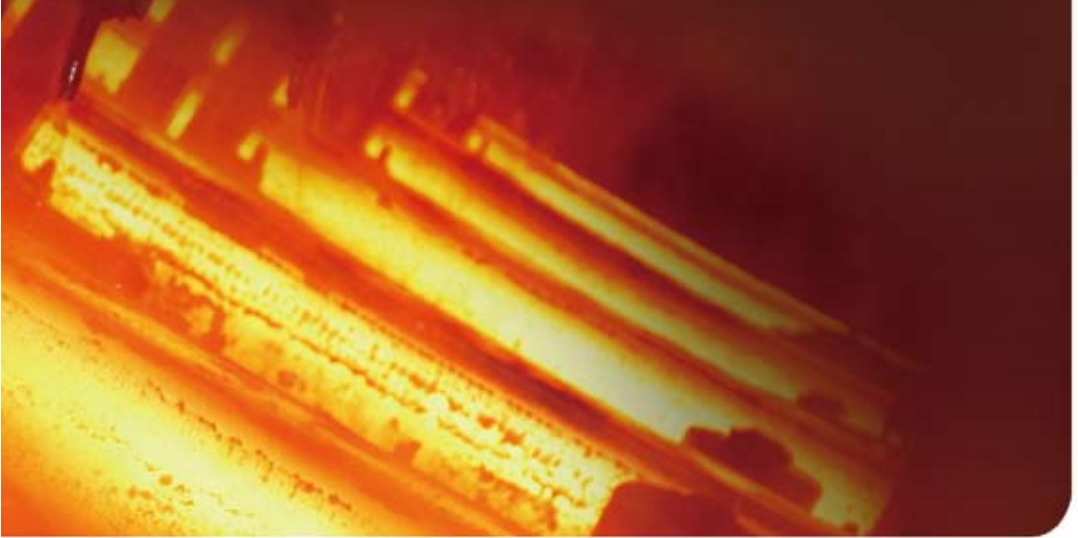




中國鎳資源控股有限公司
CHINA NICKEL RESOURCES
HOLDINGS COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)

Stock code : 2889



Interim Report **2009**

Global Operations



1 Zhengzhou Office

2 Luoyang Plant

3 Gongyi Plant 1

4 Gongyi Plant 2 (under construction)

5 Hong Kong Office

6 Singapore Office

7 Jakarta Office

8 Mine in South Kalimantan (exclusive off-take right)

9 Plant in South Kalimantan (to be built)



Contents

Corporate Information	2
Financial Highlights	4
Business Review	5
Management Discussion and Analysis	6
Future Prospects	18
Interim Consolidated Income Statement	20
Interim Consolidated Statement of Comprehensive Income	21
Interim Consolidated Statement of Financial Position	22
Interim Consolidated Statement of Changes in Equity	24
Interim Consolidated Cash Flow Statement	26
Notes to Interim Condensed Consolidated Financial Statements	27
Other Information	52

Corporate Information

Board of Directors

Executive directors

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

Non-executive directors

Mr. Yang Tianjun

Independent non-executive directors

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

Audit Committee

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

Company Secretary and Qualified Accountant

Mr. Lau Hok Yuk
MBA, FCPA, FCCA, ATiHK, FLMI, CFA

Authorised Representatives

Mr. Dong Shutong
Mr. Lau Hok Yuk

Registered Office

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Head Office in PRC

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Zhengzhou City Henan Province, PRC
450012

Principal Place of Business in Hong Kong

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

Auditors

Ernst & Young

Corporate Information

Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

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

Principal Bankers

CITIC Ka Wah Bank Limited
Deutsche Bank AG, Hong Kong Branch
Oversea — Chinese Banking
Corporation Limited
Nanyang Commercial Bank

Website

www.cnrholdings.com

Stock Code

02889

Financial Highlights

Result Summary

(Unaudited)	2009	2008		2008	
	First Half	First Half	Change	Second Half	Change
	RMB'000	RMB'000	%	RMB'000	%
Turnover	506,719	1,012,738	(50%)	468,856	8%
Gross (Loss)/Profit	(89,861)	203,633	N/A	(51,299)	(75%)
Earning before Interest, Tax, Depreciation and Amortization ("EBITDA")	(28,161)	252,253	N/A	(28,636)	2%
(Loss)/Profit before Income Tax	(109,943)	114,521	N/A	(138,684)	21%
(Loss)/Profit Attributable to Shareholders	(79,850)	97,343	N/A	(59,982)	(33%)
Gross (Loss)/Profit Margin	(18%)	20%	N/A	(11%)	(7%)
EBITDA Margin	(6%)	25%	N/A	(6%)	—
(Loss)/Profit before Tax Margin	(22%)	11%	N/A	(30%)	8%
Net (Loss)/Profit Margin	(16%)	10%	N/A	(13%)	(3%)

The board of directors ("the Board") of China Nickel Resources Holdings Company Limited ("the Company") is pleased to announce that the unaudited consolidated turnover of the Company and its subsidiaries (hereinafter collectively referred as "the Group") for the first half of 2009 was RMB506.7 million, representing a decrease of 50% as compared to that of the first half of 2008 and an increase of 8% as compared to that of the second half of 2008. Unaudited loss attributable to shareholders of the Company was RMB79.9 million. Unaudited basic loss per share for the first half of 2009 was RMB0.038. Loss per share was based on the weighted average of 2,093.1 million shares in issue in first half of 2009. The Board do not recommend the payment of interim dividend for the six months ended 30 June 2009. The unaudited consolidated interim financial statements for the six months ended 30 June 2009 have been reviewed by the Company's Audit Committee.

Business Review

The global economic downturn lingered in the first half of 2009. Demand from the international steel market decreased, resulting in a fall in steel exports and prices of China. In the first quarter of the year in particular, the prices of nickel and steel were at their recent lows, with the LME nickel prices falling to as low as US\$9,500 per tonne and the spot price of steel billet of Far East reaching the record low of US\$250 per tonne. At the beginning of the year, the domestic production and operation was still mired in adverse impacts of the economic turmoil of the fourth quarter of last year. Most of the steel and downstream enterprises had to further downsize their production scale.

The severe economic challenges and market adjustments were reflected on the significant loss of the domestic steel industry in the first half of the year. Nevertheless, the Group's competitive edges in resources and low cost turned around the negative growth of turnover and sales volume in the second half of last year to a positive growth in the first half of this year. Turnover and sales volume of the first half 2009 increased by 8% and 46% respectively comparing with those of the second half last year while the turnover and sales volume of the second half last year decreased by 54% and 43% respectively comparing with those of the first half last year.

Since the second quarter of the year, the industrial output and GDP saw signs of recovery. With the implementation of the stimulus package and strategic financial and monetary policies of the PRC, the PRC's steel industry started to bottom out upon the end of the second quarter of the year. As at the end of August 2009, the LME nickel price stood at US\$20,000 per tonne while the spot price of steel billet of Far East reached US\$450 per tonne.

As the global economy has begun to revive, the domestic steel industry is on a stable recovery track. The Group believes that its performance in the second half of the year will further improve.

Management Discussion and Analysis

Turnover and sales volume

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

Turnover

	2009 First Half		2008 First Half		2008 Second Half	
	RMB'000	%	RMB'000	%	RMB'000	%
Stainless steel base material	453,204	89%	851,077	84%	356,885	76%
Bearing steel	2,454	1%	89,182	9%	15,031	3%
Ni-Cr alloy steel ingot	36,292	7%	65,333	6%	86,741	19%
Ni-Cr bearing steel	2,784	1%	4,327	1%	10,122	2%
Carbon structure steel & other steel	11,985	2%	2,819	—	77	—
Total	506,719	100%	1,012,738	100%	468,856	100%

Management Discussion and Analysis

Turnover and sales volume (Continued)

Sales volume

	2009 First Half		2008 First Half		2008 Second Half	
	(tonnes)	%	(tonnes)	%	(tonnes)	%
Stainless steel base material	94,974	89%	104,619	82%	53,856	74%
Bearing steel	748	1%	12,748	10%	7,635	11%
Ni-Cr alloy steel ingot	4,863	5%	9,875	8%	10,319	14%
Ni-Cr bearing steel	295	—	307	—	613	1%
Carbon structure steel & other steel	5,207	5%	520	—	29	—
Total	106,087	100%	128,069	100%	72,452	100%

The Group's turnover in the first half of 2009 decreased by RMB506.0 million, or 50%, as compared to that of the 2008 first half (RMB1,012.7 million) and increased by RMB37.9 million, or 8%, to approximately 506.7 million as compared to that of the 2008 second half.

As a corporate strategy to diversify the Group's product range to nickel based special steel products, the Group reallocated its capacity and resources from ordinary bearing steel to stainless steel base material. In the first half of 2009, the Group's sales in stainless steel base material was 94,974 tonnes (2008 corresponding period: 104,619 tonnes), representing 89% of total sales volume and sales in bearing steel was 748 tonnes (2008 corresponding period: 12,748 tonnes).

During the first half of 2009, the average unit selling price per tonne for stainless steel base material was RMB4,772 (2008 corresponding period: RMB8,135). The low average unit selling price resulted from the recent lows of nickel and steel in the first half of this year. As the global economy has begun to revive, we believe the unit selling price will return to a normal level.

Management Discussion and Analysis

Cost of sales

The cost of sales in the first half of 2009 decreased by RMB212.5 million, or 26%, to approximately RMB596.6 million (2008 corresponding period: RMB809.1 million).

The unit cost of sales for stainless steel base material was RMB5,614 per tonne in the first half of 2009 (2008 corresponding period: RMB6,295 per tonne).

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

Cost of sales

	2009 First Half		2008 First Half		2008 Second Half	
	RMB'000	%	RMB'000	%	RMB'000	%
Raw Materials	275,202	46%	396,035	49%	207,207	40%
Fuel	222,694	37%	279,924	35%	232,863	45%
Utilities	41,611	7%	63,015	8%	35,037	7%
Depreciation	38,941	7%	34,360	4%	26,647	5%
Staff Cost	14,829	2%	22,329	3%	6,758	1%
Repair	220	—	6,206	—	1,437	—
Others	3,083	1%	7,236	1%	10,206	2%
	596,580	100%	809,105	100%	520,155	100%

Management Discussion and Analysis

Gross profit/(loss)

The unit gross loss for stainless steel base material in the first half of 2009 was RMB842 per tonne (2008 first half: gross profit RMB1,840 per tonne; 2008 second half: gross loss RMB863 per tonne), representing a gross loss margin of 18%.

As a result, the Group's gross loss in the first half of 2009 was RMB89.9 million (2008 first half: gross profit RMB203.6 million; 2008 second half: gross loss RMB51.3 million). The Group's gross loss margin in the first half of 2009 was 18% (2008 first half: gross profit margin 20%; 2008 second half: gross loss margin 11%).

Other income and gains

Other income in the first half of 2009 increased by RMB9.8 million, or 12%, to RMB94.2 million (2008 corresponding period: RMB84.4 million). It mainly comprises of gain from repurchase and redemption of convertible bonds and bank interest income.

Selling and distribution costs

Selling and distribution costs in the first half of 2009 decreased by RMB2.7 million, or 18%, to RMB12.5 million (2008 corresponding period: RMB15.2 million). The decrease in cost was in line with the decrease in sales volume by 17% comparing with 2008 corresponding period.

Administrative costs

Administrative costs in the first half of 2009 decreased by RMB8.9 million, or 14%, to RMB53.8 million (2008 corresponding period: RMB62.7 million), representing 10.6% of turnover (2008 corresponding period: 6.2%).

Management Discussion and Analysis

Finance costs

The Company issued the 3% coupon convertible bonds due 2012 in May 2007 and the zero coupon convertible bonds due 2012 in December 2007. Interest paid and accrued in the form of coupon payment amounted to RMB1.6 million in the first half of 2009 (2008 corresponding period: RMB4.9 million). According to relevant IFRSs, estimated future cash flow for convertible bonds were discounted at effective interest rates. Therefore, the deemed effective interest included both coupon payment and financial charges accrued for redemption or conversion in the future. The total financial charges for convertible bonds based on effective interest method amounted to RMB49.2 million in the first half of 2009 (2008 corresponding period: RMB71.9 million).

Finance costs in the first half of 2009 decreased by RMB55.3 million, or 63%, to RMB32.7 million (2008 corresponding period: RMB88.0 million). This is mainly due to the repurchase and redemption of the 3% convertible bonds due 2012 and the zero coupon convertible bonds due 2012 during the first half of 2009.

Profit/(Loss) before income tax

As a result of the factors discussed above, the loss before income tax in the first half of 2009 was RMB109.9 million (2008 first half: profit before income tax RMB114.5 million, 2008 second half: loss before income tax RMB138.7 million).

In the first half of 2009, the Group's loss before tax margin was 22% (2008 first half: profit before tax margin 11%, 2008 second half: loss before tax margin 30%). The earning before interest, tax, depreciation and amortization (EBITDA) margin was (6%) (2008 first half: 25%, 2008 second half: (6%).

Management Discussion and Analysis

Income tax expenses

The applicable Hong Kong corporate income rate of the Company which operates in Hong Kong is 16.5% based on existing legislation. The entities within the Group which operate in Mainland China are subject to corporate income tax at a rate of 25%.

Profit/(Loss) attributable to shareholders

As a result of the factors discussed above, the loss attributable to shareholders in the first half of 2009 was RMB79.9 million (2008 first half: profit attributable to shareholders RMB97.3 million, 2008 second half: loss attributable to shareholders RMB60.0 million).

The Group's net loss margin in the first half of 2009 was 16% (2008 first half: net profit margin 10%, 2008 second half: net loss margin 13%).

Key financial ratios

	Note	Six months ended 30 June 2009	Year ended 31 December 2008
Current ratio	1	179%	193%
Inventories turnover days	2	239 days	277 days
Debtor turnover days	3	45 days	34 days
Creditor turnover days	4	182 days	222 days
Interest cover*	5	(2.4) times	0.8 times
Interest-bearing gearing ratio	6	42%	46%
Debt to EBITDA ratio	7	30.0 times	8.4 times
Net debt/Capital and net debt ratio	8	27%	25%

Management Discussion and Analysis

Key financial ratios (Continued)

Note:

- | | | | |
|----|---|----|--|
| 1. | $\frac{\text{current asset}}{\text{current liabilities}} \times 100\%$ | 5. | $\frac{\text{Profit before interest and tax}}{\text{Net interest expense}}$ |
| 2. | $\frac{\text{Inventories}}{\text{Cost of sales}} \times 182 \text{ days or } 365 \text{ days}$ | 6. | $\frac{\text{Interest-bearing loans and other borrowings}}{\text{Equity attributable to the shareholders}} \times 100\%$ |
| 3. | $\frac{\text{Trade and notes receivables}}{\text{Turnover}} \times 182 \text{ days or } 365 \text{ days}$ | 7. | $\frac{\text{Interest-bearing loans and other borrowings}}{\text{EBITDA}}$ |
| 4. | $\frac{\text{Trade and notes payables}}{\text{Cost of sales}} \times 182 \text{ days or } 365 \text{ days}$ | 8. | $\frac{\text{Net debt}}{\text{Capital and net debt}}$ |

* Interest expenses for convertible bonds included both coupon payment and financial charges accrued for redemption or conversion in the future. If financial charges accrued for redemption or conversion are excluded in the ratio computation, the Interest cover will be (6.7) times for the six months ended 30 June 2009 (Year ended 31 December 2008: 3.1 times). EBITDA/Net Interest Expenses ratio will be (0.9) times for the six months ended 30 June 2009 (Year ended 31 December 2008: 1.5 times).

Construction in progress

The construction in progress as at 1 January 2009 and 30 June 2009 were RMB217.7 million and RMB374.0 million, respectively, which increased by RMB156.3 million which comprised of addition of new facilities and conversion of existing facilities in PRC related to the expansion project and the production of new products in China.

Management Discussion and Analysis

Cash and cash equivalents and pledged time deposit

The decrease in cash and bank balances by approximately RMB419.5 million, or 29%, to RMB1,025.2 million as at 30 June 2009 compared to that as at 31 December 2008 was mainly due to the net cash outflow generated from operation by approximately RMB47.7 million, the acquisition of property, plant and equipment and other long-term assets by approximately RMB59.2 million, decrease in pledged time deposits of RMB114.3 million, interest payment of RMB13.1 million, and the consideration for repurchase and redemption of convertible bonds of RMB212.2 million.

Trade and notes receivables

The debtor turnover days increased from 34 days in 2008 to 45 days for the six months period ended 30 June 2009. The current turnover days was close to the level before the market correction at the year end of 2008 (Six months ended 30 June 2008: 56 days; Year ended 31 December 2007: 41 days). This was mainly due to the gradual increase in sale volume since the second quarter of the year. As at 30 June 2009, trade and notes receivables balance decreased by RMB12.7 million to RMB125.0 million.

Inventories

The inventories turnover days decreased from 277 days in 2008 to 239 days for the six months period ended 30 June 2009. As at 30 June 2009, inventories balance decreased by RMB229.3 million to RMB778.9 million. This was mainly due to faster turnover of inventory and increased sale volume comparing to the second half of 2008.

Management Discussion and Analysis

Prepayments, deposits and other receivables

As at 30 June 2009, prepayment, deposit and other receivables balance increased by RMB96.5 million, or 66% to RMB242.7 million. This was mainly due to the increase of prepayment to major suppliers of raw material by RMB18.3 million to cope with the resumption of production and the increase in prepayments for an overseas investment by RMB50.5 million.

Trade and notes payables

As at 30 June 2009, trade and notes payables balance decreased by RMB214.8 million to RMB593.5 million, mainly due to part of the notes payable was due and repaid in the June 2009. Accordingly, the creditor turnover days decreased from 222 days in 2008 to 182 days for the six months ended 30 June 2009.

Interest-bearing loans and other borrowings

As at 30 June 2009, the total interest-bearing loans and other borrowings increased by RMB49 million to RMB405.5 million. Since the Group's equity has also increased in May 2007, the gearing ratio was improved from 46% as at 31 December 2008 to 42% as at 30 June 2009.

Use of proceeds

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

Management Discussion and Analysis

Use of proceeds (Continued)

As at 30 June 2009, the planned usage of net proceeds was as follows:

Use of proceeds	Usage as disclosed in prospectus HK\$'million	Utilised HK\$'million
Capital expenditures of steel mill expansion in the PRC and Indonesia	1,462.5	387.0
General working capital	487.5	487.5

The unutilized balance was placed in short term bank deposits.

The Group has repurchased certain Zero Coupon Convertible Bonds with a total principal amount of HK\$595 million for consideration of approximately HK\$268.0 million. The utilized amount of Convertible Bonds include the consideration paid for respective repurchase of Convertible Bonds. The unutilized balance was placed in short term bank deposits.

Liquidity and capital resources

Our working capital has been principally sourced from cash generated from operations and from long-term and short term debt. We also make prepayments to our suppliers which amounted to RMB53.9 million as at 30 June 2009.

As at 30 June 2009, the Group had current liabilities of RMB1,211.3 million, of which RMB326.1 million were interest-bearing loans and other borrowings repayable within one year, and RMB593.5 million were trade and notes payables in respect of purchase of raw materials.

Management Discussion and Analysis

Foreign currency risk

Since July 2004, the Group has begun the purchase of imported iron ore from overseas suppliers. Since the contracts are in United States dollars (“US\$”) and the RMB is in a favourable trend now, no hedging is considered necessary at the moment. However, the Group will closely monitor the foreign currency risk and use necessary financial instruments for hedging purposes. As at 30 June 2009, all bank loans are in RMB.

Since part of the proceeds from the convertible bonds issued in December 2007 will be used to build a steel plant in Indonesia through an investment holding subsidiary of the Group which is incorporated in Singapore, and Singapore dollar (“SG\$”) is highly correlated with RMB, about 60% of the proceeds in HK\$ from the convertible bonds has been converted into SG\$ in January of 2008. Besides, the Group does not enter into any hedging transactions with third parties to manage the potential fluctuation in foreign currency as the directors consider the Group has no significant foreign currency risk.

Security

As at 30 June 2009, the Group had notes payables of RMB386.8 million (31 December 2008: RMB569.4 million) secured by time deposit of RMB332.0 million (31 December 2008: RMB446.9 million). As at 30 June 2009, a short term bank loans approximately RMB70.0 million which were secured by pledged deposit amounting to RMB80.6 million.

Capital commitment

As at 30 June 2009, the Group had capital commitments of approximately RMB287.4 million for remaining parts of equipment refinement project.

Management Discussion and Analysis

Employee and Remuneration Policy

As at 30 June 2009, the Group had approximately 3,700 employees, of whom 21 were management personnel.

The Group implemented remuneration distribution policy of linkage between duties and efficiency. The remuneration of an employee consists of a basic salary and a performance-based bonus. During the period, the staff costs of the Group amounted to RMB25.6 million (2008 corresponding period: RMB38.2 million).

Future Prospects

Resumption of production in full scale

To cope with the impacts of the financial crisis and market adjustments, the Group has limited its production since the fourth quarter last year. As the global economy has begun to revive, the Group decided to resume the normal production of all major domestic products since this August. In addition, the Group planned to launch mass production and sales of stainless steel plate at its production base in China to broaden its product mix and increase sales.

Project progress

The nickel project (the “Nickel Project”) of Henan Yongtong Nickel Co., Ltd., a wholly-owned subsidiary of the Company in the PRC, completed the construction of the first production line of ore selection on schedule and the initial industrial testing was successfully.

The Business Delegation of Henan Province, China, and the Ministry of Industry of Indonesia entered into the “Memorandum of Understanding for the Reinforcement of Industrial and Technological Cooperation” on the first session of the economic cooperation meeting co-organised by both parties. Both parties witnessed the signatory of a number of commercial cooperation contracts. Among which, the most significant was the special steel project (“Mandan Project”) which was entered into between the Group, through PT Mandan Steel (“Mandan Steel”), a wholly owned subsidiary by Zhengzhou Yongtong Special Steel Co., Ltd., and CNR Group Holdings Pte. Ltd., in Singapore. Mandan Steel will conduct the environment assessment and prepare for the construction of the factory.

Future Prospects

Applications of self-developed technologies

The Group has been focusing on the research and development of proprietary technical know-how in the past few years. Our refining technology of stainless steel base material, the ore separation process and nickel refining technology have been applied to the stainless steel base material products, which have been successfully launched to the market two years ago, and the aforesaid Nickel Project, respectively. Besides, with the further break-through in the non-coke reduction technology in recent years, the Group can directly process and refine pig iron from crude ore and coal with the use of its self-developed catalyst. The Group intends to apply such non-coke reduction technology to the Mandan Project to reduce the excessively high capital expenditure incurred for traditional iron making process with coke, eliminate the problem of shortage in coke supply and significantly decrease the cost of production in the future, all of which will enhance the returns to our investors.

Interim Consolidated Income Statement

Six months ended 30 June 2009

	Notes	Six months ended 30 June	
		2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)
REVENUE	4	506,719	1,012,738
Cost of sales		(596,580)	(809,105)
Gross (loss)/profit		(89,861)	203,633
Other income and gains	4	94,157	84,388
Selling and distribution costs		(12,464)	(15,176)
Administrative expenses		(53,849)	(62,734)
Other expenses		(15,248)	(7,590)
Finance costs	5	(32,678)	(88,000)
(LOSS)/PROFIT BEFORE TAX	6	(109,943)	114,521
Tax	7	31,092	(16,494)
(LOSS)/PROFIT FOR THE PERIOD		(78,851)	98,027
ATTRIBUTABLE TO:			
Equity holders of the parent		(79,850)	97,343
Minority interests		999	684
		(78,851)	98,027
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic		RMB(0.038)	RMB0.047
Diluted		N/A	RMB0.043
DIVIDEND	9	Nil	31,284

Interim Consolidated Statement of Comprehensive Income

Six months ended 30 June 2009

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
(LOSS)/PROFIT FOR THE PERIOD	(78,851)	98,027
Exchange differences on translation of foreign operations	(781)	(2,588)
Other comprehensive loss for the period	(781)	(2,588)
Total comprehensive (loss)/income for the period, net of tax	(79,632)	95,439
ATTRIBUTABLE TO:		
Equity holders of the parent	(80,631)	94,755
Minority interests	999	684
	(79,632)	95,439

Interim Consolidated Statement of Financial Position

30 June 2009

	Notes	30 June 2009 RMB'000 (Unaudited)	31 December 2008 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	959,608	1,000,042
Prepaid land lease payments		201,717	203,639
Construction in progress	11	374,034	217,704
Goodwill		58,394	58,394
Intangible asset	12	2,656,572	2,656,572
Deferred tax assets		143,826	112,505
Prepayments		69,889	70,760
Total non-current assets		4,464,040	4,319,616
CURRENT ASSETS			
Inventories	13	778,881	1,008,220
Trade and notes receivables	14	124,961	137,704
Prepayments, deposits and other receivables		242,673	146,139
Pledged time deposits	15	412,612	526,912
Cash and cash equivalents	15	612,590	917,763
Total current assets		2,171,717	2,736,738
CURRENT LIABILITIES			
Trade and notes payables	16	593,466	808,337
Tax payable		9,688	16,620
Accrued liabilities and other payables		282,099	210,506
Interest-bearing loans and other borrowings	17	326,089	236,089
Current portion of convertible bonds	18	—	145,859
Total current liabilities		1,211,342	1,417,411

Interim Consolidated Statement of Financial Position

30 June 2009

	Notes	30 June 2009 RMB'000 (Unaudited)	31 December 2008 RMB'000 (Audited)
NET CURRENT ASSETS		960,375	1,319,327
TOTAL ASSETS LESS CURRENT LIABILITIES		5,424,415	5,638,943
NON-CURRENT LIABILITIES			
Interest-bearing loans and other borrowings	17	79,397	120,457
Convertible bonds	18	1,294,709	1,382,398
Deferred tax liabilities		25,402	25,921
Total non-current liabilities		1,399,508	1,528,776
NET ASSETS		4,024,907	4,110,167
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	19	209,961	209,961
Equity component of convertible bonds	18	45,920	54,043
Reserves		3,713,023	3,791,159
		3,968,904	4,055,163
Minority interests		56,003	55,004
TOTAL EQUITY		4,024,907	4,110,167

Interim Consolidated Statement of Changes in Equity

Six months ended 30 June 2009

	Attributable to equity holders of the parent											
	Share		Share		Share		Exchange		Retained profits	Total	Minority interests	Total equity
	Issued capital	premium account	Contributed surplus	Capital reserves	option reserves	convertible bonds	statutory reserve fund	fluctuation reserve				
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
At 1 January 2009	209,961	2,660,771	51,599	417,963	16,300	54,043	75,250	(31,841)	601,117	4,055,163	55,004	4,110,167
Other comprehensive loss	-	-	-	-	-	-	-	(781)	-	(781)	-	(781)
(Loss)/profit for the period	-	-	-	-	-	-	-	-	(79,850)	(79,850)	999	(78,851)
Total comprehensive (loss)/ income	-	-	-	-	-	-	-	(781)	(79,850)	(80,631)	999	(79,632)
Equity-settled share option arrangements	-	-	-	-	3,797	-	-	-	-	3,797	-	3,797
Repurchase and redemption of convertible bonds	-	-	-	-	-	(8,123)	-	-	(1,302)	(9,425)	-	(9,425)
At 30 June 2009	209,961	2,660,771	51,599	417,963	20,097	45,920	75,250	(32,622)	519,965	3,968,904	56,003	4,024,907

Interim Consolidated Statement of Changes in Equity

Six months ended 30 June 2008 (Restated)

	Attributable to equity holders of the parent													Total equity
	Share			Capital reserves	Equity component of statutory reserves and			Exchange fluctuation reserve	Proposed		Minority interests	Total		
	Issued capital	premium account	Contributed surplus		Share option reserves	convertible bonds	statutory reserve fund		Retained profits	final dividend				
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)		
At 1 January 2008	209,938	2,691,523	51,599	417,963	7,936	73,198	75,117	(12,971)	544,334	24,399	4,083,036	54,191	4,137,227	
Other comprehensive loss	-	-	-	-	-	-	-	(2,588)	-	-	(2,588)	-	(2,588)	
Profit for the period	-	-	-	-	-	-	-	-	97,343	-	97,343	684	98,027	
Total comprehensive (loss)/income	-	-	-	-	-	-	-	(2,588)	97,343	-	94,755	684	95,439	
Exercised of share options	23	568	-	-	(154)	-	-	-	-	-	437	-	437	
Equity-settled share option arrangements	-	-	-	-	3,484	-	-	-	-	-	3,484	-	3,484	
Transfer from retained earnings	-	-	-	-	-	-	5,599	-	(5,599)	-	-	-	-	
Adjustment on proposed final 2007 dividend for new shares issued	-	-	-	-	-	-	-	-	-	3	3	-	3	
Final 2007 dividend declared	-	-	-	-	-	-	-	-	-	(24,402)	(24,402)	-	(24,402)	
At 30 June 2008	209,961	2,692,091	51,599	417,963	11,266	73,198	80,716	(15,559)	636,078	-	4,157,313	54,875	4,212,188	

Interim Consolidated Cash Flow Statement

Six months ended 30 June 2009

	Six months ended 30 June	
	2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(47,658)	(19,087)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(59,217)	(238,146)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	(174,231)	(3,806)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(281,106)	(261,039)
Cash and cash equivalents at beginning of period	917,763	1,909,959
Effect of foreign exchange rate changes, net	(24,067)	(66,464)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	612,590	1,582,456
ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	283,109	674,920
Non-pledged time deposits with original maturity of less than three months when acquired	329,481	907,536
	612,590	1,582,456

Notes to Interim Condensed Consolidated Financial Statements

Six months ended 30 June 2009

1. CORPORATE INFORMATION

China Nickel Resources Holdings Company Limited (“the Company”) was incorporated as an exempted company with limited liability in the Cayman Islands on 11 March 2004 under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands, British West Indies. The Company was listed on the Main Board of the Stock Exchange of Hong Kong Limited on 19 May 2005. The principal place of business of the Group is located at 4 Third Street, Jinshui District, Zhengzhou, Henan Province, the People’s Republic of China (the “PRC”). The principal place of business of the Company is Rooms 917 and 918, 9th Floor, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

The Company and its subsidiaries (collectively “the Group”) are principally engaged in the manufacture and sale of special steel products in the PRC. The principal activities of the Company are investment holding and the trading of ores.

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

Notes to Interim Condensed Consolidated Financial Statements

Six months ended 30 June 2009

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 Basis of Preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2009 have been prepared in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting and the disclosure requirements of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

The interim condensed consolidated 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 as at 31 December 2008. The interim condensed consolidated financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand, except when otherwise indicated.

2.2 Significant Accounting Policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the Group’s annual financial statements for the year ended 31 December 2008, except for the adoption of the new and revised International Financial Reporting Standards (“IFRS”) as of 1 January 2009, noted below:

Notes to Interim Condensed Consolidated Financial Statements

Six months ended 30 June 2009

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

2.2 Significant Accounting Policies (continued)

IAS 1 Revised Presentation of Financial Statements

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

In addition, the Group also adopted a number of new and revised standards and interpretations that have no material impact on the Group's results of operations or financial position in the interim condensed consolidated financial statement.

3. SEGMENT INFORMATION

For management purposes, the Group is organized into a single operating segment, focusing on the manufacture and sale of special steel products to customers in the PRC. The principal assets employed by the Group are located in the PRC. Therefore, no analysis by operating segment is presented.

Notes to Interim Condensed Consolidated Financial Statements

Six months ended 30 June 2009

4. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, net of value-added tax, after allowances for returns, trade discounts and various types of government surcharges, where applicable.

An analysis of revenue, other income and gains is as follows:

	Six months ended 30 June	
	2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)
Revenue		
Sale of goods:		
Stainless steel base material	453,204	851,077
Bearing steel	2,454	89,182
Ni-Cr alloy steel ingot	36,292	65,333
Ni-Cr bearing steel	2,784	4,327
Carbon structure steel and other steel	11,985	2,819
	506,719	1,012,738
Other income and gains		
Repurchase and redemption of convertible bonds	79,513	—
Bank interest income	10,756	12,915
Amounts waived by creditors	—	201
Exchange gain, net	21	64,583
Government grant	1,867	150
Gain from disposal of items of property, plant and equipment	—	6,487
Sale of scrap materials and others	2,000	52
	94,157	84,388

Notes to Interim Condensed Consolidated Financial Statements

Six months ended 30 June 2009

5. FINANCE COSTS

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank loans and other borrowings wholly repayable within five years	11,577	17,000
Interest on convertible bonds	49,175	71,927
Total interest expenses	60,752	88,927
Less: interest capitalised	(28,074)	(927)
Total finance costs	32,678	88,000

Notes to Interim Condensed Consolidated Financial Statements

Six months ended 30 June 2009

6. (LOSS)/PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Amortisation of intangible asset:		
Amortisation of exclusive offtake right	—	16,415
Less: Capitalised in cost of inventories	—	(12,200)
	—	4,215
Cost of inventories sold	596,580	809,105
Depreciation	46,405	43,320
Amortisation of prepaid land		
lease payments	2,217	2,197
Minimum lease payments under		
operating leases in respect of		
buildings and equipment	1,761	877

Notes to Interim Condensed Consolidated Financial Statements

Six months ended 30 June 2009

7. TAX

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 30 June 2008: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 June	
	2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)
Current — PRC	748	4,783
Current — Hong Kong	—	27,511
Deferred	(31,840)	(15,800)
Total tax (credit)/charge for the period	(31,092)	16,494

8. LOSS/EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

Basic

The calculation of basic loss/earnings per share for the current period is based on the loss attributable to the equity holders of the parent of RMB79,850,000 (six months ended 30 June 2008: profit amounting to RMB97,343,000), and the weighted average of 2,093,120,000 (six months ended 30 June 2008: 2,092,959,000) ordinary shares in issue during the period.

Notes to Interim Condensed Consolidated Financial Statements

Six months ended 30 June 2009

8. LOSS/EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT (Continued)

Diluted

Diluted loss per share amount for the six months ended 30 June 2009 has not been disclosed, as the share options, convertible bonds and convertible notes outstanding during that period had an anti-dilutive effect on the basic loss per share for that period.

The calculation of diluted earnings per share for the six months ended 30 June 2008 is based on the profit attributable to ordinary equity holders of the parent for that period, as adjusted to reflect the interest on the convertible bonds. The weighted average number of ordinary shares used in the calculation is the weighted average number of the ordinary shares in issue during the current period, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

Notes to Interim Condensed Consolidated Financial Statements

Six months ended 30 June 2009

8. LOSS/EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT (Continued)

Diluted (continued)

The calculations of diluted earnings per share for the six months ended 30 June 2008 are based on :

	Six months ended 30 June 2008 RMB'000 (Unaudited)
Profit attributable to ordinary equity holders of the Company	97,343
Interest on convertible bonds (CB May 2007)	15,548
Interest on convertible bonds (CB December 2007)	56,379
Profit attributable to ordinary equity holders before interest on convertible bonds	169,270*

Notes to Interim Condensed Consolidated Financial Statements

Six months ended 30 June 2009

8. LOSS/EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT (Continued)

Diluted (continued)

	Number of shares for the six months ended 30 June 2008 '000
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	2,092,959
Effect of dilution — weighted average number of ordinary shares:	
— Share options	13,381
— Convertible bonds (CB May 2007)	160,444
— Convertible bonds (CB December 2007)	346,620
— Convertible notes	182,734
Weighted average number of ordinary shares used in the diluted earnings per share calculation	<u>2,796,138*</u>

* Because the diluted earnings per share amount for the six months ended 30 June 2008 is increased when taking convertible bonds (CB May 2007 and CB December 2007) into account, the convertible bonds had an anti-dilutive effect on the basic earnings per share for that period and were ignored in the calculation of diluted earnings per share. Therefore, diluted earnings per share amount for the six months ended 30 June 2008 is based on the profit for that period attributable to ordinary equity holders of the parent and the weighted average of 2,289,074,000 ordinary shares in issue during that period.

Notes to Interim Condensed Consolidated Financial Statements

Six months ended 30 June 2009

9. DIVIDEND

Interim dividend attributable to the interim period

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2009 (for the six months ended 30 June 2008: HK\$0.017 per share).

Final dividend attributable to the previous financial year, declared and paid during the interim period

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Final dividend in respect of financial year ended 31 December 2008 of nil per ordinary share (2007: HK\$0.013 per ordinary share):		
— Proposed final dividend	—	24,399
— Adjustment on proposed final 2007 dividend for new shares issued	—	3
	—	24,402

Notes to Interim Condensed Consolidated Financial Statements

Six months ended 30 June 2009

10. PROPERTY, PLANT AND EQUIPMENT

	RMB'000
	(Unaudited)
Carrying value at 1 January 2009	1,000,042
Additions	2,530
Transfer from construction in progress	3,539
Disposals	(98)
Depreciation charge for the period	(46,405)
Carrying value at 30 June 2009	959,608

11. CONSTRUCTION IN PROGRESS

	RMB'000
	(Unaudited)
At 1 January 2009	217,704
Additions	159,869
Transfer to property, plant and equipment	(3,539)
At 30 June 2009	374,034

Notes to Interim Condensed Consolidated Financial Statements

Six months ended 30 June 2009

12. INTANGIBLE ASSET

	Exclusive offtake right RMB'000 (Unaudited)
Net carrying amount:	
At 1 January 2009	2,656,572
Amortisation provided during the period	—
At 30 June 2009	2,656,572
At 30 June 2009	
Cost	2,698,285
Accumulated amortisation	(41,713)
Net carrying amount	2,656,572

13. INVENTORIES

	30 June 2009 RMB'000 (Unaudited)	31 December 2008 RMB'000 (Audited)
Raw materials	244,707	327,404
Work in progress	257,386	222,936
Finished goods	204,651	418,099
Spare parts and consumables	72,137	39,781
	778,881	1,008,220

Notes to Interim Condensed Consolidated Financial Statements

Six months ended 30 June 2009

14. TRADE AND NOTES RECEIVABLES

An aged analysis of the trade and notes receivables, based on the due date and net of impairment, is as follows:

	30 June 2009 RMB'000 (Unaudited)	31 December 2008 RMB'000 (Audited)
Outstanding balances aged:		
Within 90 days	103,969	119,267
91 to 180 days	11,983	13,186
181 to 365 days	8,673	3,724
Over 1 year	4,268	3,891
	128,893	140,068
Less: Provision for impairment of trade receivables	(3,932)	(2,364)
	124,961	137,704

The balances of the above trade and notes receivables are unsecured, interest-free and generally have credit terms of 30 to 60 days.

Notes to Interim Condensed Consolidated Financial Statements

Six months ended 30 June 2009

15. CASH AND CASH EQUIVALENTS AND PLEDGED BANK BALANCES

As at 30 June 2009, cash and cash equivalents and pledged time deposits balances denominated other than in Renminbi included HK\$5,148,000 (equivalent to RMB4,538,000), US\$24,583,000 (equivalent to RMB167,914,000), EUR4,113,000 (equivalent to RMB39,655,000) and SGD71,301,000 (equivalent to RMB336,107,000).

16. TRADE AND NOTES PAYABLES

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

	30 June 2009 RMB'000 (Unaudited)	31 December 2008 RMB'000 (Audited)
Outstanding balances aged:		
Within 90 days	321,934	460,104
91 to 180 days	202,588	265,684
181 to 365 days	30,089	36,761
1 to 2 years	9,396	9,760
2 to 3 years	3,241	31,579
Over 3 years	26,218	4,449
	593,466	808,337

As at 30 June 2009, notes payable of RMB386,754,000 (31 December 2008: RMB569,437,000) were secured by time deposits amounting to RMB332,028,000 (31 December 2008: RMB446,911,000).

Notes to Interim Condensed Consolidated Financial Statements

Six months ended 30 June 2009

17. INTEREST-BEARING LOANS AND OTHER BORROWINGS

	Notes	30 June 2009 RMB'000 (Unaudited)	31 December 2008 RMB'000 (Audited)
Bank loans:			
Secured	(i)	70,000	83,000
Unsecured		243,000	183,000
		313,000	266,000
Other borrowings unsecured	(ii)	92,486	90,546
Total		405,486	356,546
Repayable:			
Within one year		326,089	236,089
In the second year		—	—
In the third to fifth years, inclusive		79,397	120,457
		405,486	356,546
Portion classified as current liabilities		(326,089)	(236,089)
Non-current portion		79,397	120,457

Notes to Interim Condensed Consolidated Financial Statements

Six months ended 30 June 2009

17. INTEREST-BEARING LOANS AND OTHER BORROWINGS (Continued)

Notes:

	30 June 2009 (Unaudited)	31 December 2008 (Audited)
(i) Bank loans		
The bank loans bear interest at rates per annum in the range of:	4.779% to 7.470%	6.120% to 8.590%
(ii) Other borrowings		
The other borrowings bear interest at rates per annum in the range of:	5.760% to 7.740%	5.760% to 7.740%

As at 30 June 2009, a bank loan of the Group of RMB70,000,000 (31 December 2008: RMB83,000,000) was secured by time deposits amounting to RMB80,584,000 (31 December 2008: RMB80,001,000).

Notes to Interim Condensed Consolidated Financial Statements

Six months ended 30 June 2009

18. CONVERTIBLE BONDS

	Note	30 June 2009 RMB'000 (Unaudited)	31 December 2008 RMB'000 (Audited)
Liability components:			
CB May 2007	(i)	—	145,859
CB December 2007	(ii)	1,294,709	1,382,398
		1,294,709	1,528,257
Less: Current portion		—	(145,859)
Non-current portion of liability components of convertible bonds			
		1,294,709	1,382,398
Equity components:			
CB May 2007	(i)	—	3,385
CB December 2007	(ii)	45,920	50,658
		45,920	54,043

Notes to Interim Condensed Consolidated Financial Statements

Six months ended 30 June 2009

18. CONVERTIBLE BONDS (Continued)

- (i) HK\$625 million 3% convertible bonds due 2012 (the “CB May 2007”)

The movements of the liability component and equity component of the CB May 2007 for the six months ended 30 June 2009 are as follows:

	Liability component of convertible bonds RMB'000 (Unaudited)	Equity component of convertible bonds RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
At 1 January 2009	145,859	3,385	149,244
Interest expenses	5,544	—	5,544
Redemption	(151,200)	(3,385)	(154,585)
Foreign exchange realignment	(203)	—	(203)
At 30 June 2009	—	—	—

On 18 May 2009, the Company redeemed and cancelled CB May 2007 of a principal amount of HK\$156,000,000 with a cash consideration of HK\$179,260,000 (equivalent to RMB157,874,000), at bondholders’ put option in accordance with the terms and conditions of the subscription agreement.

Notes to Interim Condensed Consolidated Financial Statements

Six months ended 30 June 2009

18. CONVERTIBLE BONDS (Continued)

- (ii) HK\$2,000 million zero coupon convertible bonds due 2012 (the “CB December 2007”)

The movements of the liability component and equity component of the CB December 2007 for the six months ended 30 June 2009 are as follows:

	Liability component of convertible bonds RMB'000 (Unaudited)	Equity component of convertible bonds RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
At 1 January 2009	1,382,398	50,658	1,433,056
Interest expenses	43,637	—	43,637
Repurchase	(130,715)	(4,738)	(135,453)
Foreign exchange realignment	(611)	—	(611)
At 30 June 2009	1,294,709	45,920	1,340,629

On 25 February 2009 and 4 March 2009, the Company repurchased and cancelled certain CB December 2007 of principal amounts of HK\$5,000,000 and HK\$140,000,000 with cash considerations of HK\$1,900,000 (equivalent to RMB1,675,000) and HK\$59,550,000 (equivalent to RMB52,499,000, respectively).

Notes to Interim Condensed Consolidated Financial Statements

Six months ended 30 June 2009

19. SHARE CAPITAL

	30 June 2009		31 December 2008	
	Number of ordinary shares	RMB'000 (Unaudited)	Number of ordinary shares	RMB'000 (Audited)
Authorised (HK\$0.1 each):				
At beginning of period/year	5,000,000,000	479,200	3,000,000,000	302,420
Increase during period/year	—	—	2,000,000,000	176,780
At end of period/year	5,000,000,000	479,200	5,000,000,000	479,200
Issued and fully paid (HK\$0.1 each):				
At beginning of period/year	2,093,120,385	209,961	2,092,865,385	209,938
Exercise of share options	—	—	255,000	23
At end of period/year	2,093,120,385	209,961	2,093,120,385	209,961

Notes to Interim Condensed Consolidated Financial Statements

Six months ended 30 June 2009

20. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Fees	396	352
Salary, allowances and benefits	1,790	1,613
Employee share option benefits	—	896
Pension scheme contributions	17	14
	2,203	2,875

In the opinion of the Directors, key management personnel of the Group consist of all the Directors of the Company.

Notes to Interim Condensed Consolidated Financial Statements

Six months ended 30 June 2009

21. COMMITMENTS

Capital commitments

	30 June 2009 RMB'000 (Unaudited)	31 December 2008 RMB'000 (Audited)
Capital commitments in respect of property, plant and equipment, contracted but not provided for	287,415	297,762

Operating lease commitments

The Group had future minimum lease payments under non-cancellable operating leases in respect of buildings and equipment falling due as follows:

	30 June 2009 RMB'000 (Unaudited)	31 December 2008 RMB'000 (Audited)
Within one year	3,818	2,473
In the second to fifth years, inclusive	3,500	2,337
	7,318	4,810

Notes to Interim Condensed Consolidated Financial Statements

Six months ended 30 June 2009

22. APPROVAL OF THE INTERIM FINANCIAL REPORT

The interim condensed consolidated financial statements for the six months ended 30 June 2009 were approved and authorised for issue by the board of directors on 9 September 2009.

Other Information

Disclosure of Interests

a) Disclosure of interests by the directors

As at 30 June 2009, the interests and short positions of the directors and chief executive in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

(i) *Long positions in the underlying shares of the Company*

Name of director	Capacity in which interests are held	Number of shares	Approximate percentage to the issued share capital of the Company
Mr. Dong Shutong	Beneficial owner	1,501,326,705 (note 1)	71.73%

Other Information

- (ii) Long positions in the underlying shares of the Company attached to the share options granted by the Company

<u>Name of director</u>	<u>Options to subscribe for Shares (note 2)</u>	<u>Capacity in which interests are held</u>	<u>Approximate percentage to the issued share capital of the Company</u>
Mr. Dong Shutong	5,000,000	Beneficial owner	0.24%
Mr. He Weiquan	4,250,000	Beneficial owner	0.20%
Mr. Lau Hok Yuk	3,000,000	Beneficial owner	0.14%
Mr. Song Wenzhou	1,020,000	Beneficial owner	0.05%
Mr. Zhao Ping	4,250,000	Beneficial owner	0.20%
Mr. Dong Chengzhe	1,275,000	Beneficial owner	0.06%

Notes:

- 1,481,074,705 shares and 15,252,000 shares are held directly by Easyman Assets Management Limited ("Easyman") and Sino Regent Worldwide Limited ("Sino Regent") respectively, which is wholly-owned by Mr. Dong Shutong ("Mr. Dong"). By virtue of the SFO, Mr. Dong is deemed to have beneficial interests in the above shares.
- The above share options are unlisted cash settled options granted pursuant to the Company's share option scheme adopted on 2 May 2005. Upon exercise of the options in accordance with such share option scheme, the Company's shares of HK\$0.10 each are issuable.

b) Particulars of directors' service contracts

As at 30 June 2009, no director had a service contract with any member of the Group which is not determinable by the Company within one year without the payment other than statutory compensation.

Other Information

c) Save as disclosed above, as at 30 June 2009:

- (i) none of the directors and chief executive hold any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of the SFO) notifiable to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange;
- (ii) none of the directors had any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries; and
- (iii) none of the directors is materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which contract or arrangement is subsisting at the date of this report and which is significant in relation to the business of the Group.

Other Information

d) Directors' interests in competing businesses

As at 30 June 2009, no director has an interest in the businesses (other than those businesses where the directors were appointed as directors to represent the interests of the Company and/or any member of the Group) which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group.

Substantial Shareholders

As at 30 June 2009, according to the register kept by the Company under Section 336 of the SFO, the following persons and companies (other than the directors or chief executive of the Company) were interested in 5% or more in the Shares or underlying Shares which fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO; or were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

(i) Long positions in the Shares as at 30 June 2009:

Name of shareholder	Capacity in which interests are held	Number of shares/ underlying shares held		Approximate percentage to the issued share capital of the Company	
		Long positions	Short positions	Long positions	Short positions
Easyman Assets Management Limited (Note 1)	Beneficial owner	1,481,074,705	Nil	70.76%	Nil

Notes:

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

Other Information

(ii) Long positions in the underlying Shares of the 2010 convertible notes of the Company as at 30 June 2009:

Name of the holder of the 2010 convertible notes	Amount of the 2010 convertible notes HK\$	Number of underlying shares held	Approximate percentage to the issued share capital of the Company
Mr. Soen Bin Kuan (also known as Tju Bin Kuan) (Note 1)	316,130,000	182,736,416	8.73%

Notes:

1. As at 30 June 2009, Mr. Soen Bin Kuan was the holder of a convertible notes in the principal amount of HK\$316.13 million which is obliged to convert the principal outstanding amount of convertible notes into shares of the Company at the conversion price of HK\$1.73 per share, upon maturity on 18 May 2010. This constituted a long position in physically settled equity derivatives under the SFO.

Save as disclosed above, so far as was known to the directors, there was no other person (other than the directors or chief executive of the Company) who, as at 30 June 2009, had an interest or short position in the Company's shares and underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, beneficially interested in 5% or more of the issued share capital of the Company; or were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

Other Information

Save as disclosed herein, none of the directors is a director or employee of a company which has an interest in the Company's shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Share option scheme

Pursuant to an ordinary resolution passed on 2 May 2005, the Company adopted a share option scheme for the purpose of enabling the Company to recruit and retain high-calibre employees and attract resources that are valuable to the Group and to provide the Company with a means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to such persons who contribute or may bring benefit to the Group. The scheme will remain in force for a period of 10 years from adoption of such scheme and will expire on 2 May 2015.

Other Information

As at June 30, 2009, the interest of the Directors and their associates in the shares and underlying shares of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (SFO), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code contained in the Listing Rules (“Model Code”) were as follows:

	No. of share options				At 30 June 2009	Exercised price of share options* HK\$
	At 1 January 2009	Granted during the period	Exercise during the period	Lapsed during the period		
Name of director						
Mr. Dong Shutong	5,000,000	—	—	—	5,000,000	1.07
Mr. He Wei quan	4,250,000	—	—	—	4,250,000	1.07
Mr. Lau Hok Yuk	3,000,000	—	—	—	3,000,000	1.91
Mr. Song Wenzhou	1,020,000	—	—	—	1,020,000	1.07
Mr. Zhao Ping	4,250,000	—	—	—	4,250,000	1.91
Mr. Dong Chengzhe	1,275,000	—	—	—	1,275,000	1.91
Sub-total for number of share options to directors	18,795,000	—	—	—	18,795,000	
Other employees						
	8,415,000	—	—	—	8,415,000	1.07
	1,275,000	—	—	—	1,275,000	1.91
	3,000,000	—	—	—	3,000,000	2.37
	14,520,000	—	—	(25,000)	14,495,000	2.45
Sub-total for number of share options to employees	27,210,000	—	—	(25,000)	27,185,000	
Total	46,005,000	—	—	(25,000)	45,980,000	

Other Information

Notes:

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

The Options will have a vesting schedule of 5 years whereby only 20% of the Options shall be exercisable 12 months after the Offer Date and an additional 20% may be exercised by the Grantee in each subsequent year until 5 years from the Offer Date when 100% of the Options may be exercised.

As of the date of this report, no share option has been exercised by the above directors and senior managers to subscribe for shares in the Company.

Except as disclosed above, as at the date of this report, no other share option has been granted by the Company pursuant to the Company's share option scheme.

Save as disclosed above, at no time during the Relevant Period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Purchase, redemption or sale of listed shares of the Company

The Company purchased a total of HK\$156,000,000 principal amount of 3% Convertible Bonds on 18 May 2008 and a total of HK\$145,000,000 principal amount of Zero Coupon Convertible Bonds between 25 February 2009 and 4 March 2009 at an average price of 42% of the principal amount, respectively. The purchases involved a total cash outlay of HK\$240.7 million. The repurchases and cancellations resulted in a reduction in the liability component of the convertible bonds by HK\$319.9 and a gain of HK\$89.9 million (equivalent to RMB79.6 million) was recorded in the consolidated income statement.

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

Other Information

Audit Committee

The Audit Committee is comprised of three independent non-executive directors, namely Mr. Wong Chi Keung, Mr. Bai Baohua and Mr. Huang Changhuai and Mr. Wong Chi Keung is the chairman of the audit committee. The primary duties of the audit committee are to review the financial reporting process and internal control procedures of the Group.

Corporate governance

(a) Compliance with the Code on Corporate Governance Practices

In the opinion of the directors, save as disclosed below, the Company has complied with the code provisions (the “Code Provisions”) set out in the Code of Corporate Governance Practices (the “Code”) contained in Appendix 14 of the Listing Rules for the six months ended 30 June 2009.

The executive director, Dong Shutong, served as the Chairman and Chief Executive Officer of the Company. The Chairman is responsible for overseeing the Company’s operations in respect of compliance with internal rules, and compliance with statutory requirements and promoting the corporate governance of the Company, whereas the Company did not appoint another individual to act as a chief executive for the period ended 30 June 2009 and up to the date of the report. This constitutes a deviation from Code Provision A.2.1. The Board believes that it is in the best interest of the Company and the shareholders as a whole for Mr. Dong Shutong, who is knowledgeable in the business of the Group and possesses the essential

Other Information

leadership skills to guide discussions of the Board. The significant decision-making and the day-to-day management of the Company is carried out by all of the executive directors. Therefore, the roles of the Chairman and the chief executive of the Company are not segregated in the sense that two different individuals took up these roles. The role of the Chairman and chief executive are not exercised by the same individual.

Under the Code Provisions A.4.1 and A.4.2, non-executive directors should be appointed for a specific term. The existing non-executive directors of the Company were not appointed for a specific term. This constitutes a deviation from Code Provision A.4.1. However, according to the Articles of Association, one-third of the directors for the time being shall retire from office by rotation at each annual general meeting and the directors to retire by rotation shall be those who have been longest in office since their last re-election or appointment. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are similar to those provided in the Code.

(b) Compliance with the Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all directors, all directors have complied with the required standard set out in the Model Code for the six months ended 30 June 2009.

On behalf of the Board

Mr. Dong Shutong

Chairman

Hong Kong, 9 September 2009