deposits and other receivables	209,584
Cash at bank and in hand	12,659
Other payables and accruals	(948,281)
	(415,908)
Non-controlling interests	54,364
Goodwill	220,361,544
Total consideration	220,000,000
Satisfied by:	
Cash paid	11,000,000
Shares consideration	209,000,000
	220,000,000
Net cash outflow arising on acquisition:	
Cash consideration paid	(11,000,000)
Bank balances and cash acquired	12,659
	(10,987,341)

Goodwill arising on the above acquisition was determined on a provisional basis as the nature and fair values of the identified net assets acquired and consideration paid in terms of shares could be determined on provisional values only. The Company is in the process of finalising the independent valuation to assess the fair values. It may be adjusted upon the completion of the initial accounting.

(Expressed in Hong Kong dollars unless otherwise indicated)

25 BUSINESS COMBINATIONS *(continued)*

(b) Acquisition of Victory Dragon and its subsidiary

On 12 January 2012, to further diversify the Group's business, an agreement (the "**Agreement**") was entered into between the Company's wholly owned subsidiary, Nice Tone Enterprises Ltd. ("**NTEL**") and Voice Key Group Limited ("**First Vendor**"), Chinacorp International Consultants Limited and Champion Tone Development Limited (collectively known as the "**Vendors**"), pursuant to which NTEL has conditionally agreed to purchase and the Vendors have conditionally agreed to sell 51% of the issued share capital of Victory Dragon for a consideration of HK$200,000,000, which was satisfied by the payment of deposit in cash of HK$10,000,000 to the First Vendor upon signing the Agreement and by the issue of an aggregate of 660,000,000 ordinary shares of the Company to the Vendors (see note 24(b)) and HK$106,840,000 of convertible bonds to the First Vendor.

The acquired business contributed revenue of HK$601,700 and a net loss of HK$1,498,282 to the Group for the period from 19 April 2012 to 30 June 2012. Had the above acquisition occurred on 1 January 2012, the Directors of the Company estimate that the Group's revenue and loss before taxation would remain unchanged. These amounts have been calculated using the Group's accounting policies and by assuming the control dates of the subsidiaries being held by Victory Dragon remain unchanged.

The above acquisition was approved by the members of the Company in the extraordinary general meeting held on 13 April 2012. The effective date of the acquisition was 18 April 2012.

	Acquiree's carrying amount and provisional fair value at acquisition date HK$ (Unaudited)
Net assets acquired	
Property, plant and equipment (note 12)	3,338,481
Inventories	213,659
Cash at bank and in hand	26,020
Other payables and accruals	(2,624,959)
	953,201
Non-controlling interests	(467,068)
Goodwill (note 13)	199,513,867
Total consideration	200,000,000
Satisfied by:	
Cash paid	10,000,000
Shares consideration	83,160,000
Convertible bonds	106,840,000
	200,000,000
Net cash outflow arising on the acquisition:	
— Cash consideration paid	(10,000,000)
— Bank balances and cash acquired	26,020
	(9,973,980)

(Expressed in Hong Kong dollars unless otherwise indicated)

25 BUSINESS COMBINATIONS *(continued)*

(b) Acquisition of Victory Dragon and its subsidiary *(continued)*

Goodwill arising on the above acquisition during the current period was determined on a provisional basis as the nature and fair values of the identified net assets acquired and consideration paid in terms of shares and convertible bonds could be determined on provisional values only. The Company is in the process of finalising the independent valuation to assess the fair values. It may be adjusted upon the completion of the initial accounting.

26 COMMITMENTS

(a) Capital commitments

Capital commitments outstanding as at 30 June 2012 not provided for in the condensed consolidated interim financial statements were as follows:

	As at 30 June 2012 HK$ (Unaudited)	As at 31 December 2011 HK$ (Audited)
Contracted for	**4,037,000**	20,098,652
Authorised but not contracted for	**—**	—
	4,037,000	20,098,652

(b) Future minimum royalty payments

Pursuant to the Mining Agreement (see note 14), the royalty to HPC are subject to a monthly minimum payment of RM30,000 (equivalent to HK$75,369) (31 December 2011: RM30,000 (equivalent to HK$76,355)) for a period of 20 years, unless early termination by the Group by giving one month's written notice to HPC. The total minimum royalties amounted to RM6,120,000 (equivalent to HK$15,375,262) (31 December 2011: RM6,300,000 (equivalent to HK$16,034,574)) over the 20 years period.

(Expressed in Hong Kong dollars unless otherwise indicated)

26 COMMITMENTS *(continued)*

(c) Operating lease commitments

As at 30 June 2012, the total minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 30 June 2012 HK$ (Unaudited)	As at 31 December 2011 HK$ (Audited)
Within 1 year	**1,542,253**	1,276,555
After 1 year but within 5 years	**6,169,012**	914,848
	7,711,265	2,191,403

The Group is the lessee in respect of office premises held under operating leases. The leases typically run for an initial period of one to two years, with an option to renew the lease when all terms are renegotiated. The leases do not include a contingent rental.

(d) Environmental contingencies

Up to date, the Group has not incurred any significant expenditure for environment remediation and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. Laws and regulations protecting the environment have generally become more stringent in recent years and could become more stringent in the future. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include:

(i) the exact nature and extent of the contamination at the mines and processing plants;

(ii) the extent of required cleanup efforts;

(iii) varying costs of alternative remediation strategies;

(iv) changes in environmental remediation requirements; and

(v) the identification of new remediation sites.

The amount of this future cost is indeterminable due to these factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposal for future environmental legislation cannot be reasonably estimated at present and could be material.

27 CONTINGENT LIABILITIES

(a) Corporate guarantees issued

As at 30 June 2012, the Company has issued corporate guarantees totalling approximately RM184,600,000 (equivalent to approximately HK$450,538,400) (31 December 2011: approximately RM184,600,000 (equivalent to approximately HK$452,700,000)) to a bank in respect of bank loan facilities granted to CVMSB.

The Directors of the Company do not consider it probable that a claim will be made against the Company under the corporate guarantees. The maximum liability of the Company as at 30 June 2012 under the corporate guarantees issued is approximately RM171,383,600 (equivalent to approximately HK$418,282,200) (31 December 2011: RM171,300,000 (equivalent to approximately HK$420,000,000)).

In addition, as at 30 June 2012, the Company has issued corporate guarantees totalling RM1,850,000 (equivalent to approximately HK$4,515,100) (31 December 2011: RM1,850,000 (equivalent to approximately HK$4,535,900)) to two suppliers in respect of the purchase of liquified petroleum gas made by CVMSB.

As at 30 June 2012, the Company has issued corporate guarantees totalling approximately RM1,636,900 (equivalent to approximately HK$3,995,000) (31 December 2011: approximately RM1,272,000 (equivalent to approximately HK$3,118,800)) for finance lease creditors in respect of the purchase of motor vehicles and equipment by CVMSB.

The Company has not recognised any deferred income in respect of the corporate guarantees as its fair value cannot be reliably measured and its transaction price was nil for the six months ended 30 June 2012 and year ended 31 December 2011.

(b) Litigation

On 6 June 2012, the Company has been served with a Summons in a Civil Case issued on 7 March 2012 by the District Court of New Jersey, the USA (the "**Court**") and a complaint (the "**Complaint**") dated 2 March 2012 served by Magnesium.com Inc. (the "**Plaintiff**"), in which the Company is named as one of seven defendants (the "**Defendants**").

The Complaint relates, inter alia, to alleged breaches of a non-disclosure and non-circumvention agreement and a magnesium sale and purchase agreement, both made between the Company and the Plaintiff. In the Complaint, the Plaintiff claims against the Defendants, jointly and severally, damages in excess of US$10,000,000.

The Company has appointed a firm of legal counsel in New Jersey (the "**US lawyers**") to represent the Company to defend itself against the Complaint. Given that the litigation process is still at an early stage, the Directors of the Company consider that it is not practical to assess its potential impact on the Group at the moment, although, at this stage, its assessment is that the allegations in the Complaint have no substance.

On 28 August 2012 the US lawyer had filed the motion to dismiss at the Court.

(Expressed in Hong Kong dollars unless otherwise indicated)

28 MATERIAL RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2012 and 2011, in addition to the transactions and balances disclosed in note 17 to the condensed consolidated interim financial statements, the following related party transactions took place between the Group and related parties on terms mutually agreed by the parties concerned.

Name of party	Relationship
Ho Wah Genting Berhad ("**HWGB**")	A shareholder of the Company
Ho Wah Genting Poipet Resorts Sdn. Bhd. ("**HWGP**")	An associate of HWGB
HWG Tin Mining Sdn. Bhd. ("**HWGTM**")	A subsidiary of HWGB
Perak State Development Corporation ("**PSDC**")	A shareholder of the Company
Harta Perak Corporation Sdn. Bhd. ("**HPC**")	A subsidiary of PSDC

Particulars of significant transactions between the Group and the above related parties are as follows:

(a) Recurring transactions

	Six months ended 30 June	
	2012	2011
	HK$	HK$
	(Unaudited)	(Unaudited)
Office rent payable to:		
HWGB	**105,517**	107,803
Purchase of flight tickets from:		
HWGP	**378,043**	280,637
Maintenance fee payable to:		
HPC	**452,214**	477,412
Drilling machines rental income from:		
HWGTM	**30,686**	—

(b) Non-recurring transactions

	Six months ended 30 June	
	2012	2011
	HK$	HK$
	(Unaudited)	(Unaudited)
Disposal of a motor vehicle to:		
HWGTM	**—**	142,042

(Expressed in Hong Kong dollars unless otherwise indicated)

28 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(c) Amount due (to)/from a member of staff

	As at 30 June 2012 HK$ (Unaudited)	As at 31 December 2011 HK$ (Audited)
Dato' Lim Hui Boon	**(18,720)**	9,901

The amount is unsecured, interest-free and has no fixed terms of repayment.

(d) Amount due from a related party

	As at 30 June 2012 HK$ (Unaudited)	As at 31 December 2011 HK$ (Audited)
HWGTM	**—**	4,651

(e) Amounts due to related parties

	As at 30 June 2012 HK$ (Unaudited)	As at 31 December 2011 HK$ (Audited)
HWGB	**481,147**	138,442
HPC	**75,049**	—
HWGP	**29,883**	522,527
	586,079	660,969

The amounts are trade in nature, unsecured, interest free and have no fixed terms of repayment.

(Expressed in Hong Kong dollars unless otherwise indicated)

28 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(f) Key management personnel remuneration

	Six months ended 30 June	
	2012	2011
	HK$	HK$
	(Unaudited)	(Unaudited)
Directors' fees	**138,744**	140,400
Salaries, allowances and benefits in kind	**1,561,027**	2,019,324
Retirement scheme contributions	**96,693**	113,803
	1,796,464	2,273,527

29 NON-ADJUSTING AFTER THE REPORTING PERIOD EVENTS

Save as disclosed elsewhere in the condensed consolidated interim financial statements, there were no significant events after the end of the reporting period.

INTERIM DIVIDEND

The Board did not recommend the payment of any dividend in respect of the six months ended 30 June 2012 (six months ended 30 June 2011: Nil). Accordingly, there will be no closure of the register of members of the Company.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2012, the Company has complied with the applicable code provisions and certain recommended best practices (the "**Best Practices**") stipulated in the Code on Corporate Governance Practices (the "**Code**") as set out in Appendix 14 of the Listing Rules. No Director is aware of any information that reasonably reveals that there is any non-compliance with the code provisions on the Code by the Company during any time of the period under review, except for certain deviation which is summarised below:

Code Provision A.4.1

Code Provision A.4.1 provides that non-executive directors should be appointed for a specific term, subject to re-election. The independent non-executive directors of the Company were not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the provisions of the memorandum and articles of association of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

CODE OF PRACTICE REGARDING DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as the code of practice for carrying out securities transactions by the Directors. After specific enquiry with all members of the Board, the Company confirmed that all Directors have fully complied with the relevant standards stipulated in the Model Code during the six months ended 30 June 2012.

AUDIT COMMITTEE REVIEW

The Audit Committee, comprising three members namely, Ms. Wong Choi Kay (Chairperson and Independent Non-executive Director), Mr. Chong Lee Chang (Independent Non-executive Director) and Mr. Tony Tan (Independent Non-executive Director), has reviewed the accounting principles and practices adopted by the Group and has discussed and reviewed the internal controls and financial reporting matters, including the review of the unaudited consolidated interim financial results of the Group for the six months ended 30 June 2012, with the management of the Company. The Audit Committee is of the opinion that the interim report has complied with applicable accounting standards, the Listing Rules and the legal requirements and that adequate disclosures have been made.

SHARE OPTION SCHEME

The Company has a share option scheme (the "**Scheme**") which was adopted on 14 October 2008. The purpose of the Scheme is to attract and retain the best quality personnel for the development of the Company's businesses; to provide additional incentives to the employees; to provide eligible participants with the opportunity to acquire proprietary interests in the Company; and to promote the long term financial success of the Company by aligning the interests of grantees to the shareholders of the Company (the "**Shareholders**"). Under the Scheme, the Board shall be entitled at any time (except for the period as defined under the Listing Rules whereby a price sensitive event or a price sensitive matter has been the subject of a decision) within 10 years commencing on the date of adoption of the Scheme to make an offer for the grant of an option to any employee (including any officer or director, whether executive or non-executive, of the Company or its subsidiaries), and any consultant, adviser, supplier, customer or subcontractor of the Company or any other person determined by the Board as appropriate.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme must not exceed 10% of the shares in issue from time to time, being 417,768,055 as at 30 June 2012. The total number of shares which may be issued upon exercise of all options to be granted under the Scheme under the scheme mandate limit must not in aggregate exceed 10% of the Shares in issue as at 14 October 2008 prior to the approval of the refreshment of the scheme mandate limit. Upon refreshment of the scheme mandate limit, the total number of shares which may be issued upon exercise of all options to be granted under the Scheme must not exceed 10% of the shares in issue as at the date of the approval of the limit. The total number of shares of the Company issued and to be issued upon exercise of options (whether exercised or outstanding) in any 12-month period granted to each grantee must not exceed 1% of the shares of the Company in issue, such further grant shall be subject to separate approval by the Shareholders in general meeting with the relevant grantee and his associates abstaining from voting.

The subscription price in respect of any particular option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant option but the subscription price shall not be less than whichever is the higher of (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing prices of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share of the Company. An offer shall remain open for acceptance for a period of 28 days from the date of offer (or such longer period as the Board may specify in writing). HK$1.00 is payable by the grantee to the Company on acceptance of the offer of the option. The period within which the shares of the Company must be taken up under an option shall be determined by the Board in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant option.

For the six months ended 30 June 2012, no option has been granted or agreed to be granted under the Scheme.

DIRECTORS' INTERESTS

As at 30 June 2012, the interests of the Directors of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**"), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long positions in the shares:

Name of director	Nature of interest Beneficial owner	 Interest of spouse	Total Number of shares	Approximate percentage of shareholding
Leung Wai Kwan	2,900,000	13,298,000	16,198,000	0.38%

Save as disclosed above, at no time during the period under review was the Company or its subsidiaries a party to any arrangement to enable the Directors and Chief Executives of the Company (including their spouse and children under 18 years of age) to acquire benefits by an acquisition of shares or underlying shares in, or debentures of the Company or its subsidiaries.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN THE SHARES AND UNDERLYING SHARES

As at 30 June 2012, the following Shareholders had interests in the shares and underlying shares of the Company, as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Name of shareholders	Number of shares directly or indirectly held	Approximate percentage of shareholding	Notes
Voice Key Group Limited	1,006,095,110	24.08%	1 and 2
Ho Wah Genting Berhad	744,150,000	17.81%	3
Silver Rhythm Sdn. Bhd.	502,047,188	12.01%	4
Teoh Tek Siong	507,047,188	12.13%	5
Tan Heng Peow	502,047,188	12.01%	5
Champion Tone Development Limited	311,269,841	7.45%	—
Tan Chee Chuan	335,889,841	8.04%	6

Notes:

1. Voice Key Group Limited ("Voice Key") holds 158,158,603 Shares. Pursuant to the announcement of the Company dated 12 January 2012, the Company will issue an aggregate of 847,936,507 new Shares to Voice Key if there is an immediate exercise in full of the conversion rights attached to the Voice Key's convertible bonds. Voice Key will only convert the convertible bonds issued by the Company, in a manner that will (i) not upset the public float of Shares on the Stock Exchange; (ii) not result in change of the single largest shareholder of the Company upon any conversion of the convertible bonds; (iii) not trigger any general offer obligation under Rule 26 of the Takeovers Code. Such conversion will not result in a change of the control of the Company.

2. Chu Yuk Lung owns 100% interest in the issued capital of Voice Key and is therefore deemed to be interested in the Shares and underlying shares in which Voice Key is interested in.

3. Ho Wah Genting Berhad is a public limited company incorporated under Malaysian law in Malaysia and listed on the Main Market of Bursa Malaysia Securities Berhad.

4. Silver Rhythm Sdn. Bhd. is a private company incorporated under Malaysian law in Malaysia.

5. Silver Rhythm Sdn. Bhd. holds 502,047,188 Shares. Teoh Tek Siong and Tan Heng Peow own 50% interest in the issued capital of Silver Rhythm Sdn. Bhd. respectively and are therefore deemed to be interested in the Shares in which Silver Rhythm Sdn. Bhd. is interested in. In addition, Teoh Tek Siong holds 5,000,000 Shares.

6. Tan Chee Chuan owns 100% interest in the issued capital of Champion Tone Development Limited ("Champion") and is therefore deemed to be interested in the Shares in which Champion is interested in. In addition, he holds 24,620,000 Shares personally.

7. All interests stated above represent long positions.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the six months ended 30 June 2012, neither the Company nor its subsidiaries have purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board
CVM Minerals Limited
JI KUANG
Executive Chairman

Kuala Lumpur, Malaysia, 30 August 2012