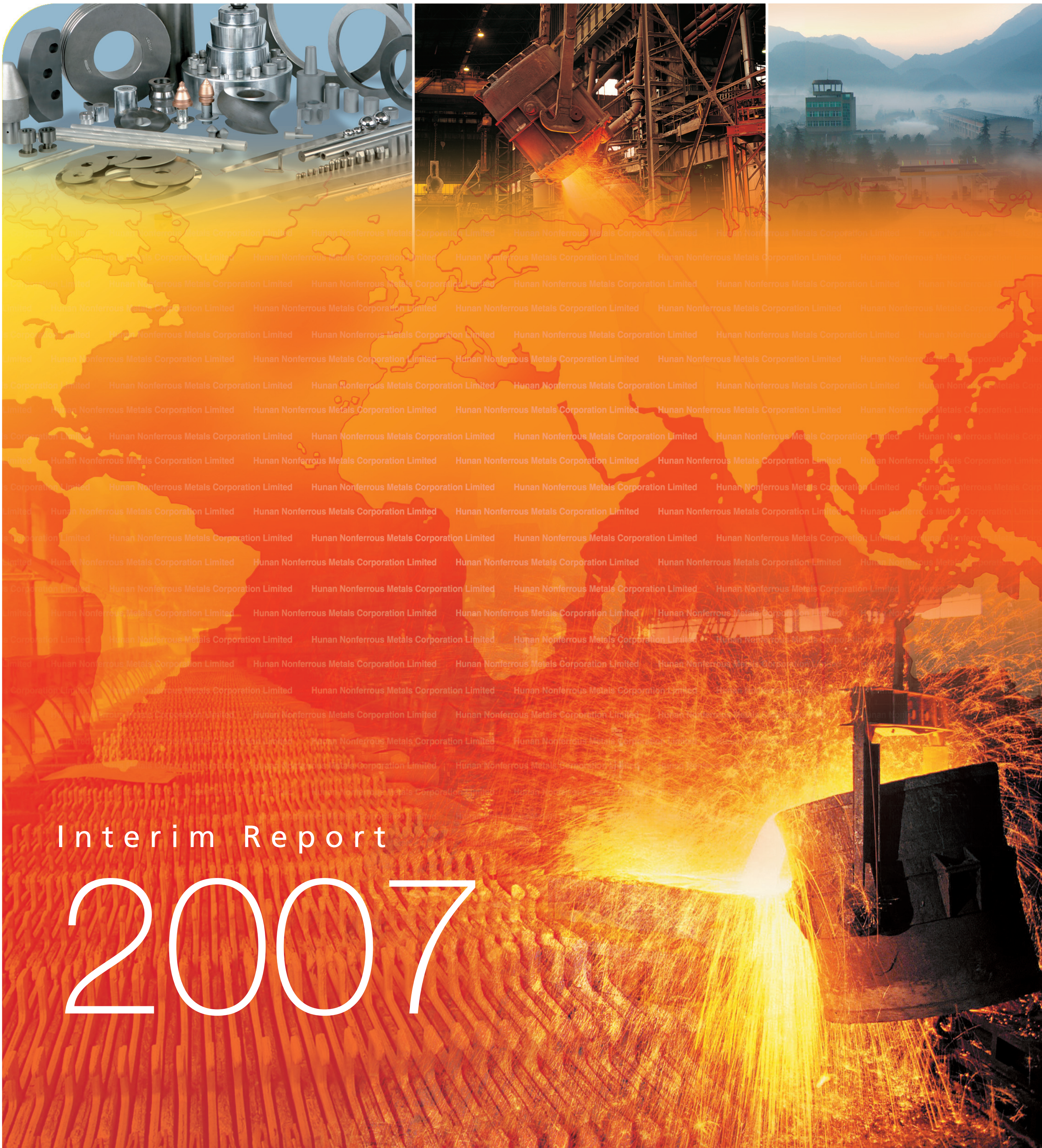
湖南有色金屬股份有限公司
Hunan Nonferrous Metals Corporation Limited

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

(Stock Code : 2626)



Interim Report

2007

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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
Qi Xiaocun
Li Junli
Zhan Yijie

Independent Non-Executive Supervisors

Chen Xiaohong
Liu Dongrong

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Lam Kai Yeung, FCCA, AHKICPA

AUTHORISED REPRESENTATIVES

Liao Luhai
Lam Kai Yeung, FCCA, AHKICPA

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

Charltons
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, Hunan Branch
China Merchants Bank
China Development Bank, Hunan 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

Corporate Information (Continued)

REGISTERED OFFICE

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

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: 1,632,728,000 H Shares
(Additional shares of 272,118,000 was issued on 9 July 2007)
Nominal Value: RMB1.00 per share
Stock Name: HNC

FINANCIAL SUMMARY

Announcement of Interim Result	26 August 2007
Closure of Register	N/A
Interim Dividend	N/A

SHAREHOLDER'S ENQUIRIES

Finance and Securities Department
(86) 731 5385556

Financial Public Relation Consultant and Media Enquiries
Wonderful Sky Public Relations and Financial Consultant Company Limited
Unit 3103, 31st Floor
Office Tower, Convention Plaza
1 Harbour Road, Wanchai
Hong Kong
Tel: (852) 28511038
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Results

MARKET REVIEW AND OUTLOOK

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

Tungsten

For the first half of 2007, the price of tungsten increased initially, but subsequently decreased in both domestic and international market but fluctuation was relatively small and the price was similar to that of the first half of 2006. The highest price of tungsten concentrates was recorded in March at RMB105,000-RMB110,000 per ton. Average price of tungsten concentrates between January and June was RMB99,400-RMB101,000 per ton, representing a decrease of 6% as compared with RMB105,800-RMB110,000 per ton in the same period of last year.

Average international APT prices from January to June 2007 in Europe and the U.S. markets were US$253.528 per metric ton unit and US$256.84 per metric ton unit respectively, representing a decrease of 5.33% and 0.91% as compared with US$263.97-270.12 per metric ton unit and US$258.13-260.25 per metric ton unit respectively of the same period last year.

Following the implementation of a higher tariff on the export of certain tungsten products on 1 June, the PRC government also reduced export tax refund of certain tungsten products effective from 1 July. From 1 July, tax refund of 13% and 5% on the export of mixture and oxidized tungsten respectively were cancelled. The export quota of tungsten for 2007 has all been issued with total quantity of 15,400 tons, representing a decrease of 2.8% from 2006. No significant tungsten mine commenced operation in recent years from abroad, resulting in lack of new supply. In view of increasing overseas demand, shrinking export from the PRC will further affect global market supply and the supply of tungsten concentrates is still tight. Based on the price movement of tungsten over the past two years, the price of tungsten concentrates at RMB100,000 per ton was generally accepted by both upstream and downstream enterprises and will continue to stay at that level for a longer period of time.

Zinc

The price of zinc in the domestic market in the first half of the year was generally in line and slightly lower than London Metal Exchange ("LME") price with price fall usually exceeded price rise with reference to the movement of LME price. Despite a weak LME, the PRC market remained confident in zinc and no significant downward adjustment on price occurred. In particular in the spot market where price found strong support and even exceeded commodity futures price due to reduced production of some smelters and higher production cost. Three-month commodity futures of zinc quoted by LME exceeded US$4,500 three times during November and December 2006. The lowest price was recorded on 2 February this year at US$2,990 per ton. Thereafter, it rebounded back to US$3,675 per ton on 4 May but fluctuated at US$3,300 per ton at the end of June. The average price for three-month commodity futures by LME was at US$3,551 per ton in the first half of 2007, up 29.3% as compared with the same period of last year. The average spot price was US$3,559 per ton, up 28.6% as compared with the period of last year.

Results (Continued)

In 2007, the smelting industry eventually picked up expansion on its production capacity. It is expected that overseas zinc concentrates production will increase by at least 400,000 tons and the smelting capacity will increase by 100,000 tons, but the growth rate of the global smelting production capacity in the year could be said to be relatively low. However, we believe the PRC government will make greater effort on the implementation of the energy-saving and consumption-reducing measure as core of its macro-economic control policy. It is estimated that certain expansion projects in the PRC will be deferred and the number of operation commenced project for zinc in 2008/2009 will be less than that was originally planned.

It is expected that domestic production of concentrates will remain at the same level as in the first half of the year. Import of concentrates will further increase and overall supply will also increase. Output of smelters will remain at high level. Owing to the immense demand from downstream industries, the price of zinc is expected to stay at above US$3,000 per ton for a longer period.

Antimony

The price of antimony reached its historical level of US$5,700-US$5,800 in the international market last year. In 2007, the price continued to remain at high level with little fluctuation. Narrow fluctuations in price were recorded in the global prices for Antimony. The highest and lowest prices in the first half of the year were recorded at US$5,600 and US$5,300 per ton respectively. Average price in the first half of the year was between US$5,464-US$5,564 per ton. The fluctuation was small, and the demand and supply remained in a stage of balance for quite a long period.

According to the statistics of the Association of Non-ferrous Industry（有色金屬工業協會）, in the first half of the year, total output of antimony concentrates in the PRC was 71,390 tons, representing an increase of 4.02% as compared with the same period of last year. The ever increasing output from the PRC restrained prices from rising, while enormous demand from domestic market also provide strong support for prices. The supply and demand in the global market is striking a balance and it is expected that antimony price will continue to sustain at high level with little fluctuation in 2007.

With Renminbi appreciating in value and investment continuously expanding, it is expected that strong demand from domestic market will continue to sustain. Although there is slight surplus in the supply of antimony due to seasonal change, prices will sustain at high level in light of reduced export and increasing global market demand.

Results (Continued)

Lead

In the first half of 2007, lead outperformed other basic metals in London Market Exchange. In 2007, the spot price of LME lead started to climb from US$1,665 per ton in January to US$2,425 per ton in June, price average in the first half of the year was US$1,980.33 per ton, representing a substantial increase of 40.92% as compared with the same period of last year. The LME price for three-month commodity futures of lead was US$1,631 per ton in January and US$2,421 per ton in June, with average price at US$1,961.5 per ton, up 40.15% as compared with the same period of last year. From January to June, average domestic price was RMB15,620 per ton, representing an increase of 28.5% as compared with the same period of last year. Although such increase was smaller when compared with LME price as a result of the appreciation of Renminbi, it was consistently in line with LME's upward trend.

Global lead output between January and May was 1,467,000 tons, representing an increase of 2.8% as compared with the same period last year. Refined lead output for the same period was 3,432,000 tons while refined lead consumption was 3,431,000 tons. The lead market in the first five months were basically in a balance state, compared with the surplus of 74,000 tons for the same period in the last year. The performance in the lead market in this year is relatively better. Total lead concentrates produced by the PRC from January to May was 284,000 tons, representing an increase of 17.87% as compared with the same period of last year. According to Custom statistics, imports of lead concentrates was 536,000 tons from January to May, representing an increase of 24% as compared with the same period of last year.

In the second half of 2007, due to environmental policy and higher raw material prices, production growth of refined lead will be limited and this will curtail export capacity. While supply in overseas market is expected to remain unchanged, therefore LME lead price will continue to sustain at high level.

BUSINESS REVIEW AND OUTLOOK

In the first half of 2007, the Group has, by taking advantage of the favourable market conditions and the right timing for raising price, and by capitalizing on its superior management, resources, production chain and economies of scale, achieved production growth across most of its products despite a limited number of products underperformed due to structural adjustment.

From January to June, the Group realized zinc production 232,979 tons, representing an increase of 10.15% as compared with the same period of last year; lead production 45,843 tons, representing an increase of 2.36% as compared with the same period of last year; antimony production 15,127 tons, representing an increase of 15.35% as compared with the same period of last year; cemented carbides production 3,752 tons, representing an increase of 20.99% as compared with the same period of last year and bismuth production 491 tons, representing an increase of 31.64% as compared with the same period of last year.

Results (Continued)

During the year, the Group places great emphasis on corporate governance and perfection of system, technology enhancement, establishing the platform for technology innovation, improving corporate structure, strengthening competitiveness, minimizing costs, saving energy and reducing emissions, and ultimately maximizing profit for the Company. And through the acquisition of Hengyang Yuanjing Tungsten Company Limited (衡陽遠景鎢業有限責任公司), the Company has consolidated its resources and increased its resource reserve.

Hunan Nonferrous Metals Holding Group Co., Ltd. (湖南有色金屬控股集團有限公司), the parent company, holds 83.74% of the state-owned equity interest of Shuikoushan Nonferrous Metals Group Co., Ltd. ("Shuikoushan"). It has completed acquisition of Xiangdong tungsten mine, entered into strategic cooperation agreements with Binzhou and Henyang municipal governments and established Hunan Nonferrous Metals Northwest Mining Company Limited. Looking forward, the Company will continue to seek cooperation with its parent company and acquire its mine resource and at the same time resolve issues relating to non-competition commitment. The Company will further strengthen internal control, cut cost, and optimise resources allocation, to maximise returns for its shareholders. Please refer to the section of "SUBSEQUENT SIGNIFICANT EVENTS" of this report for other significant events which happened after 30 June 2007 and till the date of this report.

Management Discussion and Analysis

FINANCIAL REVIEW

Due to the consolidation of the account of Zigong Cemented Carbides Company Limited ("Zigong Cemented Carbides") since 1 August 2006, and the accounts of Hengyang Yuanjing Tungsten Company Limited ("Hengyang Yuanjing") has been consolidated into the Group since 1 May 2007, the Group's financial results may not be comparable between the first half of 2007 and the corresponding period of 2006.

GENERAL DESCRIPTION

During the period ended 30 June 2007, profit before tax decreased by RMB60 million or 7.7%, from RMB782 million for the same period last year to RMB722 million. Profit attributable to the equity holders of the parent was RMB302 million, representing an increase of RMB2 million or 0.7% from RMB300 million in the corresponding period of 2006. The following is the comparison of financial results between six months periods ended 30 June 2007 and 30 June 2006:

Turnover

Turnover increased by RMB3,234 million or 39.96%, from RMB8,094 million for the period ended 30 June 2006 to RMB11,328 million for the period ended 30 June 2007, mainly due to the increased turnover before sales tax and surcharge from nonferrous metals mine segment of RMB260 million or 24.6%, nonferrous metals smelting segment of RMB1,642 million or 28.4%, cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds segment of RMB1,368 million or 104.5%.

Our gross profit increased by 1.6%, from RMB1,283 million for the period ended 30 June 2006 to RMB1,304 million for the period ended 30 June 2007; the gross profit margin decreased by 4% from 16% for the period ended 30 June 2006 to 12% for the period ended 30 June 2007.

Management Discussion and Analysis (Continued)

The nonferrous metals mine site segment

Set out below is information on sales volume and average price of our nonferrous metals products:

	January – June 2007		January – June 2006	
	Sales Volume ***(tons)***	**Average sales price** ***(RMB/ton)***	Sales Volume *(tons)*	Average sales price *(RMB/ton)*
Shizhuyuan				
Tungsten concentrates	**1,042**	**84,864**	774	94,022
Oxidized molybdenum	**505**	**187,206**	395	186,228
Huangshaping Branch				
Zinc concentrates	**3,003**	**19,577**	4,824	14,475
Lead concentrates	**2,743**	**14,249**	6,875	9,023
Hsikwangshan				
Antimony products	**15,405**	**32,819**	13,454	30,196
Zinc products	**15,738**	**25,946**	15,406	19,759

Turnover before sales tax and surcharge from nonferrous metals mine site segment increased by RMB260 million or 24.6%, from RMB1,056 million for the period ended 30 June 2006 to RMB1,316 million for the period ended 30 June 2007, mainly due to positive market conditions and price trends for nonferrous metals such as lead, zinc products and antimony products. Since Hengyang Yuanjing, the Group's subsidiary, stopped operation during technological reform and upgrading, no turnover was recorded. The Group believes that the increase in the prices of such nonferrous metal mine site products was driven by increased market demand and insufficient supply. For example, the average price of zinc products for the period ended 30 June 2007 increased greatly as compared with the same period in 2006.

Gross profit from nonferrous metals mine site segment decreased by 0.4% from RMB268 million for the period ended 30 June 2006 to RMB267 million for the period ended 30 June 2007. Gross profit ratio decreased by 6%, from 26% for the period ended 30 June 2006 to 20% for the period ended 30 June 2007. The range of the increase in the price of raw materials to antimony products, which represented the largest portion of that segment, surpassed the range of increase in selling price, therefore leading to a decrease in gross profit ratio.

Management Discussion and Analysis (Continued)

NONFERROUS METALS SMELTING SEGMENT

Set out below is information on the sales volumes and average price of our nonferrous metals smelted products:

	January – June 2007		January – June 2006	
	Sales Volume ***(tons)***	**Average sales price** ***(RMB/ton)***	Sales Volume *(tons)*	Average sales price *(RMB/ton)*
Zinc products *(tons)*	**210,430**	**26,742**	219,217	19,541
Lead products *(tons)*	**44,366**	**13,910**	43,626	9,591
Precious metal – indium *(tons)*	**17**	**5,187,565**	22	7,279,014
Precious metal – silver *(tons)*	**190**	**2,953,131**	223	2,623,659

Turnover before sales tax and surcharge from nonferrous metals smelting segment increased by RMB1,642 million or 28.4%, from RMB5,774 million for the period ended 30 June 2006 to RMB7,416 million for the period ended 30 June 2007, mainly due to the rise in average sales prices of zinc products, lead products and silver products as compared with the corresponding period of 2006.

Gross profit from nonferrous metals smelting segment decreased by 8.7% from RMB735 million for the period ended 30 June 2006 to RMB671 million for the period ended 30 June 2007, while gross profit decreased by 4% from 13% for the period ended 30 June 2006 to 9% for the period ended 30 June 2007. The decrease was mainly due to the consumption of the stock of raw materials purchased at a high level of price during the period. Such costs were higher than the raw materials purchased of a low level of price in the corresponding period in the last year, leading to a reduction in gross profit margin ratio.

CEMENTED CARBIDES, AND TUNGSTEN, MOLYBDENUM, TANTALUM NIOBIUM AND THEIR COMPOUNDS

Set out below is information on the sales volumes and average prices of our cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds:

	January – June 2007		January – June 2006	
	Sales Volume ***(tons)***	**Average sales price** ***(RMB/ton)***	Sales Volume *(tons)*	Average sales price *(RMB/ton)*
Cemented carbides	**5,146**	**292,529**	2,339	299,655
Tungsten and its compounds	**2,639**	**207,364**	1,938	219,212
Molybdenum and its compounds	**408**	**496,398**	174	484,095
Tantalum, niobium and their compounds	**282**	**512,916**	224	413,856

Management Discussion and Analysis (Continued)

Turnover from cemented carbide, and tungsten, molybdenum, tantalum, niobium and their compounds before sales tax and surcharge increased RMB1,368 million or 104.5%, from RMB1,309 million for the period ended 30 June 2006 to RMB2,677 million for the period ended 30 June 2007. The increase was mainly due to the consolidation of Zigong Cemented Carbides since 1 August 2006, which was the main contributor to the increase in turnover for the first half of the year.

Gross profit of cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds increased by 30.8% from RMB279 million for the period ended 30 June 2006 to RMB365 million for the period ended 30 June 2007, while gross profit ratio decreased by 7% from 21% for the period ended 30 June 2006 to 14% for the period ended 30 June 2007. The reason for such decrease was mainly due to the decrease in the selling prices of cemented carbides, tungsten and their compounds which accounted for a greater proportion in sales. Besides, since Zigong Cemented Carbides had a lower gross profit ratio, consolidation of its accounts led to a decrease in overall gross profit ratio.

OTHER REVENUE AND GAINS

Other revenue and gains increased by RMB27 million or 21.95%, from RMB123 million for the period ended 30 June 2006 to RMB150 million for the period ended 30 June 2007, mainly due to the gains from disposal of certain equity interests in Compass Resources NL during the period.

SELLING AND DISTRIBUTION COST

Selling and distribution costs increased by RMB32 million, or 30.5%, from RMB105 million for the period ended 30 June 2006 to RMB137 million for the period ended 30 June 2007 primarily due to the increase in the sales of our products.

ADMINISTRATIVE EXPENSES

Administrative expenses increased by RMB64 million, or 16.8% from RMB381 million for the period ended 30 June 2006 to RMB445 million for the period ended 30 June 2007, primarily due to the increase in general remuneration, research and development expenses, government fees, travel expenses, and other expenses.

OTHER OPERATING EXPENSES, NET

Other operating expenses, net increase by RMB31 million, or 103%, from net expenses of RMB30 million for the period ended 30 June 2006 to net income of RMB0.9 million for the period ended 30 June 2007, primarily due to the decrease in the provision for doubtful debts.

FINANCE COSTS

Finance costs increased by RMB36 million, or 32.4%, from RMB111 million for the period ended 30 June 2006 to RMB147 million for the period ended 30 June 2007, primarily due to the increased bank loans outstanding and increased official loan interest rate.

Management Discussion and Analysis (Continued)

INCOME TAX EXPENSES

Income tax expenses decreased by RMB34 million, or 13.5%, from RMB252 million for the period ended 30 June 2006 to RMB218 million for the period ended 30 June 2007, primarily due to the decrease in the operating profit.

MINORITY INTERESTS

Minority interests decreased by RMB26 million, or 11.4%, from RMB229 million for the period ended 30 June 2006 to RMB203 million for the period ended 30 June 2007, primarily due to (1) the decrease in proportion of shareholding of minority shareholders due to the acquisition of minority interests by the Group in some of its subsidiaries in the second half of last year and (2) the decrease in the Group's operating profit.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2007, funds resources were from cash generated from operating activities and short and long term bank loans. Our funds were mainly used in operating activities, capital expenditures, and bank loan repayments.

DEBT TO TOTAL ASSETS RATIO

As at 30 June 2007, our Group's debt to total assets increased from 32% for the period ended 30 June 2006 to 36% for the period ended 30 June 2007. The debt to total assets ratio equals to total interest-bearing bank loans and borrowings divided by total assets multiplied by 100%. As the growth rate of debts was higher than that of total assets, debt to total assets ratio increased.

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 fluctuations results primarily from the sales of products and purchase of raw materials in foreign currencies. The Group does not have any hedging policies and has not used any forward currency contracts to eliminate the foreign 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 is subject to significant fluctuations. As commodity products, nonferrous metals prices are principally dependent on the supply and demand dynamics in the market place in the long term. The Group does not actively manage this risk, except to a limited extent through commodity futures contracts.

Management Discussion and Analysis (Continued)

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, which totaled RMB5,778 million as at 30 June 2007. The Group's outstanding indebtedness is subject to fixed rates of interest. An increase in prevailing interest rates would lead to an increase in interest cost on short-term debt when such debt is rolled over. To date, the Group has not entered into any type of interest rate agreements or derivatives to hedge against interest rate changes.

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 2007.

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 Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www. hnc2626.com 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, 26 August 2007

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

Qualified Accountant and Company Secretary: Lam Kai Yeung

Employees

As of 30 June 2007, the Group had approximately 21,140 full-time employees. Breakdowns by function and location are as follows:

Division	Employees	Proportion *(in percentages)*
Management and administration	1,980	9.36%
Engineering technician	3,980	18.83%
Production staff	12,080	57.14%
Repair and maintenance	1,760	8.33%
Inspection	820	3.88%
Sales	520	2.46%
Total	21,140	100%

The remuneration package of the Group's employees includes salary, bonuses and allowances. The Group has joined the social insurance contribution plans organized by local governments in the PRC. In accordance with the relevant national and local labor and social welfare laws and regulations, the Group is required to pay on behalf of employees a monthly social insurance premium covering pension insurance, medical insurance, unemployment insurance and housing reserve fund. According to the currently applicable local regulations, the respective percentages of the pension insurance, medical insurance, unemployment insurance and housing reserve fund that the Group must contribute are 20%,8%, 2% and 5 to 12%, respectively, of employees' total monthly basic salary.

Share Capital

	As at 30 June 2007		As at 31 December 2006	
	Number of shares	**Amount**	Number of shares	Amount
	'000	***RMB'000***	*'000*	*RMB'000*
Share capital issued and fully paid				
Domestic shares at par value of RMB1.00 each	**2,060,068**	**2,060,068**	2,060,068	2,060,068
H shares at par value of RMB1.00 each	**1,360,678**	**1,360,610**	1,360,610	1,360,610
	3,420,678	**3,420,678**	3,420,678	3,420,678

SHARE CAPITAL STRUCTURE

As at 30 June 2007, the share capital structure of the Company was follows:

	As at 30 June 2007	
Holders of domestic shares or H shares	**Percentage of the number in issue**	**Percentage of share capital of shares**
Holders of domestic shares		
Hunan Nonferrous Metals Holding Group Co., Ltd	1,971,105,600	57.62%
Bangxin Asset Management 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%
Holders of H shares	1,360,610,000	39.78%

Class of Shares	**Number of Shares**	**Approximate percentage of the total share capital**
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

So far as was known to any Director or Supervisor, as at 30 June 2007, 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%
Baring Asset Management Limited*	123,606,000	9.08%

Calculated by all issued share capital

* *Calculated by H shares only*

Save as disclosed above, as at 30 June 2007, 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 period.

DIRECTORS' AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN SHARES

Stock Appreciation Rights Plan ("STARs")

The extraordinary shareholders meeting held on 25 September 2006, it authorised (including) the preliminary stock appreciation recommendations pursuant to the Stock Appreciation Rights Plan. (Please refer to the section "Stock Appreciation Rights Plan" as detailed in the Prospectus dated 21 March 2006). The STARs aims to attract, retain and provide incentives to senior executive officers and major officers who have contribution to the Group in terms of its profitability and its value.

Below listed are the recipient of the Stocks and their allocated stock number as at 30 June 2007:

Name	Number of STARs	Percentage of total issued domestic shares	Note
He Renchun	1,282,051	0.06	Chairman of Board of Directors and Executive Director
Cao Xiuyun	1,025,641	0.05	Vice Chairman of Board of Directors and Non-Executive Director
Li Li	897,436	0.04	Executive Director and Senior Manager
Zeng Shaoxiong	769,231	0.04	Chairman of the Supervisory Committee
Liao Luhai	769,231	0.04	Executive Director
Chen Zhixin	769,231	0.04	Executive Director
Wu Longyun	641,027	0.03	Non-executive Director
He Hongsen	641,026	0.03	Supervisor
Zhang Yixian	641,026	0.03	Non-executive Director
Yang Bohua	512,820	0.02	Senior Manager of Subsidiary Company
Fu Shaowu	512,820	0.02	Senior Manager of Subsidiary Company
Yang Lingyi	512,820	0.02	Senior Manager of Subsidiary Company
Hong Mingyang	512,820	0.02	Senior Manager of Subsidiary Company
Zhu Chongzhou	512,820	0.02	Senior Manager of Subsidiary Company
Total	10,000,000		

Note: The above information in relation to STARs was disclosed in 2006 interim report of the Company.

Directors' Interests (Continued)

Save as disclosed above, as at 30 June 2007, 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

Save as disclosed above, at no time during the period 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

PLACING SHARES

On 9 July 2007, the Company entered into a placing agreement (the "Placing Agreement") with Morgan Stanley & Co. International plc ("Morgan Stanley") and BOCI Asia Limited (the "Placing Agents") in relation to the placing (the "Placing"), on a fully underwritten basis, of an aggregate of 272,118,000 overseas listed foreign invested shares of RMB1.00 ("H Shares") in the share capital of the Company (the "Placing Shares") at a price of HK$4.93 per H Share (the "Placing Price").

The Placing Shares comprised (1) 247,380,000 H Shares (the "New Shares") to be allotted and issued by the Company and (2) 24,738,000 H Shares (the "Sale Shares") to be converted from the same number of existing State-owned domestic shares that were to be allocated from Hunan Nonferrous Metals Holdings Group Co., Ltd. ("HNG"), Bangxin Asset Management Co., Ltd. and Hunan Valin Steel and Iron Group Co., Ltd. (collectively, the "State-owned Shareholders") to the National Social Security Fund Council (the "NSSF") of the People's Republic of China (the "PRC").

The placing of new shares completed in July 2007. The gross proceeds from the Placing of New Shares was HK$1,220 million. The net proceeds of the Placing of the New Shares was HK$1,214 million. The Company intends to use the net proceeds from the Placing of the New Shares for the development of Phase II project of Browns Mine in Northern Territory of Australia and acquisition of other mining rights and value-added processing business in overseas.

THE TRANSFER OF STATED-OWNED EQUITY INTEREST TRANSFER IN SHUIKOUSHAN NONFERROUS METALS GROUP CO., LTD. FROM HUNAN SASAC TO HNG

On 17 July 2007, the Company announced that Hunan Nonferrous Metals Holding Group Co., Ltd. (湖南有色金屬控股集團有限公司) ("HNG") has received a Notice on the Stated-owned Equity Interest Transfer from Shuikoushan Nonferrous Metals Group Co., Ltd. to Hunan Nonferrous Metals Holding Group Co., Ltd., Xiangguozigaige [2007] (No.131) (關於將湖南水口山有色金屬集團有限公司國有股權劃轉至湖南有色金屬控股集團有限公司管理的通知，湘國資改革[2007]131號) issued by the State-owned Assets Supervision and Administration Commission of Hunan Province ("Hunan SASAC") pursuant to which 83.74% of the state-owned equity interest of Shuikoushan Nonferrous Metals Group Co., Ltd. (湖南水口山有色金屬集團有限公司) ("Shuikoushan") owned by Hunan SASAC would be allocated to HNG. HNG currently holds approximately 53.08 % voting rights in the Company and is a controlling shareholder of the Company. Following completion of the transfer, Shuikoushan would become a subsidiary of HNG. The business of Shuikoushan competes with the business of the Company and its subsidiaries.

Shuikoushan is a large enterprise principally engaged in the business of mining and smelting nonferrous metals such as lead and zinc. Shuikoushan's annual production capacity is about 40,000 tons lead and zinc concentrates and its annual capacity of lead, zinc and copper smelting is about 280,000 tons including: about 180,000 tons lead, about 90,000 tons zinc and about 10,000 tons copper. In addition, it can be capable of producing about 1 ton gold, about 500 tons silver and about 200,000 tons sulphite per year.

Subsequent Significant Events (Continued)

Since Shuikoushan becomes a subsidiary of HNG and HNG is also the ultimate controlling shareholder of both the Company, there will be business competition between (1) HNG and (2) the Company. As disclosed in the prospectus of the Company dated 21 March 2006, on 12 March 2006 the Company entered into a non-competition agreement with HNG under which HNG agreed, among other things, not to compete with the Company in its businesses in accordance with the terms and conditions thereof. The Company will further discuss with HNG as to how to resolve the issue of competition. For details, please refer to the Company's announcement dated 17 July 2007.

INVESTMENT AND COOPERATION WITH KING ISLAND SCHEELITE LIMITED ("KIS")

On 15 August 2007, the Board of the Company announced that the Company had entered into the Principles of Agreement ("POA") with KIS for the re-development of the Project located on King Island, Tasmania, Australia.

Subject to finalizing detailed legal documentation and obtaining shareholder and regulatory approval of KIS, among other things, the major terms and conditions of the POA were as follows: KIS to issue approximately 4.4 million new ordinary shares to the Company, which was equivalent to approximately 10% of total issued KIS capital, at a price of A$1.00 per share; KIS and the Company anticipate signing final documentation by the end of October 2007, with regulatory approvals expected soon after. The tasks of construction, including detailed engineering design, are expected to commence at that time.

For more details, please refer to the announcement of the Company dated 15 August 2007.

Use of Proceeds

By 30 June 2007, the Company has advanced the proceeds from the initial public offering totaling RMB1787.68 million as follows:

In July 2006, the Company used the proceeds in the amount of RMB400 million for acquisition of 80% equity interest in Zigong Cemented Carbides Company Limited ("Zigong").

In July 2006, the Company used the proceeds in the amount of RMB184.88 million for acquisition of approximately 9.8% equity interest in Compass Resources NL in Australia.

In September 2006, the Company used the proceeds in the amount of RMB63.75 million for acquisition of 6.12% equity interest in Hunan Shizhuyuan Nonferrous Metals Co., Ltd., a subsidiary of the Company with a shareholding up to 97.35%; while used the proceeds in the amount of RMB80 million to increase the capital of this company.

In September 2006, the Company used the proceeds in the amount of RMB78.47 million for acquisition of 24.42% equity interest in Hsikwangshan Twinkling Star Antimony Co., Ltd., a holding subsidiary of the Company with a shareholding percentage up to 100%; while used the proceeds in the amount of RMB87.60 million to increase the capital of the company.

In October 2006, the Company used the proceeds in the amount of RMB214 million for acquisition of 23.77% equity interest in A shares of ZhongWu GaoXin Materials Company Limited ("ZhongWu GaoXin"), an A Share company.

In October 2006, the Company used the proceeds in the amount of RMB210 million for increasing the share capital of Zhuzhou Cemented Carbides Group Corp., Ltd., a holding subsidiary of the Company.

In October 2006, the Company used the proceeds in the amount of RMB40 million for increasing the working capital of Huangshaping Branch of the Company.

In April 2007, the Company used the proceeds in the amount of RMB353.98 million for acquisition of approximately 98.33% equity interest in Hengyang Yuanjing Tungsten Company Limited.

In June 2007, the Company used the proceeds in the amount of RMB75 million for increasing the share capital of Hsikwangshan Twinkling Star Antimony Co., Ltd, a holding subsidiary of the Company.

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 2007, 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 seven times during the six months ended 30 June 2007 (with an average attendance rate of 87%), 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 2007 (with an average attendance rate of 86%).

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 2007.

BOARD OF 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 2007 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 twice during the six months ended 30 June 2007 (with an attendance rate of 100%).

Corporate Governance (Continued)

INDEPENDENT NON-EXECUTIVE DIRECTOR

The Company has complied with the requirement of Rules 3.10(1) and 3.10(2) of the Listing Rules regarding the appointment of adequate number of independent non-executive director, and at least one independent non-executive director has the necessary suitable professional qualification or has suitable accounting or relevant financial management expertise. The Company has appointed three independent non-executive directors, of which one independent non-executive director has the expertise of financial management. The biographical details of independent non-executive director are included in the 2006 annual report of the Company.

Condensed Consolidated Income Statement

For the six months ended 30 June 2007

	Notes	Six months ended 30 June **2007** **RMB'000** **(Unaudited)**	2006 RMB'000 (Unaudited)
REVENUE	4, 5	**11,328,123**	8,094,146
Cost of sales		**(10,024,196)**	(6,811,210)
Gross profit		**1,303,927**	1,282,936
Other revenue and gains	5	**150,322**	122,869
Selling and distribution costs		**(136,950)**	(104,882)
Administrative expenses		**(444,661)**	(381,441)
Other operating income/(expenses), net		**892**	(29,673)
Finance costs		**(146,722)**	(111,139)
Share of profits and losses of associates		**(4,881)**	3,059
PROFIT BEFORE TAX	6	**721,927**	781,729
Income tax expense	7	**(217,506)**	(252,425)
PROFIT FOR THE PERIOD		**504,421**	529,304
Attributable to:			
Equity holders of the parent		**301,873**	300,115
Minority interests		**202,548**	229,189
		504,421	529,304
DIVIDENDS	8	**–**	–
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic		**8.82 cents**	**10.69 cents**
Diluted		**N/A**	N/A

Condensed Consolidated Balance Sheet

30 June 2007

	Notes	30 June 2007 RMB'000 (Unaudited)	31 December 2006 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	**4,170,254**	4,047,600
Lease prepayments		**967,540**	885,628
Intangible assets		**880,555**	591,732
Goodwill	19	**85,436**	56,546
Interests in associates		**253,666**	254,455
Available-for-sale financial assets		**215,579**	464,441
Deferred tax assets		**101,987**	81,260
Total non-current assets		**6,675,017**	6,381,662
CURRENT ASSETS			
Inventories		**4,696,307**	4,504,612
Trade receivables	11	**698,645**	474,233
Bills receivable		**420,911**	401,497
Prepayments, deposits and other receivables	12	**1,460,179**	885,421
Tax recoverable		**880**	10,791
Pledged deposits	13	**40,782**	57,148
Cash and cash equivalents	13	**2,054,846**	1,939,091
Total current assets		**9,372,550**	8,272,793
CURRENT LIABILITIES			
Trade payables	14	**695,081**	964,243
Bills payable		**156,311**	187,579
Other payables and accruals	15	**1,891,821**	1,552,591
Interest-bearing bank and other borrowings		**4,321,987**	4,175,736
Tax payable		**320,605**	252,112
Dividend payable		**38,001**	43,128
Total current liabilities		**7,423,806**	7,175,389
NET CURRENT ASSETS		**1,948,744**	1,097,404
TOTAL ASSETS LESS CURRENT LIABILITIES		**8,623,761**	7,479,066

Condensed Consolidated Balance Sheet (Continued)

30 June 2007

	Notes	30 June 2007 RMB'000 (Unaudited)	31 December 2006 RMB'000 (Audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		**8,623,761**	7,479,066
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		**1,455,993**	721,888
Other liabilities	*16*	**385,120**	386,559
Payables for mining rights		**363,644**	405,702
Government grants		**126,238**	117,234
Deferred tax liabilities		**130,362**	77,595
Total non-current liabilities		**2,461,357**	1,708,978
NET ASSETS		**6,162,404**	5,770,088
EQUITY			
Equity attributable to equity holders of the parent			
Issued share capital	*17*	**3,420,678**	3,420,678
Reserves		**906,804**	715,779
Proposed dividend		**–**	88,938
		4,327,482	4,225,395
Minority interests		**1,834,922**	1,544,693
TOTAL EQUITY		**6,162,404**	5,770,088

Condensed Consolidated Statement of Change in Equity

For the six months ended 30 June 2007

		Attributable to equity holders of the parent									
	Notes	Issued share capital RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000	Exchange fluctuation reserves RMB'000	Other reserves RMB'000	Retained profits RMB'000	Proposed dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2007		3,420,678	42,299	116,584	(669)	157,541	400,024	88,938	4,225,395	1,544,693	5,770,088
Exchange realignment		–	–	–	1,155	–	–	–	1,155	(389)	766
Changes in fair value of available-for-sale investments		–	–	–	–	(26,009)	–	–	(26,009)	–	(26,009)
Disposal of available-for-sale investments		–	–	–	–	(78,771)	–	–	(78,771)	–	(78,771)
Actuarial gains and losses of defined benefit retirement schemes, net of deferred tax		–	–	–	–	–	(7,223)	–	(7,223)	827	(6,396)
Total income and expense recognized directly in equity		–	–	–	1,155	(104,780)	(7,223)	–	(110,848)	438	(110,410)
Profit for the period		–	–	–	–	–	301,873	–	301,873	202,548	504,421
Total income and expense for the period		–	–	–	1,155	(104,780)	294,650	–	191,025	202,986	394,011
Acquisition of a subsidiary		–	–	–	–	–	–	–	–	6,012	6,012
Disposal of a subsidiary		–	–	–	–	–	–	–	–	(8,971)	(8,971)
Asset injection into a non-wholly owned subsidiary	19	–	–	–	–	–	–	–	–	189,561	189,561
Distribution of dividends		–	–	–	–	–	–	(88,938)	(88,938)	–	(88,938)
Dividends paid by subsidiaries		–	–	–	–	–	–	–	–	(99,359)	(99,359)
At 30 June 2007 (Unaudited)		3,420,678	42,299	116,584	486	52,761	694,674	–	4,327,482	1,834,922	6,162,404
At 1 January 2006		2,183,760	(669,534)	73,946	529	–	121,087	230,980	1,940,768	1,265,106	3,205,874
Exchange realignment		–	–	–	(773)	–	–	–	(773)	(373)	(1,146)
Actuarial gains and losses of defined benefit retirement schemes, net of deferred tax		–	–	–	–	–	(33,210)	–	(33,210)	(8,036)	(41,246)
Total income and expense recognized directly in equity		–	–	–	(773)	–	(33,210)	–	(33,983)	(8,409)	(42,392)
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 dividend		–	–	–	–	–	–	(230,980)	(230,980)	–	(230,980)
Dividends paid by subsidiaries		–	–	–	–	–	–	–	–	(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

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2007

	Note	Six months ended 30 June 2007 RMB'000 (Unaudited)	2006 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		**100,283**	400,195
CASH FLOWS FROM INVESTING ACTIVITIES		**(592,086)**	(529,762)
CASH FLOWS FROM FINANCING ACTIVITIES		**627,093**	2,150,782
NET INCREASE IN CASH AND CASH EQUIVALENTS		**135,290**	2,021,215
Effect of foreign exchange rate changes, net		**1,155**	(1,372)
Cash and cash equivalents at beginning of period		**1,704,501**	797,646
CASH AND CASH EQUIVALENTS AT END OF PERIOD	*13*	**1,840,946**	2,817,489

Notes to Condensed Consolidated Financial Statements

30 June 2007

1. GROUP REORGANISATION 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 Holdings 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 Reorganization 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, the Company issued 1,075,582,000 new H shares to the public at a price of HK$1.65 per share (equivalent to approximately RMB1.70 per share) 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 converted from the Company's same number of domestic shares were transferred to the National Council for the Social Security Fund.

Notes to Condensed Consolidated Financial Statements (Continued)

30 June 2007

1. GROUP REORGANISATION 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 per share (equivalent to approximately RMB1.70 per share) 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 converted from the Company's same number of 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 Group 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 2007 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 2006.

Notes to Condensed Consolidated Financial Statements (Continued)

30 June 2007

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 2006. The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2007:

•	IAS 1 Amendment	Capital Disclosures
•	IFRS 7	Financial Instruments: Disclosures
•	IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
•	IFRIC 8	Scope of IFRS 2
•	IFRIC 9	Reassessment of Embedded Derivatives
•	IFRIC 10	Interim Financial Reporting and Impairment

IAS 1 Amendment, The revised IAS 1 will affect the disclosures of qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance. This change has had no significant impact on the financial statements.

The IFRS 7 requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates major disclosure requirements of IAS 32. This change has had no significant impact on the financial statements.

The IFRIC 7 addresses requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period, and requires an entity to restate its financial statements in accordance with IAS 29. This change has had no significant impact on the financial statements.

The IFRIC 8 addresses the application of IFRS 2 to particular transactions in which the entity cannot identify specifically some or all of the goods or services received. This change has had no significant impact on the financial statements.

The IFRIC 9 addresses the application of IAS 39 that an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract, and prohibits subsequent reassessment throughout the life of the contract except for exceptional circumstances. This change has had no significant impact on the financial statements.

Notes to Condensed Consolidated Financial Statements (Continued)

30 June 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

IFRIC 10 addresses the interaction between the requirements of IAS 34 and the recognition of impairment losses on goodwill in IAS 36 and certain financial assets in IAS 39 and that an entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. This change has had no significant impact on the financial statements.

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:

(a) Nonferrous metal mine site segment: mining and trading of nonferrous metals;

(b) Nonferrous metal smelting segment: smelting and trading of nonferrous metals;

(c) 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.

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

Notes to Condensed Consolidated Financial Statements (Continued)

30 June 2007

4. SEGMENT INFORMATION (Continued)

(a) Business segments

For the six months ended 30 June 2007 (Unaudited)	Nonferrous metal mine site RMB'000	Nonferrous metal smelting RMB'000	Cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds RMB'000	Corporate and others RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue:						
Sales to external customers	1,315,839	7,416,319	2,677,122	–	–	11,409,280
Inter-segment sales	313,232	603	–	–	(313,835)	–
Less: Sales tax and surcharge	(12,249)	(53,929)	(14,979)	–	–	(81,157)
Total	1,616,822	7,362,993	2,662,143	–	(313,835)	11,328,123
Segment results	128,112	509,335	211,234	(62,988)	–	785,693
Interest and dividend income and unallocated gains						87,837
Finance costs						(146,722)
Share of profits and losses of associates	(6,757)	1,256	620	–	–	(4,881)
Profit before tax						721,927
Income tax expense						(217,506)
Net profit for the period						504,421

Notes to Condensed Consolidated Financial Statements (Continued)

30 June 2007

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

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

Notes to Condensed Consolidated Financial Statements (Continued)

30 June 2007

4. SEGMENT INFORMATION (Continued)

(b) Geographical segments

For the six months ended 30 June 2007 (Unaudited)	**Mainland China** *RMB'000*	**Other Asian Countries** *RMB'000*	**Others** *RMB'000*	**Eliminations** *RMB'000*	**Consolidated** *RMB'000*
Segment revenue:					
Sales to external customers	**9,735,749**	**1,296,020**	**377,511**	**–**	**11,409,280**
Inter-segment sales	**313,835**	**–**	**–**	**(313,835)**	**–**
Less: Sales tax and surcharge	**(81,157)**	**–**	**–**	**–**	**(81,157)**
	9,968,427	**1,296,020**	**377,511**	**(313,835)**	**11,328,123**

For the six months ended 30 June 2006 (Unaudited)	Mainland China *RMB'000*	Other Asian Countries *RMB'000*	Others *RMB'000*	Eliminations *RMB'000*	Consolidated *RMB'000*
Segment revenue:					
Sales to external customers	6,309,888	1,487,424	341,245	–	8,138,557
Inter-segment sales	195,712	–	–	(195,712)	–
Less: Sales tax and surcharge	(44,411)	–	–	–	(44,411)
	6,461,189	1,487,424	341,245	(195,712)	8,094,146

Notes to Condensed Consolidated Financial Statements (Continued)

30 June 2007

5. REVENUE, OTHER REVENUE AND GAINS

Revenue, which is also the Group's turnover, 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	
	2007	2006
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue:		
Sale of goods	**11,409,280**	8,138,557
Less: Sales tax and surcharge	**(81,157)**	(44,411)
	11,328,123	8,094,146
Other revenue and gains:		
Interest income	**16,237**	105,541
Dividend income	**8,714**	1,000
Profit from sale of raw material	**36,561**	7,314
Profit from sale of utilities	**6,120**	–
Gross rental income	**1,310**	1,062
Gains on disposal of other financial assets, net	**63,889**	1,428
Gains on derivative financial instruments	**2,570**	–
Government grants	**3,148**	4,370
Rendering of services	**5,456**	–
Gains on disposal of items of property, plant and equipment	**1,064**	–
Gains on disposal of a subsidiary	**927**	–
Others	**4,326**	2,154
	150,322	122,869

Notes to Condensed Consolidated Financial Statements (Continued)

30 June 2007

6. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold	**10,024,196**	6,811,210
Depreciation	**194,746**	173,714
Amortization of lease prepayments	**7,763**	8,355
Amortization of intangible assets		
Mining rights	**26,494**	27,239
Technical know-how and others	**3,291**	2,845
Provision for obsolete inventories	**6,488**	12,985
Write-back of provision/Provision for impairment on trade and other receivables, net*	**(18,517)**	24,679
Gains/losses on disposal of items of property, plant and equipment*	**(1,064)**	883
Gains/losses on other financial assets, net*	**(63,889)**	731
Net realized and unrealized gains/losses on derivative financial instruments*	**(2,570)**	3,380

* *Items classified under "Other revenue and gains/Other operating expenses" on the face of the interim condensed consolidated income statement.*

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) Shenzhen Jinzhou Jinggong Scientific and Technological Company Limited were subject to a preferential CIT rate of 15% as it is located in the Shenzhen Special Economic Zone.

(ii) Zigong Cemented Carbide Corp. Ltd was located in west area of China, which was subject to a preferential CIT rate of 15% according to the PRC tax regulations.

Notes to Condensed Consolidated Financial Statements (Continued)

30 June 2007

7. INCOME TAX EXPENSE (Continued)

Major components of the income tax expenses are as follows:

	Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
PRC corporate income tax:		
Charge for the period	**203,542**	227,158
Deferred	**13,964**	25,267
Total tax charge for the period	**217,506**	252,425

The share of tax attributable to associates amounting to RMB184,000 (six months ended 30 June 2006: RMB280,000) is included in "Share of profits and losses of associates" on the face of the interim condensed consolidated income statement.

8. DIVIDEND

The board of directors does not recommend the payment of any interim dividend for the six months ended 30 June 2007 (six months ended 30 June 2006: Nil).

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

The calculation of basic earnings per share is based on:

	Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Net profit for the period attributable to equity holders of the parent	**301,873**	300,115

	Number of shares	
	'000	*'000*
Shares		
Weighted average number of shares in issue during the period	**3,420,678**	2,806,230

Notes to Condensed Consolidated Financial Statements (Continued)

30 June 2007

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (Continued)

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.

The Company's weighted average number of shares used in the calculation during the six months period ended 30 June 2007 is the ordinary shares in issue during the period.

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 2007, the Group acquired property, plant and equipment in an aggregate amount of approximately RMB408 million and disposed of property, plant and equipment with an aggregate net book value of approximately RMB3.8 million, resulting in a net gain on disposal of approximately RMB1 million. No impairment provision on property, plant and equipment was made during the period.

Notes to Condensed Consolidated Financial Statements (Continued)

30 June 2007

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:

	30 June 2007	31 December 2006
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 1 year	**686,719**	485,659
Over 1 year but within 2 years	**11,880**	12,271
Over 2 years but within 3 years	**6,554**	5,758
Over 3 years	**21,716**	18,767
	726,869	522,455
Less: Impairment	**(28,224)**	(48,222)
	698,645	474,233

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2007	31 December 2006
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Prepayments, deposit and other receivables from:		
– the HNG Group	**25,632**	4,554
– an associate	**20,000**	20,000
– third parties	**1,463,960**	908,970
	1,509,592	933,524
Less: Impairment	**(49,413)**	(48,103)
	1,460,179	885,421

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

Notes to Condensed Consolidated Financial Statements (Continued)

30 June 2007

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

The amount receivable from an associate was unsecured, bearing interest of about 6% and repayable in 2007.

The other accounts with the third parties are non-interest-bearing.

13. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30 June 2007	31 December 2006
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Cash and bank balances	**1,540,881**	1,563,349
Time deposits	**554,747**	432,890
	2,095,628	1,996,239
Less: Pledged cash and time deposits against trade finance facilities	**(40,782)**	(57,148)
Cash and cash equivalents in the balance sheet	**2,054,846**	1,939,091
Less: Non-pledged time deposits with original maturity of three months or more when acquired	**(213,900)**	(234,590)
Cash and cash equivalents in the cash flow statements	**1,840,946**	1,704,501

Notes to Condensed Consolidated Financial Statements (Continued)

30 June 2007

14. TRADE PAYABLES

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

	30 June 2007 *RMB'000* **(Unaudited)**	31 December 2006 *RMB'000* (Audited)
Within 1 year	**665,316**	943,899
Over 1 year but within 2 year	**17,059**	8,327
Over 2 years but within 3 year	**7,178**	7,499
Over 3 years	**5,528**	4,518
	695,081	964,243

The amount due to the HNG Group of RMB24,151,000 as at 30 June 2007 (31 December 2006: RMB23,039,000) was unsecured, interest-free and repayable within trade credit periods.

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 RMB14,988,000 and RMB23,412,000 as at 30 June 2007 and 31 December 2006, respectively.

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

Notes to Condensed Consolidated Financial Statements (Continued)

30 June 2007

16. OTHER LIABILITIES

	30 June 2007 RMB'000 (Unaudited)	31 December 2006 RMB'000 (Audited)
Provision for supplementary pension subsidies and early retirement benefits *(note (i))*	**415,370**	416,809
Share appreciation right plan	**3,949**	3,949
Balance as at period/year end	**419,319**	420,758
Represented by:		
Current portion included in other payables and accruals	**34,199**	34,199
Long term liabilities	**385,120**	386,559
	419,319	420,758

Notes:

(i) Provision for supplementary pension subsidies and early retirement

Prior to the Reorganization, the Group paid certain supplementary pension subsidies to its employees. Such supplementary pension subsidies mainly included living allowances which were 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 depended 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 installments 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.

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 subsidy paid by HNG to the Group's retirees during 1 January 2005 to 28 February 2006 and the Group's first annual installment paid to HNG in January 2006, and such difference was fully settled among the Group and HNG in March 2006.

In addition, the Company has acquired Ziying during the year ended 31 December 2006, and Ziying and its subsidiaries have also provided supplemented pension subsidies scheme to its employees, and the obligations thereof were assessed using the projected unit credit method and recognized in the Group's consolidated financial statements.

Notes to Condensed Consolidated Financial Statements (Continued)

30 June 2007

16. OTHER LIABILITIES (Continued)

Notes: (Continued)

(i) Provision for supplementary pension subsidies and early retirement (Continued)

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 scheme. 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 installments 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 installment paid to HNG in January 2006, and such difference was fully settled among the Group and HNG in March 2006.

In addition, Ziying and its subsidiaries have also provided early retirement benefits to its employees and the obligations thereof recognized by the Group are calculated based on factors including the remaining number of years of service from the date of early retirement of an employee.

Notes to Condensed Consolidated Financial Statements (Continued)

30 June 2007

17. SHARE CAPITAL

	Number of shares 30 June 2007	**Nominal value 30 June 2007**	Number of shares 31 December 2006	Nominal value 31 December 2006
	'000	***RMB'000***	*'000*	*RMB'000*
		(Unaudited)		(Audited)
Registered, issued and fully paid				
– domestic shares of RMB1.00 each	**2,060,068**	**2,060,068**	2,060,068	2,060,068
– H shares of RMB1.00 each	**1,360,610**	**1,360,610**	1,360,610	1,360,610
	3,420,678	**3,420,678**	3,420,678	3,420,678

A summary of the movements in the Company's issued share capital for the six months ended 30 June 2007 is as follows:

	Number of shares	**Nominal value**
	'000	*RMB'000*
		(Unaudited)
At the beginning of period	3,420,678	3,420,678
At the end of period	3,420,678	3,420,678

Notes to Condensed Consolidated Financial Statements (Continued)

30 June 2007

18. BUSINESS COMBINATIONS

(a) Acquisition of a subsidiary

The fair value/carrying value of the identifiable assets, liabilities and contingent liabilities of a subsidiary acquired by the Group and dealt with in the interim condensed consolidated financial statements at the dates of acquisition were as follows:

	Fair value recognized on acquisition	Carrying amount	Carrying amount and fair value
	Six months ended 30 June		Six months ended 30 June
	2007	**2007**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
	(Unaudited)	(Unaudited)	(Unaudited)
Property, plant and equipment	18,193	18,193	–
Lease prepayments	85,343	–	–
Intangible assets	318,181	493	–
Available-for-sale financial assets	4,500	4,500	–
Inventories	12,668	12,668	–
Trade receivables	168	168	–
Prepayments, deposits and other receivables	17,757	17,757	–
Cash and cash equivalents	16,325	16,325	–
Trade payables	(744)	(744)	–
Other payables and accruals	(8,192)	(8,192)	–
Government grants	(2,000)	(2,000)	–
Tax payable	(1,448)	(1,448)	–
Deferred tax liabilities	(100,758)	–	–
Minority interests	(6,012)	(964)	–
Fair value/carrying value of net assets at dates of acquisition	353,981	56,756	–
Satisfied or represented by:			
Cash	353,981		–
	353,981		–

Notes to Condensed Consolidated Financial Statements (Continued)

30 June 2007

18. BUSINESS COMBINATIONS (Continued)

(a) Acquisition of a subsidiary (Continued)

An analysis of the net inflow/outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
	(Unaudited)	(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	**16,325**	–
Less: Cash consideration	**(353,981)**	–
Net inflow/(outflow) of cash and cash equivalents in respect of the acquisition/consolidation of subsidiaries in the consolidated cash flow statements	**(337,656)**	–

Note:

On 22 April 2007, the Company and thirty-three individual shareholders of Hengyang Yuanjing Tungsten Company Limited ("Hengyang Yuanjing") entered into various agreements pursuant to which the Company agreed to acquire the equity interests of Hengyang Yuanjing, which represented approximately 98.33% of the registered share capital of Hengyang Yuanjing for an aggregate consideration of RMB353,981,000. Hengyang Yuanjing is principally engaged in the mining, flotation and sale of tungsten concentrates and its by-products such as copper, bismuth and molybdenum.

Since the date of the acquisition, Hengyang Yuanjing has contributed a loss of RMB4,582,000 to the Group's profit distributable to equity shareholders of the parent and revenue of RMB3,841,000 for the six months ended 30 June 2007.

Had the aforesaid acquisition of Hengyang Yuanjing taken place at the beginning of 2007, the Group's net profit attributable to the equity holders of the parent would have been RMB292,460,000 for the six months ended 30 June 2007 and the revenue of the Group would have been RMB11,385,964,000 for the six months ended 30 June 2007.

Notes to Condensed Consolidated Financial Statements (Continued)

30 June 2007

18. BUSINESS COMBINATIONS (Continued)

(b) Disposal of a subsidiary

	Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Property, plant and equipment	**11,779**	–
Lease prepayments	**2,238**	–
Intangible assets	**28**	–
Inventories	**2,915**	–
Trade receivables	**72**	–
Prepayments, deposits and other receivables	**833**	–
Cash and cash equivalents	**4,879**	–
Trade payables	**(3,091)**	–
Other payables and accruals	**(1,568)**	–
Tax payable	**(453)**	–
Minority interests	**(8,971)**	–
Carrying value of net assets at the date of disposal	**8,661**	–
Gains on disposal of a subsidiary *(note 5)*	**927**	–
	9,588	–
Satisfied by:		
Other receivables	**9,588**	–

The net outflow of cash and cash equivalents in respect of the disposal is RMB 4,879,000.

19. INTERNAL RESTRUCTURING

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 would be issued to Zhuzhou Smelter Group Company Limited (株洲冶煉集團有限責任公司, "Zhuye", the parent company of Zhuye Torch), and not more than 23,000,000 new tradable A shares would be issued to not more than 10 institutional investors which were independent third parties. The consideration given by Zhuye to Zhuye Torch for subscribing for not less than 77,000,000 new tradable A shares would be satisfied by way of transfer of prescribed assets owned by Zhuye (mainly lead smelter business, together with related assets and liabilities) and in cash (if applicable) upon the completion. Details of the above had been disclosed in the Company's announcements dated 25 August, 17 August, 1 August, 18 July and 13 July 2006.

Notes to Condensed Consolidated Financial Statements (Continued)

30 June 2007

19. INTERNAL RESTRUCTURING (Continued)

On 22 March 2007, the abovementioned share issuance was completed. The number of Zhuye Torch A shares issued and allotted was 100,000,000, of which 78,600,000 shares had been issued to Zhuye and the other 21,400,000 shares had been issued to five institutional investors. The issue price was RMB8.10 per share. The consideration given by Zhuye to Zhuye Torch for subscribing for 78,600,000 shares was satisfied by way of transfer of prescribed assets. The cash consideration given by the other institutional investors to Zhuye Torch was RMB173,340,000. Details of the above had been disclosed in the Company's announcement dated 3 April 2007.

The transfer of prescribed assets into Zhuye Torch together with the share issuance has ultimately resulted in an increase in minority interest of RMB189,561,000, which has been dealt with in the Group's accounts for the six months ended 30 June 2007. At the same time, the Group's effective interest in Zhuye Torch has been increased from 26.85% to 31.2%, and goodwill of RMB28,890,000 was recognized by the Group on the acquisition of such minority interest.

Effective on 29 May 2007, Zhuye Torch was renamed as "Zhuzhou Smelter Group Co., Ltd. (株洲冶煉集團股份有限公司)" and the name in the business register has been changed.

20. CONTINGENT LIABILITIES

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

	30 June 2007 ***RMB'000*** **(Unaudited)**	31 December 2006 *RMB'000* (Audited)
Guarantees given to banks in respect of bank loans granted to:		
Associates	**75,000**	54,000
Third parties	**19,551**	76,299
	94,551	130,299

No financial liabilities were recorded as, in the opinion of the directors, the fair value of the financial guarantee contracts were not material.

Notes to Condensed Consolidated Financial Statements (Continued)

30 June 2007

21. OPERATING LEASE ARRANGEMENTS

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

At 30 June 2007, the Company had total future minimum lease payments under non-cancelable operating leases falling due as follows:

	30 June 2007	31 December 2006
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within one year	**16,060**	17,899
In the second to fifth years, inclusive	**63,785**	62,688
After five years	**204,087**	208,909
	283,932	289,496

22. COMMITMENTS

In addition to the operating lease commitments detailed in note 21 to the condensed consolidated financial statements, the Group had the following capital commitments at the balance sheet date:

	30 June 2007	31 December 2006
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Contracted, but not provided for:		
– acquisition/consolidation of property, plant and equipment	**1,704,068**	72,025
Authorized, but not contracted for:		
– acquisition/consolidation of property, plant and equipment	**1,501,730**	3,371,713

Note:

At 30 June 2007, the Company had commitments of RMB3,206 million principally relating to Zhuye Torch's investment on cyclic economy project (a process of zinc production with atmospheric direct leaching with oxygen able to treat zinc leach residue) and Zhuye's investment on lead smelter modernization able to treat zinc leach residue.

The cash outflow of above investment can be met by the banking facilities of the Group and future cash inflow from operating activities.

Notes to Condensed Consolidated Financial Statements (Continued)

30 June 2007

23. 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 2007 RMB'000 (Unaudited)	2006 RMB'000 (Unaudited)
Chenzhou Huangshaping Iron Processing Company	Sales of raw materials	**10,542**	966
Hunan Huangshaping Lead and Zinc Mine Changfu Industrial Company	Purchases of raw materials	**27,455**	12,500
	Purchases of transportation services	**598**	268
	Repairs and maintenance	**4,488**	2,640
	Provision of electricity	**264**	418
	Subcontracting fee income	**1,287**	1,091
	Sales of products	**148**	–
	Sales of raw materials	**157**	–
Shizhuyuan Nonferrous Metal Pasturage	Purchases of raw materials	**5,971**	3,617
	Sales of raw materials	**1,037**	–
Shizhuyuan Nonferrous Metal Integrated Services Company	Purchases of consumables	**1,234**	1,319
	Repairs and maintenance expense	**1,095**	–
	Provision of property management services	**1,416**	–
Chenzhou Shizhuyuan Yingshi Co. Ltd.	Provision of electricity	**455**	371
	Purchases of raw materials	**110**	562
Hunan Shizhuyuan Nonferrous Metal Mine Transportation Company	Transportation services	**9,239**	5,954
	Equipment lease income	**368**	–
	Sales of raw materials	**523**	–
Hunan Shizhuyuan Nonferrous Metal Mine Machinery Factory	Subcontracting fees	**658**	623
	Installation charges	**4,537**	1,694

Notes to Condensed Consolidated Financial Statements (Continued)

30 June 2007

23. 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 2007 RMB'000 (Unaudited)	2006 RMB'000 (Unaudited)
Chenzhou Shizhuyuan Construction Company	Construction services	**9,513**	5,566
Shizhuyuan Industrial Company	Rental expense	**865**	–
Lengshuijiang Hsikwangshan Transportation Company	Provision of transportation services	**6,576**	4,182
	Repairs and maintenance	**188**	125
Lengshuijiang Hsikwangshan Property Management Company	Provision of property management services	**1,926**	500
Lengshuijiang Hsikwangshan Machinery Manufacturing Company	Subcontracting fees	**6,159**	6,698
Lengshuijiang Hsikwangshan Industrial Company	Provision of electricity	**672**	641
Hunan Xianglu Company Limited	Sales of products	**8,703**	3,683
Hainan Haizhou Industrial Co. Ltd	Sales of products	**1,701**	3,798
Yao Gang Xian Tungsten Mine	Purchases of raw materials	**96,897**	77,748
Zhuying Assets Operation Company	Purchases of raw materials	**4,105**	–

Notes to Condensed Consolidated Financial Statements (Continued)

30 June 2007

23. RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with associates

Name of related parties	Nature of transactions	Six months ended 30 June 2007 RMB'000 (Unaudited)	2006 RMB'000 (Unaudited)
Zhuzhou Changjiang Cemented Carbides Tools Company Limited ("Zhuzhou Changjiang")	Sales of products and raw materials	6,913	912
	Purchases of raw materials and productions	40,357	32,843
	Rental income	210	210
	Dividend income	–	2,016
	Provision of electricity	8,589	5,541
Zhong Wu GaoXin Materials Corporation Limited	Purchases of raw materials and products	886,855	–
	Provision of services	370	–
	Rental income	150	–
	Sales of raw materials and products	156,659	–
Zigong Keruide	Sales of products	5,391	–
	Purchases of raw materials	375	–
	Purchases of services	238	–

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

(c) Guarantee granted for securing associates' bank loans

Name of related parties	Nature of guarantee	30 June 2007 RMB'000 (Unaudited)	31 December 2006 RMB'000 (Audited)
Zigong Keruide	Corporate guarantee	15,000	15,000
Zhuzhou Changjiang	Corporate guarantee	60,000	39,000

Notes to Condensed Consolidated Financial Statements (Continued)

30 June 2007

23. RELATED PARTY TRANSACTIONS (Continued)

(d) Lease of land use right from the ultimate holding company of the company

Name of related parties	Nature of transactions	Six months ended 30 June **2007** *RMB'000* (Unaudited)	2006 *RMB'000* (Unaudited)
HNG	Lease of land use right	**6,992**	7,562

(e) Compensation of key management personnel of the Group

	Six months ended 30 June **2007** *RMB'000* (Unaudited)	2006 *RMB'000* (Unaudited)
Total compensation paid to key management personnel	**1,140**	2,264

24. EVENTS AFTER THE BALANCE SHEET DATE

1. On 9 July 2007, the Company entered into a placing agreement with Morgan Stanley & Co. International plc and BOCI Asia Limited (the "Placing Agents") in relation to the placing (the "Placing"), on a fully underwritten basis, of an aggregate of 272,118,000 overseas listed foreign invested shares of RMB1.00 ("H Shares") in the share capital of the Company (the "Placing Shares") at a price of HK$4.93 per H Share (the "Placing Price"). The Placing Shares comprised (1) 247,380,000 H Shares (the "New Shares") to be allotted and issued by the Company and (2) 24,738,000 H Shares (the "Sale Shares") to be converted from the same number of existing State-owned domestic shares that were to be allocated from HNG, Shenzhen City Bangxin Investment Development Co., Ltd. and Hunan Valin Steel and Iron Group Co., Ltd. (collectively, the "State-owned Shareholders") to the National Social Security Fund Council (the "NSSF") of the People's Republic of China (the "PRC").

   The Placing of New Shares completed in July 2007. The gross proceeds from the Placing of New Shares was approximately HK$1,220 million. The net proceeds of the Placing of the New Shares was HK$1,214 million. The Company intends to use the net proceeds from the Placing of the New Shares for the development of nonferrous metals projects.

Notes to Condensed Consolidated Financial Statements (Continued)

30 June 2007

24. EVENTS AFTER THE BALANCE SHEET DATE (Continued)

2. On 15 August 2007, the Board of the Company announced that the Company had entered into the Principles of Agreement ("POA") with King Island Scheelite Limited ("KIS") for the re-development of the Project located on King Island, Tasmania, Australia.

   Subject to finalizing detailed legal documentation and obtaining shareholder and regulatory approval of KIS, among other things, the major terms and conditions of the POA were as follows: KIS to issue approximately 4.4 million new ordinary shares to the Company, which was equivalent to approximately 10% of total issued KIS capital, at a price of A $1.00 per share; KIS and the Company anticipate signing final documentation by the end of October 2007, with regulatory approvals expected soon after. The first tasks of construction, including detailed engineering, were expected to commence at that time.

For more details, please refer to the Company's announcement on 15 August 2007.

25. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on 26 August 2007.