



中國礦業資源集團有限公司*
China Mining Resources Group Limited
(Incorporated in Bermuda with limited liability)
Stock Code: 340



Interim Report | **2010**

** For identification purpose only*

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Corporate Information

DIRECTORS

Executive Directors:

You Xian Sheng (*Chairman*)

Chen Shou Wu (*Deputy Chairman,
Chief Executive Officer and
Chief Investment Officer*)

Wang Hui

Yeung Kwok Kuen (*Chief Financial Officer*)

Non-executive Director:

Lam Ming Yung

Independent Non-executive Directors:

Chan Sze Hon

Chu Kang Nam

Goh Choo Hwee

Lin Xiang Min

AUDIT COMMITTEE

Chan Sze Hon (*Chairman*)

Chu Kang Nam

Goh Choo Hwee

REMUNERATION COMMITTEE

Chan Sze Hon (*Chairman*)

Chu Kang Nam

Goh Choo Hwee

Yeung Kwok Kuen

COMPANY SECRETARY

Leung Lai Ming

HEAD OFFICE AND PRINCIPAL

PLACE OF BUSINESS

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Admiralty

Hong Kong

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

PRINCIPAL SHARE REGISTRAR

Butterfield Fulcrum Group (Bermuda)
Limited

Rosebank Centre

11 Bermudiana Road

Pembroke HM 08

Bermuda

HONG KONG BRANCH SHARE REGISTRAR

Computershare Hong Kong Investor
Services Limited

46th Floor Hopewell Centre

183 Queen's Road East

Hong Kong

AUDITORS

Deloitte Touche Tohmatsu

35/F One Pacific Place

88 Queensway

Hong Kong

PRINCIPAL BANKERS

Industrial and Commercial Bank of
China (Asia) Limited

UBS AG

China Construction Bank

Agricultural Bank of China

STOCK CODE

00340

COMPANY WEBSITE

www.chinaminingresources.com

Management Discussion and Analysis

RESULTS REVIEW

For the six months ended 30 June 2010, China Mining Resources Group Limited (the “Company”) together with its subsidiaries (the “Group”) recorded a consolidated revenue of HK\$90,678,000 (six months ended 30 June 2009: HK\$65,728,000), an increase of 38% over the corresponding period in 2009. The higher first half 2010 revenue were primarily due to a full six month results from the tea business revenue which generated from King Gold Investments Limited (“King Gold”) and its subsidiaries (“King Gold Group”) as the Group has commenced its tea business since 30 April 2009 after the acquisition of 80% interest in King Gold Group.

The Group’s unaudited loss attributable to owners of the Company amounted to HK\$495,055,000 (six months ended 30 June 2009: profit of HK\$8,286,000). In particular, the loss was mainly attributable to the impairment losses of HK\$444,218,000 on goodwill and the impairment losses of HK\$44,091,000 on brand name (attributable to owners of the Company of which HK\$35,273,000) in respect of the tea business. On exclusion of the above impairment losses, the Group’s loss before interest, taxes, depreciation and amortisation (“LBITDA”) was HK\$20,447,000 for the six months ended 30 June 2010 as compared to earning before interest, tax, depreciation and amortisation (“EBITDA”) of approximately HK\$79,908,000 for the corresponding period in the previous financial year.

REVIEW OF OPERATIONS

Harbin Songjiang Group

Harbin Songjiang Copper (Group) Company Limited (“Harbin Songjiang”) is based in Harbin, Heilongjiang Province, the People’s Republic of China (the “PRC”) and specialises in the mining and processing of molybdenum, copper and zinc, of which molybdenum accounts for the majority of its production and earnings.

Harbin Songjiang and its subsidiaries (“Harbin Songjiang Group”) contributed HK\$43,941,000 (six months ended 30 June 2009: HK\$36,501,000) and HK\$12,129,000 (six months ended 30 June 2009: HK\$81,239,000) to the Group’s turnover and loss respectively for the six months ended 30 June 2010.

Management Discussion and Analysis

REVIEW OF OPERATIONS (Continued)

Harbin Songjiang Group (Continued)

Revenue

Mining business revenue for the six months ended 30 June 2010 increased by 20% to HK\$43,941,000 compared to corresponding period in the previous financial year. The increase was mainly attributable to the moderate recovery of the silicon market in PRC in the first half of 2010, the average selling price of silicon for the first half of 2010 was HK\$11,369 per tonne, up by 17% compared with the first half of 2009. In view of the recovery of the silicon market, the directors of the Company determined to sell out the silicon inventories to realise profit in the current period. As a result, the silicon turnover increased by HK\$9,747,000 to HK\$9,849,000 for the first half of 2010.

Revenue generated from ferro molybdenum, copper and zinc and others which included silicon, iron and rutile were HK\$29,968,000, HK\$4,124,000 and HK\$9,849,000 (six months ended 30 June 2009: HK\$29,352,000, HK\$7,047,000 and HK\$102,000), respectively. The average selling prices for ferro molybdenum was HK\$172,230 per tonne (six months ended 30 June 2009: HK\$109,933 per tonne).

Cost of Sales and Gross Profit

The cost of sales of Harbin Songjiang Group for the six months ended 30 June 2010 was HK\$40,075,000 (six months ended 30 June 2009: HK\$20,882,000) and the gross profit margin was 9% (six months ended 30 June 2009: 43%). The decrease in gross profit margin was primarily due to the relatively higher unit cost of production of ferro molybdenum and silicon which sold during the period.

King Gold Group

The Group commenced its tea business in 30 April 2009 after the acquisition of 80% interest in King Gold by the Group. King Gold Group is principally engaged in cultivation, research, production and sale of Chinese tea products, and its products are widely distributed throughout the country under the brand names of “武夷” and “武夷星”, which are well-recognised in the PRC as premium tea products.

Management Discussion and Analysis

REVIEW OF OPERATIONS (Continued)

King Gold Group (Continued)

King Gold Group contributed HK\$46,737,000 and HK\$482,614,000 to the Group's turnover and loss for the six months ended 30 June 2010 respectively. During the post acquisition period of first half 2009, King Gold group contributed approximately HK\$29,227,000 and HK\$18,700,000 to the Group's turnover and profit respectively. The loss in the first half 2010 was mainly due to the unexpected natural disasters of ice frozen and flood which took place in the period in the Group's Wuyishan ("武夷山") production sites. As a result of the unexpected natural disasters, there was a significant increase in the cost of raw materials (being the tea leaves) of the tea products, which had led to significant decrease in gross profit margin and sales volume for the six months ended 30 June 2010 when compared with the full 6 months results of first half of 2009. In addition, impairment losses of approximately HK\$444,218,000 and HK\$44,091,000 were recognised in the consolidated statement of comprehensive income for the goodwill and brand name respectively during the period.

Revenue

For the six months ended 30 June 2010, King Gold Group generated a revenue of HK\$46,737,000. This represented an increase of HK\$17,510,000 or 60% in revenue when compared with the HK\$29,227,000 revenue which generated in the post acquisition period of first half 2009. The increase was mainly attributable to the first half of 2010 result representing six months operations while the first half of 2009 result only representing post acquisition period of two months.

Cost of Sales and Gross Profit

The cost of sales of King Gold Group increased from HK\$10,527,000 for the post acquisition period in the first half 2009 to HK\$35,737,000 for the six months ended 30 June 2010. The average gross profit margin for current period was 24%, compared to 64% in the same period last year. The decrease in gross profit margin was mainly caused by the sharp increase in the purchase price of the raw materials being the tea leaves due to natural disasters as mentioned in above.

Management Discussion and Analysis

REVIEW OF OPERATIONS (Continued)

King Gold Group (Continued)

Impairment losses on goodwill and brand name

Goodwill and brand name are allocated to the Group's tea business cash-generating unit and they are arising from the acquisition of King Gold Group in 2009. In view of the deterioration of the Group's tea business for the six months ended 30 June 2010 caused by the aforementioned unexpected natural disasters, the directors of the Company determine that there is impairment indication of the goodwill and brand name of King Gold Group. A valuation was performed on a cash flow projection basis. Accordingly, impairment losses in respect of the goodwill and brand name of HK\$444,218,000 and HK\$44,091,000, respectively, were recognised in the consolidated statement of comprehensive income during the six period ended 30 June 2010.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2010, the Group had total assets and net assets of HK\$1,417,449,000 (31 December 2009: HK\$1,969,445,000) and HK\$616,332,000 (31 December 2009: HK\$1,132,105,000), respectively. The current ratio was 1.646, as compared to 1.662 as of year ended 31 December 2009.

The Group had bank balances and cash amounted to approximately HK\$468,270,000 (31 December 2009: HK\$531,223,000), of which most were denominated in Hong Kong dollars and Renminbi.

As at the balance sheet date, the Group had (i) borrowings from non-controlling shareholders of HK\$150,500,000 (31 December 2009: HK\$150,500,000) all of which were interest-free, (ii) bank borrowings of HK\$120,041,000 (31 December 2009: HK\$119,448,000) which were interest-bearing at floating rates with reference to the prevailing borrowing rate quoted by the People's Bank of China and (iii) other loans of HK\$6,048,000 (31 December 2009: HK\$6,017,000), of which HK\$1,143,000 was interest-free and HK\$4,905,000 was interest-bearing at 2.55% per annum. The gearing ratio, as a ratio of total borrowings to shareholders' fund was 50.1% (31 December 2009: 26.4%).

Management Discussion and Analysis

FOREIGN EXCHANGE RISK MANAGEMENT

As part of the Group's assets and liabilities are denominated in Hong Kong dollar, Canadian dollar and United States dollar, in order to minimize the foreign currency risk, the Group aims to utilise the fund for transactions that are denominated in the same currency.

SHARE CAPITAL

On 19 April 2010, the Company issued 660,377,358 new shares as part of the consideration paid for the acquisition of 80% interest in King Gold Investments Limited as stated in the annual report of the Company for the financial year ended 31 December 2009 ("2009 Annual Report").

As at 30 June 2010, the Company had 6,791,162,211 shares in issue with total shareholders' fund of the Group amounting to approximately HK\$679,116,000.

CONTINGENT LIABILITIES

The Group has no material contingent liabilities as at 30 June 2010.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There were no material acquisitions or disposals of subsidiaries and associated companies during the six months ended 30 June 2010.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2010, the Group had 12 and 1,132 employees in Hong Kong and Mainland China respectively.

Employees of the Group are remunerated at a competitive level and are rewarded according to their performance. Our Group's remuneration packages include medical scheme, group insurance, mandatory provident fund for Hong Kong employees, social insurance packages for Mainland China employees, performance bonus and share option scheme.

Management Discussion and Analysis

EMPLOYEES AND REMUNERATION POLICIES (Continued)

According to the share option scheme adopted by the Company on 26 June 2002, share options may be granted to directors, employees and other eligible participants of the Group to subscribe for shares in the Company in accordance with the terms and conditions stipulated therein.

PROSPECTS

After facing grim conditions of the suspension of the production of molybdenum mine in the first eight months of 2009, the mining business has recovered in the first half 2010. The Group has maintained a stable mining production scale and steady sales for the past six months. The group strategically continues to increase its natural resources assets and production capabilities to enhance our position in mining industry.

However the tea business has encountered unprecedented enormity natural disasters in the first half of 2010. The unexpected ice frozen and flood which took place in the Company's Wuyishan production site, has seriously affected the tea business performance in the first half of 2010. Moreover, we anticipate the competition in China's tea market will still be fierce. As one of the key national agricultural industrialized tea producers in China we believe the only way to inspire confidence in consumers is by providing them high-quality tea products that are reliable and safe. Through brand-building and further developing retail market in China, we will be able to enlarge our market share and enhance our competitive strengths.

Looking forward, the Group will continue to capture any opportunities to expand its business in the mining and tea business sectors, by way of strategic layout optimizations. Meanwhile, the Group will actively look for attractive merger and acquisition opportunities domestically and internationally and strive to extend our business reach and enhance the profitability to maximize our shareholders' value.

Report on Review of Interim Financial Information

TO THE BOARD OF DIRECTORS OF

CHINA MINING RESOURCES GROUP LIMITED

中國礦業資源集團有限公司

(incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 11 to 38, which comprises the condensed consolidated statement of financial position of China Mining Resources Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) as of 30 June 2010 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and the Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with the Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Report on Review of Interim Financial Information

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

25 August 2010

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2010

	Notes	Six months ended 30 June	
		2010 HK\$'000 (unaudited)	2009 HK\$'000 (unaudited)
Revenue		90,678	65,728
Cost of sales		(75,812)	(31,409)
Gross profit		14,866	34,319
Other income		14,587	99,205
Distribution and selling expenses		(5,492)	(3,664)
Administrative expenses		(50,220)	(60,422)
Finance costs	4	(10,991)	(8,990)
Impairment losses on property, plant and equipment and prepaid lease payments	9	—	(55,408)
Impairment losses on exploration and evaluation assets	9	—	(12,318)
Impairment losses on goodwill	10	(444,218)	—
Impairment losses on other intangible assets	10	(44,091)	—
Loss before tax		(525,559)	(7,278)
Income tax credit (expense)	5	9,412	(8,660)
Loss for the period	6	(516,147)	(15,938)
Other comprehensive income (expense)			
Exchange differences arising on translation		2,055	(259)
(Loss) gain on change in fair value of available-for-sale investments		(35,482)	9,631
Release upon disposal of available-for-sale investments		—	(11,137)
Other comprehensive expense for the period		(33,427)	(1,765)
Total comprehensive expense for the period		(549,574)	(17,703)

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2010

		Six months ended 30 June	
		2010	2009
<i>Notes</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(unaudited)
(Loss) profit for the period attributable to:			
	Owners of the Company	(495,055)	8,286
	Non-controlling interests	(21,092)	(24,224)
		(516,147)	(15,938)
Total comprehensive (expense) income for the period attributable to:			
	Owners of the Company	(528,855)	6,739
	Non-controlling interests	(20,719)	(24,442)
		(549,574)	(17,703)
(Loss) earnings per share			
	Basic	(HK7.74 cents)	HK0.14 cent
	Diluted	(HK7.74 cents)	HK0.13 cent

Condensed Consolidated Statement of Financial Position

At 30 June 2010

	Notes	30 June 2010 HK\$'000 (unaudited)	31 December 2009 HK\$'000 (audited)
Non-current Assets			
Property, plant and equipment	9	133,728	121,192
Prepaid lease payments		36,051	37,447
Exploration and evaluation assets	9	—	—
Goodwill	10	88,295	511,381
Other intangible assets	10	138,263	182,374
Available-for-sale investments	11	179,554	214,199
		575,891	1,066,593
Current Assets			
Inventories		266,736	256,185
Trade and other receivables	12	92,003	105,531
Prepaid lease payments		3,088	3,167
Held-for-trading investments		11,461	6,746
Bank balances and cash		468,270	531,223
		841,558	902,852
Current Liabilities			
Trade and other payables	13	200,304	221,880
Amounts due to non-controlling shareholders	14	150,500	150,500
Tax payable		59,877	62,277
Deferred income	15	330	—
Bank borrowings	16	57,162	51,192
Other borrowings	16	1,143	1,137
Provisions	17	41,877	56,302
		511,193	543,288
Net Current Assets		330,365	359,564
Total Assets less Current Liabilities		906,256	1,426,157

Condensed Consolidated Statement of Financial Position

At 30 June 2010

		30 June 2010 <i>HK\$'000</i> (unaudited)	31 December 2009 <i>HK\$'000</i> (audited)
	<i>Notes</i>		
Capital and Reserves			
Share capital	19	679,116	613,078
Share premium and (deficits) reserves		<u>(126,893)</u>	<u>434,199</u>
Equity attributable to owners of the Company		552,223	1,047,277
Non-controlling interests		<u>64,109</u>	<u>84,828</u>
Total Equity		<u>616,332</u>	<u>1,132,105</u>
Non-current Liabilities			
Deferred income	15	32,135	32,435
Bank borrowings	16	62,879	68,256
Other borrowings	16	4,905	4,880
Provisions	17	85,547	67,747
Deferred tax liabilities		14,628	25,070
Other long term payables	18	<u>89,830</u>	<u>95,664</u>
		<u>289,924</u>	<u>294,052</u>
		<u>906,256</u>	<u>1,426,157</u>

The condensed consolidated financial statements on pages 11 to 38 were approved and authorised for issue by the Board of Directors on 25 August 2010 and are signed on its behalf by:

Chen Shou Wu
Director

Yeung Kwok Kuen
Director

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2010

	Share capital	Share premium	Statutory surplus reserve	Capital reserve	Share options reserve	Investment revaluation reserve	Translation reserve	Issuable shares	Accumulated losses	Attributable to owners of the Company	Non-controlling interests	Total
	HK\$ '000	HK\$ '000	HK\$ '000 (Note i)	HK\$ '000 (Note ii)	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
At 1 January 2009	602,665	2,861,480	95,481	18,121	34,860	594	427,090	–	(2,908,011)	1,132,280	125,315	1,257,595
Gain on change in fair value of available-for-sale investments	–	–	–	–	–	9,631	–	–	–	9,631	–	9,631
Release upon disposal of available-for-sale investments	–	–	–	–	–	(11,137)	–	–	–	(11,137)	–	(11,137)
Exchange differences arising on translation	–	–	–	–	–	–	(41)	–	–	(41)	(218)	(259)
Profit (loss) for the period	–	–	–	–	–	–	–	–	8,286	8,286	(24,224)	(15,938)
Total comprehensive (expense) income for the period	–	–	–	–	–	(1,506)	(41)	–	8,286	6,739	(24,442)	(17,703)
Shares issued	10,413	16,631	–	–	–	–	–	–	–	27,044	–	27,044
Acquisition of subsidiaries	–	–	–	–	–	–	–	157,170	–	157,170	38,898	196,068
Cancellation of share options	–	–	–	–	(1,488)	–	–	–	1,488	–	–	–
Transfer	–	–	–	699	–	–	–	–	(699)	–	–	–
Subtotal	10,413	16,631	–	699	(1,488)	–	–	157,170	789	184,214	38,898	223,112
At 30 June 2009 (unaudited)	613,078	2,878,111	95,481	18,820	33,372	(912)	427,049	157,170	(2,898,936)	1,333,233	139,771	1,463,004
Gain on change in fair value of available-for-sale investments	–	–	–	–	–	84,334	–	–	–	84,334	–	84,334
Release upon disposal of available-for-sale investments	–	–	–	–	–	(60,363)	–	–	–	(60,363)	–	(60,363)
Exchange differences arising on translation	–	–	–	–	–	–	1,216	–	–	1,216	312	1,528
Loss for the period	–	–	–	–	–	–	–	–	(326,641)	(326,641)	(55,255)	(381,896)
Total comprehensive income (expense) for the period	–	–	–	–	–	23,971	1,216	–	(326,641)	(301,454)	(54,943)	(356,397)
Recognition of equity-settled share-based payments	–	–	–	–	25,498	–	–	–	–	25,498	–	25,498
Transfer	–	–	6,004	1,087	–	–	–	–	(7,091)	–	–	–
Subtotal	–	–	6,004	1,087	25,498	–	–	–	(7,091)	25,498	–	25,498

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2010

	Share capital	Share premium	Statutory surplus reserve	Capital reserve	Share options	Investment revaluation reserve	Translation reserve	Issuable shares	Accumulated losses	Attributable to owners of the Company	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000 (Note i)	HK\$'000 (Note ii)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2009 and 1 January 2010 (audited)	613,078	2,876,111	101,485	19,907	58,870	23,059	428,265	157,170	(3,232,668)	1,047,277	84,828	1,132,105
Loss on change in fair value of available-for-sale investments	-	-	-	-	-	(35,482)	-	-	-	(35,482)	-	(35,482)
Exchange differences arising on translation	-	-	-	-	-	-	1,682	-	-	1,682	373	2,055
Loss for the period	-	-	-	-	-	-	-	-	(495,055)	(495,055)	(21,092)	(516,147)
Total comprehensive (expense) income for the period	-	-	-	-	-	(35,482)	1,682	-	(495,055)	(528,855)	(20,719)	(549,574)
Shares issued (Note 19)	66,038	112,234	-	-	-	-	-	(157,170)	-	21,102	-	21,102
Cancellation of share options	-	-	-	-	(25,498)	-	-	-	25,498	-	-	-
Recognition of equity-settled share-based payment	-	-	-	-	12,699	-	-	-	-	12,699	-	12,699
Transfer	-	-	-	1,094	-	-	-	-	(1,094)	-	-	-
Subtotal	66,038	112,234	-	1,094	(12,799)	-	-	(157,170)	24,404	33,801	-	33,801
At 30 June 2010 (unaudited)	679,116	2,990,345	101,485	21,001	46,071	(12,423)	429,947	-	(3,703,319)	552,223	64,109	616,332

Notes:

- (i) According to the relevant the People's Republic of China ("PRC") rules and regulations, subsidiaries of the Group established in the PRC are required to transfer 10% of their net profit, as determined in accordance with the PRC accounting standards and regulations, to the statutory surplus reserve until the balance of the reserve reaches 50% of their respective registered capital. The transfer to this reserve must be made before distribution of dividends to equity owners of these subsidiaries. Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into capital in proportion to existing equity owners' equity percentage, provided that the balance after such issuance is not less than 25% of their registered capital.
- (ii) Pursuant to regulations <高危行業企業安全生產費用財務管理暫行辦法> in the PRC relating to the mining industry, the Group is required to transfer an amount to the capital reserve account. The amount is calculated based on the volume of ores excavated each year and at the applicable rate per tonne of ores ("Appropriation for Mining Company"). The utilisation of the amount in the capital reserve account will be used on modification and maintenance of safety equipment in accordance with the rules in the PRC Companies Law and is not available for distribution to shareholders.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2010

Six months ended 30 June

	2010 <i>HK\$'000</i> (unaudited)	2009 <i>HK\$'000</i> (unaudited)
OPERATING ACTIVITIES		
Loss before tax	(525,559)	(7,278)
Adjustments for:		
Interest income	(1,246)	(1,015)
Finance costs	10,991	8,990
Depreciation of property, plant and equipment	3,613	9,586
Amortisation of prepaid lease payments	1,659	844
Amortisation of other intangible assets	540	—
Gain on disposal of available-for-sale investments	—	(64,966)
Impairment losses on property, plant and equipment	—	54,859
Impairment losses on prepaid lease payments	—	549
Impairment losses on exploration and evaluation assets	—	12,318
Impairment losses on goodwill	444,218	—
Impairment losses on other intangible assets	44,091	—
Share-based payment expenses	12,699	—
Reversal of allowance for inventories	(834)	(31,061)
Write-off of inventories	4,361	—
Other non-cash items	(2,751)	2,839
Operating cash flows before movements in working capital	(8,218)	(14,335)
(Increase) decrease in inventories	(12,823)	20,130
Decrease in trade and other receivables	27,156	32,770
Increase in held-for-trading investments	(4,362)	—
Decrease in trade and other payables	(25,660)	(72,154)
Other changes in working capital items	(1,168)	4,365
Cash used in operations	(25,075)	(29,224)
PRC Enterprise Income Tax paid	(1,422)	(70,828)
NET CASH USED IN OPERATING ACTIVITIES	(26,497)	(100,052)

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2010

	Six months ended 30 June	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
INVESTING ACTIVITIES		
Loans to third parties	(15,320)	—
Purchase of property, plant and equipment	(15,033)	(18,314)
Decrease in other long term payables	(6,302)	—
Proceeds from disposal of prepaid lease payments	2,274	—
Interest received	1,246	1,015
Acquisition of subsidiaries	—	(409,800)
Purchase of exploration and evaluation assets	—	(1,106)
Proceeds from disposal of available-for-sale investments	—	100,335
Proceeds from disposal of a subsidiary	—	6,132
Proceeds from disposal of property, plant and equipment	—	615
NET CASH USED IN INVESTING ACTIVITIES	(33,135)	(321,123)
FINANCING ACTIVITIES		
Repayment of bank borrowings	(11,432)	—
Interest paid	(3,451)	(5,071)
New bank borrowings raised	11,432	—
NET CASH USED IN FINANCING ACTIVITIES	(3,451)	(5,071)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(63,083)	(426,246)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	531,223	1,000,408
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	130	416
CASH AND CASH EQUIVALENTS AT 30 JUNE, represented by bank balances and cash	468,270	574,578

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

1. BASIS OF PREPARATION

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

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2009, except for as below.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the HKICPA.

The Group applies HKFRS 3 (Revised) *Business Combinations* prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) *Consolidated and Separate Financial Statements* in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

The application of the other new and revised HKFRSs had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010 ¹
HKAS 24 (Revised)	Related Party Disclosures ⁴
HKAS 32 (Amendment)	Classification of Rights Issues ²
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ³
HKFRS 9	Financial Instruments ⁵
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement ⁴
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments ³

¹ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

² Effective for annual periods beginning on or after 1 February 2010

³ Effective for annual periods beginning on or after 1 July 2010

⁴ Effective for annual periods beginning on or after 1 January 2011

⁵ Effective for annual periods beginning on or after 1 January 2013

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

HKFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The standard requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

The Group's operating segments, based on information reported to the chief operating decision maker for the purposes of resource allocation and performance assessment, are as follows:

Molybdenum	—	mining, processing and sales of molybdenum
Copper and zinc	—	mining, processing and sales of copper and zinc
Others	—	mining, processing and sales of other minerals such as rutile, silicon and iron
Tea products	—	production and sales of tea products

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

3. SEGMENT INFORMATION (Continued)

The following is an analysis of the Group's revenue and results by operating segment for the period under review:

Six months ended 30 June 2010

	Molybdenum HK\$'000	Copper and zinc HK\$'000	Others HK\$'000	Tea products HK\$'000	Total HK\$'000
REVENUE					
Segment revenue – external sales	<u>29,968</u>	<u>4,124</u>	<u>9,849</u>	<u>46,737</u>	<u>90,678</u>
RESULT					
Segment result	<u>8,883</u>	<u>(3,023)</u>	<u>6,269</u>	<u>(482,614)</u>	<u>(470,485)</u>
Unallocated corporate income					3,154
Unallocated corporate expenses					(47,237)
Finance costs					<u>(10,991)</u>
Loss before tax					<u>(525,559)</u>

Six months ended 30 June 2009

	Molybdenum HK\$'000	Copper and zinc HK\$'000	Others HK\$'000	Tea products HK\$'000	Total HK\$'000
REVENUE					
Segment revenue – external sales	<u>29,352</u>	<u>7,047</u>	<u>102</u>	<u>29,227</u>	<u>65,728</u>
RESULT					
Segment result	<u>2,090</u>	<u>(4,905)</u>	<u>(78,424)</u>	<u>18,700</u>	<u>(62,539)</u>
Unallocated corporate income					92,948
Unallocated corporate expenses					(28,697)
Finance costs					<u>(8,990)</u>
Loss before tax					<u>(7,278)</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

3. SEGMENT INFORMATION (Continued)

Segment result represents the profit (loss) earned by each segment without allocation of central administration costs, directors' salaries, change in fair value of held-for-trading investments, gain on disposal of available-for-sale investments, gain on disposal of a subsidiary, interest income and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

The following is an analysis of the Group's assets by operating segment:

	30 June 2010 HK\$'000 (unaudited)	31 December 2009 HK\$'000 (audited)
Molybdenum	414,387	417,283
Copper and zinc	7,142	15,655
Others	3,246	20,488
Tea products	337,397	865,972
Unallocated assets	655,277	650,047
	<u>1,417,449</u>	<u>1,969,445</u>

Other segment information

For the six months ended 30 June 2010

	Molybdenum HK\$'000	Copper and zinc HK\$'000	Others HK\$'000	Tea products HK\$'000	Sub-total HK\$'000	Unallocated HK\$'000	Total HK\$'000
Depreciation of property, plant and equipment	293	-	-	1,796	2,089	1,524	3,613
Amortisation of prepaid lease payments	44	-	16	1,599	1,659	-	1,659
Amortisation of other intangible assets	540	-	-	-	540	-	540
Impairment losses on goodwill	-	-	-	444,218	444,218	-	444,218
Impairment losses on other intangible assets	-	-	-	44,091	44,091	-	44,091
Reversal of allowance for inventories	-	-	(793)	(41)	(834)	-	(834)
Write-off of inventories	-	-	-	4,361	4,361	-	4,361

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

3. SEGMENT INFORMATION (Continued)

Other segment information (Continued)

For the six months ended 30 June 2009

	Molybdenum	Copper and zinc	Others	Tea products	Sub-total	Unallocated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	4,442	1,661	384	482	6,969	2,617	9,586
Amortisation of prepaid lease payments	173	–	498	173	844	–	844
Impairment losses on property, plant and equipment	–	1,637	51,860	–	53,497	1,362	54,859
Impairment losses on prepaid lease payments	–	–	549	–	549	–	549
Impairment losses on exploration and evaluation assets	–	–	12,318	–	12,318	–	12,318
Reversal of allowance for inventories	(28,577)	(2,323)	(161)	–	(31,061)	–	(31,061)

4. FINANCE COSTS

	Six months ended 30 June	
	2010 HK\$'000 (unaudited)	2009 HK\$'000 (unaudited)
Interest on bank and other borrowings wholly repayable within five years	3,451	5,071
Imputed interest on long term payables and provisions	7,540	3,919
	10,991	8,990

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

5. INCOME TAX (CREDIT) EXPENSE

	Six months ended 30 June	
	2010	2009
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current tax:		
People's Republic of China (the "PRC")		
Enterprise Income Tax	1,050	1,895
Deferred tax:		
Current period	(10,462)	6,765
	<u>(9,412)</u>	<u>8,660</u>

No provision for Hong Kong Profits Tax has been made for both periods as the Group had no assessable profit arising in Hong Kong.

For the PRC Enterprise Income Tax, the relevant tax rate for the Group's subsidiaries in the PRC is 25% for both periods.

Pursuant to the relevant laws and regulations in the PRC, Wuyi Star Tea Industrial Co., Ltd., a subsidiary of the Company acquired in 2009, is exempted from PRC income tax for two years starting from its first profit-making year, followed by a 50% reduction for the next three years. That subsidiary of the Company was in its fourth profit-making year in 2010 and hence PRC income tax was calculated at 12.5% which is 50% of the standard tax rate, on the estimated assessable profit of that subsidiary for both periods.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

6. LOSS FOR THE PERIOD

Loss for the period has been arrived at after charging (crediting):

	Six months ended 30 June	
	2010 <i>HK\$'000</i> (unaudited)	2009 <i>HK\$'000</i> (unaudited)
Depreciation of property, plant and equipment	3,613	9,586
Amortisation of prepaid lease payments	1,659	844
Amortisation of other intangible assets	540	—
Net foreign exchange loss (gain)	677	(3,798)
Impairment losses recognised in respect of		
— property, plant and equipment	—	54,859
— prepaid lease payments	—	549
— exploration and evaluation assets	—	12,318
— other intangible assets	44,091	—
— goodwill	444,218	—
Reversal of impairment loss on trade and other receivables	(65)	(1,083)
Government grants	(6,948)	(17,155)
Interest income	(1,246)	(1,015)
Gain on disposal of a subsidiary	—	(6,056)
Gain from change in fair value of held-for- trading investments	(346)	(16,172)
Gain on disposal of available-for-sale investments	—	(64,966)
Reversal of allowance for inventories	(834)	(31,061)
Write-off of inventories	4,361	—

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

7. DIVIDENDS

No dividends were paid, declared or proposed during the reported period. The directors do not recommend the payment of an interim dividend.

8. (LOSS) EARNINGS PER SHARE

The calculation of basic and diluted (loss) earnings per share attributable to the owners of the Company is based on the following data:

	Six months ended 30 June	
	2010 HK\$'000 (unaudited)	2009 HK\$'000 (unaudited)
Earnings		
(Loss) profit for the period attributable to owners of the Company for the purposes of basic and diluted (loss) earnings per share	<u>(495,055)</u>	<u>8,286</u>
Number of shares	'000	'000
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	6,394,936	6,075,248
Effect of dilutive potential ordinary shares:		
Issuable shares (Note 19)	—	220,126
Options	—	272,021
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	<u>6,394,936</u>	<u>6,567,395</u>

The computation of diluted loss per share for the six months ended 30 June 2010 does not include the potential ordinary shares arising from the Company's share options because the exercise prices of these share options were higher than the average market price of the Company's shares for the period. The effect of issuable shares is also not included in the computation as it would result in a decrease in loss per share.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND EXPLORATION AND EVALUATION ASSETS

During the six months ended 30 June 2010, the Group acquired property, plant and equipment of approximately HK\$15,033,000. During the six months ended 30 June 2009, the Group acquired property, plant and equipment and exploration and evaluation assets, other than from acquisition of subsidiaries, of approximately HK\$18,314,000 and HK\$1,106,000, respectively.

In view of the decrease in market price of silicon-related products, the directors of the Company determined that the operations of Xinganmeng Songjiang Mining Co. Ltd ("Xinganmeng Songjiang"), a subsidiary of Group should be suspended. Accordingly, full impairment loss of related production plant of approximately HK\$50,723,000 and prepaid lease payments of approximately HK\$549,000 were recognised in the condensed consolidated statement of comprehensive income during the six months ended 30 June 2009.

In addition, in view of the continuous decrease in market price of copper, iron and zinc related products, the directors of the Company considered that the market of these minerals would take a long time to recover. Accordingly, full impairment loss in respect of the related processing plant and production plant of approximately HK\$4,136,000 was recognised in the condensed consolidated statement of comprehensive income during the six months ended 30 June 2009.

The Group performed exploration in certain locations in Inner Mongolia, Heilongjiang and Henan, the PRC during the six months ended 30 June 2009. After evaluating the exploration results, the directors of the Company considered that it was not commercially viable to continue the exploration in such locations, and the related exploration and evaluation assets were impaired. Accordingly, full impairment loss of the carrying amount of approximately HK\$12,318,000 was recognised in the condensed consolidated statement of comprehensive income during the six months ended 30 June 2009.

At 30 June 2010, certain of the Group's buildings with the aggregate carrying amount of HK\$10,633,000 were pledged as security for the Group's new bank borrowing (Note 16).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

10. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill		Other intangible assets					
	Six months ended 30 June 2010 HK\$'000	Year ended 31 December 2009 HK\$'000	Mining rights and exploration rights		Brand name		Total	
			Six months ended 30 June 2010 HK\$'000	Year ended 31 December 2009 HK\$'000	Six months ended 30 June 2010 HK\$'000	Year ended 31 December 2009 HK\$'000	Six months ended 30 June 2010 HK\$'000	Year ended 31 December 2009 HK\$'000
At beginning of the period/year	511,381	–	102,943	546,777	79,431	–	182,374	546,777
Additions	21,132	–	–	30	–	–	–	30
Acquired on acquisition of subsidiaries	–	511,381	–	–	–	79,374	–	79,374
Exchange adjustments	–	–	507	337	13	57	520	394
Amortised to profit or loss	–	–	(540)	(2,978)	–	–	(540)	(2,978)
Amortised to exploration and evaluation assets	–	–	–	(37)	–	–	–	(37)
Impairment loss recognised in profit or loss	(444,218)	–	–	(441,186)	(44,091)	–	(44,091)	(441,186)
At end of the period/year	88,295	511,381	102,910	102,943	35,353	79,431	138,263	182,374

The goodwill and brand name are arising from the acquisition of King Gold Investments Limited and its subsidiaries (“King Gold Group”) in 2009. The principal operation of King Gold Group (a Cash Generating Unit) is the production and sales of tea products.

During the current period, the directors of the Company determine that there is impairment indicator on brand name due to the loss of two major customers in current period and consider the recoverable amount of the brand name is less than the carrying value. The recoverable amount of brand name has been determined on the basis of its fair value. Relief-from-royalty Method was applied in the valuation of the brand name. In applying the method, an estimate of a reasonable royalty rate was made assuming that the brand name was licensed at a fair rate as a result of arm’s length negotiations. Royalty rate of 3% was adopted in the valuation of brand name.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

10. GOODWILL AND OTHER INTANGIBLE ASSETS (Continued)

Apart from the brand name, the directors of the Company determine that there is impairment indicator on goodwill as well and that the recoverable amount of King Gold Group (being the Cash Generating Unit to which the goodwill and other intangible assets have been allocated) is less than the aggregate carrying amounts of the goodwill, other intangible assets and the net assets value of King Gold Group.

The recoverable amount of King Gold Group has been determined on the basis of value in use calculation and is based on certain key assumptions. The cash flow projections are prepared from financial budget approved by the management of the Group covering a ten-year period and a discount rate of 12.6%. Cash flows beyond the ten-year period are extrapolated using a 3% steady growth rate. This growth rate is based on the relevant growth forecasts and does not exceed the average long-term growth rate for the relevant industry. In addition, the cash flow projections are prepared based on the expected gross margins determined based on past performance and management's expectations for the market development.

Impairment losses in respect of the goodwill and brand name of approximately HK\$444,218,000 and HK\$44,091,000, respectively, were recognised in the condensed consolidated statement of comprehensive income during the six months ended 30 June 2010.

11. AVAILABLE-FOR-SALE INVESTMENTS

	30 June 2010 HK\$'000 (unaudited)	31 December 2009 HK\$'000 (audited)
Available-for-sale equity investments listed in overseas stock exchange	179,554	214,199

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

12. TRADE AND OTHER RECEIVABLES

	30 June 2010 HK\$'000 (unaudited)	31 December 2009 HK\$'000 (audited)
Trade receivables	34,215	42,176
Less: Allowance for doubtful debts	(5,448)	(4,612)
	<u>28,767</u>	<u>37,564</u>
Other receivables	40,125	111,308
Less: Allowance for doubtful debts	(12,773)	(61,801)
	<u>27,352</u>	<u>49,507</u>
Deposits and prepayments	20,564	18,460
Loans to third parties (note 22)	15,320	—
	<u>92,003</u>	<u>105,531</u>

The Group normally allows credit period ranging from 90 to 180 days to its trade customers. Other receivables are unsecured, non-interest bearing and repayable on demand.

The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period:

	30 June 2010 HK\$'000 (unaudited)	31 December 2009 HK\$'000 (audited)
0 — 60 days	15,186	27,390
61 — 90 days	2,686	160
91 — 180 days	1,133	5,600
Over 180 days	9,762	4,414
	<u>28,767</u>	<u>37,564</u>

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

13. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	30 June 2010 HK\$'000 (unaudited)	31 December 2009 HK\$'000 (audited)
0 – 90 days	7,422	6,814
Over 90 days	<u>6,898</u>	<u>6,121</u>
	<u>14,320</u>	<u>12,935</u>

14. AMOUNTS DUE TO NON-CONTROLLING SHAREHOLDERS

The amounts are unsecured, non-interest bearing and repayable on demand.

15. DEFERRED INCOME

Deferred income represents government grants received by the Group at the end of the reporting period in respect of acquisition of property, plant and equipment and prepaid lease payments. Such government grants are recognised as deferred income in the condensed consolidated statement of financial position initially and transferred to profit or loss as other income over the useful lives of the related assets.

During the six months ended 30 June 2010, government grants of approximately HK\$127,000 were recognised in profit or loss (Nil for the six months ended 30 June 2009).

As at 30 June 2010, the deferred income of approximately HK\$330,000 is expected to be transferred to profit or loss within one year and therefore is classified as current liabilities in the condensed consolidated statement of financial position.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

16. BANK AND OTHER BORROWINGS

During the six months ended 30 June 2010, the Group obtained new bank borrowing amounting to HK\$11,432,000 and repaid the bank borrowings amounting to HK\$11,432,000. This new bank borrowing is secured and carries interest at fixed market rate at 5.84% per annum and is repayable within one year. No other borrowings were obtained by the Group during the current period.

17. PROVISIONS

In accordance with relevant PRC rules and regulations, the Group is obliged to accrue the costs for land reclamation and cavity refill for the Group's existing mines. The provision for land reclamation and cavity refill costs has been determined by the directors of the Company based on their best estimation and such costs are expected to be incurred during the period from 2010 to 2012.

	Six months ended 30 June 2010 HK\$'000	Year ended 31 December 2009 HK\$'000
At beginning of the period/year	124,049	140,967
Imputed interest recognised during the period/year	4,543	—
Utilisation of provisions during the period/year	(1,168)	(16,918)
At end of the period/year	127,424	124,049
Shown as current liabilities	41,877	56,302
Shown as non-current liabilities	85,547	67,747
	127,424	124,049

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

18. OTHER LONG TERM PAYABLES

Other long term payables consisted of:

	30 June 2010 <i>HK\$'000</i>	31 December 2009 <i>HK\$'000</i>
Mining right payables	123,875	126,043
Less: Amount included under "Trade and other payables"	<u>(34,045)</u>	<u>(30,379)</u>
	<u>89,830</u>	<u>95,664</u>

Other long term payables consisted of mining right payables, pursuant to mining rights premium agreements entered into between the Group and the relevant government authorities of the PRC in respect of the mining rights of Wudaoling Molybdenum mine amounting to approximately HK\$179,386,000.

The mining right payable in respect of Wudaoling Molybdenum mine is interest free. According to repayment terms in 2008, it shall be settled in four instalments payable on or before 22 May 2011.

In 2009, the repayment term of the mining right payable for Wudaoling Molybdenum has been extended to 22 May 2016.

The carrying amounts of the mining right payables in respect of Wudaoling Molybdenum mine have been determined using a discount rate of 5.76%.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

19. SHARE CAPITAL

	Six months ended 30 June 2010		Year ended 31 December 2009	
	Number of shares '000 (unaudited)	Nominal value HK\$'000 (unaudited)	Number of shares '000 (audited)	Nominal value HK\$'000 (audited)
Ordinary shares of HK\$0.1 each				
Authorised:				
At beginning and end of the period/year	<u>10,000,000</u>	<u>1,000,000</u>	<u>10,000,000</u>	<u>1,000,000</u>
Issued and fully paid:				
At beginning of the period/year	6,130,785	613,078	6,026,653	602,665
Issued in consideration for the acquisition of held-for-trading investments	—	—	104,132	10,413
Issued in consideration for the acquisition of subsidiaries (Note)	<u>660,377</u>	<u>66,038</u>	—	—
At the end of the period/year	<u>6,791,162</u>	<u>679,116</u>	<u>6,130,785</u>	<u>613,078</u>

Note: As part of the consideration for the acquisition of King Gold Group on 30 April 2009, 660,377,358 ordinary shares of the Company with a par value of HK\$0.1 each were issued on 19 April 2010 with the pre-determined profit target being met. The published price of the Company's shares at the close of business on 19 April 2010 was HK\$0.27, which was higher than the published price at the date of the acquisition of HK\$0.238. The excess amount of HK\$21,132,000 net off with the issuance cost of HK\$30,000 is recorded in equity and the additional goodwill of HK\$21,132,000 is impaired during the current period.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

20. SHARE OPTION SCHEME

The Company has a share option scheme for eligible directors and employees of the Group. Details of the share options outstanding during the current period are as follows:

	Number of share options
Outstanding at 1 January 2010	419,000,000
Cancelled during the period	(127,400,000)
Granted during the period	<u>127,400,000</u>
Outstanding at 30 June 2010	<u>419,000,000</u>

The closing price of the Company's shares immediately before 29 June 2010, the date of grant, was HK\$0.2.

On 29 June 2010, the share options granted on 18 September 2009 were cancelled and the same number of share options was granted to the same directors and employees with lower exercise price. The exercise price was reduced from HK\$0.358 to HK\$0.208. The share options were fully vested immediately. The fair value of the options determined at the date of grant using the Binomial Option Pricing Model was approximately HK\$12,699,000.

The following assumptions were used to calculate the fair values of share options granted during the period:

Grant date share price	HK\$0.2
Exercise price	HK\$0.208
Expected life	5 years
Expected volatility	86.88%
Dividend yield	0%
Risk-free interest rate	1.613%

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

20. SHARE OPTION SCHEME (Continued)

The Binomial Option Pricing Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

At each reporting date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit and loss, with a corresponding adjustment to the share option reserve.

21. COMMITMENTS

Capital commitments

	30 June 2010 HK\$'000 (unaudited)	31 December 2009 HK\$'000 (audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
Acquisition of property, plant and equipment	5,249	15,046

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2010

22. RELATED PARTY TRANSACTIONS

Apart from details of the balances with related parties disclosed in the condensed consolidated statement of financial position on pages 13 and 14, the Group also entered into the following transactions with related parties during the period:

Loans guaranteed by a director of a subsidiary of the Company

A subsidiary of the Company, Wuyi Star Tea Industrial Co., Ltd. ("Wuyi Star"), granted non-interest bearing loans of RMB13,475,000 (equivalent to HK\$15,320,000) in the current period which are repayable on demand. A director of Wuyi Star provides guarantees to Wuyi Star for such loans.

Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

	Six month ended 30 June	
	2010 HK\$'000 (unaudited)	2009 HK\$'000 (unaudited)
Short-term benefits	3,864	3,909
Post-employment benefits	111	136
Share-based payments	9,370	—
	<u>13,345</u>	<u>4,045</u>

The remuneration of directors and key executives is determined by the remuneration committee having regard to the financial performance of the Group, performance of individuals and market trends.

Corporate Governance

The Company is committed to comply with established best practice in corporate governance and is in line with those practices as set out in the Company's 2009 Annual Report. The board of directors of the Company (the "Board") believes that good corporate governance is crucial to enhance the performance of the Group and to safeguard the interests of the shareholders of the Company.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") during the six months ended 30 June 2010.

COMPLIANCE WITH THE MODEL CODE FOR 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. Upon specific enquiries, all directors of the Company ("Directors") confirmed they had complied with the required standard set out in the Model Code during the six months ended 30 June 2010.

BOARD OF DIRECTORS

The Board is responsible for the formulation of the Group's business strategies and management objective, supervision of the management and evaluation of the effectiveness of management strategies. Implementation of strategies and day-to-day operations are delegated to the management. In order to better understand the respective accountabilities and contributions of the Board and management, the Company has adopted a written terms of reference specifying a schedule of matters which should be reserved to the Board and which should be delegated to management.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors. They are responsible for ensuring the quality and integrity of internal control, conducting review of the Group's accounting principles and practices, risk management and the Group's interim and annual accounts.

REMUNERATION COMMITTEE

The Remuneration Committee comprises one executive Director and three independent non-executive Directors. The principal responsibilities of the Remuneration Committee are to make recommendations to the Board on the overall remuneration policy, remuneration packages for the Directors and members of the senior management and on the establishment of a formal and transparent process for approving such remuneration policy.

Disclosure of Interests and Other Information

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2010, the interests or short positions of the directors and chief executive of the Company in the shares, underlying shares of equity derivatives and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")) which were recorded in the register required to be kept under Section 352 of the SFO, or which were notified to the Company and the Stock Exchange pursuant to the Model Code adopted by the Company were as follows:

Interests in underlying shares of the Company – share options

Name	Number of share options	% of total issued shares of the Company
<i>Directors</i>		
You Xian Sheng	60,000,000	0.88%
Chen Shou Wu	60,000,000	0.88%
Wang Hui	40,000,000	0.59%
Yeung Kwok Kuen	60,000,000	0.88%
Lam Ming Yung	5,000,000	0.07%
Chan Sze Hon	5,000,000	0.07%
Chu Kang Nam	5,000,000	0.07%
Goh Choo Hwee	5,000,000	0.07%
Lin Xiang Min	5,000,000	0.07%
<i>Chief executives</i>		
Yin Guangyuan	40,000,000	0.59%
Qiao Hongbo	12,000,000	0.18%
Qu Yanchun	12,000,000	0.18%

Disclosure of Interests and Other Information

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION (Continued)

Save as disclosed above, as at 30 June 2010, none of the directors of the Company, chief executives of the Company or their respective associates had any other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed in "SHARE OPTION SCHEMES" below, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

So far as is known to any director or chief executive of the Company, as at 30 June 2010, persons (other than directors or chief executives of the Company as disclosed herein) who had interests or short positions in the shares or underlying shares of equity derivatives of the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept under Section 336 of the SFO were as follows:

Long position in shares in the capital of the Company

Name of Shareholders	Capacity	Personal interests	Corporate interests	Total number of shares in the capital of the Company	Approximate % of shareholding in the Company
Yeh Tung Ming	Interest in controlled corporation	–	398,686,000 (Note 1)	398,686,000	5.87%
Ho Ho Wai	Interest in controlled corporation	–	660,377,358 (Note 2)	660,377,358	9.72%

Disclosure of Interests and Other Information

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

(Continued)

Notes:

1. These shares are held by Fit Plus Limited which is 100% beneficially owned by Mr. Yeh Tung Ming.
2. These shares are held by Master Long Limited which is 100% beneficially owned by Mr. Ho Ho Wai.

Save as disclosed above, the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as required to be recorded in the register under section 336 of the SFO as at 30 June 2010.

SHARE OPTION SCHEMES

Pursuant to ordinary resolutions of the shareholders of the Company passed on 11 March 1997, the Company adopted a share option scheme (the “Old Share Option Scheme”). The Old Share Option Scheme was terminated on 26 June 2002 such that no further options shall be granted under the Old Share Option Scheme but the options granted shall continue to be valid and exercisable in accordance with their terms of issue and, in all other respects, its provisions shall remain in full force and effect. Pursuant to ordinary resolutions of the shareholders of the Company passed on 26 June 2002, the Company adopted another share option scheme (the “New Share Option Scheme”).

At the beginning of the period, there were no outstanding share options under the Old Share Option Scheme.

Disclosure of Interests and Other Information

SHARE OPTION SCHEMES (Continued)

Summary of main terms of New Share Option Scheme are as follows:

1. The purpose of the New Share Option Scheme is to enable the Company to grant options to selected participants as incentives or rewards for their contributions to the Group.
2. The participants of the New Share Option Scheme are: (i) any director (whether executive or non-executive or independent non-executive), employee (whether full time or part time), officer, consultant, customer, supplier, agent, partner or advisers of or contractor to the Group or an entity in which any member of the Group holds any interest from time to time (“Invested Entity”); (ii) any discretionary trust who discretionary objects include any director (whether executive or non-executive or independent non-executive), employee (whether full time or part time), officer consultant, customer, supplier, agent, partner or adviser of or contractor to the Group or any Invested Entity; and (iii) the option may be granted to any corporation wholly-owned by any person mentioned in (i).
3. As at 25 August 2010, the total number of ordinary shares of HK\$0.10 each in the capital of the Company (“Shares”) available for issue under the New Share Option Scheme was 679,116,221 (including 419,000,000 Shares that have been granted but not yet lapsed or exercised) representing approximately 10% of the issued share capital of the Company.
4. Unless otherwise approved by shareholders of the Company in general meeting, the total number of issued Shares issued and which may fall to be issued upon exercise of the options granted under the New Share Option Scheme to each participant in any 12-month period must not exceed 1% (except for substantial shareholders, as defined in the Listing Rules, or independent non-executive director of the Company, or any of their respective associates, as defined in the Listing Rules, must not exceed 0.1%) of the issued share capital of the Company from time to time.

Disclosure of Interests and Other Information

SHARE OPTION SCHEMES (Continued)

5. An option shall be exercised in whole or in part in accordance with the terms of the New Share Option Scheme at any time during a period to be notified by the Board to each grantee, provided that no option shall be exercisable later than 10 years after its date of grant.
6. An option shall be accepted by a participant together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant thereof within 30 days from the date of the offer of grant of the option.
7. The subscription price for Shares under the New Share Option Scheme, subject to any adjustment stipulated therein, shall be a price determined by the Board, but shall be at least the highest of (i) the closing price of Shares as stated in the Stock Exchange's daily quotations on the date of grant which must be a business day, (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of grant and (iii) the nominal value of a Share.
8. The New Share Option Scheme shall be valid and effective for a period of 10 years commencing on 26 June 2002.

Disclosure of Interests and Other Information

SHARE OPTION SCHEMES (Continued)

Details of movements in the share options held by directors, chief executives, employees and other parties of the Company under the New Share Option Scheme for the period ended 30 June 2010 are as follows:

Name	Date granted	Period during which options are exercisable	No. of options outstanding at 1 January 2010	No. of options granted during the period	No. of options cancelled during the period	No. of shares acquired on exercise of options during the period	No. of options outstanding at 30 June 2010	Exercise price per share	* Market value per share at date of grant of options	* Market value per share on exercise of options
Share option granted in 2008										
Directors										
You Xian Sheng	14 October 2008	(Note 1)	40,000,000	—	—	—	40,000,000	HK\$0.275	HK\$0.275	—
Chen Shou Wu	14 October 2008	(Note 1)	35,000,000	—	—	—	35,000,000	HK\$0.275	HK\$0.275	—
Wang Hui	14 October 2008	(Note 1)	35,000,000	—	—	—	35,000,000	HK\$0.275	HK\$0.275	—
Yeung Kwok Kuen	14 October 2008	(Note 1)	35,000,000	—	—	—	35,000,000	HK\$0.275	HK\$0.275	—
Lam Ming Yung	14 October 2008	(Note 1)	3,000,000	—	—	—	3,000,000	HK\$0.275	HK\$0.275	—
Chan Sze Hon	14 October 2008	(Note 1)	3,000,000	—	—	—	3,000,000	HK\$0.275	HK\$0.275	—
Chu Kang Nam	14 October 2008	(Note 1)	3,000,000	—	—	—	3,000,000	HK\$0.275	HK\$0.275	—
Goh Choo Hwee	14 October 2008	(Note 1)	3,000,000	—	—	—	3,000,000	HK\$0.275	HK\$0.275	—
Lin Xiang Min	14 October 2008	(Note 1)	3,000,000	—	—	—	3,000,000	HK\$0.275	HK\$0.275	—
			<u>160,000,000</u>				<u>160,000,000</u>			
Chief executives										
Yin Guangyuan	14 October 2008	(Note 1)	35,000,000	—	—	—	35,000,000	HK\$0.275	HK\$0.275	—
Qiao Hongbo	14 October 2008	(Note 1)	10,000,000	—	—	—	10,000,000	HK\$0.275	HK\$0.275	—
Qu Yanchun	14 October 2008	(Note 1)	10,000,000	—	—	—	10,000,000	HK\$0.275	HK\$0.275	—
			<u>55,000,000</u>				<u>55,000,000</u>			
Employees										
	14 October 2008	(Note 1)	<u>26,600,000</u>	—	—	—	<u>26,600,000</u>	HK\$0.275	HK\$0.275	—
Others (Note 4)										
	14 October 2008	(Note 1)	<u>50,000,000</u>	—	—	—	<u>50,000,000</u>	HK\$0.275	HK\$0.275	—
			<u>291,600,000</u>	—	—	—	<u>291,600,000</u>			

Disclosure of Interests and Other Information

SHARE OPTION SCHEMES (Continued)

Name	Date granted	Period during which options are exercisable	No. of options outstanding at 1 January 2010	No. of options granted during the period	No. of options cancelled during the period (Note 5)	No. of shares acquired on exercise of options during the period	No. of options outstanding at 30 June 2010	Exercise price per share	* Market value per share at date of grant of options	* Market value per share on exercise of options
Share option granted in 2009										
Directors										
You Xian Sheng	18 September 2009	(Note 2)	20,000,000	—	(20,000,000)	—	—	HK\$0.358	HK\$0.358	—
Chen Shou Wu	18 September 2009	(Note 2)	25,000,000	—	(25,000,000)	—	—	HK\$0.358	HK\$0.358	—
Wang Hui	18 September 2009	(Note 2)	5,000,000	—	(5,000,000)	—	—	HK\$0.358	HK\$0.358	—
Yeung Kwok Kuen	18 September 2009	(Note 2)	25,000,000	—	(25,000,000)	—	—	HK\$0.358	HK\$0.358	—
Lam Ming Yung	18 September 2009	(Note 2)	2,000,000	—	(2,000,000)	—	—	HK\$0.358	HK\$0.358	—
Chan Sze Hon	18 September 2009	(Note 2)	2,000,000	—	(2,000,000)	—	—	HK\$0.358	HK\$0.358	—
Chu Kang Nam	18 September 2009	(Note 2)	2,000,000	—	(2,000,000)	—	—	HK\$0.358	HK\$0.358	—
Goh Choo Hwee	18 September 2009	(Note 2)	2,000,000	—	(2,000,000)	—	—	HK\$0.358	HK\$0.358	—
Lin Xiang Min	18 September 2009	(Note 2)	2,000,000	—	(2,000,000)	—	—	HK\$0.358	HK\$0.358	—
			<u>85,000,000</u>							
Chief executives										
Yin Guangyuan	18 September 2009	(Note 2)	5,000,000	—	(5,000,000)	—	—	HK\$0.358	HK\$0.358	—
Qiao Hongbo	18 September 2009	(Note 2)	2,000,000	—	(2,000,000)	—	—	HK\$0.358	HK\$0.358	—
Qu Yanchun	18 September 2009	(Note 2)	2,000,000	—	(2,000,000)	—	—	HK\$0.358	HK\$0.358	—
			<u>9,000,000</u>							
Employees										
	18 September 2009	(Note 2)	<u>33,400,000</u>	—	<u>(33,400,000)</u>	—	—	HK\$0.358	HK\$0.358	—
			<u>127,400,000</u>	—	<u>(127,400,000)</u>	—	—			

Disclosure of Interests and Other Information

SHARE OPTION SCHEMES (Continued)

Name	Date granted	Period during which options are exercisable	No. of options outstanding at 1 January 2010	No. of options granted during the period	No. of options cancelled during the period	No. of shares acquired on exercise of options during the period	No. of options outstanding at 30 June 2010	Exercise price per share	* Market value per share at date of grant of options	* Market value per share on exercise of options
Share option granted in 2010										
Directors										
You Xian Sheng	29 June 2010	(Note 3)	-	20,000,000	-	-	20,000,000	HK\$0.208	HK\$0.208	-
Chen Shou Wu	29 June 2010	(Note 3)	-	25,000,000	-	-	25,000,000	HK\$0.208	HK\$0.208	-
Wang Hui	29 June 2010	(Note 3)	-	5,000,000	-	-	5,000,000	HK\$0.208	HK\$0.208	-
Yeung Kwok Kuen	29 June 2010	(Note 3)	-	25,000,000	-	-	25,000,000	HK\$0.208	HK\$0.208	-
Lam Ming Yung	29 June 2010	(Note 3)	-	2,000,000	-	-	2,000,000	HK\$0.208	HK\$0.208	-
Chan Sze Hon	29 June 2010	(Note 3)	-	2,000,000	-	-	2,000,000	HK\$0.208	HK\$0.208	-
Chu Kang Nam	29 June 2010	(Note 3)	-	2,000,000	-	-	2,000,000	HK\$0.208	HK\$0.208	-
Goh Choo Hwee	29 June 2010	(Note 3)	-	2,000,000	-	-	2,000,000	HK\$0.208	HK\$0.208	-
Lin Xiang Min	29 June 2010	(Note 3)	-	2,000,000	-	-	2,000,000	HK\$0.208	HK\$0.208	-
			-				85,000,000			
Chief executives										
Yin Guangyuan	29 June 2010	(Note 3)	-	5,000,000	-	-	5,000,000	HK\$0.208	HK\$0.208	-
Qiao Hongbo	29 June 2010	(Note 3)	-	2,000,000	-	-	2,000,000	HK\$0.208	HK\$0.208	-
Qu Yanchun	29 June 2010	(Note 3)	-	2,000,000	-	-	2,000,000	HK\$0.208	HK\$0.208	-
			-				9,000,000			
Employees										
	29 June 2010	(Note 3)	-	33,400,000	-	-	33,400,000	HK\$0.208	HK\$0.208	-
			-	127,400,000	-	-	127,400,000			

The options granted to the directors and the chief executives of the Company are registered under the names of the directors and the chief executives of the Company who are also the beneficial owners.

* Being the weighted average closing price of the Company's ordinary shares immediately before the dates on which the options were granted or exercised, as applicable.

Disclosure of Interests and Other Information

SHARE OPTION SCHEMES (Continued)

Notes:

1. Exercisable from 14 October 2008 to 13 October 2013.
2. Exercisable from 18 September 2009 to 17 September 2014.
3. Exercisable from 29 June 2010 to 28 June 2015.
4. 50,000,000 share options were granted to a chief adviser of the Company and a consulting company.
5. The share options were cancelled on 29 June 2010.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its securities during the six months ended 30 June 2010. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's securities during the six months ended 30 June 2010.

AUDIT COMMITTEE

The Audit Committee and management have reviewed the accounting principles and policies adopted by the Group and the unaudited interim financial statements for the six months ended 30 June 2010.

INTERIM DIVIDEND

The Board of Directors does not recommend the payment of an interim dividend for the six months ended 30 June 2010.

CHANGE IN INFORMATION OF DIRECTORS

Pursuant to a letter agreement dated 29 January 2010, Mr. Chen Shou Wu, an executive director of the Company, would be entitled to an annual remuneration of HK\$1,500,000 with effect from 1 January 2010.

Pursuant to a letter agreement dated 29 January 2010, Mr. Yeung Kwok Kuen, an executive director of the Company, would be entitled to an annual remuneration of HK\$1,500,000 with effect from 1 January 2010.

By Order of the Board
China Mining Resources Group Limited
Chen Shou Wu
Deputy Chairman & Chief Executive Officer

Hong Kong, 25 August 2010