



**湖南有色金屬股份有限公司**

**Hunan Nonferrous Metals Corporation Limited**

(於中華人民共和國註冊成立的股份有限公司)

(a joint stock company incorporated in the People's Republic of China with limited liability)

Stock Code : 2626

Interim Report

**2006**

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## CORPORATE INFORMATION

### DIRECTOR

#### Executive Directors

He Renchun (*Chairman of board of directors*)  
Li Li  
Liao Luhai  
Chen Zhixin

#### Non-Executive Directors

Cao Xiuyun  
Wu Longyun  
Zhang Yixian  
Yu Jiang

#### Independent Non-Executive Directors

Gu Desheng  
Chan Wai Dune  
Wan Ten Lap

#### Supervisors

Zeng Shaoxiong (*Chairman of supervisory committee*)  
He Hongsen  
Liu Xiaochu  
Jin Liangshou  
He Liu  
Li Junli  
Zhan Yijie

#### Independent Supervisors

Chen Xiaohong  
Liu Dongrong

### COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Lam Kai Yeung, FCCA, AHKICPA

### AUTHORISED REPRESENTATIVES

Liao Luhai  
Lam Kai Yeung

### AUDIT COMMITTEE

Chan Wai Dune (*Chairman of audit committee*)  
Zhang Yixian  
Wan Ten Lap

### INTERNATIONAL AUDITORS

Ernst & Young

### COMPLIANCE ADVISER

BOCI Asia Limited

### LEGAL ADVISORS

Sidley Austin  
Jia Yuan Law Firm

### PRINCIPAL BANKERS

Bank of China, Hunan Branch  
Industrial and Commercial Bank of China,  
Hunan Branch  
China Construction Bank, Hunan Branch  
The Export-Import Bank of China,  
Shenzhen Branch

### HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

### REGISTERED OFFICE

11/F, Block A Yousedasha  
No. 342 Laodongxi Road  
Changsha City, Hunan, PRC

## CORPORATE INFORMATION (Continued)

### PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 3103, 31/F  
Office Tower, Convention Plaza  
1 Harbour Road  
Wanchai, Hong Kong

### SHARE INFORMATION

Stock Code: 2626  
Listing Date: 31 March 2006  
Number of shares Issued: 1,360,610,000 H Shares  
Nominal Value: RMB1.00 per share  
Stock Name: HNC

### FINANCIAL SUMMARY

Announcement of Interim Result	28 August 2006
Closure of Register	N/A
Interim Dividend	N/A

### SHAREHOLDER'S ENQUIRIES

The Company:  
Ms. Li Jun Li

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Unit 3103, 31st Floor,  
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## RESULTS

### MARKET REVIEW

(The following information is derived from [www.metalchina.com](http://www.metalchina.com). The relevant prices of these products include value-added taxes.)

#### Tungsten

During the first half of 2006, the price of tungsten experienced a process of slight fluctuation and stabilization. From January to June, the average prices of APT in the European and the U.S. markets were US\$ 263.97-270.12 per metric ton unit and US\$258.13-260.25 per metric ton unit, respectively, representing an increase of 33.9% and 39.2% respectively compared to the corresponding period of 2005. The average export price of APT in the domestic market was US\$260.38-270 per metric ton unit, representing an increase of 34.3% compared to the corresponding period of 2005.

Since major supply of tungsten in the world came from China, the fluctuation of tungsten supply in the PRC would directly affect the international market. During the first half of 2006, despite an increase in output in the PRC, the market of tungsten concentrates developed more rationally and maturely as compared with the corresponding period of 2005, thus the price of tungsten concentrates was generally stable.

#### Zinc

During the first half of 2006, the international market price of zinc remained a rising momentum, with relatively immense fluctuation. From January to July, the average spot price of zinc at LME was US\$2,829 per ton, representing an increase of 118.6% compared with the corresponding period of the previous year. The average price for three-month commodity futures of zinc quoted by LME during the period from January to July was US\$2,848 per ton, representing an increase of 122.5% compared with the corresponding period of the previous year. The zinc price in the domestic market in the first half of the year fluctuated with that in the international market. From January to July, the average prices of 1# and 0# zinc ingots amounted to RMB24,519 per ton and RMB24,957 per ton, representing an increase of 92.4% and 91.7% respectively compared to the corresponding period of the previous year.

In the international market, many institutions were of the same view that there was a common shortage of zinc at the level of the metals market in 2006, the only difference in views was the deficiency amount.

#### Antimony

From January 2006 onwards, international antimony price continued to soar from US\$4,000-4,100 per ton to US\$5,700-5,800 per ton, representing an increase of 12.5%. From May to June, international antimony price slightly fell to US\$4,750-4,850 per ton by the end of June. Currently, the antimony price slowly ascended to US\$5,550-5,650 per ton by the end of July.

As regards antimony demand and consumption, the trend is that China's demand will continue to increase rapidly, and consumption in Europe and America is expected to pick up during the third quarter after the summer holiday, global antimony stock continues to decrease, hence antimony concentrates supply in the international market will continue to grow at a slow pace.

#### Lead

During the first half of 2006, the prices of lead in the domestic and international markets maintained a high level. The average spot price of LME lead from January to June was US\$1,170 per ton, representing an increase of 19.1% compared with the corresponding period of the previous year. The LME average price for three-month commodity futures of lead was US\$1,174 per ton, representing an increase of 24.4% compared with the corresponding period of the previous year. The average lead price in the domestic market was RMB11,169 per ton during the period from January to June, representing an increase of 19.1% compared with the corresponding period of the previous year basically in coincidence with that of the international market.

From January to April of 2006, it is expected that lead supply and demand in the global market during the whole year will be basically balanced, with total refined lead output of 2,654,000 tons and total consumption volume of 2,607,000 tons, and an excess of 47,000 tons.

### BUSINESS REVIEW

During the first half of 2006, the Group captured the opportunity of robust market demand and price upswing, and realized growth in production of some key products by leveraging fully on its competitive edges in resources, industry chains and scale of operation, while some other products recorded a shrunk production due to equipment maintenance and product mix adjustment.

From January to June, the Group achieved an output of zinc products of approximately 211.5 thousand tons, an output of antimony products of approximately 13.1 thousand tons, lead output of approximately 44.8 thousand tons, and an output of cemented carbides of approximately 1.8 thousand tons.

In order to increase the Group's operating efficiency and profits, the Group has put much emphasis on management standardization and innovation. Having succeeded in financing its operations by grasping the favourable opportunities in the nonferrous metals market, the Group will become the major shareholder of China Tungsten Hi-tech Materials Company Limited ("China Tungsten Hi-tech") by way of acquiring equity in China Tungsten Hi-tech and increased the capital of and equity investment in Zigong Cemented Carbides Company Limited ("Zigong Cemented Carbides"), and achieved its strategic reorganisation of cemented carbides enterprises. Also, the Group has secured resources for its future development through its Compass Resources NL ("CMR") equity acquisition and resources development project in Australia. On the basis of the above strategic investment, the Group has laid a solid foundation for the Group's rapid growth going forward.



## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

Due to the consolidation of Zhuye Torch Metals Co., Ltd. ("Zhuye Torch") and Zhuzhou Diamond Cutting Tools Company Limited ("Zhuzhou Diamond") since 1 June 2005 as stated in the prospectus dated 21 March 2006, the Group's financial results may not be comparable between the first half of 2006 and the corresponding period of 2005.

### GENERAL DESCRIPTION

During the period ended 30 June 2006, profit before tax increased by RMB374 million or 92%, from RMB408 million for the same period last year to RMB782 million for the period ended 30 June 2006. Profit attributable to the equity holders of the parent was RMB300 million, representing an increase of 18% from the corresponding period of 2005. The following is the comparison of financial results between six months periods ended 30 June 2006 and 30 June 2005:

### RESULTS OF OPERATIONS

During the period ended 30 June 2006, the Group's turnover increased by RMB4,417 million or 120%, from RMB3,677 million for the same period last year to RMB8,094 million for the period ended 30 June 2006. During the period ended 30 June 2006, our gross profit increased by RMB548 million or 75%, from RMB735 million for the same period last year to RMB1,283 million for the period ended 30 June 2006; the gross profit margin for the period ended 30 June 2006 was 16%, representing a decrease of 4 percentage points from 20% for the same period last year.

The increase in turnover of the Group was mainly due to a significant increase in prices of nonferrous products and consolidation of Zhuye Torch and Zhuzhou Diamond since 1 June 2005. The consolidation of Zhuye Torch led to an increase of RMB4,059 million or 237% in the Group's turnover before sales tax and surcharge of the nonferrous metals smelting segment.

1. The nonferrous metals mine site segment represented 13% of the consolidated turnover of the Group. Set out below is the information on the fluctuation in sales volume and price of major nonferrous metals products:

Products	January - June 2006		January - June 2005	
	Sales volume	Unit price	Sales volume	Unit price
	Ton	RMB/Ton	Ton	RMB/Ton
Tungsten concentrates	774	94,022	1,089	51,573
Oxidized molybdenum	395	186,228	449	243,914
Lead concentrates	6,875	9,023	7,564	7,063
Zinc concentrates	4,824	14,475	12,496	6,554
Antimony products	13,454	30,196	11,778	21,691
Zinc products	15,406	19,759	14,486	10,786

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

During the period ended 30 June 2006, turnover before sales tax and surcharge of nonferrous metals mine site segment increased by RMB280 million or 36% from the same period last year to RMB1,056 million mainly due to: (1) the increase in prices of nonferrous metals mine products led to a significant increase in mine products unit price; and (2) such sales revenue increase was partially offset by the increase in intra-group sales volume eliminated on consolidation as a result of consolidation of Zhuye Torch and Zhuzhou Diamond since 1 June 2005, which means a corresponding decrease in external sales volume as set out in the condensed consolidated financial statements for the period ended 30 June 2006.

During the period ended 30 June 2006, gross profit of nonferrous metals mine site segment increased by RMB3 million or 1% from the same period last year to RMB268 million. During the first half of this year, gross profit margin of nonferrous metals mine site segment decreased by 8 percentage points, from 34% of the same period last year to 26% this year.

- The nonferrous metals smelting segment represented 71% of the consolidated turnover of the Group. Set out below is the information on the change in sales volume and price of major products of the nonferrous metals smelting segment:

Products	January - June 2006		January - June 2005	
	Sales volume	Unit price	Sales volume	Unit price
	Ton	RMB/Ton	Ton	RMB/Ton
Zinc products	<b>219,217</b>	<b>19,541</b>	47,108	11,175
Lead products	<b>43,626</b>	<b>9,591</b>	48,958	8,981
Precious metal-indium	<b>22</b>	<b>7,279,014</b>	17	8,138,065
Precious metal-silver	<b>223</b>	<b>2,623,659</b>	228	1,948,695

During the period ended 30 June 2006, turnover before sales tax and surcharge of nonferrous metals smelting segment increased by RMB4,059 million or 237% from the same period last year to RMB5,774 million mainly due to: (1) the increase in sales volume of nonferrous metals smelting products this year as a result of consolidation of Zhuye Torch since 1 June 2005; and (2) an increase in prices of nonferrous metals smelting products.

During the period ended 30 June 2006, gross profit of nonferrous metals smelting segment increased by RMB532 million or 262% from the same period last year to RMB735 million. During the first half of this year, gross profit margin of nonferrous metals smelting segment increased by 1 percentage point from 12% of the same period last year to 13% this year.



## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

3. Cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds segment represented 16% of the consolidated turnover of the Group. Set out below is the information on the change in sales volume and price of major products of cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds segment:

Products	January - June 2006		January - June 2005	
	Sales volume Ton	Unit price RMB/Ton	Sales volume Ton	Unit price RMB/Ton
Cemented carbides	2,339	299,655	1,790	250,948
Tungsten and its compounds	1,938	219,212	2,807	190,282
Molybdenum and its compounds	174	484,095	143	675,243
Tantalum, niobium and their compounds	224	413,856	328	354,654

During the period ended 30 June 2006, turnover before sales tax and surcharge of cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds segment increased by RMB107 million or 9% from the same period last year to RMB1,309 million, mainly due to an increase in turnover as a result of an increase in the prices of products of cemented carbides, and tungsten, tantalum, niobium and their compounds and the consolidation of Zhuzhou Diamond since 1 June 2005. However, the factors mentioned above was partially offset by decrease in the Group's sales volume due to products restructuring in cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds segment this year.

During the period ended 30 June 2006, gross profit of cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds segment increased by RMB12 million or 4% from the same period last year to RMB279 million. During the first half of this year, gross profit margin of cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds segment decreased by 1 percentage point from 22% of the same period last year to 21% this year.

### OTHER REVENUE AND GAINS

During the period ended 30 June 2006, the Group's other revenue and gains increased by RMB102 million or 486% from RMB21 million of the same period last year to RMB123 million for the period ended 30 June 2006 mainly due to RMB83 million bank interest income arising from over subscription of new shares in the first half of 2006.

### SELLING AND DISTRIBUTION COST

During the period ended 30 June 2006, the Group's selling and distribution costs increased by RMB49 million or 88% from RMB56 million for the same period last year to RMB105 million for the period ended 30 June 2006 mainly due to an increase in selling expenses as a result of the increase in sales volume of our products.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### ADMINISTRATIVE EXPENSES

During the period ended 30 June 2006, the Group's administrative expenses increased by RMB111 million or 41% from RMB270 million for the same period last year to RMB381 million for the period ended 30 June 2006 mainly due to the consolidation of Zhuye Torch and Zhuzhou Diamond. Hence, certain administrative expenses, for example, salaries, welfare and research costs increased.

### OTHER OPERATING INCOME/(EXPENSES), NET

During the period ended 30 June 2006, the Group's other operating expenses, net increased by RMB35 million from a net income of RMB5 million for the same period last year to a net expense of RMB30 million for the period ended 30 June 2006 mainly due to the increase of provision for doubtful debts in the first half of 2006.

### FINANCE COSTS

During the period ended 30 June 2006, the Group's finance costs increased by RMB39 million or 54% from RMB72 million for the same period last year to RMB111 million for the period ended 30 June 2006 mainly due to the increase of bank loan outstanding.

### INCOME TAX EXPENSE

During the period ended 30 June 2006, the Group's income tax expense increased by RMB147 million or 140% from RMB105 million for the same period last year to RMB252 million for the period ended 30 June 2006 mainly due to the increase of operating profit.

### MINORITY INTERESTS

During the period ended 30 June 2006, the Group's minority interests increased by RMB180 million or 367% from RMB49 million for the same period last year to RMB229 million for the period ended 30 June 2006, primarily due to: (1) the consolidation of Zhuye Torch and Zhuzhou Diamond since 1 June 2005; (2) the operating profits generated by the Group.

### LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2006, the Company had total assets of approximately RMB13,267,879,000 which comprised of non-current assets of approximately RMB5,046,926,000 and current assets of RMB8,220,953,000. As at 30 June 2006, the Company had cash and cash equivalent of approximately RMB3,017,269,000, and interest-bearing bank and other borrowing of RMB4,276,767,000. As at 30 June 2006, certain of the Group's assets, comprising mainly time deposit, fixed assets and lease prepayment, with an aggregate net carrying value of RMB1,060,825,000 (31 December 2005: RMB1,328,684,000) were pledged to banks as securities for banking facilities which consisted of mainly trade finances and bank loans. The Company generally services its debts primarily through cash generated from its operations. The financial position of the Company remains health. Taken into consideration of its current financial resources, the Directors believe that the Company shall have adequate fund for its continual operating and development.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### DEBT TO TOTAL ASSETS RATIO

Our debt to total assets ratio decreased from 40% as of 31 December 2005 to 32% as of 30 June 2006. The debt to total assets ratio is calculated by dividing total debt by total assets and then multiplied by 100%. The decrease of the ratio was mainly due to the net proceeds from issue of H shares of the Group on the Main Board of The Stock Exchange of Hong Kong Limited which lead to increase of total assets.

### FOREIGN EXCHANGE RATE FLUCTUATION RISK

The Group conducts operations primarily in the PRC and sells part of our products to customers in various foreign countries. Except for export sales which are mainly transacted in United States dollars, the Group currently receives its sales revenue in Renminbi. The Group's exposure to exchange rate fluctuation results primarily from the sales of products and purchase of raw materials in foreign currencies. The Group currently does not have a formal hedging policy and has not entered into any foreign currency exchange contracts or derivative transactions to hedge the Group's currency risk.

### COMMODITY PRICE RISKS

The Group faces commodity price risks as prices of our nonferrous metals purchases and sales are based on global and domestic prices, which are subject to significant fluctuations during the first half of the year. As commodity products, nonferrous metals prices are principally dependent on the supply and demand dynamics in the marketplace in the long term. The Group does not engage in trading contracts and has not entered into pricing arrangements to hedge the Group's exposure to fluctuations in the prices of nonferrous metals.

### INTEREST RATE RISKS

The Group's exposure to interest rate risk relates primarily to our short-term and long-term bank loans and other borrowings. The interest rate of the Group's outstanding indebtedness is subject to base rates of interest as announced by the People's Bank of China from time to time. An increase in prevailing interest rates would lead to an increase in interest cost. To date, the Group has not entered into any type of interest rate agreements or derivatives to hedge against interest rate changes.

### AUDIT COMMITTEE

The Company has an audit committee comprising two independent non-executive Directors and one non-executive Director to review the Company's financial reports and internal control system, consider the appointment of independent auditors, provide recommendation to the Board, approve audit and audit-related services, and supervise the Company's internal financial reporting procedures and management policies. The audit committee had reviewed the Group's unaudited results for the period ended 30 June, 2006 and was of the opinion that the preparation of unaudited results complied with applicable accounting standards, the relevant regulatory and legal requirements and that adequate disclosure had been made. The committee met once during the six months ended 30 June 2006 (with an average attendance rate of 100%).

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. Based on specific enquiry with all the Directors of the Company, the Directors have complied with the required standard as set out in the Model Code for the period ended 30 June 2006.

### PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company's shares were listed on the Stock Exchange on 31 March 2006. Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period and up to the date of this report.

### PUBLICATION OF THE RESULTS ON WEBSITE

The financial information required to be disclosed under paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange at [www.hkex.com.hk](http://www.hkex.com.hk) in due course.

On behalf of the Board, I would like to take this opportunity to express my sincere gratitude to all shareholders for their full support.

By Order of the Board  
**He Renchun**  
*Chairman*

Changsha, the PRC, 28 August 2006

## **DIRECTORS AND SENIOR MANAGEMENT**

### **DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

Our Board of Directors consists of eleven Directors. According to the Company's Articles of Association, their terms of office are three years and may be renewed upon re-election.

Executive Directors: He Renchun, Li Li, Liao Luhai, Chen Zhixin

Non-executive Directors: Cao Xiuyun, Wu Longyun, Zhang Yixian, Yu Jiang

Independent non-executive Directors: Gu Desheng, Chan Wai Dune, Wan Ten Lap

Mr. Ong King Keung resigned as the company secretary and qualified accountant of the Company in July 2006 due to his personal affairs. His vacancy is filled by Mr. Lam Kai Yeung.

Lam Kai Yeung, aged 37, is the qualified accountant and company secretary of the Company. Mr. Lam is a qualified accountant. He obtained the bachelor degree of economics from Xiamen University in 1990 and became a registered accountant in 2000. During the period from July 1996 to December 1999, Mr. Lam had undertaken professional education in Hong Kong Polytechnic University. He is a fellow member of the Association of Chartered Certified Accountant and Hong Kong Institute of Certified Public Accountants and has over ten years of working experience in finance and auditing.



## EMPLOYEES

### EMPLOYEES

As of 30 June 2006, the Group had approximately 20,724 employees. The remuneration package of employees includes salary, bonuses and allowances. Employees are also entitled to welfare benefits such as medical care, housing, child care, education and retirement pension, and various other welfare benefits.

In accordance with laws of the PRC, the Group has participated in a series of pension schemes organized by the government. The Group's manufacturing plants have to contribute to these pension funds on the basis of a certain percentage of their employees' salaries, bonuses and various allowances for each period.



## SHARE CAPITAL

	As at 30 June 2006		As at 31 December 2005	
	Number of shares '000	Amount RMB'000	Number of shares '000	Amount RMB'000
Share capital issued and fully paid				
Domestic shares at par value of RMB1.00 each	2,060,068	2,060,068	2,183,760	2,183,760
H shares at par value of RMB1.00 each	1,360,610	1,360,610	N/A	N/A
	<b>3,420,678</b>	<b>3,420,678</b>	2,183,760	2,183,760

## SHARE CAPITAL STRUCTURE

As at 30 June 2006, the share capital structure of the Company was follows:

	As at 30 June 2006	
	Percentage of the number of shares in issue	Percentage of the share capital
<b>Holders of domestic shares or H shares</b>		
<b>Holders of domestic shares</b>		
Hunan Nonferrous Metals Holding Group Co. Ltd	1,971,105,600	57.62%
Shenzhen City Bangxin Investment Development Co., Ltd.	56,549,000	1.65%
Zijin Mining Group Co., Ltd	30,000,000	0.88%
Hunan Valin Steel and Iron Group Co., Ltd.	1,413,400	0.04%
Powerise Information Technology Co., Ltd.	1,000,000	0.03%
<b>Holders of H shares</b>	1,360,610,000	39.78%
<b>Class of Shares</b>	<b>Number of Shares</b>	<b>Approximate percentage of the issued share capital</b>
Domestic shares	2,060,068,000	60.22%
H shares	1,360,610,000	39.78%
Total number of shares	3,420,678,000	100%

## SUBSTANTIAL SHAREHOLDERS

### SUBSTANTIAL SHAREHOLDERS

So far as was known to any Director or Supervisor, as at 30 June 2006, the persons or companies (other than a Director or Supervisor of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company were as follow:

#### Long positions in shares

Name	Number of domestic shares held	Approximate percentage of shareholding
Hunan Nonferrous Metals Holding Group Co., Ltd	1,971,105,600	57.62%

Save as disclosed above, as at 30 June 2006, the Directors were not aware of any other person (other than a Director or Supervisor of the Company) who had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

## **DIRECTORS' INTERESTS**

### **DIRECTORS' AND SUPERVISORS' INTEREST IN CONTRACTS**

None of Directors and Supervisors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

### **DIRECTORS' AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN SHARES**

As at 30 June 2006, none of Directors and Supervisors and their respective associates had an interests and short positions in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which would be required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or which would be required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

### **DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director and supervisors 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 or fellow subsidiaries a party to any arrangement to enable the Directors or Supervisors to acquire such rights in any other body corporate.

## SUBSEQUENT SIGNIFICANT EVENTS

### Stock Appreciation Rights Plan

The Board has, at a meeting on 15 July 2006, resolved that, subject to the adoption of the Stock Appreciation Rights Plan (details of which were set out in the Company's prospectus dated 21 March 2006, the "Stock Plan") by the shareholders of the Company at the extraordinary general meeting to be held on 25 September 2006, share appreciation rights ("SARs") under the Stock Plan will be granted to the following Directors, Supervisors and senior management members in order to attract, retain and motivate senior executives and key employees who make important contributions to the Group and to enhance the profitability and value of the Group:

The proposed grantees and number of shares granted were as follows:

<b>Name</b>	<b>Share Appreciation Rights Number of Shares</b>	<i>Note</i>
He Renchun	1,282,051	Chairman of the Board and Executive Director
Cao Xiuyun	1,025,641	Vice Chairman of the Board and Non-executive Director
Li Li	897,436	Executive Director and General Manager
Zeng Shaoxiong	769,231	Chairman of the Supervisory Committee
Liao Luhai	769,231	Executive Director
Chen Zhixin	769,231	Executive Director
Wu Longyun	641,027	Non-executive Director
He Hongsen	641,026	Supervisor
Zhang Yixian	641,026	Non-executive Director
Yang Bohua	512,820	Senior manager of a subsidiary under the Company
Fu Shaowu	512,820	Senior manager of a subsidiary under the Company
Yang Lingyi	512,820	Senior manager of a subsidiary under the Company
Hong Mingyang	512,820	Senior manager of a subsidiary under the Company
Zhu Chongzhou	512,820	Senior manager of a subsidiary under the Company
Total:	10,000,000	

Please note that all of the above are only proposals. The above proposed grantees do not have contractual rights to obtain the above interests, and the Company does not have contractual obligations to grant the above interests before such proposals are approved at the extraordinary general meeting.

## SUBSEQUENT SIGNIFICANT EVENTS (Continued)

### **Joint Venture with Compass Resources NL**

On 6 May 2006, the Company entered into a legally binding letter of intent and a subscription agreement with CMR, a company listed on the Australian Stock Exchange, in relation to the formation of one or more unincorporated joint ventures for the development of the oxide and sulphide nonferrous resources of CMR's tenements.

Please refer to the announcements of the Company dated 28 June 2006 and 1 August 2006 for details.

In July 2006, the Company used an amount of A\$30 million (equivalent to RMB183.14 million) to acquire the equity interests in CMR and conducted cooperative development of mines with identified mineral resources.

### **Disclosure of strike of natural disasters on Shizhuyuan**

Hunan Shizhuyuan Nonferrous Metals Co., Ltd. ("Shizhuyuan") was stricken twice by severe tropical storms "Bilis" and "Kaemi" on 15th and 25th July, 2006 respectively, with extraordinarily heavy rainfall resulting in floods all around the mining territories, which cut off sections of the mountain road between Shi Zhu Yuan and Dong Po, and destroyed some electricity and water supply, communication, radio and TV broadcasting facilities and buildings. The lead and zinc mines were overwhelmed and the side bank of the Wei Kuang Ba section was also damaged. With the effective repair efforts, crucial facilities such as the multi-metal mines and the selecting site resumed production shortly. The 2,000 tons/day mining and selecting capacity expansion project may merely be able to complete and commence trial production in October as scheduled.

The suddenly eruptive natural disasters brought forth by these two severe tropical storms are expected to reduce Shi Zhu Yuan's turnover of lead and zinc by 800 tons and caused a loss of RMB17 million in the carrying value of assets. Some RMB4 million could hopefully be compensated by our insurer, leaving RMB13 million of actual loss uncovered. The exact amount will be disclosed in the 2006 annual report after it has been validated by a relevant intermediate organization in accordance with IAS. The Company is currently taking every necessary step, including requesting for the government's support on tax reduction/exemption, to help Shi Zhu Yuan accomplish its production plan for this year.

## SUBSEQUENT SIGNIFICANT EVENTS (Continued)

### **Acquisition of Equity Interest in China Tungsten Hi-tech**

On 7 May 2006, an agreement was entered into between the Company and Guangzhou Zhongkexin Group Company Limited (“Zhongkexin”) in relation to the acquisition of 27.78% equity interest in China Tungsten Hi-tech by the Company from Zhongkexin.

On 21 June 2006, an agreement was entered into between the Company and Hainan Jinchang Travel Co. Limited in relation to the acquisition of 3.15% equity interest in China Tungsten Hi-tech by the Company from Hainan Jinchang Travel Co. Limited.

China Tungsten Hi-tech is a company listed on the Shenzhen Stock Exchange. It is principally engaged in the research and development, production, sales and trading of cemented carbides, and tungsten, molybdenum, tantalum and other nonferrous metals and their compounds, and development and sale of property.

For further details, please refer to the announcements of the Company dated 10 May 2006, 28 June 2006 and 20 July 2006.

### **Joint Venture with State-owned Assets Supervision and Administration Commission of Zigong City**

On 21 June 2006, a joint venture agreement was entered into between the Company and the State-owned Assets Supervision and Administration Commission of Zigong City (“**Zigong SASAC**”) pursuant to which, among other things, businesses and assets relating to cemented carbides and molybdenum valued at RMB100 million where were held by Zigong SASAC will be allocated to the registered capital of Zigong Cemented Carbides (acquire 20% interest in Zigong Cemented Carbides) and the Company will contribute an aggregate amount of RMB400 million to the registered capital of Zigong Cemented Carbides (acquire 80% interest in Zigong Cemented Carbides).

Amongst others, Zigong Cemented Carbides is involved in the principal business activities of production of cemented carbides products and tools, tungsten products, molybdenum products, manufacture and sale of nonferrous metal products and is one of the largest producers of cemented carbides in the PRC.

Please refer to the announcements of the Company dated 28 June 2006 and 20 July 2006 for details.



## SUBSEQUENT SIGNIFICANT EVENTS (Continued)

### OTHER EVENTS

#### (1) *Equity Interest Acquisition*

On 1 August 2006, the Company has entered into two equity interest acquisition agreements with a connected party - Hunan Nonferrous Metals Holding Group Co., Ltd. ("HNG"), to acquire HNG's 18.35% equity interest in Shizhuyuan for a total consideration of RMB63,746,000 and to acquire HNG's 9.86% equity interest in Hsikwangshan Twinkling Star Antimony Co., Ltd. ("Hsikwangshan") for a total consideration of RMB45,660,500. As a result of the above transaction, the Company has an opportunity to increase investments in Shizhuyuan and Hsikwangshan and it will enable the Company to have larger share of return from Shizhuyuan and Hsikwangshan.

For details, please refer to the Company's announcement dated 3 August 2006 and circular dated 25 August 2006.

#### (2) *Zhuye Share Subscription and the Proposed Institutional Investors Share Issuance*

Zhuye Torch, a non wholly-owned subsidiary of the Company, the tradable A-shares of which are listed on the Shanghai Stock Exchange in the PRC, proposes to issue 100,000,000 new tradable Zhuye Torch A-Shares.

Zhuye Torch entered into an Agreement on 17 August 2006 pursuant to which Zhuzhou Smelter Group Co., Ltd. ("Zhuye"), a non wholly-owned subsidiary of the Company, agreed to subscribe for not less than 77,000,000 new Zhuye Torch A-Shares, representing not more than 77% of the total new Zhuye Torch A-Shares to be issued, approximately 18.01% of the existing issued share capital of Zhuye Torch and approximately 14.60% of the enlarged issued share capital of Zhuye Torch in consideration of not lower than RMB7.95 per tradable Zhuye Torch A-Share. The Consideration will be satisfied by way of transfer of Assets and in cash (if applicable) upon the Completion.

Zhuye Torch also proposes to issue not more than 23,000,000 new Zhuye Torch A-Shares, representing not more than 23% of the total new Zhuye Torch A-Shares to be issued, approximately 5.38% of the existing issued share capital of Zhuye Torch and approximately 4.36% of the enlarged issued share capital of Zhuye Torch in consideration for cash of not lower than RMB7.95 per Zhuye Torch A-Share to institutional investors in the PRC. Such institutional investors and their respective ultimate beneficial owners are independent third party(ies).

After 77,000,000 and 23,000,000 Zhuye Torch A-Shares are issued to Zhuye and the potential institutional investors respectively, the Company's direct beneficial interest in Zhuye Torch will decrease from approximately 4.04% to approximately 3.43%, and Zhuye's direct beneficial interest in Zhuye Torch will increase from approximately 30.44% to approximately 41.06%.

For details, please refer to the Company's announcements dated 25 August, 17 August, 1 August, 18 July and 13 July 2006.

## USE OF PROCEEDS

### USE OF PROCEEDS FROM THE OFFERING

During the period ended 30 June 2006, the Company has advanced the proceeds from the Initial Public Offering totaling RMB149.03 million as follows:

In June 2006, the Company used the proceeds in the amount of RMB100 million and RMB29.03 million respectively for acquisition of interests in an A share company in the PRC, China Tungsten Hi-tech which was held by Zhongkexin and Hainan Jinchang Travel Co. Limited.

In May 2006, the Company advanced the proceeds in the amount of RMB20 million for investment in acquisition of 80% equity interest in Zigong Cemented Carbides.

## CORPORATE GOVERNANCE

The Company is committed to improve its corporate governance and enhance the transparency to shareholders. In the opinion of the Board, for the six months ended 30 June 2006, the Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 of the Listing Rules.

### **Board of Directors**

Our Board of Directors consists of eleven Directors: four executive Directors, four non-executive Directors and three independent non-executive Directors. The Board met six times during the six months ended 30 June 2006 (with an average attendance rate of 95%), in which four executive Directors had attended all the meetings of the Board of Directors.

### **Supervisory Committee**

The Company has a supervisory committee comprising nine supervisors to exercise supervision over the Board and its members and senior management and prevent them from abusing their power and authorities and jeopardizing the legal interests of the shareholders, the Company and its employees. The committee met one time during the six months ended 30 June 2006 (with an average attendance rate of 88%).

### **Model Code for Directors' Securities Transactions**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. Based on specific enquiry with all the Directors of the Company, the Directors have complied with the required standard as set out in the Model Code for the period ended 30 June 2006.

### **Board audit committee**

Written terms of reference of the board audit committee based primarily on "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants have been adopted by the Board of Directors. The board audit committee provides an important link between the Board of Directors and the Company's auditors in matters falling within the scope of the audit of the Company and the Group. It will review the effectiveness of the external audit and of internal controls and risk evaluation and will provide comments and advice to the Board of Directors. The board audit committee comprises one non-executive Director and two independent non-executive Directors, namely, Mr. Zhang Yixian, Mr. Chan Wai Dune and Mr. Wan Ten Lap. The board audit committee and management have reviewed the unaudited results for the six months ended 30 June 2006.

### **Non-competition Agreement**

As disclosed in the prospectus, the independent non-executive Directors will review, on an annual basis, the exercise or non-exercise of the Option to Acquire CRB, and the First Right Options to Purchase CRB's Products under the Non-competition Agreement (as defined in the prospectus). The non-competition restrictions took effect on 31 March 2006.

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006

		<b>Six months ended 30 June</b>	
		<b>2006</b>	2005
	<i>Notes</i>	<b>RMB'000</b>	<i>RMB'000</i>
		<b>(Unaudited)</b>	(Unaudited)
REVENUE	4,5	<b>8,094,146</b>	3,676,607
Cost of sales		<b>(6,811,210)</b>	(2,941,425)
Gross profit		<b>1,282,936</b>	735,182
Other revenue and gains	5	<b>122,869</b>	21,428
Selling and distribution costs		<b>(104,882)</b>	(56,359)
Administrative expenses		<b>(381,441)</b>	(270,422)
Other operating income/(expenses), net		<b>(29,673)</b>	4,686
Finance costs		<b>(111,139)</b>	(71,712)
Share of profits of associates		<b>3,059</b>	45,540
PROFIT BEFORE TAX	6	<b>781,729</b>	408,343
Income tax expense	7	<b>(252,425)</b>	(105,156)
NET PROFIT FOR THE PERIOD		<b>529,304</b>	303,187
Attributable to:			
Equity holders of the parent		<b>300,115</b>	254,427
Minority interests		<b>229,189</b>	48,760
		<b>529,304</b>	303,187
DIVIDENDS	8	-	-
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic		<b>10.69 cents</b>	12.17 cents
Diluted		<b>N/A</b>	N/A

## CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2006

	<i>Notes</i>	<b>30 June 2006 RMB'000 (Unaudited)</b>	31 December 2005 RMB'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	10	<b>3,532,877</b>	3,398,156
Lease prepayments		<b>765,624</b>	775,483
Intangible assets		<b>599,421</b>	627,309
Interests in associates		<b>54,851</b>	39,893
Available-for-sale financial assets		<b>20,855</b>	19,567
Deferred tax assets		<b>73,298</b>	57,274
		<hr/>	<hr/>
Total non-current assets		<b>5,046,926</b>	4,917,682
<b>CURRENT ASSETS</b>			
Inventories		<b>3,159,560</b>	2,786,785
Trade receivables	11	<b>433,140</b>	234,830
Bills receivable		<b>311,887</b>	178,273
Prepayments, deposits and other receivables	12	<b>1,223,346</b>	857,189
Other financial assets		<b>13,408</b>	26,598
Tax recoverable		<b>2,341</b>	1,640
Pledged deposits	13	<b>60,002</b>	24,273
Cash and cash equivalents	13	<b>3,017,269</b>	1,005,142
		<hr/>	<hr/>
Total current assets		<b>8,220,953</b>	5,114,730
<b>CURRENT LIABILITIES</b>			
Trade payables	14	<b>1,040,095</b>	678,315
Bills payable		<b>82,598</b>	84,549
Other payables and accruals	15	<b>1,262,816</b>	1,014,501
Interest-bearing bank and other borrowings		<b>3,717,650</b>	3,295,461
Tax payable		<b>326,334</b>	162,018
		<hr/>	<hr/>
Total current liabilities		<b>6,429,493</b>	5,234,844
		<hr/>	<hr/>
NET CURRENT ASSETS/(LIABILITIES)		<b>1,791,460</b>	(120,114)
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		<b>6,838,386</b>	4,797,568
		<hr/>	<hr/>

## CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

30 June 2006

		30 June 2006 <i>RMB'000</i> (Unaudited)	31 December 2005 <i>RMB'000</i> (Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>6,838,386</u>	<u>4,797,568</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		559,117	720,832
Other liabilities	16	329,243	299,198
Payables for mining rights		507,128	507,128
Government grants		105,685	64,536
Deferred tax liabilities		<u>21,788</u>	<u>–</u>
Total non-current liabilities		<u>1,522,961</u>	<u>1,591,694</u>
NET ASSETS		<u><u>5,315,425</u></u>	<u><u>3,205,874</u></u>
EQUITY			
Equity attributable to equity holders of the parent			
Issued share capital		3,420,678	2,183,760
Reserves	17	<u>506,184</u>	<u>(242,992)</u>
		<u>3,926,862</u>	<u>1,940,768</u>
Minority interests		<u>1,388,563</u>	<u>1,265,106</u>
TOTAL EQUITY		<u><u>5,315,425</u></u>	<u><u>3,205,874</u></u>



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006

		Attributable to equity holders of the parent									
		Issued			Exchange		Retained profits	Total	Minority interests	Total equity	
		Owner's equity	share capital	Capital reserve	Statutory reserves	Proposed dividend					fluctuation reserves
Notes		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
	At 1 January 2006	-	2,183,760	(669,534)	73,946	230,980	529	121,087	1,940,768	1,265,106	3,205,874
	Actuarial gains and losses of defined benefit retirement schemes, net of deferred tax	-	-	-	-	-	-	(33,210)	(33,210)	(8,036)	(41,246)
	Exchange realignment	-	-	-	-	-	(773)	-	(773)	(373)	(1,146)
	Total income and expense recognised directly in equity	-	-	-	-	-	(773)	(33,210)	(33,983)	(8,409)	(42,392)
	Net profit for the period	-	-	-	-	-	-	300,115	300,115	229,189	529,304
	Total income and expense for the period	-	-	-	-	-	(773)	266,905	266,132	220,780	486,912
	New shares Issued	17	1,236,918	874,348	-	-	-	-	2,111,266	-	2,111,266
	Share issue expenses	-	-	(162,755)	-	-	-	-	(162,755)	-	(162,755)
	New capital contribution from a shareholder of an associate	-	-	2,431	-	-	-	-	2,431	1,409	3,840
	Special dividends	-	-	-	-	(230,980)	-	-	(230,980)	-	(230,980)
	Dividends paid by subsidiaries of the Company	-	-	-	-	-	-	-	-	(98,732)	(98,732)
	At 30 June 2006 (Unaudited)	-	3,420,678	44,490	73,946	-	(244)	387,992	3,926,862	1,388,563	5,315,425
	At 1 January 2005		1,421,726	-	-	-	-	-	1,421,726	448,978	1,870,704
	Consolidation of subsidiaries	18	-	-	-	-	-	-	-	651,212	651,212
	Investment in subsidiaries	-	-	-	-	-	-	-	-	3,900	3,900
	Net profit for the period	-	-	-	-	-	-	254,427	254,427	48,760	303,187
	Dividends paid by subsidiaries of the Company	-	-	-	-	-	-	-	-	(6,164)	(6,164)
	At 30 June 2005 (Unaudited)		1,421,726	-	-	-	-	254,427	1,676,153	1,146,686	2,822,839

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2006

	<i>Note</i>	<b>Six months ended 30 June</b>	
		<b>2006</b>	2005
		<b>RMB'000</b>	RMB'000
		<b>(Unaudited)</b>	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		<b>400,195</b>	213,165
CASH FLOWS FROM INVESTING ACTIVITIES		<b>(529,762)</b>	58,016
CASH FLOWS FROM FINANCING ACTIVITIES		<b>2,150,782</b>	174,097
NET INCREASE IN CASH AND CASH EQUIVALENTS		<b>2,021,215</b>	445,278
Effect of foreign exchange rate changes, net		<b>(1,372)</b>	(212)
Cash and cash equivalents at beginning of period		<b>797,646</b>	372,288
CASH AND CASH EQUIVALENTS AT END OF PERIOD	13	<b><u>2,817,489</u></b>	<b><u>817,354</u></b>

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2006

## 1. GROUP REORGANIZATION AND CORPORATE INFORMATION

The Company was incorporated in the People's Republic of China (the "PRC") on 1 September 2005 as a joint stock company with limited liability as a result of a group reorganization (the "Reorganization") of Hunan Nonferrous Metals Holding Group Co. Ltd ("HNG") in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited. HNG is a state-owned enterprise established in August 2004 in the PRC, and is under the control of the People's Government of Hunan Province.

Pursuant to the Reorganization, HNG effected the transfer of the following to the Company upon its incorporation:

- (i) the nonferrous metal mining business of Hunan Huangshaping Lead and Zinc Mine, a wholly-owned subsidiary of HNG, together with related assets and liabilities;
- (ii) the shareholding interests in certain subsidiaries and associates which principally carry on the business of mining and smelting of nonferrous metals and engage in the manufacture of cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds, after carving out (i) the assets, liabilities and interests in relation to non-core businesses which are unrelated to the aforesaid businesses transferred to the Group; and (ii) certain assets and liabilities including staff quarters, buildings, bank balances, investments in securities and creditors to companies controlled by HNG; and
- (iii) a 4.68% shareholding interest in Hunan Zhuye Torch Metals Co., Ltd. ("Zhuye Torch")

The above assets and liabilities and the shareholding interests in certain subsidiaries and associates transferred to the Company are collectively known as the "Relevant Businesses". The effective date of the Reorganisation was 31 December 2004.

Upon its establishment, the Company issued 2,091,260,000 ordinary shares of RMB1.00 each to HNG, credited as fully paid, as consideration for HNG transferring the Relevant Businesses to the Company. Shenzhen City Bangxin Investment Development Co., Ltd., Zijin Mining Group Co., Ltd., Hunan Valin Steel and Iron Group Co., Ltd. and Powerise Information Technology Co., Ltd. (collectively the "Other Promoters") injected cash into the Company in an aggregate amount of RMB92,500,000 as consideration for the Company's paid-up capital of an aggregate of 92,500,000 shares of RMB1.00 each. As a result, 95.76% and 4.24% of the share capital of the Company were owned by HNG and the Other Promoters, respectively.

In March 2006, 1,075,582,000 new H shares were issued to the public at a price of HK\$1.65 per share (equivalent to approximately RMB1.70) and such H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited. In addition, 107,558,000 H shares at a price of HK\$1.65 per share (equivalent to approximately RMB1.70) converted from the Company's domestic shares were transferred to the National Council for the Social Security Fund.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 June 2006

### 1. GROUP REORGANIZATION AND CORPORATE INFORMATION (Continued)

In April 2006, as a result of the over-allotment option as detailed in the Company's prospectus dated 21 March 2006, an additional 161,336,000 new H shares were issued to the public at a price of HK\$1.65 (equivalent to approximately RMB1.70) and such H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited. In addition, 16,134,000 H shares at a price of HK\$1.65 per share (equivalent to approximately RMB1.70) converted from the Company's domestic shares were transferred to the National Council for the Social Security Fund.

The registered office of the Company is located at 11th Floor, Block A, Youse Building, No. 342 Laodongxi Road, Changsha City, Hunan, PRC.

The Company and its subsidiaries are principally engaged in the mining and smelting of nonferrous metals and the manufacturing of cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds.

In the opinion of the directors, the parent and ultimate holding company of the Company is HNG, which is incorporated in the PRC.

### 2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2006 have been prepared in accordance with IAS 34 Interim Financial Reporting and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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 for the year ended 31 December 2005.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the interim condensed consolidated financial statements of the Group are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005. The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2006:

- Amendment to IAS 19, "Actuarial gains and losses, group plans and disclosures", effective for annual periods beginning on or after 1 January 2006. Amendment to IAS 19 provides an option to recognise actuarial gains and losses in full in the period in which they occur, outside profit or loss, in equity. The Group has elected to take the option to recognise all actuarial gains and losses in equity. The change in accounting policies has no effect to the Group's financial statements for the year ended 31 December 2005 and for the six months ended 30 June 2006.
- Amendment to IAS 39, Amendment to "The fair value option", effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 June 2006

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Amendment to IAS 21, Amendment "Net investment in a foreign operation", effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- Amendment to IAS 39, Amendment "Cash flow hedge accounting of forecast intragroup transactions", effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- Amendment to IAS 39 and IFRS 4, Amendment "Financial guarantee contracts", effective for annual periods beginning on or after 1 January 2006. This amendment has no significant impact to the Group;
- IFRS 6, "Exploration for and evaluation of mineral resources", effective for annual periods beginning on or after 1 January 2006. This standard has no significant impact to the Group;
- IFRIC-Int 4, "Determining whether an arrangement contains a lease", effective for annual periods beginning on or after 1 January 2006. This interpretation is not relevant for the Group;
- IFRIC-Int 5, "Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds", effective for annual periods beginning on or after 1 January 2006. This interpretation has no significant impact to the Group; and
- IFRIC-Int 6, "Liabilities arising from participating in a specific market – waste electrical and electronic equipment", effective for annual periods beginning on or after 1 December 2005. This interpretation is not relevant for the Group.

### 4. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (i) Nonferrous metal mine site segment: mining and trading of nonferrous metals;
- (ii) Nonferrous metal smelting segment: smelting and trading of nonferrous metals;
- (iii) Cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds segment: manufacture and trading of hard alloys and refractory metal compounds such as cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 June 2006

### 4. SEGMENT INFORMATION (Continued)

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers.

#### (a) Business segments

For the six months ended 30 June 2006 (Unaudited)	Nonferrous metal mine site <i>RMB'000</i>	Nonferrous metal smelting <i>RMB'000</i>	Cemented carbides, and tungsten, molybdenum, tantalum, niobium, and their compounds <i>RMB'000</i>	Corporate and others <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Consolidated <i>RMB'000</i>
<b>Segment revenue:</b>						
Sales to external customers	1,055,615	5,773,785	1,309,157	-	-	8,138,557
Intersegment sales	195,499	213	-	-	(195,712)	-
Less: Sales tax and surcharge	(10,892)	(27,244)	(6,275)	-	-	(44,411)
<b>Total</b>	<b><u>1,240,222</u></b>	<b><u>5,746,754</u></b>	<b><u>1,302,882</u></b>	<b><u>-</u></b>	<b><u>(195,712)</u></b>	<b><u>8,094,146</u></b>
<b>Segment results</b>	<b><u>138,042</u></b>	<b><u>517,702</u></b>	<b><u>131,569</u></b>	<b><u>(4,045)</u></b>	<b><u>-</u></b>	<b><u>783,268</u></b>
Interest and dividend income						106,541
Finance costs						(111,139)
Share of profits of associates	-	2,394	665	-	-	3,059
Profit before tax						781,729
Income tax expense						(252,425)
<b>Net profit for the period</b>						<b><u>529,304</u></b>

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 June 2006

### 4. SEGMENT INFORMATION (Continued)

#### (a) Business segments (Continued)

For the six months ended 30 June 2005 (Unaudited)	Nonferrous metal mine site <i>RMB'000</i>	Nonferrous metal smelting <i>RMB'000</i>	Cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Consolidated <i>RMB'000</i>
<b>Segment revenue:</b>					
Sales to external customers	775,723	1,715,118	1,201,920	–	3,692,761
Intersegment sales	105,125	–	–	(105,125)	–
Less: Sales tax and surcharge	(5,046)	(5,492)	(5,616)	–	(16,154)
	<u>875,802</u>	<u>1,709,626</u>	<u>1,196,304</u>	<u>(105,125)</u>	<u>3,676,607</u>
Total					
Segment results	<u>169,885</u>	<u>94,654</u>	<u>164,801</u>	<u>–</u>	<u>429,340</u>
Interest and dividend income					5,175
Finance costs					(71,712)
Share of profits of associates	–	22,684	22,856	–	45,540
Profit before tax					408,343
Income tax expense					(105,156)
Net profit for the period					<u>303,187</u>

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 June 2006

### 4. SEGMENT INFORMATION (Continued)

#### (b) Geographical segments

For the six months ended 30 June 2006	Mainland China <i>RMB'000</i>	Other Asian countries <i>RMB'000</i>	Others <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Segment revenue:					
Sales to external customers	6,309,888	1,487,424	341,245	–	8,138,557
Intersegment sales	195,712	–	–	(195,712)	–
Less: sales tax and surcharge	(44,411)	–	–	–	(44,411)
	<u>6,461,189</u>	<u>1,487,424</u>	<u>341,245</u>	<u>(195,712)</u>	<u>8,094,146</u>
For the six months ended 30 June 2005	Mainland China <i>RMB'000</i>	Other Asian countries <i>RMB'000</i>	Others <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Segment revenue:					
Sales to external customers	2,441,471	1,056,531	194,759	–	3,692,761
Intersegment sales	105,125	–	–	(105,125)	–
Less: sales tax and surcharge	(16,154)	–	–	–	(16,154)
	<u>2,530,442</u>	<u>1,056,531</u>	<u>194,759</u>	<u>(105,125)</u>	<u>3,676,607</u>



## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 June 2006

### 5. REVENUE, OTHER REVENUE AND GAINS

Revenue represents the net invoiced value of goods sold, net of discounts and returns.

An analysis of the Group's revenue, other revenue and gains is as follows:

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue		
Sale of goods	8,138,557	3,692,761
Less: Sales tax and surcharge	(44,411)	(16,154)
	<u>8,094,146</u>	<u>3,676,607</u>
Other revenue and gains		
Interest income	105,541	5,114
Dividend income	1,000	61
Profit from sale of raw materials	7,314	3,679
Gross rental income	1,062	622
Unrealised gains on other financial assets, net	1,428	–
Government grants	4,370	6,609
Others	2,154	5,343
	<u>122,869</u>	<u>21,428</u>

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 June 2006

### 6. PROFIT BEFORE TAX

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

	<i>Note</i>	Six months ended 30 June	
		2006	2005
		<b>RMB'000</b>	<b>RMB'000</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
Cost of inventories sold		<b>6,811,210</b>	2,941,425
Depreciation		<b>173,714</b>	123,719
Amortization of lease prepayments		<b>8,355</b>	7,979
Amortization of intangible assets			
Mining rights	(i)	<b>27,239</b>	–
Technical know-how and others		<b>2,845</b>	1,610
Provision/(write-back of provision) for obsolete inventories		<b>12,985</b>	5,923
Provision for doubtful debts on trade and other receivables*		<b>24,679</b>	(7,684)
Losses on disposal of items of property, plant and equipment*		<b>883</b>	2,937
Losses on disposal of other financial assets, net*		<b>731</b>	–
Losses on derivative financial instruments*		<b>3,380</b>	–
Unrealized losses on other financial assets, net*		–	61

\* Items classified under "other operating income/(expenses), net" on the face of the interim condensed consolidated income statement.

*Note:*

- (i) The Group obtained the mining rights license from the PRC government free of charge prior to the purchase of the mining rights in September 2005, and hence no amortization charge thereof was recorded in the Group's income statement for the period prior to September 2005.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 June 2006

### 7. INCOME TAX EXPENSE

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

PRC corporate income tax ("CIT") has been provided at a rate of 33% on the taxable income as reported in the statutory accounts of the companies comprising the Group, which are prepared in accordance with PRC GAAP, as adjusted for income and expense items which are not assessable or deductible for income tax purpose, except for the following subsidiaries of the Company:

- (i) Being a sino-foreign investment enterprise, Hunan Diamond Sintered Carbides Tools Company Limited is entitled to (1) a preferential CIT rate of 30%; (2) an exemption from CIT for its first two profitable years which commenced in the year ended 31 December 2002 and a 50% reduction of the CIT rate to 15% for the third to fifth years pursuant to the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises and the relevant local tax regulations; and (3) a further 50% reduction in the CIT rate to 7.5% for three years, commencing from 1 January 2004 to 31 December 2006, because it is also qualified as a high technology enterprise located in a high technology development zone;
- (ii) Shenzhen Jinzhou Jinggong Scientific and Technological Company Limited was subject to a preferential CIT rate of 15% as it is located in the Shenzhen Special Economic Zone; and
- (iii) Pursuant to the relevant PRC tax regulations, Chenzhou Diamond Tungsten Products Company Limited was exempted from CIT for three years, commencing from 1 January 2004 to 31 December 2006.

Major components of the income tax expenses are as follows:

	<b>Six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
PRC corporate income tax:		
Charge for the year	<b>227,158</b>	102,258
Deferred	<b>25,267</b>	2,898
	<hr/>	<hr/>
Total tax charge for the period	<b><u>252,425</u></b>	<b><u>105,156</u></b>

The share of tax attributable to associates amounting to RMB279,885 (six months ended 30 June 2005: RMB8,288,613) is included in "Share of profits of associates" on the face of the interim condensed consolidated income statement.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 June 2006

### 8. DIVIDENDS

The board of directors does not recommend the payment of any interim dividend for the six months ended 30 June 2006 (six months ended 30 June 2005: Nil).

### 9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on:

	<b>Six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Earnings		
Net profit for the period attributable to equity holders of the parent	<b>300,115</b>	254,427
	<b>Number of shares</b>	
Shares	<b>'000</b>	'000
Weighted average number of shares in issue during the period	<b>2,806,230</b>	2,091,260

The Company's weighted average number of shares in issue during the six months period ended 30 June 2005 used in the basic earnings per share calculation is determined on the assumption that the 2,091,260,000 domestic shares of RMB1.00 each issued as a result of the Reorganization had been in issue throughout the six months period ended 30 June 2005.

The Company's weighted average number of shares used in the calculation during the six months period ended 30 June 2006 is the ordinary shares in issue during the period, as adjusted to add the 1,236,918,000 H shares of RMB1.00 each issued to the public upon the listing of the Company's shares on The Stock Exchange of Hong Kong Limited. Further details are set out in note 1 to the interim condensed consolidated financial statements.

No diluted earnings per share amount has been disclosed as no diluting events existed during the period.

### 10. PROPERTY, PLANT AND EQUIPMENT.

During the six months ended 30 June 2006, the Group acquired property, plant and equipment in an aggregate amount of approximately RMB310 million and disposed of property, plant and equipment with an aggregate net book value of approximately RMB1.4 million, resulting in a net loss on disposal of approximately RMB0.9 million. No impairment provision on property, plant and equipment was made during the period.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 June 2006

### 11. TRADE RECEIVABLES

The Group normally allows a credit period of one month to customers with an established trading history; otherwise, cash terms are normally required.

An aged analysis of the trade receivables as at the balance sheet date, based on the invoice date, is as follows:

	<b>30 June 2006 RMB'000 (Unaudited)</b>	31 December 2005 RMB'000 (Audited)
Within 1 year	<b>437,102</b>	236,338
Over 1 year but within 2 years	<b>15,045</b>	8,255
Over 2 years but within 3 years	<b>4,572</b>	6,207
Over 3 years	<b>19,276</b>	18,944
	<b>475,995</b>	269,744
Less: Provision for doubtful debts	<b>(42,855)</b>	(34,914)
	<b>433,140</b>	234,830

### 12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	<b>30 June 2006 RMB'000 (Unaudited)</b>	31 December 2005 RMB'000 (Audited)
Prepayments ,deposits and other receivables from:		
– the HNG Group	<b>42,870</b>	182,060
– third parties	<b>1,224,687</b>	706,847
	<b>1,267,557</b>	888,907
Less: Provision for doubtful debts	<b>(44,211)</b>	(31,718)
	<b>1,223,346</b>	857,189

The amount receivable from the HNG Group was unsecured, interest-free and repayable on demand.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 June 2006

### 13. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	<b>30 June 2006 RMB'000 (Unaudited)</b>	31 December 2005 RMB'000 (Audited)
Cash and bank balances	<b>2,110,590</b>	752,598
Time deposits	<b>966,681</b>	276,817
	<b>3,077,271</b>	1,029,415
Less: Pledged cash and time deposits against trade finance facilities	<b>(60,002)</b>	(24,273)
Cash and cash equivalents in the balance sheet	<b>3,017,269</b>	1,005,142
Less: Non-pledged time deposits with original maturity of three months or more when acquired	<b>(199,780)</b>	(207,496)
Cash and cash equivalents in the cash flow statement	<b>2,817,489</b>	797,646

### 14. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on the invoice date, is as follows:

	<b>30 June 2006 RMB'000 (Unaudited)</b>	31 December 2005 RMB'000 (Audited)
Within 1 year	<b>1,023,095</b>	650,630
Over 1 year but within 2 years	<b>5,758</b>	18,409
Over 2 years but within 3 years	<b>8,943</b>	7,025
Over 3 years	<b>2,299</b>	2,251
	<b>1,040,095</b>	678,315

The amount due to the HNG Group of RMB26,956,406 as at 30 June 2006 (31 December 2005: RMB19,169,000) was unsecured, interest-free and repayable within trade credit periods.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 June 2006

### 15. OTHER PAYABLES AND ACCRUALS

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

Included in other payables and accruals of the Group are balances due to the HNG Group of RMB47,928,208 and RMB102,645,000 as at 30 June 2006 and 31 December 2005, respectively.

The amounts due to the HNG Group were unsecured, interest-free and repayable on demand.

### 16. OTHER LIABILITIES

The other liabilities represented provision for supplementary pension subsidies and early retirement benefits and the amounts due to the HNG Group, and details are as follows:

	<b>30 June 2006 RMB'000 (Unaudited)</b>	31 December 2005 RMB'000 (Audited)
Provision for supplementary pension subsidies and early retirement benefits (note (i) and (ii))	<b>357,088</b>	329,449
Distribution to the HNG Group (note (iii))	–	60,686
	<hr/>	<hr/>
Balance as at period/year end	<b><u>357,088</u></b>	<b><u>390,135</u></b>
Represented by:		
Current portion included in other payables and accruals	<b>27,845</b>	90,937
Long term liabilities	<b>329,243</b>	299,198
	<hr/>	<hr/>
	<b><u>357,088</u></b>	<b><u>390,135</u></b>

Notes:

- (i) Prior to the Reorganization, the Group paid certain supplementary pension subsidies to its employees. Such supplementary pension subsidies mainly included living allowances which are payable to employees on a monthly basis after they reached the normal retirement age. The amount of monthly allowances to be paid to the retirees depends on the number of years of service and the policy of the local subsidiaries concerned.

Pursuant to the Reorganization, HNG agreed to assume the supplementary pension subsidies of the current and retired employees of the Group and the Group agreed to pay RMB303,537,000 to HNG as consideration, which is payable by instalments over 9 to 16 years, commencing from 1 January 2006. The Group terminated the supplementary pension subsidies attributed to employee services rendered on 1 January 2005 and thereafter.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 June 2006

### 16. OTHER LIABILITIES (Continued)

Notes: (Continued)

However, in March 2006, the Group has agreed with HNG that the supplementary pension subsidies obligations previously transferred to HNG should be assumed by the Group again and the Group is no longer liable to settle the outstanding consideration payable to HNG.

The Group has also agreed with HNG to settle the difference between the amount of supplemental pension subsidies paid by HNG to the Group's retirees during 1 January 2005 to 28 February 2006 and the Group's first annual instalment paid to HNG in January 2006, and such difference was fully settled among the Group and HNG in March 2006.

- (ii) The Group implemented early retirement plans (the "Early Retirement Plans") for certain employees in addition to the benefits under the government-regulated defined contribution scheme and the supplementary pension subsidies described above. The benefits of the Early Retirement Plans are calculated based on factors including the remaining number of years of service from the date of early retirement to the normal retirement date and the salary on the date of early retirement of an employee. The costs of early retirement benefits were recognized in the period when employees opted for early retirement.

Pursuant to the Reorganization, HNG agreed to assume all the outstanding obligations under the Group's Early Retirement Plans as at 31 December 2004 and the Group agreed to pay RMB25,912,000 to HNG as consideration, which is payable by instalments over 9 to 16 years, commencing from 1 January 2006.

However, in March 2006, the Group has agreed with HNG that the early retirement benefit obligations previously transferred to HNG should be assumed by the Group again and the Group is no longer liable to settle the outstanding consideration payable to HNG. The Group has also agreed with HNG to settle the difference between the amount of early retirement benefits paid by HNG to the Group's early retirees during 1 January 2005 to 28 February 2006 and the Group's first annual instalment paid to HNG in January 2006, and such difference was fully settled among the Group and HNG in March 2006.

- (iii) Pursuant to an approval document from relevant government authorities, Zhuzhou Smelter Group Co., Ltd. ("Zhuye"), a subsidiary of the Company, reduced its capital by RMB106,351,000 and the proceeds from the reduction of capital will be paid back to the HNG Group. Out of the proceeds of RMB106,351,000, RMB45,665,000 was settled through the transfer of property, plant and equipment to the HNG Group at 31 December 2004 and the remaining balance of RMB60,686,000 was settled in February 2006.



## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 June 2006

### 17. SHARE CAPITAL

	<b>Number of Shares 30 June 2006 '000</b>	<b>Nominal value 30 June 2006 RMB'000 (Unaudited)</b>	Number of shares 31 December 2005 '000	Nominal value 31 December 2005 RMB'000 (Audited)
Registered, issued and fully paid:				
– domestic shares of RMB1.00 each	<b>2,060,068</b>	<b>2,060,068</b>	2,183,760	2,183,760
– H shares of RMB1.00 each	<b>1,360,610</b>	<b>1,360,610</b>	–	–
	<b><u>3,420,678</u></b>	<b><u>3,420,678</u></b>	<b><u>2,183,760</u></b>	<b><u>2,183,760</u></b>

A summary of the movements in the Company's issued share capital for the six months ended 30 June 2006 is as follows:

	<b>Number of shares '000</b>	Nominal value RMB'000 (Unaudited)
At the beginning of period	<b>2,183,760</b>	2,183,760
Domestic shares converted into H shares ( <i>note 1</i> )	<b>(123,692)</b>	(123,692)
Issued new H shares ( <i>note 1</i> )	<b>1,360,610</b>	1,360,610
At end of period	<b><u>3,420,678</u></b>	<b><u>3,420,678</u></b>

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 June 2006

### 18. BUSINESS COMBINATIONS

#### Consolidation of subsidiaries

The carrying value of the identifiable assets and liabilities of the subsidiaries consolidated by the Group and dealt with in the interim condensed consolidated financial statements at the date of consolidation were as follows:

	<b>Six months ended 30 June</b>	
	<b>2006</b> <i>RMB'000</i> <b>(Unaudited)</b>	2005 <i>RMB'000</i> (Unaudited) (Note)
Property, plant and equipment	–	931,301
Lease prepayments	–	19,302
Intangible assets	–	7,660
Inventories	–	816,318
Trade receivables	–	109,466
Bills receivable	–	99,832
Prepayments, deposits and other receivables	–	216,412
Tax recoverable	–	1,140
Pledged deposits	–	56,081
Cash and cash equivalents	–	450,875
Trade payables	–	(179,362)
Bills payable	–	(31,783)
Other payables and accruals	–	(215,986)
Government grants	–	(15,000)
Interest-bearing bank and other borrowings	–	(1,089,952)
Tax payable	–	(15,728)
Minority interests	–	(651,212)
	<hr/>	<hr/>
Carrying value of net assets at date of consolidation	–	509,364
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets and liabilities	–	–
	<hr/>	<hr/>
	–	509,364
	<hr/> <hr/>	<hr/> <hr/>
Satisfied or represented by:		
Interests in associates	–	509,364
	<hr/> <hr/>	<hr/> <hr/>

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 June 2006

### 18. BUSINESS COMBINATIONS (Continued)

An analysis of the net inflow of cash and cash equivalents in respect of the consolidation of subsidiaries is as follows:

	Six months ended 30 June	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Cash and bank balances acquired and net inflow of cash and cash equivalents in respect of the consolidation of subsidiaries in the condensed consolidated balance sheet	–	450,875
Less: Non-pledged time deposits with original maturity of three months or more when acquired	–	(210,000)
Net inflow of cash and cash equivalents in respect of the consolidation of subsidiaries in the condensed consolidated cash flow statements	–	240,875

*Note:*

In May 2005, certain shareholders of Zhuye Torch, an associate of the Group, agreed to vote in accordance with Zhuye such that Zhuye secured voting rights exceeding 50% of the voting rights eligible to be cast in the shareholders' meeting of Zhuye Torch and hence Zhuye has regained control over Zhuye Torch. In this regard, Zhuye Torch was consolidated by the Group again in the preparation of the interim condensed consolidated financial statements starting from 1 June 2005.

Similarly, in May 2005, Zhuzhou Cemented Carbides Group Corp., Ltd. ("Zhuying"), a subsidiary of the Company, secured more than 50% of the voting right eligible to cast in the shareholders' meeting of Zhuzhou Diamond Cutting Tools Company Limited ("Zhuzhou Diamond"), an associate of the Group, by virtue of entering into agreements with certain shareholders of Zhuzhou Diamond pursuant to which they agree to vote in accordance with Zhuying. As such, Zhuying has gained control over Zhuzhou Diamond and Zhuzhou Diamond was consolidated by the Group in the preparation of the interim condensed consolidated financial statements starting from 1 June 2005.

Had the aforesaid control been obtained at the beginning of 2005, the revenue of the Group would have been RMB5,300,849,000 for the six months period ended 30 June 2005 and there is no change in the Group's profit attributable to the equity holders of the parent for the six months period ended 30 June 2005.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 June 2006

### 19. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the condensed consolidated financial statements were as follows:

	<b>30 June 2006 RMB'000 (Unaudited)</b>	31 December 2005 RMB'000 (Audited)
Guarantees given to banks in respect of bank loans granted to an associate	<b>30,000</b>	30,000

No financial liabilities were recorded as, in the opinion of the directors, the fair value of the financial guarantee contracts were not material as of 30 June 2006 and 31 December 2005.

### 20. OPERATING LEASE ARRANGEMENTS

As a lessee, the Group leases certain property, plant and machinery under operating lease arrangements, with leases negotiated for terms of one to twenty years.

At 30 June 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>30 June 2006 RMB'000 (Unaudited)</b>	31 December 2005 RMB'000 (Audited)
Within one year	<b>15,640</b>	15,640
In the second to fifth years, inclusive	<b>62,499</b>	62,499
After five years	<b>216,743</b>	224,533
	<b>294,882</b>	302,672

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 June 2006

### 21. COMMITMENTS

In addition to the operating lease commitments detailed in note 20 to the condensed consolidated financial statements, the Group had the following capital commitments at the balance sheet date:

	<b>30 June 2006 RMB'000 (Unaudited)</b>	31 December 2005 RMB'000 (Audited)
Contracted, but not provided for:		
– Acquisition of property, plant and equipment	<b>269,335</b>	172,909
– Capital contributions (Notes (i), (ii), (iii))	<b>648,138</b>	–
	<b>917,473</b>	172,909
Authorised, but not contracted for:		
– Acquisition of property, plant and equipment	–	14,184

Notes:

- (i) On 6 May 2006, the Company entered into a subscription agreement (the "Subscription Agreement") with CMR, an independent third party, pursuant to which the Company took a placement to acquire 12,000,000 ordinary shares of CMR for a total consideration of A\$30 million (equivalent to RMB183,138,140), representing 9.8% of the enlarged share capital of CMR. The Subscription Agreement was completed on 25 July 2006. On 1 August 2006, CMR issued its shares to the Company upon the receipt of funds of A\$30 million from the Company. There is no lock up period on these shares, thus the shares are tradable immediately.
- (ii) On 7 May 2006, the Company entered into a share transfer agreement (the "Share Transfer Agreement") with Guangzhou Zhongkexin Group Company Limited ("Zhongkexin"), an independent third party, pursuant to which the Company acquired 47,519,274 ordinary shares of China Tungsten Hi-tech Materials Co., Limited ("China Tungsten Hi-tech"), a company listed on Shenzhen Stock Exchange, at a consideration of RMB185,000,000. China Tungsten Hi-tech was principally engaged in the sales and trading of cemented carbides and tungsten, molybdenum, tantalum and other non-ferrous metals and their compounds. As of 30 June 2006, payment of RMB100 million was made for the acquisition of equity interests in China Tungsten Hi-tech and such balance was recorded as "Prepayments, deposits and other receivables" in the condensed consolidated balance sheet because the Share Transfer Agreement was not yet completed as of 30 June 2006.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 June 2006

### 21. COMMITMENTS (Continued)

- (iii) On 21 June 2006, the Company entered into a joint venture agreement (the "Joint Venture Agreement") with State-owned Assets Supervision and Administration Commission of Zigong City ("Zigong SASAC"), an independent third party, pursuant to which:
- (1) Zigong Cemented Carbides Co, Ltd ("Zigong Cemented Carbides") would undergo restructuring. Zigong Cemented Carbides was principally engaged in the manufacture of cemented carbides products and tools, tungsten products, molybdenum products, etc, and its shares were wholly owned by Zigong SASAC.
  - (2) The Company contributed RMB400 million to the registered capital of Zigong Cemented Carbides. Upon the completion of the Joint Venture Agreement, the registered capital of Zigong Cemented Carbides became RMB500 million and each of Zigong SHSAC and the Company obtained 20% and 80% of the registered capital of Zigong Cemented Carbides, respectively.

As of 30 June 2006, the Company had made a payment of RMB20 million for the investment in Zigong Cemented Carbides and such balance was recorded as "Prepayments, deposits and other receivables" in the condensed consolidated balance sheet because the Joint Venture Agreement was not yet completed as of 30 June 2006. The Joint Venture Agreement was completed on 18 July 2006.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 June 2006

### 22. RELATED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in these interim condensed consolidated financial statements, the Group had the following material transactions with the related parties.

#### (a) Transactions with companies controlled by the ultimate holding company of the Company

Name of related parties	Nature of transactions	Six months ended 30 June	
		2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Huangshaping Mine Chenzhou Industrial and Trading Company	Purchases of raw materials	–	286
Chenzhou Huangshaping Iron Processing Company	Sales of raw materials	966	–
Hunan Huangshaping Lead and Zinc Mine Changfu Industrial Company	Purchases of raw materials	12,500	9,150
	Provision of transportation services	268	846
	Repairs and maintenance	2,640	621
	Subcontracting fees	–	641
	Provision of electricity	418	625
	Subcontracting fee income	1,091	750
Shizhuyuan Nonferrous Metal Pasturage	Purchases of raw materials	3,617	4,630
Shizhuyuan Nonferrous Metal Integrated Services Company	Purchases of consumables	1,319	766
Chenzhou Shizhuyuan Yingshi Co. Ltd.	Provision of electricity	371	617
	Purchase of raw materials	562	–
Hunan Shizhuyuan Nonferrous Metal Mine Transportation Company	Provision of transportation services	5,954	3,261
Hunan Shizhuyuan Nonferrous Metal Mine Machinery Company	Subcontracting fees	623	1,517
	Installation charges	1,694	515

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 June 2006

### 22. RELATED PARTY TRANSACTIONS (Continued)

#### (a) Transactions with companies controlled by the ultimate holding company of the Company (Continued)

Name of related parties	Nature of transactions	Six months ended 30 June	
		2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Chenzhou Shizhuyuan Construction Company	Installation charges	<u>5,566</u>	<u>2,581</u>
Shizhuyuan Industrial Company	Repairs and maintenance	<u>–</u>	<u>1,000</u>
Lengshuijiang Hsikwangshan Transportation Company	Provision of transportation services	<u>4,182</u>	<u>4,245</u>
	Repairs and maintenance	<u>125</u>	<u>125</u>
Lengshuijiang Hsikwangshan Property Management Company	Repairs and maintenance	<u>250</u>	<u>250</u>
	Provision for electricity	<u>250</u>	<u>250</u>
Lengshuijiang Hsikwangshan Machinery Manufacturing Company	Subcontracting fees	<u>6,698</u>	<u>4,010</u>
Lengshuijiang Hsikwangshan Industrial Company	Provision of electricity	<u>641</u>	<u>446</u>
Hunan Xianglv Company Limited	Sales of products	<u>3,683</u>	<u>6,440</u>
	Purchases of raw materials	<u>–</u>	<u>1,750</u>
Hainan Haizhou Industrial Co. Ltd.	Sales of products	<u>3,798</u>	<u>4,295</u>
Yao Gang Xian Tungsten Mine	Purchases of raw materials	<u>77,748</u>	<u>63,104</u>
Chenzhou Changsheng Co. Ltd.	Provision of storage	<u>–</u>	<u>923</u>



## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 June 2006

### 22. RELATED PARTY TRANSACTIONS (Continued)

#### (b) Transactions with associates

Name of related parties	Nature of transactions	Six months ended 30 June	
		2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Zhuzhou Changjiang Cemented Carbides	Sales of products	912	13,968
Tools Company Limited ("Zhuzhou Changjiang")	Purchases of raw materials	32,843	21,125
	Sales of property, plant and equipment	16	251
	Provision of electricity	5,541	6,755
	Rental income	210	–
	Dividend income	2,016	–
		<u>          </u>	<u>          </u>
Zhuzhou Diamond	Sales of products	–	155,827
	Purchases of raw materials	–	11,169
		<u>          </u>	<u>          </u>
Zhuye Torch	Sales of products	–	68,274
	Purchases of raw materials	–	87,245
	Provision of electricity	–	34,732
		<u>          </u>	<u>          </u>
Xizang Zhuye Mining Limited Liability Company	Purchases of raw materials	–	4,571
		<u>          </u>	<u>          </u>

These transactions were conducted in accordance with prices and terms mutually agreed between the parties.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 June 2006

### 22. RELATED PARTY TRANSACTIONS (Continued)

#### (c) Guarantee granted by the ultimate holding company of the Company

Name of the related party	Nature of the guarantee	30 June	31 December
		2006	2005
		<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
HNG	Corporate guarantee	–	328,000

#### (d) Guarantees granted for securing an associate's bank loans

Name of associates	Nature of the guarantee	30 June	31 December
		2006	2005
		<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
Zhuzhou Changjiang	Corporate guarantee	30,000	30,000

#### (e) Lease of land use right from the ultimate holding company of the Company:

Name of the related party	Nature of transactions	Six months ended 30 June	
		2006	2005
		<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
HNG	Lease of land use right	7,562	–

#### (f) Compensation of key management personnel of the Group:

	Six months ended 30 June	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Total compensation paid to key management personnel	2,264	–

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

30 June 2006

### 23. EVENT AFTER THE BALANCE SHEET DATE

- 1) On 1 August 2006, the Company entered into two equity interests acquisition agreements (the "Acquisition Agreements") with HNG pursuant to which the Company agreed to acquire 18.35% equity interest in Hunan Shizhuyuan Nonferrous Metals Co, Ltd. ("Shizhuyuan") and 9.86% equity interest in Hsikuangshan Twinkling Star Antimony Co, Ltd. ("Hsikuangshan") from HNG at a consideration of RMB63,746,000 and RMB45,660,500, respectively. Both Shizhuyuan and Hsikuangshan are non-wholly owned subsidiaries of the Company at the date of entering the Acquisition Agreements. The completion of the Acquisition Agreement is subject to the approval at the Shareholders' meeting of the Company.
- 2) On 17 August 2006, the extraordinary general meeting of Zhuye Torch approved the issue of not more than 100,000,000 tradable A shares, of which not less than 77,000,000 new tradable A shares will be issued to Zhuye and not more than 23,000,000 new tradable A shares will be issued to not more than 10 institutional investors which are independent third parties. The consideration given by Zhuye to Zhuye Torch for subscribing not less than 77,000,000 new tradable A shares will be satisfied by way of transfer of prescribed assets and in cash (if applicable) upon the completion. Details of the above had been disclosed in the Company's announcement dated 25 August, 17 August, 1 August, 18 July and 13 July 2006.

### 24. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 August 2006.