



**CVM Minerals Limited**  
**南亞礦業有限公司**

(Incorporated in Hong Kong with limited liability)  
Stock Code: 705

INTERIM REPORT  
**2011**



# CONTENTS

|   |    |
|---|----|
| Corporate Information   | 2  |
| Management Discussion and Analysis                                  | 4  |
| Condensed Consolidated Income Statement                             | 14 |
| Condensed Consolidated Statement of<br>Comprehensive Income         | 15 |
| Condensed Consolidated Statement of Financial Position              | 16 |
| Condensed Consolidated Statement of Changes in Equity               | 18 |
| Condensed Consolidated Statement of Cash Flows                      | 19 |
| Notes to the Condensed Consolidated<br>Interim Financial Statements | 20 |
| Other Information   | 47 |

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive Directors

Mr. Goh Sin Huat  
*(Executive Chairman)*  
Mr. Lim Ooi Hong  
*(Appointed as Group Chief Executive Officer effective from 1 June 2011)*  
Mr. Leung Wai Kwan  
Mr. Chong Wee Chong  
*(Resigned effective from 30 June 2011)*

#### Independent Non-executive Directors

Ms. Wong Choi Kay  
Mr. Chong Lee Chang  
Mr. Tony Tan  
*(Appointed effective from 1 June 2011)*  
Mr. Lam Cheung Shu  
*(Resigned effective from 1 June 2011)*

### COMPANY SECRETARY

Ms. Au Man Wai Annie  
*(Appointed effective from 13 August 2011)*  
Ms. Ma Sau Kuen Gloria  
*(Resigned effective from 13 August 2011)*

### AUDIT COMMITTEE

Ms. Wong Choi Kay *(Chairperson)*  
Mr. Chong Lee Chang  
Mr. Tony Tan  
*(Appointed effective from 1 June 2011)*  
Mr. Lam Cheung Shu  
*(Resigned effective from 1 June 2011)*

### REMUNERATION COMMITTEE

Mr. Goh Sin Huat *(Chairman)*  
Ms. Wong Choi Kay  
Mr. Chong Lee Chang

### NOMINATION COMMITTEE

Mr. Goh Sin Huat *(Chairman)*  
Ms. Wong Choi Kay  
Mr. Chong Lee Chang

### AUTHORISED REPRESENTATIVES

Mr. Leung Wai Kwan  
Ms. Au Man Wai Annie  
*(Appointed effective from 13 August 2011)*  
Ms. Ma Sau Kuen Gloria  
*(Resigned effective from 13 August 2011)*

### LEGAL ADVISERS

*As to Hong Kong Law*  
P.C. Woo & Co.  
Richards Butler  
*in association with Reed Smith LLP*

*As to Malaysian Law*  
Tan, Goh & Associates

### AUDITOR

Baker Tilly Hong Kong Limited  
*Certified Public Accountants*

### PRINCIPAL BANKERS

Bank Kerjasama Rakyat Malaysia Berhad  
Public Bank Berhad  
RHB Bank Berhad  
HSBC Bank Malaysia Berhad  
Standard Chartered Bank (Hong Kong) 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

**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](http://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. CVMSB has accelerated the scale of mining and extraction of dolomite at the Dolomite Hills for stock piling purposes since June 2009.

Besides mining of dolomite and producing magnesium ingots, the Company and its subsidiaries (collectively referred to as the “**Group**”) have also ventured into exploration of iron ore, coal and manganese.

### **BUSINESS REVIEW**

#### **The Perak Magnesium Smelter (the “**Smelter**”)**

Construction and installation works at the Group’s Smelter in the State of Perak, Malaysia have been substantially completed in June 2010.

Further to that, the Board noted that the Smelter has entered into the production stage of producing magnesium ingots.

### Financing of the Group

In order to finance the production line of the Smelter, CVMSB obtained banking facilities totalling approximately RM184.6 million (equivalent to approximately HK\$475.8 million), which comprises a ten-year term loan from Bank Kerjasama Rakyat Malaysia Berhad ("**Bank Rakyat**").

Up to 30 June 2011, the total facilities drawn down amounted to approximately RM172.2 million (equivalent to approximately HK\$443.8 million) (31 December 2010: approximately RM160 million (equivalent to approximately HK\$403.7 million)).

In accordance with the bank loan agreements dated 5 July 2010, the Group was required to repay the bank loans by monthly instalments of RM743,065 (equivalent to HK\$1,914,869) commencing on or before 31 January 2011 and increasing to RM2,190,758 (equivalent to HK\$5,645,556) commencing on or before 2 March 2011 to Bank Rakyat for the next 10 years.

On 25 July 2011, CVMSB has successfully negotiated a re-scheduling of the loan repayment with Bank Rakyat. The monthly instalments have been revised to RM670,000 (equivalent to HK\$1,726,582) with effect from August 2011 to December 2013 and increasing to RM4,200,000 (equivalent to HK\$10,823,348) from January 2014 to the end of the loans' tenor in 2018.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Capital raising exercise

On 28 January 2011, the Company entered into a conditional share placing agreement with UOB Kay Hian (Hong Kong) Limited (“UOB Kay Hian”) pursuant to which UOB Kay Hian agreed to place up to 340,000,000 new shares of the Company at a price of HK\$0.228 per share (the “Share Placement”). The Company also entered into a conditional warrant placing agreement with UOB Kay Hian pursuant to which UOB Kay Hian agreed to place 163,900,000 warrants at the price of HK\$0.005 per warrant (the “Warrant Placement”), which has conferred rights to subscribe for 163,900,000 new shares of the Company at the warrant exercise price of HK\$0.27 per share on or before 16 February 2012.

The Share Placement and Warrant Placement were completed on 14 February 2011 and 17 February 2011 with gross proceeds of approximately HK\$75.6 million and HK\$0.8 million respectively.

### Outstanding 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.

### Outlook

As the Smelter enters the next stage of its evolution, increased marketing efforts are also being made to expand our range of customers in different regions to ensure a diversified mix of customers.

We envisage that as the Smelter achieves commercial levels of production, the Group will enjoy higher revenue and be able to lower its unit production cost.

In the meantime, the Group is always on the look-out for new ventures in the mining and resource based industry for its long term growth plans. The following are the updates of several proposals which the Company had carried out during the period:





### *Iron ore*

On 25 February 2011, a memorandum of understanding (the “**Iron Ore MOU**”) was entered into between PT. Commerce Venture Iron Ore (formerly known as PT. Rimbaka Mining Makmur) (“**PT. CVIO**”), an indirect non wholly-owned subsidiary of the Company, and PT. Harita Mineral Jaya Abadi (“**PT. HMJA**”), a company incorporated in Indonesia, pursuant to which PT. CVIO has allowed PT. HMJA a period of 1 year from the date of the Iron Ore MOU (or such extended period as may be agreed between PT. CVIO and PT. HMJA) to conduct due diligence review on the feasibility of the exploration and mining project in relation to iron ore with an area of 1,500 hectares of land located at Penuntungan Village, Penanggalan Subdistrict, Kota Subuluhsalam City, Aceh Province, Indonesia, and negotiate the terms and conditions of a proposed cooperation agreement (the “**Iron Ore Cooperation Agreement**”) between PT. CVIO and PT. HMJA.

The Iron Ore MOU contains certain legally binding obligations regarding, among other things, the preparation and performance of drilling program, due diligence review and confidentiality. However, it is not legally binding for PT. CVIO to enter into the Iron Ore Cooperation Agreement, the terms of which have yet to be determined.

Please refer to the Company’s announcement dated 25 February 2011 for further details.

## MANAGEMENT DISCUSSION AND ANALYSIS

### *Coal*

On 28 March 2011, a memorandum of understanding (the “**Coal MOU**”) was entered into between PT. CVIO and ASR Global Pte. Ltd. (“**ASR Global**”), a company incorporated in Singapore, pursuant to which PT. CVIO has allowed ASR Global a period of 3 months from the date of the Coal MOU (or such extended period as may be agreed between PT. CVIO and ASR Global) to conduct due diligence review on the feasibility of the exploration and mining of coal and other activities related thereto on 9,825 hectares of land situated at Kuala dan Tadu Raya, Nagan Raya, Aceh Province, Indonesia, and negotiate the terms and conditions of a proposed cooperation agreement (the “**Coal Cooperation Agreement**”) between PT. CVIO and ASR Global.

The Coal MOU contains certain legally binding obligations regarding, among other things, the preparation and performance of the exploration program, due diligence review and confidentiality. However, it is not legally binding for PT. CVIO to enter into the Coal Cooperation Agreement, the terms of which have yet to be determined.

Please refer to the Company’s announcement dated 28 March 2011 for further details.

### *Acquisition of subsidiaries*

To diversify the dolomite and magnesium business, on 23 February 2011, an agreement (the “**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 Development Limited (“**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 Agreement and by the issue of an aggregate of 653,125,000 ordinary shares of the Company to the Vendors.

Step Pacific is a company incorporated in the British Virgin Islands with limited liability, whose principal business activity is investment holding. Step Pacific holds 100% equity interest of Stabil Megamas Sdn. Bhd., which in turn holds 99% of the issued share capital of PT. Laksbang Mediatama (“**PT. LM**”). PT. LM is the holder of an exploration mining permit for the exploration of manganese in Indonesia for a period of 1 year from 6 March 2010.

Please refer to the Company’s announcements dated 23 February 2011 and 19 April 2011 and our circular dated 22 March 2011 for further details.



### FINANCIAL REVIEW

#### Turnover and other revenue

The Group's turnover on selling magnesium ingots for the six months ended 30 June 2011 was HK\$5,690,103. The Group received interest income of HK\$176,813 from money deposited with approved financial institutions for the six months ended 30 June 2011.

#### Cost of sales

The cost of sales includes HK\$13,489,783 (2010: Nil) relating to staff costs of HK\$792,850, depreciation of HK\$12,622,431 and amortisation of HK\$74,502, of which these amounts are also included in the respective total amounts disclosed separately in notes 6(b) and 6(c) for each of these types of expenses.

#### Administrative expenses

The administrative expenses decreased by 3% to approximately HK\$13.8 million in the first half of 2011 from HK\$14.2 million in the same period of 2010. This was mainly due to the decrease in travelling expenses and office expenses due to cost cutting measures implemented during the period.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Exploration, development and mining production activities

#### *Geological exploration*

As at 30 June 2011, the Group has 4 exploration rights, covering an area of 25,035 hectares, namely two exploration rights for coal covering an area of 19,825 hectares, one exploration right for iron ore covering an area of 1,500 hectares and one exploration right for manganese covering an area of 3,710 hectares, all of them in Aceh Province, Indonesia. The Group also has 1 exploration right for manganese covering an area of 227,125 hectares in Yogyakarta Province, Indonesia.

During the period, the Group's geological exploration expenditure amounting to approximately HK\$3.19 million (2010: Nil) was incurred on general geological survey for the above rights.

#### *Mining of dolomite*

As at 30 June 2011, the Group completed an accumulated dolomite output of 15,737 tonnes (31 December 2010: 9,345 tonnes).

The expenditure incurred on dolomite mining production activities for the six months ended 30 June 2011 was approximately HK\$0.72 million (six months ended 30 June 2010: approximately HK\$0.87 million).

#### *Iron ore, coal and manganese*

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



### Net foreign exchange gains

The net gains of approximately HK\$0.2 million (six months ended 30 June 2010: approximately HK\$0.2 million) on foreign exchange represented the net unrealised gains on money deposited by the Group with approved financial institutions in Malaysia.

Going 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 presentation currency. During the first half of 2011, 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\$11.4 million (six months ended 30 June 2010: Nil) for convertible bonds issued by the Company and interest on bank loans of approximately HK\$14.5 million (six months ended 30 June 2010: approximately HK\$15.3 million) incurred by CVMSB.

### Loss before taxation

As CVMSB has just started revenue earning operations in the fourth quarter of 2010, the Group incurred a consolidated loss before taxation of approximately HK\$44.7 million for the six months ended 30 June 2011 (six months ended 30 June 2010: approximately HK\$14.0 million).

### Loss per share

The loss per share increased in 2011 from 2010 as the loss attributable to owners of the Company increased substantially by approximately HK\$31.5 million due to gross loss incurred from start up operation of the Smelter, higher administrative expenses and finance costs.

### Liquidity and financial resources

Net current liabilities of the Group stood at approximately HK\$452.4 million as at 30 June 2011 (31 December 2010: approximately HK\$456.5 million). Included in current liabilities were bank loans and finance lease creditors of approximately HK\$444.8 million (31 December 2010: approximately HK\$400.8 million) and convertible bonds of approximately HK\$124.5 million (31 December 2010: approximately HK\$121.8 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 2011 based on floating rate of Bank Rakyat's base financing rate plus 2% per annum. The Group had a gearing ratio of approximately 1.10 (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 2011. The gearing ratio was approximately 1.64 as at 31 December 2010.

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group's bank and cash balances as at 30 June 2011 were approximately HK\$75.3 million (31 December 2010: approximately HK\$44.0 million). The Group's prepayments, deposits and other receivables of approximately HK\$15.7 million (31 December 2010: approximately HK\$65.6 million) are expected to be recovered within one year.

### Capital expenditure

The carrying value of fixed assets of the Group as at 30 June 2011 had increased by 11% to approximately HK\$721.9 million from approximately HK\$650.7 million as at 31 December 2010. Approximately 99.6% of the capital expenditure was incurred for the Smelter.

### Charge on assets

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

- (i) legal charge over the land and factory buildings to be erected thereon held by CVMSB;
- (ii) assignment of trade receivables;
- (iii) 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 producing project (the "Project");
- (v) assignment of all rights, benefits and interest under insurance undertaken by CVMSB as part of its operations for the Project;
- (vi) assignment over the existing revenue accounts maintained at bank 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) 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 2011, the Group had a total of 357 employees (31 December 2010: 171 employees). Total staff costs (including directors' remuneration) for the six months ended 30 June 2011 were approximately HK\$6.0 million (six months ended 30 June 2010: approximately HK\$5.6 million), representing approximately 24% (six months ended 30 June 2010: approximately 39%) 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

In relation to the Smelter, as at 30 June 2011, the Group did not have any capital commitment (31 December 2010: approximately HK\$25.0 million).

As at 30 June 2011, the Company has issued corporate guarantees totalling approximately RM184.6 million (equivalent to approximately HK\$475.8 million) (31 December 2010: approximately RM300.2 million (equivalent to approximately HK\$757.4 million)) to banks in respect of bank loan facilities granted to CVMSB.

The Directors of the Company do not consider it is probable that a claim will be made against the Group under the corporate guarantees. The maximum liability of the Company as at 30 June 2011 under the corporate guarantees issued is the outstanding amount of the bank loan facilities drawn down by CVMSB, being approximately RM172.2 million (equivalent to approximately HK\$443.8 million) (31 December 2010: approximately RM160.0 million (equivalent to approximately HK\$403.7 million)).

In addition, as at 30 June 2011, the Company has issued a corporate guarantee totalling approximately RM0.85 million (equivalent to approximately HK\$2.2 million) (31 December 2010: approximately RM0.85 million (equivalent to approximately HK\$2.1 million)) to a supplier in respect of the purchase of liquefied petroleum gas made by CVMSB.

As at 30 June 2011, the Company has issued corporate guarantees totalling approximately RM1.5 million (equivalent to approximately HK\$3.8 million) (31 December 2010: approximately HK\$3.8 million) to finance lease creditors in respect of the purchase of motor vehicles and furniture and fittings by CVMSB.

The Company has not recognised any income in respect of the corporate guarantees as its fair value cannot be reliably measured and its transaction price was Nil.

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2011

(Expressed in Hong Kong dollars)

### RESULTS

The Board (the “Board”) of Directors (the “Directors”) of CVM Minerals Limited (the “Company”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2011 together with comparative figures as follows:

|                                   | Note | Six months ended 30 June    |                             |
|-----------------------------------|------|-----------------------------|-----------------------------|
|                                   |      | 2011<br>HK\$<br>(Unaudited) | 2010<br>HK\$<br>(Unaudited) |
| Turnover                          | 3    | 5,690,103                   | —                           |
| Cost of sales                     |      | (11,716,733)                | (45,235)                    |
| Gross loss                        |      | (6,026,630)                 | (45,235)                    |
| Other revenue                     | 4    | 176,813                     | 66,567                      |
| Other net income                  | 5    | 3,260,893                   | 246,255                     |
| Selling and distribution expenses |      | (287,230)                   | —                           |
| Administrative expenses           |      | (13,778,664)                | (14,235,895)                |
| <b>Loss from operations</b>       |      | <b>(16,654,818)</b>         | <b>(13,968,308)</b>         |
| Finance costs                     | 6(a) | (28,080,787)                | (29,006)                    |
| <b>Loss before taxation</b>       | 6    | <b>(44,735,605)</b>         | <b>(13,997,314)</b>         |
| Income tax                        | 7    | —                           | (10,195)                    |
| <b>Loss for the period</b>        |      | <b>(44,735,605)</b>         | <b>(14,007,509)</b>         |
| <b>Attributable to:</b>           |      |                             |                             |
| Owners of the Company             |      | (45,491,238)                | (14,007,509)                |
| Non-controlling interests         |      | 755,633                     | —                           |
| <b>Loss for the period</b>        |      | <b>(44,735,605)</b>         | <b>(14,007,509)</b>         |
| <b>Loss per share</b>             | 8    |                             |                             |
| Basic                             |      | (1.50 cents)                | (0.67 cents)                |
| Diluted                           |      | N/A                         | N/A                         |

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

(Expressed in Hong Kong dollars)

|   | Six months ended 30 June   |                           |
|---|----------------------------|---------------------------|
|   | 2011                       | 2010                      |
|   | HK\$                       | HK\$                      |
|   | (Unaudited)                | (Unaudited)               |
| Loss for the period   | <u>(44,735,605)</u>        | <u>(14,007,509)</u>       |
| <b>Other comprehensive income</b><br>for the period (net of nil tax)                    |                            |                           |
| Exchange differences on translation of financial<br>statements of overseas subsidiaries | <u>6,273,072</u>           | <u>12,752,345</u>         |
| <b>Total comprehensive expense for the period</b>                                       | <u><u>(38,462,533)</u></u> | <u><u>(1,255,164)</u></u> |
| <b>Attributable to:</b>   |                            |                           |
| Owners of the Company   | <u>(39,221,888)</u>        | <u>(1,255,164)</u>        |
| Non-controlling interests   | <u>759,355</u>             | <u>—</u>                  |
| <b>Total comprehensive expense for the period</b>                                       | <u><u>(38,462,533)</u></u> | <u><u>(1,255,164)</u></u> |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

(Expressed in Hong Kong dollars)

|  | Note | As at<br>30 June<br>2011<br>HK\$<br>(Unaudited) | As at<br>31 December<br>2010<br>HK\$<br>(Audited) |
|--|------|---|---|
| <b>Non-current assets</b>  |      |   |   |
| Fixed assets   | 11   |   |   |
| – Property, plant and equipment  |      | 707,537,753                                     | 636,628,871                                       |
| – Interest in leasehold land held for<br>own use under operating lease |      | 14,349,099                                      | 14,120,778  |
| Goodwill   | 12   | 340,959,147                                     | 120,479,667                                       |
| Exploration and evaluation assets                                      |      | 9,869,877                                       | 7,148,983   |
| Mining deposit   |      | 231,929   | 227,055   |
|  |      | <u>1,072,947,805</u>                            | <u>778,605,354</u>                                |
| <b>Current assets</b>  |      |   |   |
| Inventories  | 13   | 24,145,409                                      | 4,653,186   |
| Trade receivables  | 14   | 5,078,199                                       | 8,795,408   |
| Prepayments, deposits and other receivables                            | 15   | 24,510,369                                      | 67,995,495  |
| Pledged deposits   |      | 17,390  | 3,811,658   |
| Cash at bank and in hand   |      | 75,308,851                                      | 44,039,009  |
|  |      | <u>129,060,218</u>                              | <u>129,294,756</u>                                |
| <b>Current liabilities</b>   |      |   |   |
| Trade and other payables   | 16   | 11,459,617                                      | 62,147,931  |
| Obligations under finance leases                                       | 17   | 991,756   | 907,296   |
| Amounts due to related parties   |      | 629,934   | 1,087,093   |
| Derivative components of convertible bonds                             |      | 8,148,622                                       | 5,421,106   |
| Convertible bonds  |      | 116,380,749                                     | 116,380,749                                       |
| Bank loans - secured   | 18   | 443,800,134                                     | 399,873,440                                       |
|  |      | <u>581,410,812</u>                              | <u>585,817,615</u>                                |
| <b>Net current liabilities</b>   |      | <u>(452,350,594)</u>                            | <u>(456,522,859)</u>                              |
| <b>Total assets less current liabilities</b>                           |      | <u>620,597,211</u>                              | <u>322,082,495</u>                                |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

(Expressed in Hong Kong dollars)

|   |    | As at<br>30 June<br>2011<br>HK\$<br>(Unaudited) | As at<br>31 December<br>2010<br>HK\$<br>(Audited) |
|---|----|---|---|
| <b>Non-current liabilities</b>                            |    |   |   |
| Obligations under finance leases                          | 17 | 2,961,059                                       | 3,196,685   |
| Unsecured loan from a third party                         | 19 | 50,000,000                                      | —   |
|   |    | 52,961,059                                      | 3,196,685   |
| <b>Net assets</b>   |    | 567,636,152                                     | 318,885,810                                       |
| <b>Capital and reserves</b>                               |    |   |   |
| Share capital   | 20 | 87,942,014                                      | 62,988,889  |
| Reserves  |    | 478,473,249                                     | 255,896,762                                       |
| <b>Total equity attributable to owners of the Company</b> |    | 566,415,263                                     | 318,885,651                                       |
| Non-controlling interests                                 |    | 1,220,889                                       | 159   |
| <b>Total equity</b>                                       |    | 567,636,152                                     | 318,885,810                                       |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

(Expressed in Hong Kong dollars)

|   | Note  | Attributable to owners of the Company |                 |               |                  |               |                    |              | Non-controlling interests | Total equity |
|---|-------|---------------------------------------|-----------------|---------------|------------------|---------------|--------------------|--------------|---------------------------|--------------|
|   |       | Share capital                         | Capital reserve | Share premium | Exchange reserve | Other reserve | Accumulated losses | Total        |                           |              |
|   |       | HK\$                                  | HK\$<br>(Note)  | HK\$          | HK\$             | HK\$          | HK\$               | HK\$         |                           |              |
| At 1 January 2010                                   |       | 45,100,000                            | —               | 68,090,412    | 4,941,013        | 30,856,527    | (29,597,269)       | 119,390,683  | —                         | 119,390,683  |
| Total comprehensive income/(expense) for the period |       | —                                     | —               | —             | 12,752,345       | —             | (14,007,509)       | (1,255,164)  | —                         | (1,255,164)  |
| Shares issued pursuant to the share placing         |       | 9,000,000                             | —               | 110,996,696   | —                | —             | —                  | 119,996,696  | —                         | 119,996,696  |
| At 30 June 2010<br>(Unaudited)                      |       | 54,100,000                            | —               | 179,087,108   | 17,693,358       | 30,856,527    | (43,604,778)       | 238,132,215  | —                         | 238,132,215  |
| 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  |
| Total comprehensive income/(expense) for the period |       | —                                     | —               | —             | 6,269,350        | —             | (45,491,238)       | (39,221,888) | 759,355                   | (38,462,533) |
| Capital contribution from non-controlling interests |       | —                                     | —               | —             | —                | —             | —                  | —            | 520,434                   | 520,434      |
| Shares issued pursuant to the share placing         | 20(i) | 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)  |
| Warrants issued pursuant to the warrant placing     |       | —                                     | 819,500         | —             | —                | —             | —                  | 819,500      | —                         | 819,500      |
| Acquisition of subsidiaries                         | 20(i) | 16,328,125                            | —               | 192,671,875   | —                | —             | —                  | 209,000,000  | (59,059)                  | 208,940,941  |
| Conversion of warrants to shares                    | 20(i) | 125,000                               | (25,000)        | 1,250,000     | —                | —             | —                  | 1,350,000    | —                         | 1,350,000    |
| At 30 June 2011<br>(Unaudited)                      |       | 87,942,014                            | 794,500         | 532,611,938   | 35,613,812       | 30,856,527    | (121,403,528)      | 566,415,263  | 1,220,889                 | 567,636,152  |

Note: The capital reserve represents the amount recognised in respect of 163,900,000 warrants at HK\$0.005 each issued by the Company on 17 February 2011 to 10 independent third parties, which entitle the warrant holders to subscribe for 163,900,000 new shares of the Company at a subscription price of HK\$0.27 per each for a period of twelve months commencing from the date of issue of the warrants. Each warrant carries the right to subscribe for one new share.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2011

(Expressed in Hong Kong dollars)

|  | Note | Six months ended 30 June    |                             |
|--|------|-----------------------------|-----------------------------|
|  |      | 2011<br>HK\$<br>(Unaudited) | 2010<br>HK\$<br>(Unaudited) |
| <b>Operating activities</b>                          |      |                             |                             |
| Net cash used in operating activities                |      | <u>(17,273,125)</u>         | <u>(43,718,825)</u>         |
| <b>Investing activities</b>                          |      |                             |                             |
| Acquisition of subsidiaries, net of cash acquired    | 21   | (10,987,341)                | —                           |
| Payment for purchase of fixed assets                 |      | (70,374,461)                | (68,548,558)                |
| Others   |      | <u>1,543,772</u>            | <u>53,429</u>               |
| Net cash used in investing activities                |      | <u>(79,818,030)</u>         | <u>(68,495,129)</u>         |
| <b>Financing activities</b>                          |      |                             |                             |
| Proceeds from the issue of shares                    |      | 77,520,000                  | 129,600,000                 |
| Payment of transaction costs on issue of shares      |      | (1,938,000)                 | (9,603,304)                 |
| Proceeds from bank loans, net of transaction costs   |      | 335,008,375                 | 2,841,464                   |
| Proceeds from the issue of warrants                  |      | 819,500                     | —                           |
| Proceeds from unsecured loan                         | 19   | 50,000,000                  | —                           |
| Conversion of warrants to shares                     |      | 1,350,000                   | —                           |
| Repayment of bank loans                              |      | (308,181,228)               | —                           |
| Interest paid on bank loans                          |      | (16,523,851)                | (12,595,804)                |
| Interest paid on convertible bonds                   |      | (8,700,000)                 | —                           |
| Others   |      | <u>(597,927)</u>            | <u>882,545</u>              |
| Net cash generated from financing activities         |      | <u>128,756,869</u>          | <u>111,124,901</u>          |
| Net increase/(decrease) in cash and cash equivalents |      | 31,665,714                  | (1,089,053)                 |
| Cash and cash equivalents at beginning of the period |      | 44,039,009                  | 4,155,067                   |
| Effect of foreign exchange rate changes              |      | <u>(395,872)</u>            | <u>12,860,508</u>           |
| Cash and cash equivalents at end of the period       |      | <u><u>75,308,851</u></u>    | <u><u>15,926,522</u></u>    |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1 BASIS OF PREPARATION

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”).

The figures in respect of the Interim Report have been agreed by Baker Tilly Hong Kong Limited (“Baker Tilly Hong Kong”), to the amounts set out in the Group’s condensed consolidated interim financial statements for the six months ended 30 June 2011. As the work performed by Baker Tilly Hong Kong in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, Baker Tilly Hong Kong did not express any assurance on the Interim Report.

These condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2010.

The condensed consolidated interim financial statements have been prepared under the historical cost convention, except for derivative components of convertible bonds which are carried at their fair values.

As at 30 June 2011, the Group had net current liabilities of HK\$452,350,594 (31 December 2010: HK\$456,522,859). The Group’s loss after taxation amounted to HK\$44,735,605 (six months ended 30 June 2010: HK\$14,007,509) for six months ended 30 June 2011. In view of these circumstances, the Directors of the Company have given careful consideration to the future liquidity and performance of the Group in assessing whether the Group will have sufficient financial resources to continue as a going concern.

The Directors of the Company are of the opinion that the use of the going concern assumption in the preparation of the condensed consolidated interim financial statements is appropriate, as they consider that the Group will have sufficient means to finance the Group’s working capital when taking into account the following factor:

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1 BASIS OF PREPARATION *(continued)*

### Available banking facilities

In order to finance the operations of the production line of the magnesium smelter in Perak, Malaysia, the Group's wholly-owned subsidiary, CVM Magnesium Sdn. Bhd. ("CVMSB") obtained banking facilities totalling approximately RM184.6 million (equivalent to approximately HK\$475.8 million), which comprises a ten-year term loan from Bank Kerjasama Rakyat Malaysia Berhad ("Bank Rakyat").

Up to 30 June 2011, the total facilities drawn down amounted to approximately RM172.2 million (equivalent to approximately HK\$443.8 million) (31 December 2010: approximately RM160 million (equivalent to approximately HK\$403.7 million)).

In accordance with the bank loan agreements dated 5 July 2010, the Group was required to repay the bank loans by monthly instalments of RM743,065 (equivalent to HK\$1,914,869) commencing on or before 31 January 2011 and increasing to RM2,190,758 (equivalent to HK\$5,645,556) commencing on or before 2 March 2011 to Bank Rakyat for the next 10 years.

On 25 July 2011, CVMSB has successfully negotiated a re-scheduling of the loan repayment with Bank Rakyat. The monthly instalments have been revised to RM670,000 (equivalent to HK\$1,726,582) with effect from August 2011 to December 2013 and increasing to RM4,200,000 (equivalent to HK\$10,823,348) from January 2014 to the end of the loans' tenor in 2018.

After taking into account the above factor, the Directors are satisfied that the Group will have sufficient funding to enable it to operate as a going concern and meets its financial obligations as and when they fall due. Accordingly, the condensed consolidated interim financial statements have been prepared on a going concern basis.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

## 2 CHANGES IN ACCOUNTING POLICIES

The accounting policies used in the preparation of the condensed consolidated interim financial statements are consistent with those used in the Group's annual financial statements for the year ended 31 December 2010, except for the adoption of the standards, amendments and interpretations issued by the HKICPA mandatory for annual periods beginning 1 January 2011. The effect of the adoption of these standards, amendments and interpretations was not material to the Group's results of operations or financial position.

### Warrants

The issue of warrants will be settled by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments. When the warrants are subscribed, the fair value of the consideration received is recognised in capital reserve.

The fair value of the warrant is recognised in capital reserve until either the warrant is exercised (when it is transferred to the share premium account) or the warrant expires (when it is released directly to accumulated losses).

## 3 TURNOVER

Turnover represents the sales value of magnesium ingots supplied to customers during the period.

## 4 OTHER REVENUE

|                 | Six months ended 30 June |               |
|-----------------|--------------------------|---------------|
|                 | 2011                     | 2010          |
|                 | HK\$                     | HK\$          |
|                 | (Unaudited)              | (Unaudited)   |
| Interest income | 176,813                  | 53,429        |
| Rental income   | —                        | 13,138        |
|                 | <u>176,813</u>           | <u>66,567</u> |

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 5 OTHER NET INCOME

|  | Six months ended 30 June |                |
|--|--------------------------|----------------|
|  | 2011                     | 2010           |
|  | HK\$                     | HK\$           |
|  | (Unaudited)              | (Unaudited)    |
| Gain on disposal of fixed assets       | 51,540                   | —              |
| Net foreign exchange gains             | 219,866                  | 246,255        |
| Waiver of debts due to other creditors | 2,989,487                | —              |
|  | <u>3,260,893</u>         | <u>246,255</u> |

The waiver of debts is due to other creditors of the subsidiaries acquired in prior years.

### 6 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

|  | Six months ended 30 June |                   |
|--|--------------------------|-------------------|
|  | 2011                     | 2010              |
|  | HK\$                     | HK\$              |
|  | (Unaudited)              | (Unaudited)       |
| (a) Finance costs:   |                          |                   |
| Interest on convertible bonds                                    | 11,427,516               | —                 |
| Interest on bank loans*:   |                          |                   |
| - wholly repayable within 5 years                                | 7,672,609                | 6,406,687         |
| - wholly repayable after 5 years                                 | 6,853,628                | 8,892,280         |
|  | <u>14,526,237</u>        | <u>15,298,967</u> |
| Amortisation of loan transaction costs                           | 246,695                  | 176,690           |
| Other borrowing costs  | 1,750,919                | 1,364,148         |
| Finance charges on obligations under finance leases              | 129,420                  | 18,643            |
|  | <u>16,653,271</u>        | <u>16,858,448</u> |
| Less: Finance costs capitalised into construction in progress ** | —                        | (16,829,442)      |
|  | <u>16,653,271</u>        | <u>29,006</u>     |
|  | <u>28,080,787</u>        | <u>29,006</u>     |

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 6 LOSS BEFORE TAXATION *(continued)*

#### (a) Finance costs: *(continued)*

- \* The analysis shows the finance costs of bank loans, including term loans which contain a repayment on demand clause, in accordance with the agreed scheduled repayments dates set out in the loan agreements. For the six months ended 30 June 2011 and 2010, the interest on bank loans which contain a repayment on demand clause amounted to HK\$14,526,237 and HK\$15,298,967 respectively.
- \*\* No interest on bank loans has been capitalised (2010: 7.6% - 8.3%) for the six months ended 30 June 2011.

|   | Six months ended 30 June |                  |
|---|--------------------------|------------------|
|   | 2011                     | 2010             |
|   | HK\$                     | HK\$             |
|   | (Unaudited)              | (Unaudited)      |
| (b) Staff costs (including directors' remuneration) : |                          |                  |
| Salaries, wages, bonuses and benefits                 | 5,736,405                | 5,216,517        |
| Contributions to defined contribution retirement plan | 310,596                  | 389,074          |
|   | <u>6,047,001</u>         | <u>5,605,591</u> |

Pursuant to the relevant labour laws and regulations in Malaysia, CVMSB participates in a defined contribution retirement benefit scheme (the "Scheme") organised by the Malaysian government whereby CVMSB is required to make contributions to the Scheme at a rate of 12% (six months ended 30 June 2010: 12%) of the eligible employees' salaries for the six months ended 30 June 2011. Contributions to the Scheme vest immediately.

The Group has no other material obligation for the payment of pension benefits beyond the annual contributions described above.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 6 LOSS BEFORE TAXATION *(continued)*

|   | Six months ended 30 June |             |
|---|--------------------------|-------------|
|   | 2011                     | 2010        |
|   | HK\$                     | HK\$        |
|   | (Unaudited)              | (Unaudited) |
| (c) Other items:  |                          |             |
| Amortisation of exploration and evaluation assets                                 | 104,432                  | 95,793      |
| Amortisation of interest in leasehold land held for own use under operating lease | 74,502                   | 68,339      |
| Auditors' remuneration  | 290,771                  | 283,856     |
| Cost of inventories sold  | 11,716,733               | —           |
| Depreciation  | 13,052,248               | 91,374      |
| Exploration and evaluation assets written off                                     | 592,644                  | —           |
| Operating lease charges:  |                          |             |
| - office premises   | 671,936                  | 605,010     |
| - office equipment  | 29,989                   | 15,950      |
| - staff housing   | —                        | 5,933       |
| - equipment and machinery   | —                        | 156,874     |
| Provision for doubtful debts  | 10,687                   | —           |
|   | 10,687                   | —           |

For the six months ended 30 June 2011, the cost of sales of HK\$11,716,733 mainly consist of staff costs of HK\$792,850, depreciation of HK\$12,622,431 and amortisation of HK\$74,502, of which these amounts are also included in the respective total amounts disclosed separately above or in note 6(b) for each of these types of expenses.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

## 7 INCOME TAX

Pursuant to the income tax rules and regulations of Malaysia, the Group's Malaysian subsidiaries are liable to Malaysian Income Tax at a rate of 25% (six months ended 30 June 2010: 25%) for the six months ended 30 June 2011. No provision of income tax has been made as they do not have assessable profit for the six months ended 30 June 2011. Income tax for the six months ended 30 June 2010 represented provision for Malaysian Income Tax on interest income.

Pursuant to the Inland Revenue Ordinance of Hong Kong, assessable profit of the Company arising in or derived from Hong Kong is subject to the statutory income tax rate of 16.5% (six months ended 30 June 2010: 16.5%). No provision for Hong Kong Profits Tax has been made as the Company does not have assessable profit for the six months ended 30 June 2011 and 2010.

No provision for Indonesian Income Tax has been made as the Group's Indonesian subsidiaries do not have assessable profit for the six months ended 30 June 2011.

Members of the Group incorporated under the Business Companies Act 2004 (as amended) of the British Virgin Islands are exempted from payment of income taxes for the six months ended 30 June 2011.

As at 30 June 2011, the Group has not recognised deferred tax assets in respect of accumulated tax losses (31 December 2010: approximately HK\$43,389,000) 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. Other temporary differences are not material.

## 8 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\$45,491,238 (six months ended 30 June 2010: HK\$14,007,509) and the weighted average of 3,042,114,258 (30 June 2010: 2,087,535,912) ordinary shares in issue during the six months ended 30 June 2011.

### (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.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

## 9 DIVIDENDS

The Directors do not recommend the payment of any dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: Nil).

## 10 SEGMENT REPORTING

The Group has two reportable segments, which are the mining of dolomite and manufacture of magnesium ingots, and exploration of iron ore, coal and manganese. The segment information reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment is the same as those reported in these condensed consolidated interim financial statements.

### (a) Information about reportable segment profit or loss, assets and liabilities

|  | Mining of<br>dolomite and<br>manufacture of<br>magnesium ingots<br>HK\$ | Exploration<br>of iron ore,<br>coal and<br>manganese<br>HK\$ | Total<br>HK\$       |
|--|---|--|---------------------|
| <b>Six months ended 30 June 2011</b>       |   |  |                     |
| <b>(Unaudited)</b>                         |   |  |                     |
| Revenue from external customers            | 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 fixed assets           | 39,299  | 12,241   | 51,540              |
| Additions to segment<br>non-current assets | <u>69,969,608</u>   | <u>223,575,627</u>   | <u>293,545,235</u>  |
| <b>As at 30 June 2011 (Unaudited)</b>      |   |  |                     |
| Segment assets                             | 772,652,851   | 349,069,200  | 1,121,722,051       |
| Segment liabilities                        | <u>(12,572,511)</u>   | <u>(2,502,711)</u>   | <u>(15,075,222)</u> |

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 10 SEGMENT REPORTING *(continued)*

#### (a) Information about reportable segment profit or loss, assets and liabilities *(continued)*

|   | Mining of<br>dolomite and<br>manufacture of<br>magnesium ingots<br>HK\$ | Exploration<br>of iron ore,<br>coal and<br>manganese<br>HK\$ | Total<br>HK\$       |
|---|---|--|---------------------|
| Six months ended 30 June 2010<br>(Unaudited)    |   |  |                     |
| Revenue from external customers                 | —   | —  | —                   |
| Segment loss                                    | (7,838,553)   | —  | (7,838,553)         |
| Interest income                                 | 9,622   | —  | 9,622               |
| Finance costs                                   | (29,006)  | —  | (29,006)            |
| Depreciation and amortisation                   | (237,797)   | —  | (237,797)           |
| Other material items of<br>income and expenses: |   |  |                     |
| Income tax expenses                             | (10,195)  | —  | (10,195)            |
| Additions to segment<br>non-current assets      | <u>85,737,757</u>   | <u>—</u>   | <u>85,737,757</u>   |
| As at 31 December 2010 (Audited)                |   |  |                     |
| Segment assets                                  | <u>731,512,870</u>  | <u>124,033,208</u>   | <u>855,546,078</u>  |
| Segment liabilities                             | <u>(61,895,580)</u>   | <u>(3,421,291)</u>   | <u>(65,316,871)</u> |

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 10 SEGMENT REPORTING *(continued)*

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

|                                   | Six months ended 30 June |              |
|-----------------------------------|--------------------------|--------------|
|                                   | 2011                     | 2010         |
|                                   | HK\$                     | HK\$         |
|                                   | (Unaudited)              | (Unaudited)  |
| <b>Revenue</b>                    |                          |              |
| Reportable segment revenue        | 5,690,103                | —            |
| <b>Profit or loss</b>             |                          |              |
| Reportable segment profit/(loss)  | 2,969,261                | (7,838,553)  |
| Depreciation and amortisation     | (13,231,182)             | (255,506)    |
| Finance costs                     | (28,080,787)             | (29,006)     |
| Gain on disposal of fixed assets  | 51,540                   | —            |
| Interest income                   | 176,813                  | 53,429       |
| Unallocated corporate expenses    | (6,621,250)              | (5,927,678)  |
| Consolidated loss before taxation | (44,735,605)             | (13,997,314) |

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 10 SEGMENT REPORTING *(continued)*

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

|   | As at<br>30 June<br>2011<br>HK\$<br>(Unaudited) | As at<br>31 December<br>2010<br>HK\$<br>(Audited) |
|---|---|---|
| <b>Assets</b>   |   |   |
| Reportable segment assets   | 1,121,722,051                                   | 855,546,078                                       |
| Unallocated corporate assets:                                       |   |   |
| Pledged deposits  | 17,390  | 3,811,658   |
| Cash at bank and in hand  | 75,308,851                                      | 44,039,009  |
| Others  | 4,959,731                                       | 4,503,365   |
|   | <u>1,202,008,023</u>                            | <u>907,900,110</u>                                |
| <b>Liabilities</b>  |   |   |
| Reportable segment liabilities                                      | (15,075,222)                                    | (65,316,871)                                      |
| Unallocated corporate liabilities:                                  |   |   |
| Bank loans, secured   | (443,800,134)                                   | (399,873,440)                                     |
| Convertible bonds and derivative components<br>of convertible bonds | (124,529,371)                                   | (121,801,855)                                     |
| Unsecured loan from a third party                                   | (50,000,000)                                    | —   |
| Others  | (967,144)                                       | (2,022,134)                                       |
|   | <u>(634,371,871)</u>                            | <u>(589,014,300)</u>                              |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

## 10 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 fixed assets, exploration and evaluation assets, mining deposit and goodwill ("**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 specified 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 intangible assets and goodwill.

|             | United States |             | Malaysia      |             | Japan         |             | Total         |      |
|-------------|---------------|-------------|---------------|-------------|---------------|-------------|---------------|------|
|             | Six months    |             | Six months    |             | Six months    |             | Six months    |      |
|             | ended 30 June |      |
|             | 2011          | 2010        | 2011          | 2010        | 2011          | 2010        | 2011          | 2010 |
| HK\$        | HK\$          | HK\$        | HK\$          | HK\$        | HK\$          | HK\$        | HK\$          |      |
| (Unaudited) | (Unaudited)   | (Unaudited) | (Unaudited)   | (Unaudited) | (Unaudited)   | (Unaudited) | (Unaudited)   |      |
| Turnover    | 4,572,231     | —           | 143,488       | —           | 974,384       | —           | 5,690,103     | —    |

  

|                              | Hong Kong |             | Malaysia    |             | Indonesia   |             | Total         |             |
|------------------------------|-----------|-------------|-------------|-------------|-------------|-------------|---------------|-------------|
|                              | As at     | As at       | As at       | As at       | As at       | As at       | As at         | As at       |
|                              | 30 June   | 31 December | 30 June     | 31 December | 30 June     | 31 December | 30 June       | 31 December |
|                              | 2011      | 2010        | 2011        | 2010        | 2011        | 2010        | 2011          | 2010        |
| HK\$                         | HK\$      | HK\$        | HK\$        | HK\$        | HK\$        | HK\$        | HK\$          |             |
| (Unaudited)                  | (Audited) | (Unaudited) | (Audited)   | (Unaudited) | (Audited)   | (Unaudited) | (Audited)     |             |
| Specified non-current assets | 128,029   | 145,847     | 725,404,555 | 654,731,399 | 347,415,221 | 123,728,108 | 1,072,947,805 | 778,605,354 |

### (d) Revenue from major customers

|            | Six months ended 30 June |             |
|------------|--------------------------|-------------|
|            | 2011                     | 2010        |
|            | HK\$                     | HK\$        |
|            | (Unaudited)              | (Unaudited) |
| Customer a | 2,855,620                | —           |
| Customer b | 1,716,610                | —           |

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

## 11 FIXED ASSETS

During the six months ended 30 June 2011, the Group acquired fixed assets with a cost of approximately HK\$70,441,000 (six months ended 30 June 2010: approximately HK\$85,741,000), including assets acquired through business combination (see note 21) of HK\$56,964 (six months ended 30 June 2010: Nil), and assets acquired under finance leases of HK\$459,495 (six months ended 30 June 2010: HK\$962,919), and capitalised finance costs of nil (six months ended 30 June 2010: HK\$16,829,442) into construction in progress.

Assets with carrying amount of HK\$103,154 were disposed during the six months ended 30 June 2011 (six months ended 30 June 2010: Nil), resulting in a gain on disposal of HK\$51,540 (six months ended 30 June 2010: Nil), which has been included in other net income in the condensed consolidated income statement.

## 12 GOODWILL

|  | As at<br>30 June<br>2011<br>HK\$<br>(Unaudited) | As at<br>31 December<br>2010<br>HK\$<br>(Audited) |
|--|---|---|
| <b>Cost:</b>                                     |   |   |
| At 1 January                                     | 120,479,667                                     | —   |
| Arising on acquisition of subsidiaries (note 21) | 220,361,544                                     | 120,479,667                                       |
| Exchange adjustments                             | 117,936   | —   |
|  | <u>340,959,147</u>                              | <u>120,479,667</u>                                |
| At 30 June 2011/31 December 2010                 | <u>340,959,147</u>                              | <u>120,479,667</u>                                |
| <b>Carrying amount:</b>                          |   |   |
| At 30 June 2011/31 December 2010                 | <u>340,959,147</u>                              | <u>120,479,667</u>                                |

The goodwill has increased due to the acquisition of subsidiaries during the period.

For the purposes of impairment testing, goodwill has been allocated to the Group's cash-generating unit ("CGU") of exploration of iron ore, coal and manganese.

During the period ended 30 June 2011 and year ended 31 December 2010, the management of the Group has determined that there is no impairment of the CGU containing goodwill.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 12 GOODWILL *(continued)*

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budget approved by management covering a 10-year period, and discount rate at 8.3% per annum. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the management's expectations for the market development. Management believes that any reasonable possible change in any of these assumptions would not cause the aggregate carrying amount of CGU to exceed the aggregate recoverable amount of the CGU.

### 13 INVENTORIES

|                  | As at<br>30 June<br>2011<br>HK\$<br>(Unaudited) | As at<br>31 December<br>2010<br>HK\$<br>(Audited) |
|------------------|---|---|
| Raw materials    | 3,378,176                                       | 3,644,096   |
| Work-in-progress | 11,236,416                                      | 99,016  |
| Finished goods   | 9,530,817                                       | 910,074   |
|                  | <u>24,145,409</u>                               | <u>4,653,186</u>                                  |

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 14 TRADE RECEIVABLES

|                   | As at<br>30 June<br>2011<br>HK\$<br>(Unaudited) | As at<br>31 December<br>2010<br>HK\$<br>(Audited) |
|-------------------|---|---|
| Trade receivables | <u>5,078,199</u>                                | <u>8,795,408</u>                                  |

(a) Ageing analysis

The ageing analysis as of the end of the reporting period is as follows:

|                               | As at<br>30 June<br>2011<br>HK\$<br>(Unaudited) | As at<br>31 December<br>2010<br>HK\$<br>(Audited) |
|-------------------------------|---|---|
| Neither past due nor impaired | <u>5,078,199</u>                                | <u>8,795,408</u>                                  |

Trade receivables are due within 15 days from the date of bill of lading for exports sales or date of invoice for local sales.

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

- (b) As at 30 June 2011, trade receivables of HK\$5,078,199 (31 December 2010: HK\$8,795,408) are pledged as collateral for banking facilities granted to the Group.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 15 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

|                                 | As at<br>30 June<br>2011<br>HK\$<br>(Unaudited) | As at<br>31 December<br>2010<br>HK\$<br>(Audited) |
|---------------------------------|---|---|
| Other receivables               | 2,110,913                                       | 22,112,925  |
| Advance payment to a contractor | 11,853,791                                      | 39,800,331  |
| Government grant receivables    | 969,818   | 949,437   |
| Deposits and prepayments        | 9,575,847                                       | 5,084,463   |
| Amount due from a director      | —   | 48,339  |
|                                 | <b>24,510,369</b>                               | <b>67,995,495</b>                                 |

Apart from the Group's deposits and prepayments of HK\$8,859,962 as at 30 June 2011 (31 December 2010: HK\$2,430,150), all of the prepayments, deposits and other receivables are expected to be recovered within one year.

### 16 TRADE AND OTHER PAYABLES

|                                       | As at<br>30 June<br>2011<br>HK\$<br>(Unaudited) | As at<br>31 December<br>2010<br>HK\$<br>(Audited) |
|---------------------------------------|---|---|
| Trade payables                        | —   | 115,388   |
| Payables for construction in progress | —   | 38,860,815  |
| Other payables and accrued expenses   | 11,459,617                                      | 23,171,728  |
|                                       | <b>11,459,617</b>                               | <b>62,147,931</b>                                 |

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 16 TRADE AND OTHER PAYABLES *(continued)*

Included in trade and other payables are trade creditors with the following ageing analysis as of the end of the reporting period:

|                     | As at<br>30 June<br>2011<br>HK\$<br>(Unaudited) | As at<br>31 December<br>2010<br>HK\$<br>(Audited) |
|---------------------|---|---|
| Current             | —   | 32,663  |
| Due within 3 months | —   | 82,725  |
|                     | <u>—</u>  | <u>115,388</u>                                    |

All of the trade and other payables are expected to be settled within one year.

### 17 OBLIGATIONS UNDER FINANCE LEASES

At the end of the reporting period, the Group had obligations under finance leases repayable as follows:

|  | Present value of<br>minimum lease payments      |   | Total minimum<br>lease payments                 |   |
|--|---|---|---|---|
|  | As at<br>30 June<br>2011<br>HK\$<br>(Unaudited) | As at<br>31 December<br>2010<br>HK\$<br>(Audited) | As at<br>30 June<br>2011<br>HK\$<br>(Unaudited) | As at<br>31 December<br>2010<br>HK\$<br>(Audited) |
| Within 1 year                          | <u>991,756</u>                                  | <u>907,296</u>                                    | <u>1,203,061</u>                                | <u>1,134,760</u>                                  |
| After 1 year but within 2 years        | 1,057,875                                       | 969,885   | 1,203,062                                       | 1,134,760   |
| After 2 years but within 5 years       | 1,744,094                                       | 1,958,073   | 1,873,835                                       | 2,126,850   |
| Over 5 years                           | <u>159,090</u>                                  | <u>268,727</u>                                    | <u>163,809</u>                                  | <u>279,600</u>                                    |
|  | <u>2,961,059</u>                                | <u>3,196,685</u>                                  | <u>3,240,706</u>                                | <u>3,541,210</u>                                  |
|  | <u>3,952,815</u>                                | <u>4,103,981</u>                                  | <u>4,443,767</u>                                | <u>4,675,970</u>                                  |
| Less: Total future<br>interest expense |   |   | <u>(490,952)</u>                                | <u>(571,989)</u>                                  |
| Present value of lease obligations     |   |   | <u>3,952,815</u>                                | <u>4,103,981</u>                                  |

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 18 BANK LOANS - SECURED

At the end of the reporting period, interest-bearing bank loans were due for repayment as follows:

|   | As at<br>30 June<br>2011<br>HK\$<br>(Unaudited) | As at<br>31 December<br>2010<br>HK\$<br>(Audited) |
|---|---|---|
| Portion of term loans due for repayment within 1 year | <u>9,703,965</u>                                | <u>261,118,236</u>                                |
| Term loans due for repayment after 1 year:            |   |   |
| After 1 year but within 2 years                       | 19,020,499                                      | 10,825,776  |
| After 2 years but within 5 years                      | 224,169,446                                     | 38,407,395  |
| After 5 years   | <u>190,906,224</u>                              | <u>89,522,033</u>                                 |
|   | <u>434,096,169</u>                              | <u>138,755,204</u>                                |
|   | <u><u>443,800,134</u></u>                       | <u><u>399,873,440</u></u>                         |

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

In accordance with the bank loan agreements dated 5 July 2010, the Group was required to repay the bank loans by monthly instalments of RM743,065 (equivalent to HK\$1,914,869) commencing on or before 31 January 2011 and increasing to RM2,190,758 (equivalent to HK\$5,645,556) commencing on or before 2 March 2011 to Bank Rakyat for the next 10 years.

On 25 July 2011, CVMSB has successfully negotiated a re-scheduling of the loan repayment with Bank Rakyat. The monthly instalments have been revised to RM670,000 (equivalent to HK\$1,726,582) with effect from August 2011 to December 2013 and increasing to RM4,200,000 (equivalent to HK\$10,823,348) from January 2014 to the end of the loans' tenor in 2018.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 18 BANK LOANS - SECURED *(continued)*

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

- (i) legal charge over the land and factory buildings to be erected thereon held by CVMSB;
- (ii) assignment of trade receivables;
- (iii) 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 producing project (the "Project");
- (v) assignment of all rights, benefits and interest under insurance undertaken by CVMSB as part of its operations for the Project;
- (vi) assignment over the existing revenue accounts maintained at bank 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) 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 fulfilment 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 step-up operation commences, which was in or around February 2011. As at 30 June 2011, none of the covenants relating to the drawn down facilities had been breached (31 December 2010: Nil).

### 19 UNSECURED LOAN FROM A THIRD PARTY

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% per annum payable half yearly. The loan is wholly repayable in or before June 2014.

The effective interest rate on the unsecured loan is 12% (31 December 2010: Nil) per annum.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 20 SHARE CAPITAL

|   | As at 30 June 2011<br>(Unaudited) |                    | As at 31 December 2010<br>(Audited) |                    |
|---|-----------------------------------|--------------------|-------------------------------------|--------------------|
|   | Number<br>of shares               | Amount<br>HK\$     | Number<br>of shares                 | Amount<br>HK\$     |
| <b>Authorised:</b>                            |                                   |                    |                                     |                    |
| At the beginning of period/year               | 10,000,000,000                    | 250,000,000        | 4,800,000,000                       | 120,000,000        |
| Increase in authorised share capital          | —                                 | —                  | 5,200,000,000                       | 130,000,000        |
| At the end of period/year                     | <u>10,000,000,000</u>             | <u>250,000,000</u> | <u>10,000,000,000</u>               | <u>250,000,000</u> |
| <b>Issued and fully paid:</b>                 |                                   |                    |                                     |                    |
| At the beginning of period/year               | 2,519,555,556                     | 62,988,889         | 1,804,000,000                       | 45,100,000         |
| Shares issued pursuant to the share placing   | 340,000,000                       | 8,500,000          | 360,000,000                         | 9,000,000          |
| Shares issued for acquisition of subsidiaries | 653,125,000                       | 16,328,125         | 355,555,556                         | 8,888,889          |
| Conversion of warrants to shares              | 5,000,000                         | 125,000            | —                                   | —                  |
| At the end of period/year                     | <u>3,517,680,556</u>              | <u>87,942,014</u>  | <u>2,519,555,556</u>                | <u>62,988,889</u>  |

#### (i) Issue of shares

On 14 February 2011, 340,000,000 ordinary shares of HK\$0.025 each were placed out at a price of HK\$0.228 each. Proceeds of HK\$8,500,000, representing the par value, were credited to the Company's share capital. The remaining proceeds of HK\$69,020,000 were credited to share premium.

On 19 April 2011, the Company issued 653,125,000 ordinary shares of HK\$0.32 each to the then shareholders of Step Pacific Development Limited ("Step Pacific") pursuant to the agreement for the sale and purchase of shares dated 23 February 2011.

On 27 April 2011, the Company converted 5,000,000 warrants to ordinary shares at a price of HK\$0.27 each.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

## 21 ACQUISITION OF SUBSIDIARIES

To diversify the dolomite and magnesium business, on 23 February 2011, an agreement (the "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 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 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.

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<br>carrying amount<br>and provisional<br>fair value<br>at acquisition date<br>HK\$<br>(Unaudited) |
|---|--|
| Net assets acquired:                        |  |
| Fixed assets                                | 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)  |
|   | <hr/>  |
|   | (415,908)  |
| Non-controlling interests                   | 54,364   |
| Goodwill                                    | 220,361,544  |
|   | <hr/>  |
| Total consideration                         | 220,000,000  |
|   | <hr/> <hr/>  |

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 21 ACQUISITION OF SUBSIDIARIES *(continued)*

|  | Acquiree's<br>carrying amount<br>and provisional<br>fair value<br>at acquisition date<br>HK\$<br>(Unaudited) |
|--|--|
| Satisfied by:                            |  |
| Cash paid                                | 11,000,000   |
| Share consideration, at fair value       | 209,000,000  |
|  | <u>220,000,000</u>   |
| Net cash outflow arising on acquisition: |  |
| Cash consideration paid                  | (11,000,000)   |
| Bank balances and cash acquired          | 12,659   |
|  | <u>(10,987,341)</u>  |

Goodwill arising on the above acquisition during the period was determined on a provisional basis as the nature and fair value of the identified assets acquired can be determined on a provisional value only. The Company is in the process of obtaining independent valuation to assess the fair value. It may be adjusted upon the completion of the initial accounting.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 22 COMMITMENTS

#### (a) Capital commitments

Capital commitments outstanding as at 30 June 2011 not provided for in the condensed consolidated interim financial statements were as follows:

|                | As at<br>30 June<br>2011<br>HK\$<br>(Unaudited) | As at<br>31 December<br>2010<br>HK\$<br>(Audited) |
|----------------|---|---|
| Contracted for | —   | 25,001,261  |

#### (b) Future minimum royalty payments

Pursuant to the Mining Agreement signed with Harta Perak Corporation Sdn. Bhd. (“HPC”), a subsidiary of the Perak State Development Corporation (“PSDC”), a shareholder of the Company, the royalties are subject to a monthly minimum payment of RM30,000 (equivalent to HK\$77,310) (31 December 2010: RM30,000 (equivalent to HK\$72,443)) for a period of 20 years, unless earlier terminated by the Group by giving one month’s written notice to HPC. The total minimum royalties amounted to RM6,480,000 (equivalent to HK\$16,698,879) (31 December 2010: RM6,660,000 (equivalent to HK\$16,082,373)).

#### (c) Operating lease commitments

At 30 June 2011, the total minimum lease payments under non-cancellable operating leases are payable as follows:

|                                 | As at<br>30 June<br>2011<br>HK\$<br>(Unaudited) | As at<br>31 December<br>2010<br>HK\$<br>(Audited) |
|---------------------------------|---|---|
| Within 1 year                   | 1,401,027                                       | 669,318   |
| After 1 year but within 5 years | 1,500,622                                       | 111,005   |
|                                 | <u>2,901,649</u>                                | <u>780,323</u>                                    |

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

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 23 CONTINGENT LIABILITIES

#### (a) Corporate guarantees issued

As at 30 June 2011, the Company has issued corporate guarantees totalling approximately RM184.6 million (equivalent to approximately HK\$475.8 million) (31 December 2010: approximately RM300.2 million (equivalent to approximately HK\$757.4 million)) to banks in respect of bank loan facilities granted to CVMSB.

The Directors of the Company do not consider it is probable that a claim will be made against the Group under the corporate guarantees. The maximum liability of the Company as at 30 June 2011 under the corporate guarantees issued is the outstanding amount of the bank loan facilities drawn down by CVMSB, being approximately RM172.2 million (equivalent to approximately HK\$443.8 million) (31 December 2010: approximately RM160.0 million (equivalent to approximately HK\$403.7 million)).

In addition, as at 30 June 2011, the Company has issued a corporate guarantee totalling approximately RM0.85 million (equivalent to approximately HK\$2.2 million) (31 December 2010: approximately RM0.85 million (equivalent to approximately HK\$2.1 million)) to a supplier in respect of the purchase of liquefied petroleum gas made by CVMSB.

As at 30 June 2011, the Company has issued corporate guarantees totalling approximately RM1.5 million (equivalent to approximately HK\$3.8 million) (31 December 2010: approximately HK\$3.8 million) to finance lease creditors in respect of the purchase of motor vehicles and furniture and fittings by CVMSB.

The Company has not recognised any income in respect of the corporate guarantees as its fair value cannot be reliably measured and its transaction price was Nil.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 23 CONTINGENT LIABILITIES *(continued)*

#### (b) Environmental contingencies

Up to date, the Group has not incurred any significant expenditures for environmental 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 such future cost is indeterminable due to such 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.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 24 MATERIAL RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2011 and 2010, transactions with the following parties are considered as related party transactions:

| <i>Name of party</i>                             | <i>Relationship</i>        |
|--|----------------------------|
| Ho Wah Genting Berhad ("HWGB")                   | Shareholder of the Company |
| Ho Wah Genting Poipet Resorts Sdn. Bhd. ("HWGP") | Associate of HWGB          |
| HWG Tin Mining Sdn. Bhd. ("HWGTM")               | Subsidiary of HWGB         |
| Perak State Development Corporation ("PSDC")     | Shareholder of the Company |
| Harta Perak Corporation Sdn. Bhd. ("HPC")        | 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 |                |
|----------------------------------|--------------------------|----------------|
|                                  | 2011                     | 2010           |
|                                  | HK\$                     | HK\$           |
|                                  | (Unaudited)              | (Unaudited)    |
| Rent payable to:                 |                          |                |
| HWGB                             | <u>107,803</u>           | <u>98,885</u>  |
| Purchase of flight tickets from: |                          |                |
| HWGP                             | <u>280,637</u>           | <u>441,569</u> |
| Maintenance fee payable to:      |                          |                |
| HPC                              | <u>477,412</u>           | <u>444,983</u> |

The Directors of the Company are of the opinion that the above related party transactions were conducted on normal commercial terms and were priced with reference to prevailing market prices, and in the ordinary course of business.

#### (b) Non-recurring transactions

|                                 | Six months ended 30 June |             |
|---------------------------------|--------------------------|-------------|
|                                 | 2011                     | 2010        |
|                                 | HK\$                     | HK\$        |
|                                 | (Unaudited)              | (Unaudited) |
| Disposal of a motor vehicle to: |                          |             |
| HWGTM                           | <u>142,042</u>           | <u>—</u>    |

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

### 24 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

#### (c) Amounts due to related parties

|      | As at<br>30 June<br>2011<br>HK\$<br>(Unaudited) | As at<br>31 December<br>2010<br>HK\$<br>(Audited) |
|------|---|---|
| HWGB | 616,141   | 656,110   |
| HPC  | —   | 310,308   |
| HWGP | 13,793  | 120,675   |
|      | <u>629,934</u>                                  | <u>1,087,093</u>                                  |

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

#### (d) Key management personnel remuneration

|   | Six months ended 30 June<br>2011<br>HK\$<br>(Unaudited) | 2010<br>HK\$<br>(Unaudited) |
|---|---|-----------------------------|
| Directors' fees                           | 140,400   | 430,788                     |
| Salaries, allowances and benefits in kind | 2,019,324   | 1,093,561                   |
| Retirement scheme contributions           | 113,803   | 86,548                      |
|   | <u>2,273,527</u>  | <u>1,610,897</u>            |

### 25 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

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

### INTERIM DIVIDEND

The Board did not recommend payment of an interim dividend in respect of the six months ended 30 June 2011 (2010: 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 2011, 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 2011.

### 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 interim financial results of the Group for the six months ended 30 June 2011, 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.

## OTHER INFORMATION

### 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 shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes must not exceed 10% of the shares of the Company in issue from time to time. The maximum number of shares available for issue under options which may be granted under the Scheme and any other schemes of the Company must not in aggregate exceed 10% of the shares of the Company in issue immediately following the commencement of dealings in the shares of the Company on the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), being 351,768,055 shares. 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 2011, no option has been granted or agreed to be granted under the Scheme.

**DIRECTORS' INTERESTS**

As at 30 June 2011, 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 |                    | Total Number of shares | Approximate percentage of shareholding |
|------------------|--------------------|--------------------|------------------------|--|
|                  | Beneficial owner   | Interest of spouse |                        |  |
| Leung Wai Kwan   | 1,100,000          | 13,298,000         | 14,398,000             | 0.40%                                  |

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**

As at 30 June 2011, 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 as follows:

| Name of shareholders                      | Number of shares directly or indirectly held | Approximate percentage of shareholding | Notes |
|---|--|--|-------|
| Ho Wah Genting Berhad ("HWGB")            | 744,150,000                                  | 21.15%                                 | —     |
| Silver Rhythm Sdn. Bhd. ("Silver Rhythm") | 525,047,188                                  | 14.93%                                 | —     |
| Teoh Tek Siong                            | 525,047,188                                  | 14.93%                                 | 1,2   |

## Notes

1. This represents the same interest of Silver Rhythm in 525,047,188 shares.
2. Teoh Tek Siong owns approximately 99% interest in the issued share capital of Silver Rhythm and is therefore deemed to have an interest in the shares in which Silver Rhythm is interested in.
3. All interests stated above represent long positions.

## **OTHER INFORMATION**

### **CHANGES IN DIRECTORS' INFORMATION**

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information on Directors are as follows:

#### **Changes in Directors' emoluments**

The monthly salary of Mr. Lim Ooi Hong who has been appointed as the Group Chief Executive Officer, has been revised from RM12,000 (equivalent to HK\$30,921) to RM20,000 (equivalent to HK\$51,535) with effect from 1 June 2011.

#### **Positions held in the Company and other members of the Company's group**

Mr. Tony Tan, an Independent Non-executive Director, was re-designated as the chairman of HWGB, a shareholder of the Company which is interested in an aggregate of approximately 21.15% of the issued shares of the Company, with effect from 14 June 2011.

#### **Experience including other directorships held in the last three years and major appointments**

Mr. Tony Tan was appointed as a member of the audit committee and chairman of the nomination committee of APFT Berhad, a public company listed on the main market of Bursa Malaysia Securities Berhad, on 15 December 2010.

#### **Proposed length of service with the Company**

The termination clause in the service contract entered into between Mr. Tony Tan and the Company has been revised to termination by either party giving to the other two months' notice with effect from 2 June 2011.

### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

For the six months ended 30 June 2011, 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**  
**GOH SIN HUAT**  
*Executive Chairman*

Kuala Lumpur, Malaysia, 23 August 2011