Xinjiang Xinxin Mining Industry Co., Ltd.*

新疆新鑫礦業股份有限公司

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

Stock Code : 3833

Annual Report 2007

We See The Future

* *For identification purpose only*

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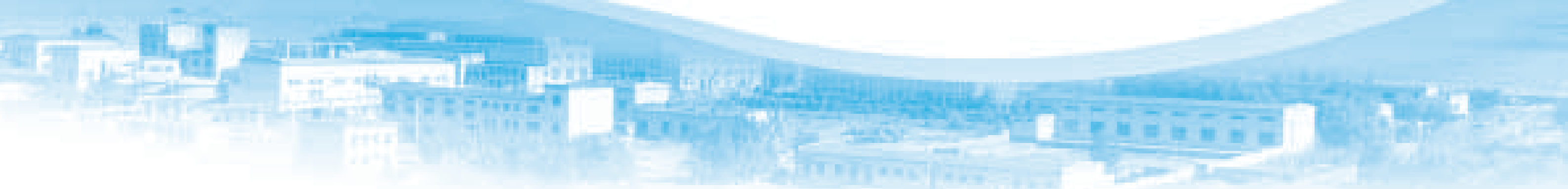

Corporate Information

Summary

Xinjiang Xinxin Mining Industry Co., Ltd. (the "Company") was incorporated on 1 September 2005 as a joint stock limited company in the People's Republic of China (the "PRC") by promotion jointly made by Xinjiang Non-ferrous Metal Industry (Group) Ltd.* (新疆有色金屬工業(集團)有限責任公司) ("Xinjiang Non-Ferrous"), Shanghai Yilian Kuangneng Co. Ltd.* (上海怡聯礦能實業有限公司) ("Shanghai Yilian"), Zhongjin Investment (Group) Ltd.* (中金投資(集團)有限公司) ("Zhongjin Investment"), Xiamen Zijin High-tech Co., Ltd.* (廈門紫金科技有限公司) ("Xiamen Zijin"), Xinjiang Xinying New Material Co. Ltd.* (新疆信盈新型材料有限公司) ("Xinjiang Xinying") and Shaanxi Honghao Industry Co., Ltd.* (陜西鴻浩實業有限公司) ("Shaanxi Honghao") (collectively referred to as the "Promoters").

The Promoters hold in aggregate 1,451,000,000 domestic shares in the Company. In October 2007, 759,000,000 H Shares were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company was the first state-owned Chinese nickel production enterprise listed outside mainland China. As of 31 December 2007, the Company had a total number of shares of 2,210,000,000 shares with par value of RMB0.25, of which 759,000,000 are H Shares, accounting for 34.34% of the Company's total issued share capital.

The Company is principally engaged in the mining, ore processing, smelting and refining operations and sales of nickel, copper and other non-ferrous metals in the PRC. The major product of the Company is nickel cathode. Other major products include copper cathode. Cobalt products, gold, silver, platinum and palladium are also produced and derived from the Company's main production process.

As of 31 March 2007, the Company possessed 247,408 tonnes of nickel resources in the PRC, of which approximately 163,800 tonnes were nickel reserves.

The Company currently holds four exploration permits covering an aggregate area of 159.91 square kilometres and one mining permit valid for 30 years commencing from 27 July 2007 covering an aggregate area of 7.887 square kilometres in Fuyun County, Xinjiang.

* The English name is a translation of the original Chinese name and provided for reference only.

Corporate Information

Executive Directors

Yuan Ze (袁澤) *(Chairman)*
Shi Wenfeng (史文峰)
Zhang Guohua (張國華)
Liu Jun (劉俊)

Non-executive Directors

Zhou Chuanyou (周傳有)
Niu Xuetao (牛學濤)

Independent non-executive Directors

Chen Jianguo (陳建國)
Sun Baosheng (孫寶生)
Ng Yuk Keung (吳育強)

Supervisors

Jiang Mingshun (姜明順)
Chen Jiahong (陳家洪)
Sun Baohui (孫寶輝)
Hu Zhijiang (胡志江)
Chen Yuping (陳玉萍)

Company secretaries

Lam Cheuk Fai (林灼輝) *FCCA, FCPA*
Zhang Junjie (張俊杰)

Audit committee

Chen Jianguo (陳建國)
Zhou Chuanyou (周傳有)
Ng Yuk Keung (吳育強)

Authorised representatives

Zhang Guohua (張國華)
Lam Cheuk Fai (林灼輝) *FCCA, FCPA*
Ng Yuk Keung (吳育強) *(Alternate)*

Our registration place in Hong Kong

9/F Gloucester Tower, The Landmark
15 Queen's Road Central
Central, Hong Kong

Statutory address and principal place of business in the PRC

7/F Youse Building
No. 4 You Hao North Road
Urumqi
Xinjiang

Compliance adviser

BOCI Asia Limited

Legal advisers to the Company

Huen Wong & Co.
in association with Fried, Frank, Harris, Shriver & Jacobson LLP (Hong Kong law)
Beijing Grandfield Law Firm (PRC law)

Auditors

International auditors

PricewaterhouseCoopers
22/F, Prince's Building, Central, Hong Kong

PRC auditors

PricewaterhouseCoopers Zhong Tian CPAs Limited Company
11/F, PwC Building, 202 Hubin Road
Shanghai, PRC

H Share Registrar in Hong Kong

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

Internet website

www.xjxxky.com.cn

Stock Code

3833

Summary of Financial Information

Results of operations

	Year ended 31 December			
	2004	2005	2006	**2007**
	RMB'000	*RMB'000*	*RMB'000*	***RMB'000***
Revenue	439,669	544,741	869,068	**1,581,163**
Cost of sales	(226,387)	(270,664)	(348,419)	**(721,705)**
Gross profit	213,282	274,077	520,649	**859,458**
Selling and marketing expenses	(3,633)	(3,368)	(7,494)	**(7,981)**
Administrative expenses	(37,308)	(71,653)	(65,496)	**(94,439)**
Other income	3,058	3,037	5,208	**32,013**
Other (losses)/gains – net	(1,041)	(2,387)	51	**4,150**
Operating profit	174,358	199,706	452,918	**793,201**
Subscription interest income	–	–	–	**141,151**
Finance costs – net	(4,243)	(5,644)	(10,122)	**(108,008)**
Profit before income tax	170,115	194,062	442,796	**826,344**
Income tax expense	(57,520)	(366)	(119)	**(238)**
Profit for the year	112,595	193,696	442,677	**826,106**
Attributable to:				
Equity holders of the Company	112,728	193,696	444,004	**827,269**
Minority interests	(133)	–	(1,327)	**(1,163)**
	112,595	193,696	442,677	**826,106**
Earnings per share *(note 1) (RMB)*	0.157	0.220	0.318	**0.498**

The results for each of the years ended 31 December 2004, 2005 and 2006, respectively, which were extracted from the prospectus of Xinjiang Xinxin Mining Industry Co., Ltd. (新疆新鑫礦業股份有限公司) (the "Company") dated 27 September 2007, have been prepared on a combined basis as if the Company and its subsidiaries had been in existence throughout those years.

Note 1: The basic earnings per share for each of the years ended 31 December 2004, 2005, 2006 and 2007 were computed by dividing the profits attributable to the equity holders of the Company by the weighted average numbers of shares in issue during the respective years and had been adjusted for the share split effective on 27 September 2007. There were no dilutive potential ordinary shares during the relevant period and, therefore, diluted earnings per share are not presented.

Financial position

	As at 31 December			
	2004	2005	2006	**2007**
	RMB'000	*RMB'000*	*RMB'000*	***RMB'000***
Total non-current assets	268,899	554,241	830,234	**927,608**
Total current assets	271,704	474,576	733,751	**4,383,618**
Total assets	540,603	1,028,817	1,563,985	**5,311,226**
Total non-current liabilities	13,711	136,913	189,454	**26,707**
Total current liabilities	206,989	283,265	202,230	**193,559**
Total liabilities	220,700	420,178	391,684	**220,266**
Equity attributable to equity holders of the Company	319,903	608,639	1,148,688	**5,090,960**
Minority interests	–	–	23,613	**–**
Total equity	319,903	608,639	1,172,301	**5,090,960**

Cash flows

	2004	2005	2006	**2007**
Net cash generated from operating activities	223,969	190,862	459,046	**719,959**

Chairman's Statement

Dear Shareholders,

I would like to extend my gratitude for your confidence and support to Xinjiang Xinxin Mining Industry Co., Ltd. (the "Company"). I have pleasure in reporting the operating results of the Company as at 31 December 2007:

In 2007, the Company captured the opportunities of the high prices of nickel, copper and other non-ferrous metals, having further expanded the production capacities of these products. Revenue from sales for the full year attained a record high of RMB1,581.2 million, representing an increase of 81.9% as compared to last year. Profit for the year attributable to equity holders of the Company amounted to RMB827.3 million, representing an increase of 86.3% as compared to last year. Earnings per share (basic and diluted earnings per share) amounted to RMB0.498, representing a growth of 56.6% (earnings per share were calculated by dividing the profit attributable to the equity holders of the Company for the year (2007: RMB827.3 million; 2006: RMB444.0 million) by the weighted average numbers of shares in issue during the respective years (2007: 1,661,781,000 shares; 2006: 1,398,136,000 shares) and had been adjusted for the share split effective on 27 September 2007).

1. MARKET OVERVIEW

During the year ended 31 December 2007 (the "Reporting Year"), the strong growth in the global economy, particularly in China's economy, drove a significant increase in the consumption volume of nickel and copper in the People's Republic of China (the "PRC"). The relative shortage in the supply of nickel and copper resources in the PRC led to a rise in the consumption volume of nickel cathode and copper cathode products that the domestic producers could not satisfy. Instead, the shortage of supply in the domestic market was covered by substantial import, driving growth in both domestic nickel cathode and copper cathode markets in terms of production and sales. The continued imbalance between supply and demand resulted in an increase in the market prices of nickel cathode and copper cathode in both domestic and international markets. In 2007, London Metal Exchange ("LME") three-month future price of nickel cathode was US$36,020 per tonne on average, representing an increase of 54.5% as compared to 2006. LME three-month future price of copper cathode was US$7,101 per tonne on average, representing an increase of 6.3% as compared to 2006. In 2007, the average spot price of nickel cathode in Shanghai Yangtze Non-Ferrous Metals Market in the PRC was RMB324,225 per tonne, representing a growth of 43% as compared to 2006, while the average spot price of copper cathode for the year was RMB62,632 per tonne, representing an increase of 0.2%. The domestic price trend of both nickel cathode and copper cathode is basically in line with the international market.

Throughout the Reporting Year, the selling prices of the Company's products basically remained at high level.

2. INDUSTRY POSITION

The Company is a mining company principally engaged in the mining, ore processing, smelting and refining of nickel products and other non-ferrous metals, namely: copper, cobalt, gold, silver, platinum and palladium. According to the statistics conducted by China Non-ferrous Metals Industry Association in 2007, the total domestic production volume of nickel cathode for 2007 was 115,759 tonnes, representing an increase of 7.6% as compared to last year. In 2007, the Company produced 4,872.9 tonnes of nickel cathode, representing an increase of 44.8% as compared to last year. The Company is the second largest nickel cathode producer in the PRC, and the growth rate of its nickel cathode production volume in 2007 ranked number one among the peers in the same industry in the PRC.

3. OPERATION REVIEW

During the Reporting Year, the Company produced 4,872.9 tonnes of nickel cathode, representing an increase of 44.8% as compared to last year, and 3,686.1 tonnes of copper cathode, representing an increase of 17.1% as compared to last year. The total revenue from sales amounted to RMB1,581.2 million, representing an increase of 81.9% as compared to last year, and profit for the year attributable to equity holders of the Company amounted to RMB827.3 million, representing an increase of 86.3% as compared to last year.

As at the end of 2007, the total assets of the Company amounted to RMB5,311.2 million, representing an increase of 239.6% as compared to last year, and net assets amounted to RMB5,091.0 million, representing an increase of 334.3% as compared to last year.

(1) Good conditions in production operation leading to a record high operation results

During the Reporting Year, the overall production operation of the Company was stable and in good condition. Production volume, sales volume and net profit all attained new record high with substantial growth when comparing to 2006.

1. Production volume of major products: In 2007, the Company produced a total of 4,872.9 tonnes of nickel cathode, representing an increase of 44.8% as compared to the 2006, and 3,686.1 tonnes of copper cathode, representing an increase of 17.1% as compared to last year, as well as 42.5 tonnes of cobalt cathode, representing an increase of 100.8% as compared to last year.

2. Revenue: In 2007, the total revenue was RMB1,581.2 million, representing a growth of 81.9% as compared to last year. Revenue from sales of nickel cathode was RMB1,267.7 million, accounting for 80.2% of the Company's total revenue. Revenue from sales of copper products was RMB267.8 million, accounting for 16.9% of the Company's total revenue. Revenue from sales of cobalt products was RMB22.9 million, accounting for 1.5% of the Company's total revenue. Revenue from other products was RMB22.8 million, accounting for 1.4% of the Company's total revenue.

3. Profit for the year: The profit for the year attributable to equity holders of the Company amounted to RMB827.3 million, representing a growth of 86.3% as compared to last year.

As at 31 December 2007, the total assets of the Company amounted to RMB5,311.2 million and the gearing ratio was zero percent. The net cash generated from the operating activities of the Company in 2007 was RMB720.0 million.

As at 31 December 2007, the financial position of the Company was strong and its operation performance was outstanding.

(2) Technical improvement and expansion projects proceed smoothly

During the Reporting Year, the Company continued its two technical improvement and expansion projects regarding the enhancement in mining and ore processing capacity of Kalatongke Mine and the refining capacity of Fukang Refinery.

In 2007, the technical improvement and expansion projects of the Company ran smoothly and the required construction progress was completed on schedule. The investment sum of the projects amounted to RMB180.1 million, which comprises:

1. All digging works and most of auxiliary installation construction of shaft tubes had been completed for a main shaft and two exhausted shafts newly constructed in the technical improvement and expansion project of Kalatongke Mine, and the construction of ore processing had also been commenced.

2. The technical improvement and expansion project of 13,000 tonnes of nickel cathode of Fukang Refinery and the complementary works in respect of heat supply, wind supply and gas supply had been basically completed. The current production operation capacity for nickel cathode has attained 8,000 tonnes per year.

(3) Geological exploration and resources integration projects

During the Reporting Year, the Company invested a total of RMB8.7 million in geological mine searching and exploration at depth and surrounding areas of Kalatongke Mine. The results of geological mine searching and exploration is in the progress of preparation and submission for approval in accordance with the procedures.

Since the listing of the Company's H shares on the Stock Exchange on 12 October 2007, as disclosed in the Prospectus, the Company has been empowered to the possible integrated acquisitions of mineral resources in Xinjiang. The preparation works for integrated acquisitions of mine recently completed are set out as follows:

1. The Company has obtained policy support provided by the People's Government of Xinjiang Uygur Autonomous Region. On 29 November 2007, the People's Government of Xinjiang Uygur Autonomous Region convened a subject analysis meeting resolving that in respect of geological exploration, preferential allotment of non-ferrous metals mineral resources, integration of current mines and focused developments on the refining processing operations of the non-ferrous metals such as nickel and copper, the Company enjoys the preferential policy support provided by the government.

2. The decisions by the People's Government of Xinjiang Uygur Autonomous Region would be implemented in a proactive manner. The Company has completed negotiations with and obtained support from the local governments of Hami region and Altay Prefecture.

3. The Company has commenced the preparation works, namely: constitution of blueprints and assessments, in respect of the selected resources acquisitions and integration projects.

(4) Corporate management

During the Reporting Year, the Company took its listing as a critical step to improve its management system. Through strengthened management, the Company's managerial level was continuously enhanced and its operation costs were effectively reduced. In respect of financial management, the results of budgetary control were appealing, ensuring that cash requirements of production and operation and the technical improvement projects were fulfilled. As for production management, the product quality was continuously enhanced by consolidated management over quality, crafts and on-site operations. The grading of nickel cathode and copper cathode of the Company for the Reporting Year achieved 96.3% and 100%, respectively. In terms of technical innovation, ideas have been continuously turned into practical production, building the base for production efficiency. The highest production volume of nickel cathode of Fukang Refinery for the Reporting Year reached 582.9 tonnes a month. In respect of corporate governance of the Company, the Company has adopted effective code provisions of the corporate governance practices as set out by the regulatory body. During the Reporting Year, the Board of Directors, Supervisory Committee and the management took their own responsibilities to monitor the operations. All of the Directors, Supervisors and senior management staff were diligent and responsible, and performed their obligations based on the powers conferred by the PRC Company Law and the Company's Articles of Association, and ensured the overall operation procedures of the Company for the Reporting Year were followed.

In recognition of its achievement in the development and utilization of mineral resources in Kalatongke Mine, Kalatongke Mine was honored "National Advanced Enterprise for Development and Utilization of Mineral resources" (全國礦產資源開發利用先進企業) by the PRC during the Reporting Year.

Kalatongke Mine was honored "Enterprise of Observing Contract and Valuing Credit" (全國守合同重信用單位) by the State Administration for Industry and Commerce of the PRC during the Reporting Year.

Kalatongke mine was honored "Model Tax-Paying Enterprise in Autonomous Regions" (自治區模範納稅企業) by People's Government of Xinjiang Uygur Autonomous Region during the Reporting Year.

Pursuant to classification standards of domestic economy and industries, statistics principles of enterprise legal person, related national statistical data and the comprehensive assessments by China Industry News, Fukang Refinery was recognized as "Leading enterprise in 2007 China Nickel and Cobalt Refining Industries" (2007年中國鎳鈷冶煉行業排頭兵企業).

Fukang Refinery was recognized as "Autonomous Region-level Enterprise Technical Centre" (自治區級企業技術中心) by people's governments of Xinjiang autonomous regions during the Reporting Year.

(5) Environmental safety

The Company applies and implements scientific development concepts and the policies of "Safety First, Precaution Foremost" and "Development Works together with Protection" to better perform its production safety and environmental governance works. In 2007, the Company achieved its target of production safety with no death or severe injury in mines and factories. The environmental governance is stringently observed in accordance with the relevant national laws and regulations. Results in developing environmental-friendly factory and harmonious working condition in mines are significant.

4. OUTLOOK

(1) Operating environment

In 2008, despite the signs of global economy slowdown, it is expected that China's economy will continue to grow at a fast pace (The PRC government has seen China's 2008 GDP growth rate at 8%). As a result, the Company expects the consumption volume of nickel metal and copper metal in the domestic non-ferrous metal market will keep growing. Due to the relative shortage in the supply of nickel and copper resources, nickel cathode and copper cathode products provided by domestic producers still could not satisfy the growth in the consumption volume. Instead, the lack of supply in the domestic market needs to be covered by the import. It is expected that production and sales and active tradings will continue to grow in the domestic nickel cathode and copper cathode markets.

It is expected that the domestic market prices of nickel cathode and copper cathode in 2008 will remain at the high end of the average spot prices of Shanghai Yangtze Non-ferrous Metals Market for the last three years, though with fluctuations.

(2) Operating objectives

In 2008, the Company plans to produce 7,000 tonnes of nickel cathode, 4,200 tonnes of copper cathode and 50 tonnes of cobalt products. Please note that this production planning was made on the basis of the current market situation and the existing conditions of the Company. The Board of Directors may, as situation warrants, vary the production plans.

(3) Business strategies

1. Capture favorable market opportunities and ensure continued efforts in increasing production upon the completion of the production plans

   Regarded as the major mine of the Company, Kalatongke Mine has pioneered a new stage in respect of production operations, regulatory management, safety and environmental protection, expertise training and exploration of resources. Fukang Refinery, as the principal place for the production of end products of the Company, has to put more efforts in refining management, boosting products quality and recycling rates for metals, and further enhancing the levels of skill and technologies and comprehensive recycling abilities. Furthermore, the Company is also active in exploring breakthrough ideas in procuring raw materials and further processing in order to achieve the 2008 target growth rates in production and sales volume of nickel cathode at 45% or above.

2. Projects construction and preparation work

   (1) The technical improvement and expansion project of Kalatongke Mine

   In 2008, the mining and ore processing construction will be basically completed, and the construction work of ore processing and nickel matte refining will be commenced. The technical improvement and expansion project of Kalatongke Mine is expected to be completed and will commence production in 2009.

   The investment sum for the technical improvement and expansion project plans of Kalatongke mine in 2008 amounts to RMB718 million.

   (2) The technical improvement and expansion project of Fukang Refinery

   In 2008, the final phase work of 13,000 tonnes of nickel cathode and the technical improvement and expansion work of production system of Fukang Refinery will be completed. The production capacity of 13,000 tonnes of nickel cathode will be attained in 2008. In respect of the technical improvement and expansion work of production system for 12,000 tonnes of copper cathode, the project designs, analysable and global assessment and approval work will be completed in 2008. Fukang Refinery also seeks to start constructions of complementary projects for 12,000 tonnes of copper cathode in 2008 and will commence production in 2009.

   The investment sum for the technical improvement and expansion project plans of Fukang Refinery in 2008 amounts to RMB299 million.

3. Mineral resources control and geological exploration

   Mineral resources are fundamental support for continuing development of a mining company. The control of mineral resources and the searching of geological mine are the core components of the business development of the Company. In 2008, the Company continues to focus on searching potential preliminary exploration projects for acquisition. It also expands the exploration work in depth and in width in the surrounding areas of its existing primary mines, and applies effective mine searching methods so that the mineral resources of the Company can achieve a significant growth.

4. Corporate management

   (1) Highly emphasise on production safety

   Production safety is an important element to ensure that the production and operation targets are attained. Production safety is emphasized in the phases of system implementation, frontline production and under the mine shafts. An advanced management system is needed to strengthen the on-site operations management for production safety and the regulations over the operations under mine shafts so as to achieve zero death and severe injury in mines and factories. Moreover, the Company will continue to enforce the environmental governance according to the related national laws and regulations, and endeavor to establish a new-styled mineral resource enterprise renowned in energy saving and environmental friendly operations.

   (2) Establish ideas of modern corporate operation and regulate economic acts of the Company

   The Company will continue to implement comprehensive budgetary control, manage its cash flow plan and monitor its project investments and significant raw material acquisition through financial management. It will also continue to implement value-for-money concept for purchasing function, in order to enhance quality of material purchasing, while maintaining low costs.

   (3) Focus on sales strategy and endeavor to obtain maximum benefit

   In order to maximize the benefit from sales, the Company will closely monitor the trading information about domestic and international non-ferrous metal markets, analyse price movements and capture price trend. The Company will keep on focusing its sales strategy, ensuring the products of the Company are sold at best possible prices.

(4) Reinforce work plans, work targets and the coordination and management during their implementation, and ensure all tasks of the Company are accomplished in 2008.

2008 is a critical year for the the Company's business development in respect of production operation, technology improvement and expansion and integrated acquisition of resources. The Company will take utmost care of organising production operation, project construction and integrated acquisitions of resources, further explore the channels for raw materials supply and ensure all tasks of the Company are accomplished in 2008.

5. Human resources

The Company will continue to focus on human resources and refine some of its human resources management systems such as engagements and assessments of employees and remunerations. The Company will further reinforce the development of human resources management systems through engagement and training in order to satisfy the human resources demand in its business development.

6. Technical innovation

The Company will enforce the establishment of three major systems in respect of geological exploration, mining and refining and experimental analysis, focusing on key technical projects which are highly related to the Company's production. The Company will establish its strong exploration, analysis, design and implementation teams.

Since the listing, the management team and all staff of the Company have been working with faith and diligence to increase the Company's value significantly. The production volume of major products of the Company achieves significant growth rate, and the efficiency of which is continuously improving. The Company is empowered with capital to expand its investments. The results of the preparation works for exploration and integrated acquisition of mine resources are remarkable. The remuneration of the Company's staff is further raised. The shareholders of the Company are rewarded with prominent returns on investment, and the economic and social development of the regions where the Company is located will be stimulated at the same time. The appeal and attractiveness of the Company is thereby further enhanced.

The Company is expected to face both opportunities and challenges in 2008. Yet, the Company believes that Xinjiang Xinxin Mining will undergo another stage of splendid development in 2008 with utmost diligence from all staff members and enormous support from the public.

By Order of the Board
Yuan Ze
Chairman

Xinjiang, the PRC, 1 April 2008

OPERATING RESULTS

In 2007, the turnover of the Group reached a new record of RMB1,581.2 million, representing a growth of 81.9% as compared to RMB869.1 million in 2006. 55.5% of the growth was attributable to the increase in average selling price and the remaining 44.5% was attributable to growth in production volume. The profit attributable to the equity holders of the Company in 2007 amounted to RMB827.3 million, representing a growth of 86.3% from 2006. The profit growth was primarily due to the strong market demand in 2007 pushing high selling prices of major products and the effective control of production costs.

On 25 May 2007, the Company disposed its 57% equity interest in Xinjiang Zhongxin Mining Company Limited* (新疆眾鑫礦業有限責任公司) ("Zhongxin Mining") to an independent third party at a consideration of RMB33.1 million and recorded a net profit of RMB3.3 million from the disposal.

TURNOVER AND GROSS PROFIT

Due to increases in the sales volume and average selling prices of the Group's major products, nickel cathode and copper cathode, the turnover of the Group in 2007 reached a new record of RMB1,581.2 million, representing a growth of 81.9% as compared to RMB869.1 million in 2006.

The following table illustrates the details of sales by products for the two years ended 31 December 2006 and 2007:

	2006			**2007**		
	Sales			**Sales**		
	Volume	Amounts	Turnover	**Volume**	**Amounts**	**Turnover**
Products' names	*tonnes*	*RMB'000*	*%*	***tonnes***	***RMB'000***	***%***
Nickel cathode	3,303.5	604,649	69.6%	**4,953.9**	**1,267,716**	**80.2%**
Copper cathode	3,107.8	161,874	18.6%	**3,769.8**	**199,873**	**12.6%**
Raw copper	602.1	33,792	3.9%	**–**	**–**	**0.0%**
Copper concentrate	5,102.8	48,437	5.6%	**4,805.0**	**67,889**	**4.3%**
Other products		20,316	2.3%		**45,685**	**2.9%**
Total turnover		869,068	100%		**1,581,163**	**100%**
Cost of sales		(348,419)	40.1%		**(721,705)**	**45.6%**
Gross profit		520,649	59.9%		**859,458**	**54.4%**

In 2007, turnover from nickel cathode was RMB1,267.7 million, representing a growth of 110% as compared to RMB604.6 million in 2006. The increase in the turnover of nickel cathode was primarily due to (1) the significant enhancement in the refining capacity as a result of the technical improvement project of Fukang Refinery, which yielded 50% increase in sales volume of nickel cathode from 3,303.5 tonnes in 2006 to 4,953.9 tonnes in 2007; and (2) the strong market demand and high selling price, which resulted 40% increase in average selling price of nickel cathode from RMB183,033 per tonne in 2006 to RMB255,900 per tonne in 2007.

In 2007, turnover from copper cathode was RMB199.9 million, representing a growth of 23% as compared to RMB161.9 million in 2006. The increase in turnover of copper cathode was primarily due to an increase in its sales volume and average selling price from 3,107.8 tonnes and RMB 52,087 per tonne in 2006 to 3,769.8 tonnes and RMB53,020 per tonne in 2007, respectively. This represented an increase of 21% and 2% in sales volume and average selling price, respectively.

In 2007, our Company did not conduct any processing of copper concentrate into raw copper for sales. Turnover from copper concentrate was RMB67.9 million, representing a growth of 40% as compared to RMB48.4 million in 2006. The increase in turnover of copper concentrate was primarily due to an increase of 49% in its average selling price from RMB9,492 per tonne in 2006 to RMB14,129 per tonne in 2007. This increase was partially offset by a slight decrease of 6% in sales volume from 5,102.8 tonnes in 2006 to 4,805 tonnes in 2007.

In 2007, turnover from other products was RMB45.7 million, representing a growth of 125% as compared to RMB20.3 million in 2006. The growth was primarily due to significant increases in sales volume and average selling price of cobalt cathode in 2007 comparing to those in 2006.

Gross profit of the Group increased by 65% from RMB520.6 million in 2006 to RMB859.5 million in 2007, and the gross profit margin for the two years ended 31 December 2006 and 2007 were 59.9% and 54.4%, respectively. The slight decrease of gross profit margin was primarily due to the timing and progress differences between the production capacity expansion of the mining and ore processing and that of the refining operation. In 2007, the growth of refining production capacity was higher than that of mining and ore processing. During the year, the Company increased the volume of outside purchase of raw materials, namely nickel concentrate and sulphite matte, at appropriate time based on market situations to fully utilize current refining facilities. The cost of that portion of raw materials, namely nickel concentrate and sulphite matte, from outside suppliers was significantly higher than the cost of raw materials from internal supplies.

SELLING AND MARKETING EXPENSES

Selling and marketing expenses slightly increased by 7% from RMB7.5 million in 2006 to RMB8.0 million in 2007. This slight increase was primarily due to increases in packaging and warehouse expenses incurred by increased sales volume of the Company's major products.

ADMINISTRATIVE EXPENSES

Administrative expenses increased by 44% from RMB65.5 million in 2006 to RMB94.4 million in 2007. This increase was primarily due to an increase of salary expenses and mineral resources compensation fee as a result of the increases in production volume and turnover.

OTHER INCOME AND OTHER NET GAINS

Other income increased by 515% from RMB5.2 million in 2006 to RMB32.0 million in 2007. Such increase was primarily due to an increase in interest income resulting from a significant increase in cash and bank balances.

Other net gains increased from RMB51,000 in 2006 to RMB4.2 million in 2007. This increase was primarily due to the profit on disposal of a subsidiary company, Xinjiang Zhongxin Mining Company Limited* (新疆眾鑫礦業有限責任公司), amounted to RMB3.3 million.

FINANCE COSTS AND INTERESTS FROM FUND RAISED

In October 2007, the Company launched the IPO and its H shares were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). An interest income of RMB141.2 million was generated from the over subscription proceeds raised during the offering period prior to the listing.

Finance costs increased from RMB10.1 million in 2006 to RMB108.0 million in 2007. The increase was mainly due to a net exchange loss of RMB96.9 million incurred by the Company's IPO during the year. In 2007, the Company converted majority of the IPO proceeds in HK dollar into RMB. As of 31 December 2007, the Company had unconverted balance of IPO proceeds of HK$470 million.

INCOME TAX EXPENSE

Income tax expense increased from RMB119,000 in 2006 to RMB238,000 in 2007. The income tax expenses in 2006 and 2007 were incurred by the Shanghai Branch of the Company. Pursuant to relevant documents issued by the People's Government of Xinjiang Uygur Autonomous Region, the Company and its branches at Kalatongke Mine and Fukang Refinery were exempted from enterprise income tax until 2010, subject to annual review. Shanghai Branch of the Company is required to pay enterprise income tax at a statutory rate of 33%.

MINORITY INTERESTS

Loss attributable to minority interests decreased from RMB1.3 million in 2006 to RMB1.2 million in 2007. The loss attributable to minority interests was primarily due to the pre-operating loss incurred by the disposed subsidiary, Zhongxin Mining.

PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY AND EARNINGS PER SHARE

Profit attributable to the equity holders of the Company increased by 86.3% from RMB444.0 million in 2006 to RMB827.3 million in 2007, and net profit margin increased from 50.9% in 2006 to 52.2% in 2007.

In 2007, basic earnings per share of the Group was RMB0.498, representing an increase of 57% as compared to basic earnings per share last year of RMB0.318. Earnings per share are calculated based on profit attributable to the equity holders of the Company for the year as well as weighted average of 1,661,780,822 shares of the issued ordinary shares for the year (weighted average of 1,398,136,986 shares of the issued ordinary shares in 2006).

LIQUIDITY AND FINANCIAL RESOURCES

In 2007, financial resources of the Company were mainly derived from cash generated from operating activities and the issuance of H shares in the year, and the cash was mainly used in payment for mining rights, capital expenditure, operating activities, dividend payment and repayment of borrowings. Cash and bank balances of the Group increased from RMB562.5 million as at 31 December 2006 to RMB4,096.1 million as at 31 December 2007, representing an increase of 628%.

During the year, net cash inflow generated from the Group's operating activities amounted to RMB720.0 million, an increase of RMB261.0 million or 56.9% over the previous year. The main reasons for the increase in the cash-flow generated from the Group's operating activities were increases in sales volume and price in nickel cathode.

During the year, the net cash outflow used in the Group's investing activities amounted to RMB496.5 million, an increase of RMB288.7 million or 138.9% over the previous year. The increase in the net cash outflow used in the investing activities was due to the payment of mining rights of RMB283.8 million and the net cash outflow in respect of the disposal of a subsidiary during the year.

During the year, net cash inflow generated from the Group's financing activities amounted to RMB3,407.6 million, an increase of RMB3,423.8 million over the previous year, which was mainly due to the net proceeds from IPO of RMB4,155.2 million which was partly offset by dividend paid of RMB880.9 million.

As at 31 December 2007, the Company did not have any bank debts.

The Company's daily working capital requirements and capital expenditure requirements continue to be financed by its internal cash flow and in the manner as set out in the section headed "Future Plans and Use of Proceeds" of the prospectus of the Company dated 27 September 2007.

DEBT TO TOTAL ASSETS RATIO

As at 31 December 2007, the Company did not have any bank debts.

COMMODITY PRICE RISK

The prices of the Company's products are impacted by international and domestic market prices and change in global supply and demand for such products. Price volatility of non-ferrous metals is also affected by the global and PRC economics cycles as well as the fluctuations of the global currency markets. Both international and domestic market prices of non-ferrous metals as well as the volatility of supply and demand are beyond the control of the Company. Therefore, the volatility of commodity price may materially affect the turnover and the profit of the Company. The Company did not engage in nor enter into any trading contracts and pricing arrangements to hedge the risk of volatility of non-ferrous metals price.

RISK OF FLUCTUATIONS IN EXCHANGE RATE

The transactions of the Company are all denominated in Renminbi. Fluctuations in exchange rates may affect the international and domestic non-ferrous commodity prices, which may impact our results of operation. RMB is not a freely convertible currency, and the conversion of RMB to a basket of currency may involve fluctuations. In light of further actions and measures adopted for free transactions of RMB by the PRC Government, fluctuations in exchange rates may adversely affect the value, translated or converted into Hong Kong dollars, of our net assets, earnings and any dividends we declare.

INTEREST RATE RISK

Although the Company has no exposure to risks resulting from fluctuations in interest rates on the Company's debt-fee balance sheet, to the extent that we may need to raise debt financing in the future, any upward fluctuations in interest rates will increase the cost of new debt financing.

BORROWINGS

As at 31 December 2007, the Company did not have any outstanding bank loans or other borrowings.

CONTINGENT LIABILITIES

As at 31 December 2007, the Company did not have material contingent liabilities.

HISTORICAL CAPITAL EXPENDITURE

Capital expenditure of the Company was primarily used to expand our production capacities and to improve our mining, ore processing, smelting and refining technology. The following table sets out the conditions of the Group's capital expenditure as well as the ratio of the capital of each operation over total capital expenditure based on various categories of operations:

	2007	Total
	RMB'000	*(percentage)*
Mining, ore processing and smelting operations in the Kalatongke Mine	**119,602**	58%
Refining operations in the Fukang Refinery	**77,345**	37%
Smelting operations in Zhongxin Mining	**9,477**	5%
Total	**206,424**	100%

Note: The Company completed the disposal of Zhongxin Mining on 25 May 2007.

EMPLOYEES

As at 31 December 2007, the Company had 2,515 full-time employees. Breakdowns by function and location are as follows:

Division	**Employees**	**Total**
		(in percentage)
Management and administration	130	5.2%
Engineering technician	387	15.4%
Production staff	1,529	60.8%
Repair and maintenance	308	12.2%
Inspection	150	6.0%
Sales	11	0.4%
Total	2,515	100.0%

The remuneration package of the Company's employees includes salary, bonuses and allowances. The Company has participated in the social insurance contribution plans organised by local governments in the PRC. In accordance with the relevant national and local labour and social welfare laws and regulations, the Company is required to pay on behalf of our employees a monthly social insurance premium covering pension insurance, medical insurance, employment insurance and housing provident funds. According to the currently applicable local regulations, the respective percentages of the pension insurance, medical insurance, employment insurance and housing provident funds which the Company must contribute are 20%, 6%-7.5%, 2% and 10%, respectively, of our employees' total monthly basic salary. The Company also contributes 0.5%-2% of our employees' total monthly basic salary for occupational injury insurance and 0.6%-1% of the total monthly basic salary for maternity cover.

Introduction of Directors, Supervisors and Senior Management

Executive Directors

Mr. Yuan Ze (袁澤), aged 58, is a delegate to the Eleventh People's Congress of the People's Republic of China and currently serving as the Chairman of the Company. Mr. Yuan completed a postgraduate course in natural geography at Nanjing University in December 1997. From October 1998 up to January 2002, he served as the secretary of the communist party committee of Xinjiang Non-ferrous Metal Industry Co. Since January 2002 and up to present, he has served as the secretary of the communist party committee and chairman of Xinjiang Non-ferrous Metal Industry (Group) Ltd. Mr. Yuan received the Xinjiang Uygur Autonomous Region Model Labour Award (新疆維吾爾自治區勞動模範) in 2005.

Mr. Shi Wenfeng (史文峰), aged 40, has been a Director and the General Manager of our Company since September 2005. Mr. Shi graduated from the Department of Chemical Engineering of Chengdu University of Science and Technology with a Bachelor's degree in engineering, majoring in the metallurgy of non-ferrous metals from September 1985 to July 1989 and is a senior engineer in Metallurgy. Mr. Shi has accumulated more than 19 years of experience in the smelting industry. From September 1993 to January 1994, he served as the deputy head of the central refinery workshop of the Fukang Refinery. From November 1994 to January 1995, he served as the head of the production division of Fukang Refinery. From February 1995 to March 1998, he served as the assistant head of Fukang Refinery. From March 1998 to January 2002, he served as the deputy head of Fukang Refinery. From January 2002 to August 2005, he served as the head of Fukang Refinery. Mr. Shi received the National Model Labour Award (全國勞動模範) awarded by the State Council in 2005, and he received the Scientific and Technological Progress First Prize (科學技術進步一等獎) in 1995 and 2002 awarded by the National Committee of Science and Technology of the PRC (國家科學技術委員會) and the People's Government of Xinjiang, respectively, for his contribution to the development of the wet process in the refining of nickel and the development of technology and production application in extracting copper and precious metals from smelting tailing of nickel ore.

Mr. Zhang Guohua (張國華), aged 43, has been a Director and the Executive Deputy General Manager of our Company since September 2005. He completed a postgraduate course in management science and engineering at Dalian University of Technology in November 2003. From October 1988 to December 1993, he served as a deputy section leader and section leader of the environmental safety section of Kalatongke Mine. From January 1994 to June 1996, he served as a mining workshop supervisor of the Kalatongke Mine. From June 1996 to March 1997, he served as an assistant to the head of Kalatongke Mine. From March 1997 to March 1998, he served as the chairman of the labour union of Kalatongke Mine. From March 1998 to March 1999, he served as the secretary of the communist party committee of the Kalatongke Mine. He served as the deputy general manager and general manager of the sales branch of Xinjiang Non-ferrous Metals Industry Co. from April 1999 to February 2002. Mr. Zhang has accumulated more than 24 years of experience in the mining industry. From March 2002 to August 2005, he served as the head of Kalatongke Mine. He has also served as the secretary of the Communist Party committee of our Company since September 2005. Mr. Zhang was recognised by Xinjiang Non-ferrous as the Model Labour (勞動模範) for the years of 2003 and 2004.

Mr. Liu Jun (劉俊), aged 42, has been a Director of our Company since September 2005. Mr. Liu graduated from Kunming University of Science and Technology with a Bachelor's degree in engineering, majoring in mining engineering from September 1983 to July 1987. He served as the deputy supervisor (production technology) of the mining workshop of Kalatongke Mine from May 1991 to December 1993. From January 1994 to December 1994 he served as the head of production technology division of Kalatongke Mine. He served as the chief engineer of Kalatongke Mine from March 1997 to April 2000. From April 2000 to August 2005 he served as the deputy general manager of Kalatongke Mine. Since September 2005, he has become the head of the Kalatongke Mine and he has also served as a Director and deputy general manager of our Company. Mr. Liu has accumulated more than 21 years of experience in the mining industry. Mr. Liu's contribution to nickel matte blowing and recovery processing and industrialised production received a scientific and technological progress second prize from the People's Government of Xinjiang for the year of 2004.

Non-executive Directors

Mr. Zhou Chuanyou (周傳有), aged 43, has been a non-executive Director and the vice-chairman of the Company since September 2005. He completed a postgraduate course in law at Fudan University in July 1987. Mr. Zhou taught in Huadong Politics and Law Institute from July 1987 to January 1990. From September 1995 he served as the Chairman of Shanghai Jinying Investment Company Ltd. (上海金鷹投資有限公司), which is the predecessor of Zhongjin Investment, and he is currently the beneficial owner of 98.83% shareholding in Zhongjin Investment. Mr. Zhou has served as a director of Shanghai Yilian since May 2005 and is currently the beneficial owner of the entire shareholding of Shanghai Yilian. Mr. Zhou has served as a director of Shanghai Zhongjin Real Estate (Group) Co., Ltd. (上海中金集團房產(集團)有限公司) since February 1998 and a vice chairman and director of Dazhong Insurance Co., Ltd. of China (大眾保險股份有限公司) since September 1998.

Mr. Niu Xuetao (牛學濤), aged 43, has been a non-executive Director of the Company since September 2005. He completed an undergraduate course in Law at Northwest Institute of Political Science and Law in July 1990. Since February 2003, he served as the deputy chief executive officer of Zhongjin Investment (Group) Ltd. Since 22 June 2004, Mr. Niu served as the vice-president and the director of Xinjiang Fanhua Mine and Energy Industrial Company Ltd. (新疆泛華礦能實業有限公司), a company principally engaged in real estate development business, which is not related to Xinjiang Nonferrous, and he is also a general manager of Shanghai Yilian since May 2005.

Independent non-executive Directors

Mr. Chen Jianguo (陳建國), aged 44, an independent non-executive Director since June 2006, graduated from the Xinjiang Institute of Finance and Economics and obtained a Bachelor's degree in economics in July 1985. In 1988, he obtained a Master's degree in economics from Dongbei University of Finance and Economics. Since September 1988, he has been teaching at the Faculty of Finance of Xinjiang Institute of Finance and Economics. He was promoted to an associate professor in July 1996 and has become the Head of Faculty of Finance of Xinjiang Institute of Finance and Economics since 1997. From January 1999 to August 1999, he studied in Nyenrode Business Universiteit in Netherlands pursuant to the Chinese Management Development Program. In 2001, he obtained a Master's degree in Business Administration from Haagse Hogeschool, University of Professional Education in Netherlands. Since April 2002, he has served as a standing council member of Xinjiang International Taxation Research Institute (新疆國際税收研究會常務理事). Mr. Chen has acted as an independent director of Markor International Furniture Co. (美克國際傢俱股份有限公司) and Xinjiang Guannong Fruit & Antler Co., Ltd. (新疆冠農果茸股份有限公司), both of which are PRC companies listed on the Shanghai Stock Exchange, since September 2002 and January 2003, respectively. Mr. Chen has also acted as an independent director of Zhundong Petroleum Technology Co., Ltd. (準東石油技術股份有限公司) and Great Western Region Tourism Co., Ltd. (大西部旅遊股份有限公司) since September 2004 and December 2003, respectively.

Mr. Sun Baosheng (孫寶生), aged 59, an independent non-executive Director since June 2006, studied and obtained a postgraduate qualification in engineering in 1982. From August 1975 to September 1978, Mr. Sun served as the team leader and technician of the Bureau of Geominerals Exploration and Development of Xinjiang. From October 1975 to April 1976, he studied remote sensing geology in Peking University. From September 1978 to April 1982, he studied minerogenetic rule and minerogenetic prognostic (成礦規律及成礦預測) at Xinjiang University and obtained a Master's degree. He has served as the Head of the Teaching and Research Section of Deposits Geochemical (礦物地球化學教研室主任) since October 1981. He was qualified as a professor in June 1994. He is currently a tutor of PhD students in Xinjiang University, and also serving as deputy director of the Geological Society of Xinjiang Uygur Autonomous Region (新疆地質協會副理事長), member of Council of China Resource Industry (中國資源產業理事會理事), member of the group of experts of Xinjiang Resource and Environment Center (新疆資環中心專家組成員), visiting fellow of Xinjiang Institute of Ecology and Geography Chinese Academy of Sciences (中國科學院新疆生態與地理研究所客座研究員).

Mr. Ng Yuk Keung (吳育強), aged 43, an independent non-executive Director since January 2007, graduated from the University of Hong Kong with a Bachelor's degree in economics and management, and a Master's degree in global business management and E-commerce. He has been qualified as a Chartered Accountant with Institute of Chartered Accountants in England and Wales and is fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. During the period from 1988 to 2001, he worked in PricewaterhouseCoopers and took part in various initial public offerings. From 2004 to 2006, he served as deputy chief financial officer, joint company secretary and qualified accountant in a H-share company listed in Hong Kong. Since August 2006, he has served as vice president, chief financial officer, joint company secretary and qualified accountant in China Huiyuan Juice Group (中國匯源果汁集團), a company listed on the Stock Exchange.

Supervisors

Mr. Jiang Mingshun (姜明順), aged 52, has been the chairman of the supervisory committee since April 2006. He is a Supervisor elected by the employees as employees' representative in the supervisory committee. He graduated from Central Xinjiang Communist Party School (新疆自治區黨校) in 1988, majoring in political theory. Mr. Jiang had worked in Keketuohai Mining Bureau (可可托海礦務局) since 1973. From August 1983 to August 1986, he worked in the Labour Union of Keketuohai Mining Bureau. He served as the Party branch secretary of Keketuohai Mining Bureau No. 1 Mine and Transportation Section from August 1988 to January 1992. From 1 November 1991 he served as the assistant chief director (the deputy for the chief director) of the Keketuohai Mining Bureau (可可托海礦務局行政辦公室). He served as deputy head of Fukang Refinery from January 2002 to August 2005.

Mr. Chen Jiahong (陳家洪), aged 37, has been a Supervisor of the Company since May 2006. He is a representative of the Shareholders in the supervisory committee. He served as a technician of Division 801 of the No. 8 Geographical Region of Fujian Province (福建省第八地質大隊801分隊) from July 1990 to December 1992, and the in-charge technician of the No. 5 engineering department of No. 8 Geographical Region of Fujian Province from January 1993 to July 1994. He held various positions in Zijin Mining as monitor, workshop supervisor, deputy head, head of mine and deputy general manager from July 1994 to March 2002. Since March 2002, Mr. Chen has been the general manager of Ashele Copper and the deputy general manager of Zijin Mining (紫金礦業集團). Mr. Chen was a Director of the Company from September 2005 to April 2006. Since August 2006, he has served as the vice-president of Zijin Mining, an H-share listed company in Hong Kong.

Mr. Sun Baohui (孫寶輝), aged 37, has been a Supervisor of the Company since June 2006. He was elected by the employees as employees' representative in the supervisory committee. He majored in the metallurgy of non-ferrous metals and graduated from Kunming University of Science and Technology with a Bachelor's degree in engineering in July 1992. Mr. Sun served as a technician, a deputy head and a head of the smelting workshop at the Kalatongke Mine successively from July 1992 to September 2000. From April 2003 to September 2005, he served as the head of the ore processing workshop at Kalatongke Mine. Since September 2005, he has served as the deputy head of and the president of the labour union at the Kalatongke Mine.

Independent Supervisors

Ms. Chen Yuping (陳玉萍), aged 43, is an independent Supervisor of the Company since 12 June 2006. Ms. Chen majored in industry economics and obtained a Bachelor's degree in economics from Xinjiang Institute of Finance and Economics in July 1985 and a Master's degree in business administration from Oklahoma City University in June 1989. Since July 1985, Ms. Chen has been teaching in the Faculty of Business Administration of Xinjiang Institute of Finance. Ms. Chen is now a professor and has been the deputy head of the Faculty of Business Administration of Xinjiang Institute of Finance and Economics since July 2001 and was appointed an associate professor in July 1996. From January 2000 to September 2000, she studied in Nyenrode University in Netherlands pursuant to the Chinese Management Development Project.

Mr. Hu Zhijiang (胡志江), aged 62, is an independent Supervisor of the Company since 12 June 2006. He is a qualified senior accountant and a practising accountant. Mr. Hu was a deputy head in the Agricultural Planning and Finance Section of the Finance Department of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區財政廳農財處) from 1992 to 1994. From 1994 to 1997, he served as the head of the Legal and Taxation Section of the Finance Department of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區財政廳法制税政處). From 1997 to 2001, he served as the head of the Accounting Section of the Finance Department of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區財政廳會計處). From 1998 to 2000, he served as a member of the Senior Assessment Committee for Professional Qualification in Accounting of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區會計專業技術資格高級評審委員會). From 2001 to 2005, he served as the inspector at the deputy department level of the Finance Department of Xinjiang Uygur Autonomous Region (副廳級巡視員). Mr. Hu has been the vice chairman of the eighth committee of the Accounting Association of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區會計學會第八屆理事會) since 2002.

Other senior management

Mr. Zhang Junjie (張俊杰), aged 45, is one of the joint company secretaries of the Company. He graduated from Zhongnan Mining and Smelting Institute (中南礦冶學院) with a Bachelor's degree in engineering, majoring in mining engineering from September 1979 to July 1983. Mr. Zhang has more than 24 years' experience in the mining industry. From July 1983 to September 1988, he was employed as the deputy head of the comprehensive planning department of Xinjiang Keketuohai Mining Bureau. From October 1988 to March 1991, he was the head of the production technology division and the head of the mining workshop of the Kalatongke Mine. From April 1991 to March 1993, he was the deputy head and acting head of the production technology division of Xinjiang Keketuohai Mining Bureau. From March 1993 to August 1997, he was the deputy chief economist of Xinjiang Non-ferrous Industry Co. Copper and Nickel Branch (新疆有色金屬工業公司銅鎳分公司). From August 1997 to March 1998, he was a deputy general manager of Xinjiang Non-ferrous Industry Co. Copper and Nickel Branch (新疆有色金屬工業公司銅鎳分公司). From April 1998 to July 2002, he was the head of the finance department of Xinjiang Non-ferrous Metal Industry Co.. From July 2002 to August 2005, he was the head of the assets management department of Xinjiang Non-ferrous. Since September 2005 he has been the secretary to the Board of Directors.

Mr. Lam Cheuk Fai (林灼輝), aged 54, is the qualified accountant and joint company secretary of the Company. He joined us in June 2006. Mr. Lam was awarded a Higher Certificate in Accountancy from the Hong Kong Polytechnic University (formerly known as the Hong Kong Polytechnic) in 1979, and a Master's degree of Business Administration from the University of East Asia, Macau in 1988. Mr. Lam is a fellow of both the Association of Chartered Certified Accountants of the United Kingdom and the Hong Kong Institute of Certified Public Accountants. From 1979 to 1985, Mr. Lam worked for Touche Ross & Co. (now known as Deloitte & Touche) in Hong Kong and the U.S. and Arthur Young & Co. (now known as Ernst & Young) in Hong Kong. Mr. Lam has approximately 30 years of working experience in auditing, accounting, internal control, taxation, company secretarial work and financial management in multinational organisations in the U.S., Hong Kong and the PRC. He was previously employed as the chief financial officer and the company secretary by a listed company in Hong Kong.

Introduction of Directors, Supervisors and Senior Management

Mr. Feng Chaoyu (馮朝雨), aged 44, is a deputy general manager of the Company and the head of the Fukang Plant. Mr. Feng completed an undergraduate course in business administration at the Kunming University of Science and Technology in July 2004. Mr. Feng started working at Fukang Refinery since January 1992. Mr. Feng has been working in the non-ferrous industry since 1983.

Mr. Wu Tao (吳濤), aged 41, is the chief engineer of the Company. Mr. Wu studied in the Department of Chemical Engineering at Chengdu University of Science and Technology from September 1985 to July 1989 specialising in the metallurgy of non-ferrous metals and graduated with a Bachelor's degree in engineering. He started working at the Kalatongke Mine upon graduation. Since October 1991, he has been working at the Fukang Refinery and has been the chief engineer since September 2005. He was awarded two Scientific and Technological Progress First Prizes (科學技術進步一等獎), one by the National Committee of Science and Technology in 1995 for his contribution to the wet process adopted in refining and one by the People's Government of Xinjiang for the year of 2002 for his contribution to the development of production methods in smelting, extraction from tailings and the production of copper and precious metals.

Mr. He Hongfeng (何洪峰), aged 38, is the chief financial officer of the Company since September 2005. Mr. He graduated from Xinjiang College of Finance and Economics in 1992 with a Bachelor's degree in economics. Prior to joining the Company in September 2005, he was working in Zhongjin Investment as an accountant. Mr. He is a certified accountant, certified valuer and certified tax consultant in the PRC.

The Directors are pleased to present their 2007 report and the audited financial statements of Xinjiang Xinxin Mining Industry Co., Ltd. (the "Company") and its subsidiary (collectively referred to as the "Group") for the year ended 31 December 2007.

Group reorganisation

The Company was incorporated in the PRC on 1 September 2005 as a joint stock company with limited liability as a result of a reorganisation of Xinjiang Non-Ferrous Metal Industry (Group) Ltd.* (新疆有色金屬工業(集團)有限責任公司) ("Xinjiang Non-Ferrous") in preparation for the listing of the Company's H shares on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Xinjiang Non-Ferrous is a State-owned enterprise established on 15 March 2002 and is the controlling shareholder of the Company. Further details of the Group Reorganisation are set out in the Company's prospectus dated 27 September 2007 (the "Prospectus").

On 12 October 2007, the H shares of the Company were successfully listed on the Stock Exchange.

Principal activities

The principal activities of the Company are in the mining, ore processing, smelting, refining and sales of nickel, copper and other non-ferrous metal products. There were no significant changes in the nature of the Group's principal activities during the year.

Results and dividends

The Group's profit for the year ended 31 December 2007 and the state of financial affairs of the Company and the Group at that date are set out in the financial statements on pages 52 to 124.

The Board of Directors proposed payment of a final dividend of RMB0.08 per share. Dividend for shareholders of H shares will be distributed to the shareholders whose names appear on the Company's register of members at the opening of business on Thursday, 29 May 2008.

Use of proceeds from the Company's initial public offering

In October 2007, the Company received an aggregate net proceeds of approximately RMB4,278.4 million from the issue of new H shares at the time of listing on the Stock Exchange. Such net proceeds were arrived after deduction of related issuance expenses incurred in 2006 and 2007 plus the subscription interest income on the share over subscription fund. The Company applied approximately RMB237.6 million for the principle payment of the remaining balance of the consideration of the transfer of mining rights, approximately RMB8.2 million for exploration work in areas in which the Company has exploration rights; approximately RMB65.9 million for the expansion of mining and ore processing operations in the Kalatongke Mine and approximately RMB61.4 million for the expansion of the refining operation in the Fukang Refinery.

The Directors expect that the remaining proceeds will be applied in the coming years to their intended uses as set out in the Prospectus but with certain specific re-allocation of the proceeds in view of the Company's business need and development since the listing of its H shares in October 2007. On 1 April 2008, the Directors approved in principle the following investment projects in 2008, which are subject to the approval of the shareholders of the Company in the forthcoming annual general meeting of the Company to be held on 29 May 2008:

1. approximately RMB318.3 million to be used in relation to the further expansion of the mining and ore processing of the Kalatongke Mine*;

2. approximately RMB400.0 million to be used in relation to the expansion of the smelting operation in the Kalatongke Mine;

3. approximately RMB32.5 million to be used in relation to the expansion of the refining capacity of the Fukang Refinery in respect of 13,000 tonnes of nickel cathode per year; and

4. approximately RMB266.0 million to be used in relation to the expansion of the refining capacity of the Fukang Refinery in respect of 12,000 tonnes of copper cathode per year.

* This project will be partly financed by the Company's internal cash flow and partly by the remaining IPO proceeds. It is expected that the rest of the above investment projects will be financed only by the remaining IPO proceeds.

Summary of financial information

A summary of the operating results and assets, liabilities and minority interests of the Group for the last four financial years, with the audited financial statements for the three years ended 31 December 2006, as extracted from the Company's Prospectus and the audited financial statements for the year ended 31 December 2007, is set out on pages 4 to 5 of this annual report. This summary does not form part of the audited financial statements.

Property, plant and equipment

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 6 to the consolidated financial statements.

The Group did not hold any investment property.

Share capital

Details of movements in the Company's share capital during the period are set out in note 14 to the consolidated financial statements.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the People's Republic of China which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, sale or redemption of listed securities of the Company

The Company's H shares were listed on the Stock Exchange on 12 October 2007. Neither the Company nor its subsidiary purchased, sold or redeemed any of the Company's listed shares during the period from 12 October 2007 to the date of this report.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in the consolidated statement of changes in equity and notes 14 and 15 to the consolidated financial statements.

Distributable reserves

According to the Articles of Association of the Company, the reserves available for distribution are based on the lower of the Company's profits determined under PRC general accepted accounting standards and regulations and Hong Kong Financial Reporting Standards.

In accordance with the Company Law of the PRC, profit after tax can be distributed as dividends shall be deducted after the transfer to the statutory surplus reserve. As at 31 December 2007, the Company's distributable reserve under PRC generally accepted accounting standards and Hong Kong Financial Reporting Standards amounted to approximately RMB177,499,000 and RMB329,895,000, respectively, out of the former amount, the final dividend for 2007 of RMB176,800,000 was proposed.

Charitable contributions

During the year, the Group made charitable contributions totalling RMB371,673 (2006: RMB135,868).

Major customers and suppliers

As at 31 December 2007, the proportion of purchase and sales from major suppliers and major customers of the Company to the total purchase and sales, respectively, are as follows:

Purchase

The total purchase from the largest supplier of the Company is 54.24% of the total purchase value
The total purchase from the five largest suppliers of the Company is 72.05% of the total purchase value

Sales

The total sales to the largest customer of the Company is 37.19% of the total sales value
The total sales to the five largest customers of the Company is 67.85% of the total sales value

During the year, none of the Directors, Supervisors or their respective associates or any shareholders of the Company who, to the best of the Directors' knowledge, holds more than 5% of the issued share capital of the Company has any interest in the five largest customers or the five largest suppliers of the Company.

Share Appreciation Rights Incentive Scheme

The Company proposed to adopt a share appreciation rights incentive scheme (the "Share Appreciation Rights Incentive Scheme") to acknowledge the contributions of senior management and key personnel. The Share Appreciation Rights Incentive Scheme is an arrangement providing for incentive for the management of the Company such that it attaches importance to the performance of the shares of the Company and its long-term development without the characteristics of shares. It is intended to align the senior management's interests to those of the Company and its shareholders. It is intended that the operation of the Share Appreciation Rights Incentive Scheme will not involve any issue of new H Shares of the Company, and the exercise of any share appreciation rights will not create a dilution effect on the Company's shareholding structure.

The Share Appreciation Rights Incentive Scheme entitles persons who are granted such rights to receive cash payments when the Company's share price rises above the exercise price granted in the share appreciation rights in a certain pre-determined period, subject to certain terms and conditions of the Share Appreciation Rights Incentive Scheme.

The Company has obtained an approval from the State-owned Asset Supervision and Administration Commission of Xinjiang Uygur Autonomus Region (新疆維吾爾自治區國有資產監督管理委員會) (the "Xinjiang SASAC") on 25 February 2008 for the adoption of the Share Appreciation Rights Incentive Scheme. According to Xinjiang SASAC's approval, the Company should prepare implementing rules for the Share Appreciation Rights Incentive Scheme for Xinjiang SASAC's filing, the contents of which should include the scope of eligible persons, quantum of the share appreciation rights, timing of the grant and pricing, price determination model, estimated proceeds and examination and inspection system and benchmark in accordance with the relevant laws and regulations of the PRC. The shareholders of the Company are yet to adopt and approve the Share Appreciation Rights Incentive Scheme, and therefore, no share appreciation rights has been granted pursuant to the Share Appreciation Rights Incentive Scheme.

The share appreciation rights are not transferable, nor are there any voting rights attached to the share appreciation rights. The proposed Share Appreciation Rights Incentive Scheme is not a scheme involving the grant of options over new securities of the Company, and therefore will not fall within the ambit of, and will not be subject to, regulations in Chapter 17 of the Listing Rules.

Directors and Supervisors

The Directors and Supervisors of the Company during the year were:

Executive Directors:

Mr. Yuan Ze	袁澤先生	(appointed on 29 August 2005)
Mr. Shi Wenfeng	史文峰先生	(appointed on 29 August 2005)
Mr. Zhang Guohua	張國華先生	(appointed on 29 August 2005)
Mr. Liu Jun	劉俊先生	(appointed on 29 August 2005)

Non-executive Directors:

Mr. Zhou Chuanyou	周傳有先生	(appointed on 29 August 2005)
Mr. Niu Xuetao	牛學濤先生	(appointed on 29 August 2005)

Independent non-executive Directors:

Mr. Chen Jianguo	陳建國先生	(appointed on 12 June 2006)
Mr. Sun Baosheng	孫寶生先生	(appointed on 12 June 2006)
Mr. Au Yiu Kwan	歐耀均先生	(appointed on 12 June 2006 and resigned on 2 January 2007)
Mr. Ng Yuk Keung	吳育強先生	(appointed on 3 February 2007)

Supervisors:

Mr. Jiang Mingshun	姜明順先生	(appointed on 29 August 2005)
Mr. Chen Jiahong	陳家洪先生	(appointed on 15 May 2006)
Mr. Sun Baohui	孫寶輝先生	(appointed on 15 May 2006)

Independent Supervisors:

Ms. Chen Yuping	陳玉萍女士	(appointed on 12 June 2006)
Mr. Hu Zhijiang	胡志江先生	(appointed on 12 June 2006)

Service contracts of Directors and Supervisors

Each of the Directors and Supervisors has entered into a service contract with the Company. All these contracts will be expired on 28 August 2008.

Pursuant to articles 106 and 145 of the Articles of Association, the terms for Directors and Supervisors will be for three years commencing from the date of its appointment or re-appointment subject to re-appointment by a general meeting.

Save as disclosed above, there are no service contracts between the Company and any of the Directors or Supervisors with a term specifying that if the Company terminates the contract within one year, the Company will make compensation apart from statutory compensation.

Confirmation of independence

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and considers all the independent non-executive Directors to be independent.

Directors', Supervisors' and senior management's biographies

Biographical details of the Directors and Supervisors of the Company and the senior management of the Group are set out on pages 21 to 26 of this annual report.

Directors', Supervisors' and senior management's remunerations

The Directors' and Supervisors' remunerations including discretionary bonus are subject to shareholders' approval at general meetings. In compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules, the Company has a remuneration and review committee to formulate compensation policies and to determine and manage the compensation of the Company's directors and senior management. Details of the Directors' and Supervisors' remuneration are disclosed in note 30 to the consolidated financial statements.

Directors' and Supervisors' interests 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 its subsidiary was a party during the year.

Directors' and Supervisors' interests and short positions in shares

As at 31 December 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 Securities and Future Ordinance ("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.

Substantial shareholders' and other persons' interests in shares

So far as was known to any Director or Supervisor, as at 31 December 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 of the Company 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 follows:

Name	Number of shares held	Class of share	Approximate percentage of shareholding on relevant class of shares (%)	Approximate percentage of the total share capital (%)
Xinjiang Non-ferrous	885,204,000(L)	Domestic share	61.01	40.06
Shanghai Yilian *(Note 1)*	282,896,000(L)	Domestic share	19.50	12.80
Zhongjin Investment *(Note 1)*	198,028,000(L)	Domestic share	13.65	8.96
The National Council for Social Security Fund of the PRC (中國全國社會保障基金理事會)	69,000,000(L)	H share	9.09	3.12
Fidelity International Limited	38,436,000(L) *(Note 2)*	H share	5.06	1.74

(L) = Long positions

Note 1: All the shareholdings/equity interests of Sanghai Yilian and 98.83% of the shareholdings of Zhongjin Investment are beneficially owned by Mr. Zhou Chuanyou (周傳有). The interest attributable to Mr. Zhou represents his indirect deemed interest in our issued capital via his equity interests in Shanghai Yilian and Zhongjin Investment.

Note 2: According to the DI form filed on 22 January 2008 pursuant to the SFO, Fidelity International Limited held 44,194,000 H shares of the Company, representing approximately 5.82% of shareholding of such relevant class of shares (H shares) and approximately 2.00% of the total share capital of the Company as at 22 January 2008.

Save as disclosed above, as at 31 December 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.

Connected transactions

Certain related party transactions as disclosed in note 37(b) to the financial statements also constituted connected transactions under the Listing Rules and are required to be disclosed in accordance with chapter 14A of the Listing Rules.

Continuing connected transactions not exempt under the Listing Rules

1. Xinjiang Non-ferrous (the controlling shareholder of the Company) and the Company entered into a mutual supply agreement on 17 September 2007 (the "Mutual Supply Agreement") whereby both parties agreed that (a) the Xinjiang Non-ferrous Group will provide construction services, certain production supplies, storage, transportation and loading services and other supporting and ancillary services to the Company; and (b) the Company will provide nickel cathode, copper cathode and sulphuric acid to the Xinjiang Non-ferrous Group from 12 October 2007 to 31 December 2009.

   For each of the three years ended 31 December 2007, 2008 and 2009, the annual cap of the aggregate fees payable by the Company to Xinjiang Non-ferrous Group amounted to approximately RMB120.4 million, RMB248.5 million and RMB181.9 million, respectively. For the year ended 31 December 2007, the actual fees payable to Xinjiang Non-ferrous Group by the Company were approximately RMB85.2 million.

   For each of the three years ended 31 December 2007, 2008 and 2009, the annual cap of the aggregate fees payable by Xinjiang Non-ferrous Group to the Company amounted to approximately RMB18.6 million RMB18.5 million and RMB19.4 million, respectively. For the year ended 31 December 2007, the actual fees payable to the Company by the Xinjiang Non-ferrous Group were approximately RMB6.5 million.

2. The Company entered into a comprehensive services agreement with Xinjiang Non-ferrous Metal Industry (Group) Fuyun Xingtong Service Company Limited* (新疆有色金屬工業(集團)富蘊興銅服務有限公司) ("Fuyun Xingtong"), a wholly-owned subsidiary of Xinjiang Non-ferrous, on 17 September 2007 whereby Fuyun Xingtong agreed to provide certain supporting services including educational, nursery, medical and healthcare services to the employees of the Company from 12 October 2007 to 31 December 2009 (the "Comprehensive Services Agreement"). For each of the three years ended 31 December 2007, 2008 and 2009, the annual cap of the services fees payable to Fuyun Xingtong by the Company is approximately RMB3.3 million. For the year ended 31 December 2007, the actual fees payable by the Company to Fuyun Xingtong were approximately RMB2.3 million.

3. On 22 June 2007, the Company entered into a property lease agreement with Xinjiang Non-ferrous pursuant to which Xinjiang Non-ferrous agreed to lease to the Company office premises on the 7th and 8th floors, Youse Building, No. 4 You Hao North Road, Urumqi, Xinjiang, the PRC with a total gross floor area of approximately 1,992 square metres for office use with a term commencing from 1 July 2007 and ending 31 December 2009. For each of the three years ended 31 December 2007, 2008 and 2009, the annual cap of the rental payable to Xinjiang Non-ferrous by the Company is approximately RMB1.6 million. For the year ended 31 December 2007, the actual rental payable was approximately RMB1.6 million.

The independent non-executive directors of the Company have reviewed the connected transactions and confirmed the said transactions in the annual report and the accounts of the Company and are of the view that the continuing connected transactions:

(i) were in the ordinary and usual course of business of the Company;

(ii) have been entered into by the Company on normal commercial terms or on terms no less favorable to the Company than terms to/by independent third parties; and

(iii) have been entered in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

PricewaterhouseCoopers, the auditors of the Company, have performed certain procedures on the connected transactions and confirmed in writing to the Board of Directors that the above-mentioned continuing connected transactions:

1. have been approved by the Board of Directors;

2. are in accordance with the pricing policies of the Company if the transactions involved provision of goods or services by the Company;

3. have been entered into and conducted in accordance with the relevant agreements governing the transactions; and

4. have not exceeded the annual cap amounts as disclosed in the Prospectus.

Non-competition Agreement

As disclosed in the Prospectus, the independent non-executive Directors will review, on an annual basis, on the exercise or non-exercise of the right of first refusal to purchase 34% shareholding or any part thereof in Ashele Copper (as defined in the Prospectus) and/or the option to purchase the whole or any part of the 50% equity interest held by Xinjiang Non-ferrous in Hami Hexin (as defined in the Prospectus) under the Non-competition Agreement (as defined in the Prospectus). The non-competition restrictions took effect on 12 October 2007. Xinjiang Non-ferrous has confirmed that Xinjiang Non-ferrous has not breached the terms of the Non-competition Agreement and has provided all information necessary for annual review by the independent non-executive Directors of the Company. An annual review has been conducted by the independent non-executive Directors of the Company on such decisions to exercise or not to exercise the right of first refusal and/or the option stated above.

Related party transactions

The Group is also involved in a number of related party transactions which have been disclosed in note 37 to the financial statements.

Sufficiency of public float

Based on public information and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as of the date of this report.

Litigation and arbitration

The Company has no major litigation or arbitration as at the date of this report.

Acquisitions, disposals and mergers

On 30 April 2007, the Company entered into an equity transfer agreement with a third party, Xinjiang Investment and Development (Group) Company Limited* (新疆投資發展(集團)有限責任公司) ("Xinjiang I&D"), to dispose its 57% equity interest in Zhongxin Mining to Xinjiang I&D, at a consideration of approximately RMB33.1 million. The full consideration was received by the Company on 16 May 2007. The transfer of the equity interest of Zhongxin Mining was completed on 25 May 2007.

Save as disclosed in the above, the Company had no other acquisitions, sale or merger of assets during the year.

Directors' interests in a competing business

During the year and up to the date of this report, the following Director is considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Company, as defined in the Listing Rules, as set out below:

Mr. Yuan Ze chairs the board meetings at Xinjiang Non-ferrous and also acts as the legal representative of Xinjiang Non-ferrous to sign any bonds, material contracts and other material documents of Xinjiang Non-ferrous. Mr. Yuan has not given any confidential or sensitive commercial information of the Company to Xinjiang Non-ferrous and any other third party and has physically abstained from the meetings to consider connected transactions with Xinjiang Non-ferrous.

As the Board of Directors of the Company is independent from the Board of Directors of Xinjiang Non-ferrous and the above Director does not control the Board of the Company, the Group is capable of carrying on its businesses independently of, and at arm's length from, the business of Xinjiang Non-ferrous.

Post balance sheet events

There are no significant post balance sheet events of the Group.

Closure of register for annual general meeting

The register of members of the Company will be closed from Saturday, 26 April 2008 to Thursday, 29 May 2008 (both days inclusive), during which time no share transfers will be registered. In order to qualify for the final dividends and be eligible to attend the 2007 annual general meeting of the Company, instruments of transfer accompanied by share certificates and other appropriate documents must be lodged with the Company's H share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, no later than 4:30 p.m. on Friday, 25 April 2008.

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 namely, Mr. Zhou Chuanyou and two independent non-executive Directors, namely, Mr. Chen Jianguo and Mr. Ng Yuk Keung, with Mr. Chen Jianguo serving as the Chairman. The board audit committee and management has reviewed the audited results for the year ended 31 December 2007.

Auditors

The consolidated financial statements are audited by PricewaterhouseCoopers. The auditors have to retire at the end of the period. However, they are eligible to be reappointed as auditors of the Company. A resolution for the reappointment of PricewaterhouseCoopers as auditors of the Company is to be proposed at the forthcoming Annual General Meeting of the Company.

By order of the Board
Yuan Ze
Chairman

Xinjiang, the PRC
1 April 2008

As at the date of this report, the Board of Directors of the Company comprises four executive Directors, namely Mr. Yuan Ze, Mr. Shi Wenfeng. Mr. Zhang Guohua and Mr. Liu Jun, two non-executive Directors, namely Mr. Zhou Chuanyou and Mr. Niu Xuetao and three independent non-executive Directors, namely Mr. Chen Jianguo, Mr. Sun Baosheng and Mr. Ng Yuk Keung.

* The English name is a translation of the original Chinese name and provided for reference only.

Report of the Supervisory Committee

To all Shareholders,

For the year 2007, the Supervisory Committee of the Company (the "Supervisory Committee") faithfully fulfilled the supervisory duties to safeguard the interests of the shareholders of the Company effectively in accordance with the regulations of the Company Law of the PRC, the Articles of Association of the Company, the relevant requirements prescribed by the Code on Corporate Governance Practices as set out in the Rules Governing the Listing of Securities on the Stock Exchange and the Guide for Internal Control System of Listed Companies. This independent report on the work progress and the due performance of duties by the Supervisory Committee is set out as below:

1. Routine Duties of the Supervisory Committee

(i) The Supervisory Committee held two meetings during the Reporting Year. During the two meetings, the the supervisors of the Company (the "Supervisors") individually reviewed and approved *the Working Report of the Supervisory Committee for 2006, the Working Report of the General Manager for 2006, the Financial Report for 2006, the Financial Budget for 2007, the Resolution regarding the Appointment of Auditing Firm for 2007* and *the Resolution regarding Proposed Adjustment to Remuneration Standards for the Chairman of the Supervisory Committee*. All Supervisors attended the meetings and expressed their opinions on the issues in compliance with the laws and the Articles of Association of the Company. The supervisors also performed their duties diligently and acted to the best the interests of the Company's shareholders as a whole.

(ii) Through attending each and every meeting of the Board of Directors in 2007, all Supervisors have effectively overseen the issues including the legitimacy of the Board meetings, the lawfulness of the resolutions, the compliance with the laws and regulations and the Articles of Association of the Company, the conformity with the resolutions of the general meetings as well as the practical needs to facilitate the operations and development of the Company.

(iii) Through various activities including attendance at the general manager's meetings, the Supervisory Committee has effectively monitored significant economic activities of the Company such as external projects, connected transactions and tenders for mass purchasing. The Supervisory Committee members have conducted site visits, investigation and research studies and have given relevant opinions and recommendations regarding the issues concerned.

(iv) The Supervisory Committee has monitored the financial operation of the Company through examining its financial plans and reviewing various financial statements of the Company.

(v) The Supervisory Committee has monitored the performance of the management and the operational management at all branches of the Company. The Supervisory Committee has also maintained frequent communications with the management and offered its opinions and suggestions.

In order to equip themselves with the necessary knowledge and enhance their competence, all Supervisors have been proactive to participate business-related training programmes during 2007 for the better understanding of the laws and regulations. The Supervisors carried out their obligations and duties in a stringent manner in accordance with the annual work plan of the Supervisory Committee. The two independent Supervisors, who are financial specialists, duly performed their supervisory duties by enhancing the capability of the Supervisory Committee and improving the independence of the Supervisory Committee on its exercise of functions.

2. Independent Opinion of the Supervisory Committee

(i) Legitimate Operation

In 2007, the Company carried out its operations in strict compliance with the relevant laws and regulations including the Company Law, the Articles of Association of the Company, the Code on Corporate Governance Practices as set out in the Rules Governing Listing of Securities on the Stock Exchange and the Guide for Internal Control System of Listed Companies. Each of the shareholders' meeting, the Board of Directors, the Supervisory Committee and the senior management has clear roles and has complied with operating procedures. The Company has further established and adopted a series of rules and codes which were feasible and effective for the Company. It has achieved the conformity to codes, laws and regulations, attained the goal of high efficiency, and ensured the smooth implementation of various major works of the Company.

(ii) Assets of the Company

An asset transaction was conducted during 2007. The Company invested RMB33.1 million in Xinjiang Zhongxin Mining Company* (新疆眾鑫礦業有限責任公司)("Zhongxin Mining") in 2006, representing 57% equity interest of Zhongxin Mining. Pursuant to the resolution proposed at the Board meeting held on 25 April 2007, the Company transferred all of its equity interest in Zhongxin Mining to Xinjiang Investment and Development (Group) Company Limited* (新疆投資發展(集團)有限責任公司) for a consideration of RMB33.1 million which was received on 16 May 2007. The transfer of the equity interest of Zhongxin Mining was completed on 25 May 2007.

Detailed disclosure of other assets has been made on the financial statements of the Company.

(iii) Financial Management of the Company

PricewaterhouseCoopers have audited the financial statements of the Company prepared in accordance with Hong Kong Financial Reporting Standards for the year 2007 and issued the auditors' report with unqualified opinion. The Company further improved the independent auditing system and the financial accounting system, made tax payment in compliance to the laws and regulations, cooperated with internal and external authorities for auditing in an active and stringent manner. The financial statements prepared by the Company truly stated its financial condition. The revenue in 2007 was RMB1,581.2 million and the profit attributable to equity holders of the Company was RMB827.3 million, representing a year-on-year growth of 81.9% and 86.3%, respectively, both of which met the target for the year.

(iv) Connected Transactions

During the Reporting Year, the Company was involved in connected transactions with Xinjiang Non-ferrous Metal Industry (Group) Ltd.* (新疆有色金屬工業(集團)有限責任公司) and its subsidiaries, among others, with regard to mutual supply agreement, comprehensive services agreement and property lease agreement (see Report of the Directors and note (37) to the consolidated financial statements). PricewaterhouseCoopers have reviewed such transactions which have been objectively, fairly and truly disclosed. All connected transactions were duly approved by the Board of Directors of the Company. The connected transactions were conducted pursuant to normal commercial terms, being fair and reasonable. No deterioration of the Company's interests was found upon reviews.

(v) Performance of Duties by the Directors and Senior Management

All directors and senior management of the Company were diligent and responsible in their work during 2007. They worked in conformity to laws and regulations and demonstrated cooperation. Their jobs were properly segregated. They were responsible and ensured effective implementation of all resolutions approved at the shareholders' meetings and Board meetings. In carrying out their duties, there was no violation of the laws, regulations, the Articles of Association of the Company or any other action against the interests of the Company. With their better decision-making and efficient process, the Company had made tremendous achievements in various aspects including production, safety, operation, technical improvement and the Company's listing.

3. Focus of the Supervisory Committee in 2008

(i) The Supervisory Committee will continue to explore new solutions and approaches in carrying out the supervisory works within the boundary of the laws and regulations. It will focus on various areas to optimise the system for performaning duties so as to ensure effective implementation of the resolutions of shareholders' meetings and Board meetings.

(ii) The focus of supervisory duties will be in business operations, cash flow, connected transactions and financial management of the Company. The Supervisory Committee aims at ensuring all-round development of the Company and safeguarding the interests of the shareholders of the Company.

(iii) The Supervisory Committee will conduct site visits and research studies for work improvement, enhance its communication with the senior management and build up better working atmosphere in the Supervisory Committee, in order to facilitate the execution of supervisory works. The members of the Supervisory Committee will try their best to identify problems by carrying out their duties with their will and skill, so as to assist the Company operate in a systematic and organised manner.

(iv) With new issues being encountered by the Company since the listing of its H shares in Hong Kong, the Supervisory Committee will strive to maintain its independent supervisory role and continue to improve its quality of work.

(v) The Supervisory Committee will organise and ensure smooth re-elections of Supervisors in compliance with the laws, regulations and codes, so as to help the new Supervisory Committee better serve the Company and its shareholders in a pragmatic and efficient way.

By order of the Supervisory Committee

Jiang Mingshun
Chairman

Xinjiang, the PRC
1 April 2008

* The English name is a translation of the original Chinese name and provided for reference only.

Corporate Governance Report

The Company strives to maintain a high standard of corporate governance and to comply with the relevant regulations of China Securities Regulatory Commission and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as well as the regulations of other relevant regulatory organisations. The Articles of Association of the Company, the Articles of the Audit Committee, the Articles of the Supervisory Committee and the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") are the bases of reference for formulation of the Company's corporate governance practice code. Save as disclosed herein, the Company has applied the principles as set out in the Code on Corporate Governance Practices (the "Practice Code") set out in Appendix 14 of the Listing Rules and has complied with the relevant code provisions and most of the recommended best practices for the period from the date of Listing to 31 December 2007. The Company will continue to improve its corporate governance and enhance the transparency of its operations to its shareholders.

The Board of Directors

The Board of Directors of the Company (the "Board" or "Board of Directors") is responsible for the overall leadership and governance of the Company, and is collectively responsible for directing and supervising the affairs of the Company.

Each Director on the Board will act in the interests of the shareholders, and use his best endeavors to perform the duties and obligations as a Director in accordance with all the applicable laws and regulations. Duties of the Board include deciding on the Company's business plan and investment scheme, proposing the Company's profit distribution and loss recovery plan, formulating the Company's capital expenditure budget, and implementing resolutions as approved by general meetings.

The Board comprises nine Directors, four of whom are executive Directors, two of whom are non-executive Directors and three of whom are independent non-executive Directors. There is no financial, business, family or any other material/relevant relationships between the members of the Board.

The three independent non-executive Directors of the Company are equipped with suitable professional qualifications, one specialising in geology and mining, and the other two with accounting and financial management backgrounds.

The Company received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers them to be independent and in compliance with the independence guidelines as set out in Rule 3.13 of the Listing Rules. The list of Directors is set out on page 31 of this annual report, and the profiles of the Directors are set out on pages 21 to 23 of this annual report.

Pursuant to the Company's Articles of Association, the Directors are appointed for a term of three years and their re-appointment are to be approved in the forthcoming shareholders' meeting. The Company held an shareholders' meeting on 29 August 2005 and elected members for the first Board (the "First Board"). In early 2007, an independent non-executive Director, Mr. Ng Yuk Keung, had been appointed to fill in a vacancy of independent non-executive Director. The First Board will expire on 29 August 2008 and all Directors are to be retired and are eligible for re-election.

Mr. Yuan Ze is the Chairman of the Company and Mr. Shi Wenfeng is the general manager as well as the executive Director of the Company, exercising the authorities granted by the Company. The responsibilities of the Chairman and the general manager are clearly segregated.

The Board is responsible for the approval and monitoring of overall developmental strategies of the Company, annual budgets, business plans and material investment plans relating to the Company's business, evaluating the performance of the Company, supervising the management, ensuring the Board acts in the best interest of the Company and operates effectively to perform its duties, and discussing significant and appropriate activities carried out by the Company. All Directors are entitled to propose matters for the Board's consideration and to be included in the Board's agenda. The Chairman has already appointed the secretary to the Board for drafting agenda for each meeting. With the assistance of the executive Directors and the joint company secretaries, the Chairman will ensure all Directors have sufficient and reliable information in order to perform necessary analysis based on their professional expertise.

The Corporate Finance and Securities Department and the Secretariat Office of the Board offer comprehensive services to the shareholders of the Company and answer their enquiries on a timely basis in order to enhance their understanding of the Company. They also maintain effective communications with the shareholders of the Company to ensure that the views of the shareholders of the Company will be communicated to the Board.

For the year ended 31 December 2007, five Board meetings were held. Below is an attendance record of the Board meetings:

Name of Directors	Number of Meetings Attended
Chairman (Executive Director)	
Yuan Ze (袁澤)	5/5
Executive Directors	
Shi Wenfeng (史文峰) *(General Manager)*	5/5
Zhang Guohua (張國華) *(Executive Deputy General Manager)*	5/5
Liu Jun (劉俊) *(Deputy General Manager)*	5/5
Non-executive Directors	
Zhou Chuanyou (周傳有) *(Vice-Chairman)*	5/5
Niu Xuetao (牛學濤)	5/5
Independent non-executive Directors	
Chen Jianguo (陳建國)	5/5
Sun Baosheng (孫寶生)	5/5
Ng Yuk Keung (吳育強)	3/4

The Company has adopted the Practice Code and issued a notice fourteen days prior to the regular meeting leaving the Directors plenty of time and opportunities for the preparation of a meeting. All agenda will be sent to the Directors no less than three days prior to the meeting. All matter discussed and resolved during the meeting will be recorded and documented in minutes by the joint company secretaries.

Responsibilities of the Directors

The Company shall inform all of the Directors of their rights and responsibilities on a regular basis. All of the Directors can obtain a thorough understanding of the business operations, business activities and development of the Company at the Board meetings.

Model Code for Directors' Securities Transactions

The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. Based on specific enquiries with all the Directors of the Company, the Directors have complied with the required standards as set out in the Model Code for the period from the date of listing to 31 December 2007.

Availability and use of information

All Directors can obtain information about the Company on a comprehensive and regular basis, such that the Directors can exercise their rights and responsibilities as directors. The Company has in place procedures for all Directors to follow when they wish to obtain independent professional advice. All related professional fees shall be borne by the Company. In addition, all Directors shall have free access to contact the senior management of the Company.

The Committees under the Board of Directors

Remuneration and Review Committee

The First Board established the Remuneration and Review Committee, which comprises one executive Director, Mr. Shi Wenfeng, one non-executive Director, Mr. Niu Xuetao, and three independent non-executive Directors, Mr. Chen Jianguo, Mr. Sun Baosheng and Mr. Ng Yuk Keung. Mr. Shi Wenfeng serves as the chairman of the Remuneration and Review Committee. The articles of the Remuneration and Review Committee are drafted in accordance with the Practice Code and are set out in the Company's website.

During 2007, the Remuneration and Review Committee had convened one meeting and the attendance rate of the meeting was 100%.

The Remuneration and Review Committee is mainly responsible for:

- reviewing the structure, number of members and composition (including skills, knowledge and experiences) of the Board on a regular basis; and proposing any changes to the Board;
- finding qualifying directors, selecting and nominating such persons or reflecting such opinions to the Board;
- reviewing and determining the independence of independent non-executive Directors;
- making recommendations on appointment and re-appointment issues, succession of Directors and relevant issues;
- formulating remuneration and incentive policies for the Directors and senior management;
- examining and evaluating the Directors and senior management in terms of fulfilling their responsibilities; and
- ensuring no Directors or their connected persons to determine their own remuneration.

One meeting was held during the year with an attendance rate of 100%.

Auditors Remuneration

For the year ended 31 December 2007, audit fees charged by the auditors of the Company amounted to RMB1,880,000. No non-audit service assignment was made.

Audit Committee

The First Board established the audit committee and formulated the articles for the Audit Committee. The committee's articles are set out in the Company's website.

The Audit Committee of the First Board comprises two independent non-executive Directors, Mr. Chen Jianguo and Mr. Ng Yuk Keung, and one non-executive Director, Mr. Zhou Chuanyou. Mr. Chen Jianguo serves as the chairman of the Audit Committee. The Board believes that members of the Audit Committee have sufficient knowledge and expertise in accounting and financial management to enable them to perform their duties.

Major responsibilities of the Audit Committee are:

– to make recommendation on the appointment or replacement of external audit firms;

– to oversee the Company's internal audit system and its implementation;

– to review the Company's financial information and its disclosure (including annual reports, interim reports and any other applicable financial review); and

– to review the Company's financial reporting and internal control system and material connected transactions.

The Audit Committee has held meetings on a regular basis since its establishment and convened three meetings during 2007 with 100% attendance. The 2007 audit plan of the Company and the 2007 interim results report have been reviewed in the meetings.

Strategy Planning Committee

The First Board established the Strategy Planning Committee and formulated the articles for the Strategy Planning Committee. The articles of the Strategy Planning Committee are set out in the Company's website.

The Strategy Planning Committee of the First Board comprises of three executive Directors, Mr. Yuan Ze, Mr. Shi Wenfeng and Mr. Zhang Guohua, a non-executive Director, Mr. Zhou Chuanyou and an independent non-executive Director, Mr. Sun Baosheng. Mr. Yuan Ze serves as the chairman of the Strategy Planning Committee.

The duties of the Strategy Planning Committee are to review and evaluate the development, budget, investment, business operation, strategic plan and annual return on investment of the Company. The committee members perform their duties in accordance with the committee's article.

Supervisory Committee

The Company's Supervisory Committee consists of five Supervisors. Mr. Jiang Mingshun is the Chairman of the Supervisory Committee. One of the Supervisors was elected by the shareholders of the Company as shareholders' representative, and two Supervisors represented the employees of the Company were elected by the employees and two other independent Supervisors. Supervisors serve for a term of three years and are subject to re-election. The Supervisory Committee is responsible for exercising supervision over the Board, its members and the senior management; and preventing them from abusing their authorities and jeopardizing the interests of the shareholders, the Company and its employees. Two meetings were held by the Supervisory Committee in 2007 with an attendance rate of 100%. During the meetings, the Supervisory Committee reviewed the financial conditions and operation of the Company and the due diligence of the senior management. The Supervisory Committee carried out their work actively in accordance with the committee's articles.

Shareholders' Meeting and Investor Relations

The shareholders' meeting provides a good opportunity for direct communications and the establishment of a sound relationship between the Board and the shareholders of the Company. Therefore, the Company attaches great importance to such meeting. In 2007, the Company convened four shareholders' meetings, all convened prior to the Company's listing of its H shares on 12 October 2007. All resolutions were approved with a rate of 100% attendance. The meetings were chaired by the Chairman of the Board, who explained matters concerning the procedures for voting for shareholders' consideration and the shareholders voted on each resolution. All Directors and Supervisors were notified of and attended the shareholders' meetings.

The rights and responsibilities of all shareholders are spelt out in the Company's Article of Associations.

Shareholders holding more than 10% of the issued shares with voting right may call for an extraordinary general meeting in writing.

The Company will issue a notice in writing 45 days prior to the general meeting informing all shareholders on the shareholders' register, setting out proposed issues to be discussed, dates and time of the general meeting. Shareholders wishing to attend the general meeting should send the reply letter to the Company 20 days prior to the general meeting.

For annual general meeting of the Company, shareholders holding more than 3% of shares with voting rights may propose to the Company any resolutions in writing; the Company will include, if the Company considers fit, the proposed resolutions into the agenda of the general meeting.

Proposed resolutions not included in the agenda shall be explained and clarified in the meeting; contents of the resolutions and the Board's explanation shall be set forth in an announcement after the general meeting.

The Company communicates with shareholders by issuing annual reports, interim reports, results announcements and other announcements. All relevant information is also listed in the Company's website at www.xjxxky.com.cn.

The Board understands that effective communication with investors is the key to gain confidence from the investors and to attract new investors.

The Company has established a designated investor relations department for investor relations. The Company's management maintains close communications with investors, analysts and the media by various means including individual interviews, meetings and investors' visits to the Company, thereby further increases investors' understanding of the Company. In addition, the investor relations department of the Company is also responsible for answering investors' enquiries and mail on a timely basis.

As at 31 December 2007, total market capitalisation of the Company was HK$19.6 billion of which public floatation of H Shares was HK$6.6 billion.

Internal Control and Corporate Management

The Board has overall responsibility for the Group's internal control system. The Board defines management structure and relevant approval procedures, confirms the adoption of appropriate Accounting Standards, provides reliable financial information for internal use and announcements and confirms the compliance of relevant laws and regulations. The above supervising system reasonably (not absolutely) confirms that the operational system has no material misstatement or damage and controls (not eliminate) errors or risks of not achieving certain standards.

Executive Directors and senior management of the Company are authorised to manage and supervise respective operational systems and relevant issues.

The Company has established internal accounting system. Proposed budget has to be approved by the Board before its implementation. The budget management system and investment management system contain relevant formulations for evaluating and reviewing principal operation expenses and capital expenses. Operational results are reported to the Board with financial analysis on a regular basis.

The Company has established specific internal audit group and procedures to ensure comprehensive, accurate and timely record of accounting and management information. Regular reviews are conducted to ensure financial statements are prepared in accordance to the relevant accounting standards, accounting policies and applicable laws and regulations; and to be extended to all branches of the Company. Annual work plan of audit department is approved by the Supervisory Committee and Audit Committee of the Company.

The Company has developed the Information Disclosure Management System, which contains relevant procedures for managing price sensitive information. The Board carries internal audit review through annual and interim reports at least twice a year to evaluate the effectiveness of the internal audit system.

The Board believes that the present corporate internal audit basically covers the current operations of the Company. Yet, the Company's internal audit system has to be upgraded from time to time to cope with new development.

The Company will conduct a review on the control of financial, operational and risk management activities. In 2007, the Company appointed Horwath Risk Advisory Services Limited to follow-up the internal control system of the Company.

The Board has appointed Huen Wong & Co. in association with Fried, Frank, Harris, Shriver & Jacobson LLP to arrange training for Directors, Supervisors and senior management on Directors' responsibilities and offer seminars on Listing Rules and the Securities and Futures Ordinance ("SFO") for Directors, Supervisors and senior management as and when necessary in order to ensure strict compliance with the relevant laws and regulations in their work.

The Company regularly held managerial meetings chaired by the General Manager. These meetings were attended by the Chairman of the Board of Directors, the senior managerial personnel, and the responsible members of all departments at the Company's headquarter. Discussions and decisions on the Company's operations and the implementation of investment projects and financial matters are conducted at the meetings. The managerial personnel, the managers of the related companies, subsidiary company and joint ventures and responsible persons of the departments at the Company's headquarters, will host regular managerial meetings to assist in the cooperation, communication and supervision of the commencement and execution of all joint projects.

Transfer of power

The Board makes decisions for specific issues whereas the management is authorized to implement and manage the existing contractual arrangements as well as manage the day-to-day affairs of the Company. The Board reviews from time to time the extent of the authority in order to ensure that related staff has sufficient power to carry out related duties and achieve efficiency and effectiveness of operations.

Financial reporting

The Board was in strict compliance with the stipulations as set out in the Listing Rules in relation to financial reporting and disclosure to carry out comprehensive evaluation and disclose the Company's performance, financial position and prospect for the year based on detailed and accurate financial information and other data submitted by the management for the Board's approval. It also undertook the responsibility of preparing the Company's financial statements of the interim and annual reports of the year on a true and accurate basis.

Independent Auditor's Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

To the shareholders of Xinjiang Xinxin Mining Industry Co., Ltd.
(A joint stock company incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Xinjiang Xinxin Mining Industry Co., Ltd. (the "Company") and its subsidiary (collectively referred to as the "Group") set out on pages 52 to 124, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 1 April 2008

Consolidated Balance Sheet

(All amounts in RMB thousands unless otherwise stated)

		As at 31 December	
	Note	**2007**	2006
ASSETS			
Non-current assets			
Property, plant and equipment	*6*	**556,702**	468,028
Mining rights	*7*	**292,896**	284,117
Land use rights	*8*	**77,913**	77,995
Intangible assets		**97**	94
Total non-current assets		**927,608**	830,234
Current assets			
Inventories	*10*	**274,389**	163,299
Accounts and bills receivable	*11*	**2,672**	1,099
Other receivables, prepayments and other current assets	*12*	**10,454**	6,871
Cash and bank balances	*13*	**4,096,103**	562,482
Total current assets		**4,383,618**	733,751
Total assets		**5,311,226**	1,563,985
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	*14*	**552,500**	380,000
Capital reserve	*14*	**4,055,489**	90,750
Other reserves	*15*	**153,076**	213,457
Retained earnings			
– Proposed profit distribution	*32*	**–**	13,045
– Proposed dividend	*33*	**176,800**	400,000
– Others		**153,095**	51,436
		5,090,960	1,148,688
Minority interests		**–**	23,613
Total equity		**5,090,960**	1,172,301

Consolidated Balance Sheet

(All amounts in RMB thousands unless otherwise stated)

		As at 31 December	
	Note	**2007**	2006
LIABILITIES			
Non-current liabilities			
Long-term borrowings	*16*	–	50,000
Long-term payables	*17*	**1,967**	122,002
Provision for close down, restoration and environmental costs	*18*	**4,354**	4,092
Deferred income	*19*	**20,386**	13,360
Total non-current liabilities		**26,707**	189,454
Current liabilities			
Short-term borrowings	*16*	**–**	44,800
Current portion of long-term borrowings	*16*	**–**	10,000
Current portion of long-term payables	*17*	**1,824**	4,011
Trade payables	*20*	**74,934**	60,390
Other payables and accruals	*21*	**116,801**	82,910
Income tax payable		**–**	119
Total current liabilities		**193,559**	202,230
Total liabilities		**220,266**	391,684
Total equity and liabilities		**5,311,226**	1,563,985
Net current assets		**4,190,059**	531,521
Total assets less current liabilities		**5,117,667**	1,361,755

Yuan Ze
Chairman

Shi Wenfeng
Executive Director

The notes on pages 59 to 124 are an integral part of these consolidated financial statements.

Balance Sheet

(All amounts in RMB thousands unless otherwise stated)

	Note	As at 31 December 2007	2006
ASSETS			
Non-current assets			
Property, plant and equipment	*6*	**556,702**	391,008
Mining rights	*7*	**292,896**	284,117
Land use rights	*8*	**77,913**	77,995
Intangible assets		**97**	79
Investment in a subsidiary	*9*	**–**	33,060
Total non-current assets		**927,608**	786,259
Current assets			
Inventories	*10*	**274,389**	161,544
Accounts and bills receivable	*11*	**2,672**	1,099
Other receivables, prepayments and other current assets	*12*	**10,454**	6,762
Cash and bank balances	*13*	**4,096,103**	515,214
Total current assets		**4,383,618**	684,619
Total assets		**5,311,226**	1,470,878
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	*14*	**552,500**	380,000
Capital reserve	*14*	**4,055,489**	90,750
Other reserves	*15*	**153,076**	213,457
Retained earnings			
– Proposed profit distribution	*32*	**–**	13,045
– Proposed dividend	*33*	**176,800**	400,000
– Others		**153,095**	53,196
Total equity		**5,090,960**	1,150,448

(All amounts in RMB thousands unless otherwise stated)

	Note	As at 31 December 2007	2006
LIABILITIES			
Non-current liabilities			
Long-term payables	*17*	**1,967**	122,002
Provision for close down, restoration and environmental costs	*18*	**4,354**	4,092
Deferred income	*19*	**20,386**	13,360
Total non-current liabilities		**26,707**	139,454
Current liabilities			
Short-term borrowings	*16*	**–**	44,800
Current portion of long-term payables	*17*	**1,824**	4,011
Trade payables	*20*	**74,934**	50,494
Other payables and accruals	*21*	**116,801**	81,552
Income tax payable		**–**	119
Total current liabilities		**193,559**	180,976
Total liabilities		**220,266**	320,430
Total equity and liabilities		**5,311,226**	1,470,878
Net current assets		**4,190,059**	503,643
Total assets less current liabilities		**5,117,667**	1,289,902

Yuan Ze
Chairman

Shi Wenfeng
Executive Director

The notes on pages 59 to 124 are an integral part of these consolidated financial statements.

Consolidated Income Statement

(All amounts in RMB thousands unless otherwise stated)

	Note	Year ended 31 December 2007	2006
Revenue	*22*	**1,581,163**	869,068
Cost of sales	*23*	**(721,705)**	(348,419)
Gross profit		**859,458**	520,649
Selling and marketing expenses	*23*	**(7,981)**	(7,494)
Administrative expenses	*23*	**(94,439)**	(65,496)
Other income	*25*	**32,013**	5,208
Other gains – net	*26*	**4,150**	51
Operating profit		**793,201**	452,918
Subscription interest income	*27*	**141,151**	–
Finance costs – net	*28*	**(108,008)**	(10,122)
Profit before income tax		**826,344**	442,796
Income tax expense	*29*	**(238)**	(119)
Profit for the year		**826,106**	442,677
Attributable to:			
Equity holders of the Company		**827,269**	444,004
Minority interests		**(1,163)**	(1,327)
		826,106	442,677
Earnings per share for profit attributable to the equity holders of the Company during the year *(expressed in Renminbi per share)* – basic and diluted	*31*	**0.498**	0.318
Profit distribution to Holding Company	*32*	**–**	13,045
Dividends	*33*	**657,714**	400,000

The notes on pages 59 to 124 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

(All amounts in RMB thousands unless otherwise stated)

	Attributable to equity holders of the Company						
	Share capital	Capital reserve	Other reserves	Retained earnings	Total	Minority interests	Total equity
At 1 January 2006	300,000	62,712	175,663	70,264	608,639	–	608,639
Profit for the year	–	–	–	444,004	444,004	(1,327)	442,677
Appropriation to statutory reserve	–	–	49,787	(49,787)	–	–	–
Contribution from equity holders of the Company	80,000	28,038	–	–	108,038	–	108,038
Contribution from minority interests	–	–	–	–	–	28,420	28,420
Listing expenses charged to other reserves	–	–	(11,993)	–	(11,993)	–	(11,993)
Acquisition of equity interests in a subsidiary from minority interests	–	–	–	–	–	(3,480)	(3,480)
At 31 December 2006	380,000	90,750	213,457	464,481	1,148,688	23,613	1,172,301
At 1 January 2007	**380,000**	**90,750**	**213,457**	**464,481**	**1,148,688**	**23,613**	**1,172,301**
Profit for the year	**–**	**–**	**–**	**827,269**	**827,269**	**(1,163)**	**826,106**
Profit distribution *(Note 32)*	**–**	**–**	**–**	**(13,045)**	**(13,045)**	**–**	**(13,045)**
Dividends *(Note 33)*	**–**	**–**	**–**	**(880,914)**	**(880,914)**	**–**	**(880,914)**
Appropriation to statutory reserve	**–**	**–**	**67,896**	**(67,896)**	**–**	**–**	**–**
Listing expenses charged to other reserves	**–**	**–**	**(9,845)**	**–**	**(9,845)**	**–**	**(9,845)**
Issue of new shares *(Note 14)*	**172,500**	**4,172,414**	**–**	**–**	**4,344,914**	**–**	**4,344,914**
Transfer of listing expenses to capital reserve	**–**	**(21,838)**	**21,838**	**–**	**–**	**–**	**–**
Share issue expenses	**–**	**(185,837)**	**–**	**–**	**(185,837)**	**–**	**(185,837)**
Termination of Mining Rights Transfer Agreement signed with Xinjiang Non-ferrous *(Note 7)*	**–**	**–**	**(140,270)**	**–**	**(140,270)**	**–**	**(140,270)**
Disposal of a subsidiary	**–**	**–**	**–**	**–**	**–**	**(22,450)**	**(22,450)**
At 31 December 2007	**552,500**	**4,055,489**	**153,076**	**329,895**	**5,090,960**	**–**	**5,090,960**

The notes on pages 59 to 124 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

(All amounts in RMB thousands unless otherwise stated)

		Year ended 31 December	
	Note	**2007**	2006
Cash flows from operating activities			
Cash generated from operations	*34(a)*	**726,719**	472,270
Interest paid		**(6,403)**	(13,224)
Income tax paid		**(357)**	–
Net cash generated from operating activities		**719,959**	459,046
Cash flows from investing activities			
Purchase of property, plant and equipment		**(207,907)**	(207,707)
Purchase of land use rights		**(927)**	–
Increase in investment in a subsidiary		**–**	(3,480)
Net cash outflow in respect of the disposal of a subsidiary	*34(b)*	**(35,780)**	–
Proceeds from disposal of property, plant and equipment	*34(c)*	**111**	1,347
Purchase of mining rights and intangible assets		**(283,826)**	(1,816)
Interest received	*25*	**31,852**	3,863
Net cash used in investing activities		**(496,477)**	(207,793)
Cash flows from financing activities			
Proceeds from issuance of new shares		**4,344,914**	–
Subscription interest income received	*27*	**141,151**	–
Share issue expenses		**(189,746)**	–
Profit distribution to Holding Company	*32*	**(13,045)**	(123,625)
Dividends paid	*33*	**(880,914)**	–
Proceeds of capital contribution from equity holders		**–**	28,966
Capital contribution from minority shareholders in a subsidiary		**–**	28,420
Proceeds from borrowings		**50,000**	60,000
Repayment of borrowings		**(44,800)**	(10,000)
Net cash generated from/(used in) financing activities		**3,407,560**	(16,239)
Net increase in cash and bank balances		**3,631,042**	235,014
Cash and bank balances at beginning of the year		**562,482**	327,468
Exchange losses on cash and bank balances		**(97,421)**	–
Cash and bank balances at end of the year		**4,096,103**	562,482

The notes on pages 59 to 124 are an integral part of these consolidated financial statements.

1 General information

Xinjiang Xinxin Mining Industry Co., Ltd. (新疆新鑫礦業股份有限公司) (the "Company") and its subsidiary (collectively referred to as the "Group") is principally engaged in the mining, ore processing, smelting, refining and sales of nickel, copper and other non-ferrous metal products. 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. The address of the Company's office is 7/F, Youse Building, No.4 You Hao North Road, Urumqi, Xinjiang Uygur Autonomous Region of the PRC.

In October 2007, the Company completed its initial public offering ("IPO") and the H shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in thousands of units of Renminbi ("RMB'000"), unless otherwise stated.

These consolidated financial statements have been approved for issue by the Board of Directors on 1 April 2008.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

The consolidated financial statements have been prepared under the historical cost convention, except that certain financial assets and financial liabilities at fair value as appropriate.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

(a) *Standards, amendment and interpretations effective in 2007 adopted by the Group and relevant to its operation*

- HKFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to HKAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables;

- HK(IFRIC) – Int 8, 'Scope of HKFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of HKFRS 2. This standard does not have any impact on the Group's financial statements; and

- HK(IFRIC) – Int 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements.

(b) *Standards, amendments and interpretations effective in 2007 but not relevant to the Group's operation*

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

- HK(IFRIC) – Int 7, 'Applying the restatement approach under HKAS 29, Financial reporting in hyper-inflationary economies'; and

- HK(IFRIC) – Int 9, 'Re-assessment of embedded derivatives'.

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

(c) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group*

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, but the Group has not early adopted them:

- HKAS 1 (Revised), 'Presentation of Financial Statements', effective for annual periods beginning on or after 1 January 2009. The amendment requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group will apply HKAS 1 (Revised) from 1 January 2009;

- HKAS 23 (Revised), 'Borrowing costs', effective for annual periods beginning on or after 1 January 2009. The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Revised) from 1 January 2009 but is currently not applicable to the Group as there are no qualifying assets;

- HKFRS 8, 'Operating segments', effective for annual periods beginning on or after 1 January 2009. HKFRS 8 replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009. The Management is currently assessing the impact of HKFRS 8;

- HK(IFRIC) – Int 11, 'HKFRS 2 – Group and treasury share transactions', effective for annual periods beginning on or after 1 March 2007, HK(IFRIC) – Int 11 provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and Group companies. The Group will apply HK(IFRIC) – Int 11 from 1 January 2008. Management believes that this interpretation should not have a significant impact to the Group;

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

(c) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)*

- HK(IFRIC) – Int 14, 'HKAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction', effective beginning on or after 1 January 2008. HK(IFRIC) – Int 14 provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply HK(IFRIC) – Int 14 from 1 January 2008. Management believes that this interpretation should not have a significant impact to the Group;

- HKAS 32 and HKAS 1 Amendments, 'Puttable Financial Instruments and Obligations Arising on Liquidation', effective for annual periods beginning on or after 1 January 2009. The amendment requires some puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. The Group will apply HKAS 32 and HKAS 1 Amendments from 1 January 2009, but it is not expected to have any significant impact to the Group's accounts;

- HKAS 27 (Revised), 'Consolidated and Separate Financial Statements', effective for annual periods beginning on or after 1 July 2009. The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group will apply HKAS 27 (Revised) from 1 January 2010;

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

- HKFRS 3 (Revised), 'Business Combination', effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are 'capable of being conducted' rather than 'are conducted and managed'. It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other HKFRSs. They are income taxes, employee benefits, share-based payment and non current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. The Group will apply HKFRS 3 (Revised) from 1 January 2010; and

- HKFRS 2 Amendment, 'Share-based Payment Vesting Conditions and Cancellations', effective for annual periods beginning on or after 1 January 2009. The amendment clarifies the definition of "vesting conditions" and specifies the accounting treatment of "cancellations" by the counterparty to a share-based payment arrangement. Vesting conditions are service conditions (which require a counterparty to complete a specified period of service) and performance conditions (which require a specified period of service and specified performance targets to be met) only. All "non-vesting conditions" and vesting conditions that are market conditions shall be taken into account when estimating the fair value of the equity instruments granted. All cancellations are accounted for as an acceleration of vesting and the amount that would otherwise have been recognised over the remainder of the vesting period is recognised immediately. The Group will apply HKFRS 2 Amendment from 1 January 2009, but it is not expected to have any impact on the Group's accounts.

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

(d) Interpretations to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods but are not relevant for the Group's operations:

- HK(IFRIC) – Int 12, 'Service concession arrangements', effective for annual periods beginning on or after 1 January 2008. HK(IFRIC) – Int 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. HK(IFRIC) – Int 12 is not relevant to the Group's operations because none of the Group's companies provide for public sector services; and

- HK(IFRIC) – Int 13, 'Customer loyalty programmes', effective for annual periods beginning on or after 1 July 2008. HK(IFRIC) – Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. HK(IFRIC) – Int 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

2 Summary of significant accounting policies *(continued)*

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying an equity holding of more than half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Except for the business combinations under common control, which are accounted for using the principles of merger accounting, the purchase method of accounting is used to account for all other acquisitions of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealized gains on transactions between group companies, if any, are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The gain or loss on disposal of a subsidiary represents the difference between the proceeds from the disposal and the carrying amount as of the date of disposal, including the cumulative amount of any exchange differences that relate to the subsidiary and recognised in equity, is recognised in the consolidated income statement as the gain or loss on the disposal of the subsidiary.

2 Summary of significant accounting policies *(continued)*

2.2 Consolidation *(continued)*

(a) Subsidiaries (continued)

In the Company's balance sheet, investment in subsidiary is stated at cost less provision for impairment loss. The result of subsidiary is accounted by the Company on the basis of dividend received and receivable.

(b) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

2.3 Segment reporting

A business segment is a Group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Renminbi, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

2 Summary of significant accounting policies *(continued)*

2.5 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of asset comprises of its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Depreciation of buildings, machinery and equipment, electronic equipment and others, and motor vehicles is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings	20 to 50 years
Machinery and equipment	10 to 18 years
Electronic equipment and others	6 to 12 years
Motor vehicles	10 to 12 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Mining structures comprise the main and auxiliary mine shafts and underground tunnels. Depreciation of mining structures is provided to write off the cost of the mining structure using the unit-of-production method. Unit-of-production rate is based on reserves estimated to be recovered from existing facilities using current operating methods.

Construction in progress represents buildings, mining structure or machinery and equipment on which construction work has not been completed. It is carried at cost which includes construction expenditures and other direct costs less any impairment losses. On completion, construction in progress is transferred to the appropriate categories of property, plant and equipment at cost less accumulated impairment losses. No depreciation is provided for construction in progress until they are completed and available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

2 Summary of significant accounting policies *(continued)*

2.5 Property, plant and equipment *(continued)*

When assets are sold or retired, the gain or loss is determined as the difference between the sales proceeds and the carrying amount of the assets and the gain or loss is included in the income statement.

2.6 Land use rights

Land use rights are stated at cost less accumulated amortisation and impairment losses. Cost represents consideration paid for the rights to use the land and expenditure that is directly attributable to the acquisition. Amortisation of land use rights is calculated on a straight-line basis over the period of the land use rights varying from 38 to 50 years.

2.7 Mining rights and exploration rights

Mining rights are stated at cost less accumulated amortisation and impairment losses. Amortisation of mining rights is calculated to write off the cost less accumulated impairment of losses over the shorter of the period of the rights on a straight-line basis or of the useful lives of the mines in accordance with the production plans and proved reserves of the mines on the unit-of-production method.

Exploration rights are stated at cost of acquiring exploration rights less accumulated amortisation and impairment losses. Exploration rights are amortised over the term of the rights.

2.8 Impairment of non-financial assets

Assets that have indefinite useful lives which are not subject to amortisation are tested at least annually for impairment and are reviewed for impairment whenever a change in circumstances indicates that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2 Summary of significant accounting policies *(continued)*

2.9 Financial assets

The Group classifies its financial assets in the following categories: fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. The Group did not have fair value through profit or loss nor available-for-sale financial assets.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheets (Note 2.11).

2.10 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 Accounts and bills receivable

Accounts and bills receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision made for impairment of these receivables. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of debtor, probability that debtor will enter bankruptcy or financial reorganisation, and deficit or delinquency in payments are considered as indicators that trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited in the income statement.

2 Summary of significant accounting policies *(continued)*

2.12 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.13 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

2.14 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statements over the year of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being attributable to the construction of an asset which necessarily takes a period of time to get ready for its intended use. Interest expense on borrowings is calculated using the effective interest rate method.

2.16 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 Summary of significant accounting policies *(continued)*

2.16 Current and deferred income tax *(continued)*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.17 Employee benefits

(i) Pension obligations

The full-time employees of the Group are covered by various government-sponsored defined-contribution pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

(ii) Housing benefits

The full-time employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

2 Summary of significant accounting policies *(continued)*

2.17 Employee benefits *(continued)*

(iii) Early retirement benefits

Employee early retirement benefits are recognised in the period in which the Group enters into an agreement with the employee specifying the terms of early retirement or after the individual employee has been advised of the specific terms. The specific terms vary among the early retired employees depending on various factors including position and length of services. Early retirement benefits falling due more than 12 months after the balance sheet date are discounted to present value.

2.18 Provisions

Provisions for environmental restoration, reorganisation costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax interest rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.19 Revenue recognition

Revenue comprises the fair value of consideration received or receivable for the sales of goods in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

2 Summary of significant accounting policies *(continued)*

2.19 Revenue recognition *(continued)*

(a) Sales of goods

Sales of goods are recognised when a Group entity has delivered products and transferred the significant risks and rewards of ownership of the product to the customer; the customer has accepted the products and collectability of the related receivables is reasonably assured.

(b) Interest income

Interest income from deposits placed with banks and other financial institutions is recognised on a time-proportion basis using the effective interest method.

2.20 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all related conditions.

Grants related to costs are deferred and are recognised in the income statement on a systematic basis to match with the related costs which they are intended to compensate, otherwise grants with no future related costs are recognised on receipt basis.

Grants relating to the exploration and construction of mineral projects are included in non-current liabilities as deferred income and are credited to the income statements on a straight line basis over the expected lives of the related assets.

2.21 Dividend/profit distribution

Dividend/profit distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.22 Related parties

Related parties are those parties which have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, and these include all state-owned enterprises directly or indirectly controlled by the PRC government.

2 Summary of significant accounting policies *(continued)*

2.23 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating leases payments are charged to the income statement on a straight-line basis over the period of respective leases.

2.24 Exploration and evaluation expenditure

Exploration and evaluation expenditure comprises costs which are directly attributable to: researching and analysing existing exploration data; conducting geological studies, exploratory drilling and sampling; examining and testing extraction and treatment methods; and compiling pre-feasibility and feasibility studies. Exploration and evaluation expenditure also includes the costs incurred in the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

During the initial stage of a project, exploration and evaluation costs are expensed as incurred. Expenditure on a project after it has reached a stage at which there is a high degree of confidence in its viability is capitalised and transferred to property, plant and equipment if the project proceeds. If a project does not prove viable, all irrecoverable costs associated with the project are expensed in the income statement.

2.25 Contingent liability

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

2.26 Share-based payment transaction

The Group recognises the cost of goods purchased from or services received in a share-based payment transaction when the goods are delivered or the services are received. The cost of the goods or services purchased is measured at fair value at the date the goods are delivered or the services are received. The Group recognises a corresponding increase in equity if the goods or services were purchased for in an equity-settled share-based payment transaction, or a liability if the goods or services were purchased in a cash-settled share-based payment transaction.

3 Financial risk management

(i) Financial risk factors

The Group's activities expose it to a variety of financial risks: commodity price risk, credit risk, cash flow and fair value interest rate risk, liquidity risk, and concentration risk. The Group historically has not used derivative instruments for hedging or trading purposes. Substantially all of the financial instruments the Group holds are for purposes other than trading.

(a) Commodity price risk

The Group is principally engaged in the mining, ore processing, smelting, refining and sales of nickel, copper and other non-ferrous metal products. Non-ferrous metal markets are influenced by global as well as regional supply and demand conditions. A decline in prices of copper/nickel could adversely affect the Group's financial performance.

(b) Credit risk

The carrying amounts of deposits and receivables included in the consolidated balance sheets represent the Group's maximum exposure to credit risk in relation to its financial assets. The directors are of the opinion that adequate provision for uncollectible accounts receivable and other receivables has been made in the years ended 31 December 2006 and 2007 after considering the Group's historical experience in collection of accounts receivable and other receivables.

(c) Cash flow and fair value interest rate risk

The Group is exposed to the cash flow and fair value interest rate risk arising from its borrowings. The borrowings from bank are issued at floating rates, which expose the Group to cash flow and fair value interest rate risk. Management believes that such risk would not have a significant impact on the Group's financial position and operating results.

(d) Liquidity risk

The Group has funded its future cash flow needs through initial public offering of the Company's H shares, internally generated cash flows from operations and, where necessary, borrowings from financial institutions.

(All amounts in RMB thousands unless otherwise stated)

3 Financial risk management *(continued)*

(i) Financial risk factors *(continued)*

(d) Liquidity risk (continued)

The table below analyses the Group's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2006				
Borrowings *(Note 16)*	54,800	15,000	35,000	–
Long-term payables *(Note 17)*	12,943	11,549	31,050	236,014
Trade and other payables *(Note 20, 21)*	143,300	–	–	–
At 31 December 2007				
Borrowings *(Note 16)*	**–**	**–**	**–**	**–**
Long-term payables *(Note 17)*	**1,638**	**879**	**599**	**1,291**
Trade and other payables *(Note 20, 21)*	**191,735**	**–**	**–**	**–**

(e) Concentration risk

Revenue is principally derived from Kalatongke Mine of the Group that is presently in commercial production. Any disruption to the operations of the mine may have a material adverse impact on the results of operations or the financial position of the Group.

The sales are concentrated on several major customers, and the Group has not entered into any long-term sales contracts with them. In the event that these major customers terminate the business relationship with the Group and the Group fails to find new customers, it may have a material adverse impact on the Group's financial position and results of operations.

(All amounts in RMB thousands unless otherwise stated)

3 Financial risk management *(continued)*

(ii) Capital risk management

The primary objective of the Group's capital management is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may adjust the amount of issue new shares or sell assets to reduce debts.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as borrowings divided by total assets. The Group aims to maintain the gearing ratio at a reasonable level. The gearing ratios at 31 December 2006 and 31 December 2007 are as follows:

	As at 31 December	
	2007	2006
Borrowings *(Note 16)*	**–**	104,800
Total assets	**5,311,226**	1,563,985
Gearing ratio	**–**	6.7%

(iii) Fair value estimate

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less impairment provision of trade receivables and payables approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 Critical accounting estimates and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Carrying value of non-current assets

Non-current assets, including property, plant and equipment, land use rights, mining rights and other intangible assets, are carried at cost less accumulated depreciation/amortisation. These carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position.

(b) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charges where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) Mineral reserves

Engineering estimates of the Group's mineral reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information.

4 Critical accounting estimates and assumptions *(continued)*

(c) Mineral reserves *(continued)*

There are authoritative guidelines regarding the engineering criteria that have to be met before estimated mineral reserves can be designated as “proved” and “probable”. Proved and probable mineral reserve estimates are updated at regular basis and have taken into account recent production and technical information about each mine. In addition, as prices and cost levels change from year to year, the estimate of proved and probable mineral reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation rates.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation expenses and impairment losses. Depreciation rates are determined based on estimated proved mineral reserve quantity (the denominator) and capitalised costs of mining structures (the numerator). The capitalised cost of mining structures is amortised based on the units of non-ferrous metals produced.

(d) PRC corporate income tax

The Group is subject to income tax in the PRC. Significant judgement is required in determining the provision for income tax. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5 Segment information

(a) Business segments

The Group’s operation is regarded as a single business segment, being engaged in the mining, ore processing, smelting, refining and sales of nickel, copper and other non-ferrous metal products.

(b) Geographical segments

As all of the turnover and operating results of the Group for the year ended 31 December 2006 and 2007 is derived in the PRC, an analysis of the turnover and operating results of the Group by business and geographical location is not presented.

No geographical segments information of the Group’s assets and liabilities is shown as the Group’s assets and liabilities are located in the PRC.

(All amounts in RMB thousands unless otherwise stated)

6 Property, plant and equipment

	The Group						
	Buildings	Machinery and equipment	Electronic equipment and others	Motor vehicles	Mining structures	Construction in progress	Total
At 1 January 2006							
Cost	248,935	150,920	3,275	18,626	12,672	38,120	472,548
Accumulated depreciation	(108,242)	(85,119)	(1,192)	(9,620)	(2,694)	–	(206,867)
Impairment	(3,831)	–	–	–	–	(1,659)	(5,490)
Net book amount	136,862	65,801	2,083	9,006	9,978	36,461	260,191
Year ended 31 December 2006							
Opening net book amount	136,862	65,801	2,083	9,006	9,978	36,461	260,191
Additions	863	1,610	1,661	2,823	512	225,835	233,304
Transfer from construction in progress	9,695	17,263	–	–	–	(26,958)	–
Disposals *(Note 34(c))*	(1,104)	(733)	(27)	(25)	–	(415)	(2,304)
Depreciation *(Note 23)*	(10,900)	(9,493)	(554)	(1,339)	(877)	–	(23,163)
Closing net book amount	135,416	74,448	3,163	10,465	9,613	234,923	468,028
At 31 December 2006							
Cost	256,826	165,508	4,754	21,098	13,184	234,923	696,293
Accumulated depreciation	(117,579)	(91,060)	(1,591)	(10,633)	(3,571)	–	(224,434)
Impairment	(3,831)	–	–	–	–	–	(3,831)
Net book amount	135,416	74,448	3,163	10,465	9,613	234,923	468,028
Year ended 31 December 2007							
Opening net book amount	**135,416**	**74,448**	**3,163**	**10,465**	**9,613**	**234,923**	**468,028**
Additions	**239**	**6,299**	**1,561**	**3,141**	**–**	**195,184**	**206,424**
Transfer from construction in progress	**50,082**	**59,423**	**1,913**	**1,710**	**7,243**	**(120,371)**	**–**
Disposals *(Note 34(c))*	**(2,182)**	**(1,113)**	**(75)**	**(292)**	**–**	**–**	**(3,662)**
Disposal of subsidiary *(Note 34(b))*	**–**	**(106)**	**(185)**	**(3,351)**	**–**	**(82,797)**	**(86,439)**
Depreciation *(Note 23)*	**(11,281)**	**(12,679)**	**(699)**	**(1,710)**	**(1,280)**	**–**	**(27,649)**
Closing net book amount	**172,274**	**126,272**	**5,678**	**9,963**	**15,576**	**226,939**	**556,702**
At 31 December 2007							
Cost	**297,729**	**227,109**	**7,814**	**19,719**	**20,427**	**226,939**	**799,737**
Accumulated depreciation	**(125,455)**	**(100,837)**	**(2,136)**	**(9,756)**	**(4,851)**	**–**	**(243,035)**
Net book amount	**172,274**	**126,272**	**5,678**	**9,963**	**15,576**	**226,939**	**556,702**

(All amounts in RMB thousands unless otherwise stated)

6 Property, plant and equipment *(continued)*

As at 31 December 2007, no property, plant or equipment was pledged or secured. As at 31 December 2006, bank borrowings of RMB60,000,000 (Note 16) were secured by construction in progress of the Group at the carrying amount of RMB3,510,000 and guaranteed by Xinjiang Non-ferrous Metal Industry (Group) Ltd. (the "Xinjiang Non-ferrous" or the "Holding Company").

Depreciation of property, plant and equipment has been charged to cost of sales, selling and marketing expenses and administrative expenses as follows:

	Year ended 31 December	
	2007	2006
Cost of sales	**24,433**	19,563
Selling and marketing expenses	**156**	121
Administrative expenses	**3,060**	3,479
	27,649	23,163

During the year ended 31 December 2006 and 2007, the Group had capitalised interest on borrowings in property, plant and equipment amounted to approximately RMB550,000 and RMB493,000, respectively.

(All amounts in RMB thousands unless otherwise stated)

6 Property, plant and equipment *(continued)*

	The Company						
	Buildings	Machinery and equipment	Electronic equipment and others	Motor vehicles	Mining structures	Construction in progress	Total
At 1 January 2006							
Cost	248,935	150,920	3,275	18,626	12,672	38,120	472,548
Accumulated depreciation	(108,242)	(85,119)	(1,192)	(9,620)	(2,694)	–	(206,867)
Impairment	(3,831)	–	–	–	–	(1,659)	(5,490)
Net book amount	136,862	65,801	2,083	9,006	9,978	36,461	260,191
Year ended 31 December 2006							
Opening net book amount	136,862	65,801	2,083	9,006	9,978	36,461	260,191
Additions	863	1,567	1,543	2,139	512	149,607	156,231
Transfer from construction in progress	9,695	17,263	–	–	–	(26,958)	–
Disposals	(1,104)	(733)	(27)	(25)	–	(415)	(2,304)
Depreciation	(10,900)	(9,492)	(547)	(1,294)	(877)	–	(23,110)
Closing net book amount	135,416	74,406	3,052	9,826	9,613	158,695	391,008
At 31 December 2006							
Cost	256,826	165,465	4,636	20,414	13,185	158,695	619,221
Accumulated depreciation	(117,579)	(91,059)	(1,584)	(10,588)	(3,572)	–	(224,382)
Impairment	(3,831)	–	–	–	–	–	(3,831)
Net book amount	135,416	74,406	3,052	9,826	9,613	158,695	391,008
Year ended 31 December 2007							
Opening net book amount	**135,416**	**74,406**	**3,052**	**9,826**	**9,613**	**158,695**	**391,008**
Additions	**239**	**6,233**	**1,486**	**2,091**	**–**	**186,899**	**196,948**
Transfer from construction in progress	**50,082**	**59,423**	**1,907**	**–**	**7,243**	**(118,655)**	**–**
Disposals	**(2,182)**	**(1,113)**	**(75)**	**(292)**	**–**	**–**	**(3,662)**
Depreciation	**(11,281)**	**(12,677)**	**(692)**	**(1,662)**	**(1,280)**	**–**	**(27,592)**
Closing net book amount	**172,274**	**126,272**	**5,678**	**9,963**	**15,576**	**226,939**	**556,702**
At 31 December 2007							
Cost	**297,729**	**227,109**	**7,814**	**19,719**	**20,427**	**226,939**	**799,737**
Accumulated depreciation	**(125,455)**	**(100,837)**	**(2,136)**	**(9,756)**	**(4,851)**	**–**	**(243,035)**
Net book amount	**172,274**	**126,272**	**5,678**	**9,963**	**15,576**	**226,939**	**556,702**

(All amounts in RMB thousands unless otherwise stated)

7 Mining rights

The Group and the Company

Year ended 31 December 2006	
Opening net book amount	294,028
Amortisation charge	(9,911)
Closing net book amount	284,117
At 31 December 2006	
Cost	297,332
Accumulated amortisation	(13,215)
Net book amount	284,117
Year ended 31 December 2007	
Opening net book amount	**284,117**
Addition	**297,021**
Termination of Mining Rights Transfer Agreement signed with Xinjiang Non-ferrous	**(278,335)**
Amortisation charge	**(9,907)**
Closing net book amount	**292,896**
At 31 December 2007	
Cost	**297,021**
Accumulated amortisation	**(4,125)**
Net book amount	**292,896**

The mining rights of Kalatongke Mine were transferred from Xinjiang Non-ferrous at a cash consideration of RMB297,332,000 pursuant to the mining rights transfer agreement on 3 September 2005 (the "Mining Rights Transfer Agreement"). The consideration was to be paid by the Company in annual instalments of approximately RMB9,911,000 each year over the course of 30 years ending 2035 (Note 17(a)). The difference between the value of the mining rights and the discounted net present value of the long-term payable is recorded as contribution from Holding Company in equity (Note 15(b)).

7 Mining rights *(continued)*

On 25 October 2006, the Ministry of Finance of the PRC (the "MOF") and the Ministry of Land and Resource of the PRC (the "MLR") jointly promulgated a new circular on Strengthening Reform of the System for Obtaining Mineral Exploration Rights and Mining Rights for Value (關於深化探礦權採礦權有償取得制度改革有關問題的通知) (the "Circular"). Pursuant to the Circular, a holder of state-invested mining rights which have been allocated to such holder without any payment of consideration to the State in the past should pay a consideration determined by the MLR. This Circular does not have any grandfather exemption. Since the mining right held by the Company was originally obtained by Xinjiang Non-ferrous from MLR via capital injection, the Circular applies to the mining rights held by the Company.

On 25 July 2007, the Company entered into a new agreement with Xinjiang Non-ferrous (the "New Agreement") to terminate the Mining Rights Transfer Agreement pursuant to which the Company acquired the mining rights at Kalatongke Mine from Xinjiang Non-ferrous. Pursuant to the New Agreement, it was agreed that Xinjiang Non-ferrous will refund the money that the Company paid in the past two years pursuant to the Mining Rights Transfer Agreement.

On 25 July 2007, the Company entered into an agreement with the Land and Resources Department of Xinjiang Uygur Autonomous Region (the "New Mining Rights Transfer Agreement") to acquire for the mining rights at Kalatongke Mine at a consideration of approximately RMB297,021,000. The consideration was settled by a down-payment of approximately RMB59,466,000 on 27 July 2007 and the residual payment of approximately RMB237,555,000 on 10 December 2007 with interest charged at market rate.

(All amounts in RMB thousands unless otherwise stated)

8 Land use rights

The Group

Year ended 31 December 2006	
Opening net book amount	–
Additions *(Note 14(a))*	79,072
Amortisation charge	(1,077)
Closing net book amount	77,995
At 31 Decembet 2006	
Cost	79,072
Accumulated amortisation	(1,077)
Net book amount	77,995
Year ended 31 December 2007	
Opening net book amount	**77,995**
Additions	**12,405**
Amortisation charge	**(1,646)**
Deduction related to disposal of a subsidiary	**(10,841)**
Closing net book amount	**77,913**
At 31 December 2007	
Cost	**80,636**
Accumulated amortisation	**(2,723)**
Net book amount	**77,913**

(All amounts in RMB thousands unless otherwise stated)

8 Land use rights *(continued)*

The Company

Year ended 31 December 2006	
Opening net book amount	–
Additions *(Note 14(a))*	79,072
Amortisation charge	(1,077)
Closing net book amount	77,995
At 31 December 2006	
Cost	79,072
Accumulated amortisation	(1,077)
Net book amount	77,995
Year ended 31 December 2007	
Opening net book amount	**77,995**
Additions	**1,564**
Amortisation charge	**(1,646)**
Closing net book amount	**77,913**
At 31 December 2007	
Cost	**80,636**
Accumulated amortisation	**(2,723)**
Net book amount	**77,913**

(All amounts in RMB thousands unless otherwise stated)

9 Investment in a subsidiary

The Company

	As at 31 December	
	2007	2006
Unlisted investment, at cost	–	33,060

The particulars of the subsidiary are as follows:

Company Name	Place of establishment and kind of legal entity	Registered and fully paid-up capital	Interest held	Principal activities and place of operation
Xinjiang Zhongxin Mining Company Limited	the PRC, limited liability company	58,000	57%	Production and sales of nickel matte, the PRC

The subsidiary was established on 24 January 2006.

Xinjiang Zhongxin Mining Company Limited (新疆眾鑫礦業有限責任公司) ("Zhongxin Mining") was set up with paid-in capital of RMB58,000,000. The Company originally subscribed for 51% of the paid-in capital of Zhongxin Mining at a consideration of RMB29,580,000 on 5 January 2006. On 22 June 2006, Xinjiang Non-ferrous transferred its 6% equity interest in Zhongxin Mining to the Company at a consideration of RMB3,480,000. After the transfer, the Company owned 57% equity interest of Zhongxin Mining.

According to the resolution of Board of Directors meeting held on 25 April 2007, the Company entered into an equity transfer agreement with a third party, Xinjiang Investment & Development (Group) Co., Ltd. (新疆投資發展(集團)有限責任公司) ("Xinjiang I&D") on 30 April 2007, to dispose its 57% equity interest in Zhongxin Mining to Xinjiang I&D, for a consideration of RMB33,060,000. The full consideration was received by the Company on 16 May 2007. The transfer of the equity interest of Zhongxin Mining was completed on 25 May 2007.

(All amounts in RMB thousands unless otherwise stated)

10 Inventories

The Group

	As at 31 December	
	2007	2006
Raw materials	**25,329**	35,934
Work-in-progress	**64,536**	12,240
Semi-finished goods	**153,723**	70,179
Finished goods	**30,801**	44,946
	274,389	163,299

The Company

	As at 31 December	
	2007	2006
Raw materials	**25,329**	34,179
Work-in-progress	**64,536**	12,240
Semi-finished goods	**153,723**	70,179
Finished goods	**30,801**	44,946
	274,389	161,544

The cost of inventories recognised as expense and included in “cost of sales” amounted to approximately RMB348,419,000 and RMB721,705,000 for the year ended 31 December 2006 and 2007 respectively.

The Group reversed RMB3,913,000 of a previous inventory write down in 2007. The amount reversed has been included in “cost of sales” in the income statement.

Semi-finished goods are nickel matte, mixed ore concentrate, copper scale and super rich grade ore.

11 Accounts and bills receivable

The Group and the Company

	As at 31 December	
	2007	2006
Accounts receivable *(Note (a))*	**3,844**	4,478
Bills receivable	**1,225**	80
Less: Impairment provision	**(2,397)**	(3,459)
	2,672	1,099

(All amounts in RMB thousands unless otherwise stated)

11 Accounts and bills receivable *(continued)*

Notes:

(a) Accounts receivable are analysed as follows:

	As at 31 December	
	2007	2006
Accounts receivable		
– Fellow subsidiaries	**919**	1,907
– Other state-owned enterprises	**601**	498
– Third parties	**2,324**	2,073
Accounts receivable, gross	**3,844**	4,478

Ageing analysis of the gross accounts receivable at the respective balance sheet date are as follows:

	As at 31 December	
	2007	2006
0 – 90 days	**1,374**	–
91 – 180 days	**–**	–
181 – 365 days	**–**	233
Over 365 days	**2,470**	4,245
	3,844	4,478

(b) The credit period of accounts receivable is generally from 1 to 3 months.

(c) Accounts receivable from related parties are unsecured, interest free and repayable in accordance with the relevant contract entered into between the Group and these related parties. Accounts receivable from third parties are unsecured and non-interest bearing.

(d) The carrying amounts of accounts and bills receivable approximate their fair values. The ageing of bills receivable are all within 180 days.

(e) The movements of impairment of receivables are as follows:

	As at 31 December	
	2007	2006
Opening balance	**3,459**	4,059
Write-back provision	**(1,062)**	(600)
Closing balance	**2,397**	3,459

(All amounts in RMB thousands unless otherwise stated)

12 Other receivables, prepayments and other current assets

The Group

	As at 31 December	
	2007	2006
Other receivables		
– Fellow subsidiaries	**–**	120
– Other state-owned enterprises	**151**	3
– Third parties	**2,214**	2,567
Less: Impairment provision	**(1,155)**	(2,046)
	1,210	644
Advances to suppliers *(Note(a))*	**9,244**	6,227
	10,454	6,871

The Company

	As at 31 December	
	2007	2006
Other receivables		
– Fellow subsidiaries	**–**	120
– Other state-owned enterprises	**151**	3
– Third parties	**2,214**	2,458
Less: Impairment provision	**(1,155)**	(2,046)
	1,210	535
Advances to suppliers *(Note(a))*	**9,244**	6,227
	10,454	6,762

(All amounts in RMB thousands unless otherwise stated)

12 Other receivables, prepayments and other current assets *(continued)*

Notes:

(a) Advances to suppliers are analysed as follows:

The Group and the Company

	As at 31 December	
	2007	2006
Advances to suppliers		
– Fellow subsidiaries	**132**	256
– Other state-owned enterprises	**357**	2,057
– Third parties	**8,755**	3,914
	9,244	6,227

(b) Other receivables are unsecured, interest free and have no fixed repayment term.

(c) The carrying amounts of other receivables, prepayments and other current assets approximate their fair values.

(d) Impairment provision for other receivables is charged to administrative expenses.

13 Cash and bank balances

The Group

	As at 31 December	
	2007	2006
Cash on hand	**5**	5
Current deposits with banks	**4,096,098**	562,477
	4,096,103	562,482

The Company

	As at 31 December	
	2007	2006
Cash on hand	**5**	5
Current deposits with banks	**4,096,098**	515,209
	4,096,103	515,214

(All amounts in RMB thousands unless otherwise stated)

13 Cash and bank balances *(continued)*

Current deposits with banks can be analysed below:

The Group

	As at 31 December	
	2007	2006
Denominated in:		
– RMB	**3,655,920**	562,477
– HK$	**440,178**	–
	4,096,098	562,477

The Company

	As at 31 December	
	2007	2006
Denominated in:		
– RMB	**3,655,920**	515,209
– HK$	**440,178**	–
	4,096,098	515,209

Cash and bank balances are principally RMB-denominated and HK Dollar-denominated deposits with banks in the PRC and Hong Kong respectively.

The bank deposits bear interests at rates based on bank deposit rates as agreed with banks for each of the year ended 31 December 2006 and 2007. For the year ended 31 December 2006 and year ended 31 December 2007, the weighted average effective interest rate range on deposits was 0.72% to 1.71% and 0.72% to 3.33% per annum respectively.

Renminbi is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

14 Share capital and Capital reserve

	Number of ordinary shares	Share capital	Capital reserve *(Note (c))*	Total
At 1 January 2006	300,000,000	300,000	62,712	362,712
Issue of new shares for the acquisition of land use rights from Holding Company *(Note (a))*	58,551,000	58,551	20,521	79,072
Capital contribution of cash from other equity holders of the Company *(Note (a))*	21,449,000	21,449	7,517	28,966
At 31 December 2006	380,000,000	380,000	90,750	470,750
Increase in number of shares due to share split *(Note (b))*	1,140,000,000	–	–	–
Issue of new shares due to IPO *(Note (b))*	690,000,000	172,500	4,172,414	4,344,914
Share issue expenses	–	–	(185,837)	(185,837)
Transfer from other reserves *(Note 15(a))*	–	–	(21,838)	(21,838)
At 31 December 2007	**2,210,000,000**	**552,500**	**4,055,489**	**4,607,989**

14 Share capital and Capital reserve *(continued)*

Notes:

(a) Pursuant to a resolution passed in the extraordinary shareholders meeting on 10 May 2006, the Company increased its registered capital from RMB300,000,000 to RMB380,000,000 by creation of 80,000,000 shares of RMB1 each. 58,551,000 shares of RMB1 each were issued to Xinjiang Non-ferrous for the acquisition of land use rights at fair value of approximately RMB79,072,000 contributed to the Company and 21,449,000 shares of RMB1 each were issued to the other five promoters of the Company for capital contribution of cash of approximately RMB28,966,000. The fair value of land use rights was determined by market price and valued by a qualified PRC valuer. The land use rights acquired from Xinjiang Non-ferrous were administratively authorised land. Xinjiang Non-ferrous confirmed that they would pay the charges to government if the Company transfers such land use rights to third party.

(b) Pursuant to a resolution of the shareholders of the Company dated 11 May 2007 and the approval from China Securities Regulatory Commission dated 29 August 2007, each share of RMB1 was subdivided into four shares of RMB0.25 each with effect from 27 September 2007. The total number of shares immediately after the share split was 1,520,000,000.

In October 2007, the Company completed the issue of 690,000,000 H shares of RMB0.25 each at HK$6.5 (equivalent to approximately RMB6.3) per share pursuant to the IPO and listing of the Company's H shares on the Main Board of The Stock Exchange of Hong Kong Limited. Net proceeds from such issue amounted to approximately RMB4,137,239,000, out of which approximately RMB172,500,000 was recorded in share capital and approximately RMB3,964,739,000 was recorded in capital reserve.

In addition, pursuant to the relevant approval from the State-owned Assets Supervision and Administration Commission of the State Council (the "SASAC"), upon the completion of the H share listing, the 69,000,000 Domestic shares held by Xinjiang Non-ferrous was converted into an equal number of H shares and transferred to the National Council for Social Security Fund of the PRC.

The Company's share capital as at 31 December 2007 is as follows:

	As at 31 December 2007		
	Number of shares *'000*	**% of issued capital**	**Nominal value** *RMB*
Registered, issued and fully paid			
Domestic shares of RMB0.25 each	1,451,000	65.66%	362,750
H shares of RMB0.25 each	759,000	34.34%	189,750
	2,210,000	100.00%	552,500

The Domestic shares rank *pari passu*, in all material respects, with the H shares. However, the transfer of Domestic shares is subject to certain restrictions imposed by the PRC law from time to time.

(c) Capital reserve represents the difference between par value of share issued and the fair value of net assets/considerations received by the Company. Capital reserve can be used to increase share capital upon approval from the Board of Directors.

(All amounts in RMB thousands unless otherwise stated)

15 Other reserves

The Group and the Company

	IPO expenses *Note (a)*	Contribution from Holding Company *Note (b)*	Statutory reserve *Note (c)*	Total
At 1 January 2006	–	175,663	–	175,663
Transferred from retained earnings	–	–	49,787	49,787
Professional fees incurred	(11,993)	–	–	(11,993)
At 31 December 2006	(11,993)	175,663	49,787	213,457
At 1 January 2007	**(11,993)**	**175,663**	**49,787**	**213,457**
Professional fees incurred	**(9,845)**	**–**	**–**	**(9,845)**
Transferred to capital reserve	**21,838**	**–**	**–**	**21,838**
Termination of Mining Rights Transfer Agreement signed with Xinjiang Non-ferrous *(Note 7)*	**–**	**(140,270)**	**–**	**(140,270)**
Transferred from retained earnings	**–**	**–**	**67,896**	**67,896**
At 31 December 2007	**–**	**35,393**	**117,683**	**153,076**

Notes:

(a) It represents the professional fees incurred in connection with the IPO of the Company shares.

(b) It represents the difference between the fair value of mining rights acquired from Xinjiang Non-ferrous and the discounted net present value of long-term payable for the mining rights acquired (Note 17(a)).

(c) In accordance with the PRC Company Law and the Company's Articles of Association, every year the Company is required to transfer 10% of the profit after taxation determined in accordance with PRC GAAP to the statutory reserve until the balance reaches 50% of the paid-up capital. Such reserve can be used to reduce any losses incurred or to increase share capital. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital.

(All amounts in RMB thousands unless otherwise stated)

16 Borrowings

The Group

	As at 31 December	
	2007	2006
Non-current		
Bank loans – secured and guaranteed *(Note 6)*	–	50,000
	–	50,000
Current		
Current portion of long-term bank loans		
– secured and guaranteed *(Note 6)*	–	10,000
	–	10,000
Other loans – unsecured but guaranteed	–	5,000
Other loans – unsecured	–	39,800
	–	44,800
Total	–	104,800

The Company

	As at 31 December	
	2007	2006
Current		
Other loans – unsecured but guaranteed	–	5,000
Other loans – unsecured	–	39,800
Total	–	44,800

All loans are denominated in Renminbi.

At 31 December 2006, bank loans of RMB60,000,000 borrowed by the Company's subsidiary were guaranteed by Xinjiang Non-ferrous and secured by the subsidiary's construction in progress, at the carrying amount of RMB3,510,000 (Note 6). The effective interest rate per annum at 31 December 2006 was 6.12%.

16 Borrowings *(continued)*

Other loans represent the amounts due to China Huarong Asset Management Co., Ltd. ("China Huarong") and China Cinda Asset Management Co., Ltd. ("China Cinda") of RMB22,450,000 and RMB22,350,000 respectively. Included in the amounts due to China Huarong, RMB5,000,000 was guaranteed by Xinjiang Non-ferrous Industry Group Precious Metal Co., Ltd., a fellow subsidiary. China Huarong and China Cinda are companies controlled by Ministry of Finance of the PRC and are independent from the Group and Xinjiang Non-ferrous. In 2002, The Kalatongke Mine entered into debt reorganisation agreements with their original lenders to transfer the bank loans to China Huarong and China Cinda. The SASAC and the State Economic and Trade Commission approved the debt reorganisation in January 2003. The interest of the other loans was suspended since March 2002 because these loans would be converted to the equity of Xinjiang Non-ferrous in accordance with the debt reorganisation.

Pursuant to the Debt Restructuring Agreement signed by the Company with China Huarong and Xinjiang Non-ferrous on 23 July 2007, the other loan due to China Huarong amounting to RMB22,450,000 was transferred from the Company to Xinjiang Non-ferrous with effect from 23 July 2007. In return, the Company paid Xinjiang Non-ferrous RMB22,450,000 on 25 July 2007. Meanwhile, the guarantee granted by Xinjiang Non-ferrous Industry Group Precious Metal Co., Ltd. to the Company amounting to RMB5,000,000 for securing the other loan due to China Huarong was ceased with effect from 23 July 2007. Also, pursuant to the Debt Restructuring Agreement, the guarantees provided by the Company to Xinjiang Non-ferrous and Xinjiang A'xi Gold Mine for securing the related debt-to-equity borrowings amounting to RMB28,890,000 and RMB28,900,000 respectively, were ceased with effect from 23 July 2007.

Pursuant to the Debt Restructuring Agreement signed by the Company with China Cinda and Xinjiang Non-ferrous on 24 July 2007, the other loan due to China Cinda amounting to RMB22,350,000 was transferred from the Company to Xinjiang Non-ferrous with effect from 24 July 2007. In return, the Company paid Xinjiang Non-ferrous RMB22,350,000 on 25 July 2007.

(All amounts in RMB thousands unless otherwise stated)

17 Long-term payables

The Group and the Company

	As at 31 December	
	2007	2006
Mining rights payable *(Note (a))*	**–**	119,947
Early retirement benefit obligation *(Note (b))*	**3,791**	6,066
	3,791	126,013
Less: Amounts due within one year	**(1,824)**	(4,011)
	1,967	122,002

Notes:

(a) Mining rights payable

	As at 31 December	
	2007	2006
Beginning of the year	**119,947**	124,486
Interest cost *(Note 28)*	**4,904**	8,676
Repaid during the year	**–**	(13,215)
Termination of Mining Rights Transfer Agreement signed with Xinjiang Non-ferrous *(Note 7)*	**(124,851)**	–
End of the year	**–**	119,947

Analysis of mining rights payable

	As at 31 December	
	2007	2006
Current	**–**	1,382
Non-current	**–**	118,565
End of the year	**–**	119,947

The fair value of mining rights payable is estimated based on discounted future cash flow using applicable interest rates for loan facility offered to the Group with terms of the same maturities and characteristics.

Pursuant to the New Agreement signed on 25 July 2007 by the Company with Xinjiang Non-ferrous, it was agreed that the Mining Rights Transfer Agreement signed by the Company with Xinjiang Non-ferrous was terminated (Note 7).

(All amounts in RMB thousands unless otherwise stated)

17 Long-term payables *(continued)*

(b) Early retirement benefit obligation

	As at 31 December	
	2007	2006
Beginning of the year	**6,066**	8,142
Interest cost *(Note 28)*	**300**	559
Paid during the year	**(2,575)**	(2,635)
End of the year	**3,791**	6,066

Analysis of early retirement benefit obligation

	As at 31 December	
	2007	2006
Current	**1,824**	2,629
Non-current	**1,967**	3,437
	3,791	6,066

The provision for early retirement benefit is in respect of future payments to be made by the Group to former employees who have accepted early retirement terms. These payments are made monthly based on the employees' pre-retirement salary level and age, and are due to be made until the former employees reach normal statutory retirement age, which extends up to 2026. The early retirement policy ceased since the incorporation of the Company.

18 Provision for close down, restoration and environmental costs

The Group and the Company

	As at 31 December	
	2007	2006
Beginning of the year	**4,092**	3,821
Unwinding of discount *(Note 28)*	**262**	271
End of the year	**4,354**	4,092

(All amounts in RMB thousands unless otherwise stated)

18 Provision for close down, restoration and environmental costs *(continued)*

A provision is recognised for the present value of costs to be incurred for the restoration of the tailings dam which has been determined by management based on their past experience and best estimate of future expenditure by discounting the expected expenditures to their net present value. However, in so far as the effect of the land and the environment from current mining activities becomes apparent in future periods, the estimate of the associated costs may be subject to revision in the future. The amounts provided in relation to close down, restoration and environmental clean up costs are reviewed at least annually based upon the facts and circumstances available at the time and the provisions are updated accordingly.

19 Deferred income

The movements of deferred income during the year ended 31 December 2006 and 2007 are as follows:

The Group

	As at 31 December	
	2007	2006
Beginning of the year	**13,360**	7,080
Additions	**17,522**	6,280
Deduction related to disposal of a subsidiary	**(10,489)**	–
Transfer to income statement	**(7)**	–
End of the year	**20,386**	13,360

The Company

	As at 31 December	
	2007	2006
Beginning of the year	**13,360**	7,080
Additions	**7,033**	6,280
Transfer to income statement	**(7)**	–
End of the year	**20,386**	13,360

Deferred income as at 31 December 2006 and 31 December 2007 represents government grants received in respect of mining and exploration construction projects which would be recognised as income after the completion of the projects on a straight-line basis over the expected lives of the related assets. The Company has fulfilled all the conditions for the entitlement of such grants.

The additions of deferred income included approximately RMB10,489,000 government grants received by Zhongxin Mining, the Company's subsidiary, in respect of land use rights in March 2007.

(All amounts in RMB thousands unless otherwise stated)

20 Trade payables

Trade payables are analysed as follows:

The Group

	As at 31 December	
	2007	2006
Trade payables		
– Fellow subsidiaries	**10,462**	11,848
– Other state-owned enterprises	**10,109**	6,790
– Third parties	**54,363**	41,752
	74,934	60,390

The Company

	As at 31 December	
	2007	2006
Trade payables		
– Fellow subsidiaries	**10,462**	6,699
– Other state-owned enterprises	**10,109**	6,790
– Third parties	**54,363**	37,005
	74,934	50,494

As at 31 December 2007 and 31 December 2006, the ageing analysis of trade payables are as follows:

The Group

	As at 31 December	
	2007	2006
0 – 90 days	**60,760**	40,146
91 – 180 days	**2,500**	4,260
181 – 365 days	**7,489**	13,640
Over 365 days	**4,185**	2,344
	74,934	60,390

(All amounts in RMB thousands unless otherwise stated)

20 Trade payables *(continued)*

The Company

	As at 31 December	
	2007	2006
0 – 90 days	**60,760**	32,036
91 – 180 days	**2,500**	2,474
181 – 365 days	**7,489**	13,640
Over 365 days	**4,185**	2,344
	74,934	50,494

Trade payables are repayable according to normal trade terms within one year.

The carrying amounts of trade payables approximate their fair values.

21 Other payables and accruals

The Group

	As at 31 December	
	2007	2006
Other payables *(Note (a))*	**17,675**	16,409
Customer deposits and receipts in advance	**12,368**	1,630
Salary and welfare payables	**68,930**	49,208
Other levies	**3,756**	6,804
Accrued taxes other than income tax *(Note (b))*	**14,072**	8,859
	116,801	82,910

(All amounts in RMB thousands unless otherwise stated)

21 Other payables and accruals *(continued)*

The Company

	As at 31 December	
	2007	2006
Other payables *(Note (a))*	**17,675**	15,381
Customer deposits and receipts in advance	**12,368**	1,630
Salary and welfare payables	**68,930**	48,747
Other levies	**3,756**	6,804
Accrued taxes other than income tax *(Note (b))*	**14,072**	8,990
	116,801	81,552

Notes:

(a) Other payables are analysed as follows:

The Group

	As at 31 December	
	2007	2006
Other payables		
– Holding Company	**–**	527
– Fellow subsidiaries	**597**	3,472
– Other state-owned enterprises	**–**	365
– Third parties	**17,078**	12,045
	17,675	16,409

The Company

	As at 31 December	
	2007	2006
Other payables		
– Holding Company	**–**	527
– Fellow subsidiaries	**597**	3,468
– Other state-owned enterprises	**–**	22
– Third parties	**17,078**	11,364
	17,675	15,381

The carrying amounts of other payables approximate their fair values.

(All amounts in RMB thousands unless otherwise stated)

21 Other payables and accruals *(continued)*

(b) Accrued taxes other than income tax are analysed as follows:

The Group

	As at 31 December	
	2007	2006
Value added tax	**3,538**	4,829
City construction tax	**4,060**	2,489
Individual income tax	**2,281**	899
Stamp duty	**2,879**	585
Others	**1,314**	57
	14,072	8,859

The Company

	As at 31 December	
	2007	2006
Value added tax	**3,538**	4,966
City construction tax	**4,060**	2,489
Individual income tax	**2,281**	899
Stamp duty	**2,879**	585
Others	**1,314**	51
	14,072	8,990

22 Revenue

Revenue represents the sales value of goods sold to customers net of value added tax.

Revenue recognised during the year ended 31 December 2006 and 2007 are analysed as follows:

	Year ended 31 December	
	2007	2006
Nickel cathode	**1,267,716**	604,649
Copper cathode	**199,873**	161,874
Copper concentrate	**67,889**	48,437
Raw copper	**–**	33,792
Others	**45,685**	20,316
	1,581,163	869,068

(All amounts in RMB thousands unless otherwise stated)

23 Expenses by nature

The following items have been (credited)/charged to the operating profit during the year:

	Year ended 31 December	
	2007	2006
Depreciation *(Note 6)*	**27,649**	23,163
Amortisation	**11,555**	11,010
(Reversal of)/provision for impairment of inventories	**(3,913)**	1,490
Reversal of impairment of accounts receivable	**(922)**	(600)
(Reversal of)/provision for impairment of other receivables	**(119)**	32
Staff costs *(Note 24)*	**190,990**	133,557
Changes in inventories of finished goods and work-in-progress	**(41,250)**	(51,142)
Raw materials and consumables used	**479,762**	176,758
Power and fuel consumed	**66,219**	57,758
Subcontracting expenses	**26,108**	21,863
Other manufacturing overheads	**8,595**	10,216
Transportation expenses	**6,146**	6,308
Sales tax levies	**12,016**	7,719
Auditor's remuneration	**1,880**	866
Resource compensation fees	**7,046**	4,748
Other taxes	**3,958**	930
Others	**28,405**	16,733
Total cost of sales, distribution costs and administrative expenses	**824,125**	421,409

24 Staff costs (including directors' emoluments)

	Year ended 31 December	
	2007	2006
Wages and salaries	**137,461**	100,138
Housing benefits *(Note (a))*	**5,843**	5,835
Contributions to pension plans *(Note (b))*	**11,670**	11,506
Welfare and other expenses	**36,016**	16,078
	190,990	133,557

Notes:

(a) These represent the Group's contributions to government-sponsored housing funds at a rate of 10% of the employees' basic salary for the year ended 31 December 2006 and 2007.

(b) These represent the Group's contributions to the defined contribution pension plans organised by the relevant municipal and provincial governments at a rate of 20% of the employees' basic salary for the year ended 31 December 2006 and 2007.

(All amounts in RMB thousands unless otherwise stated)

25 Other income

	Year ended 31 December	
	2007	2006
Interest income	**31,852**	3,863
Subsidy income	**161**	1,345
	32,013	5,208

26 Other gains – net

	Year ended 31 December	
	2007	2006
Gains on disposal of a subsidiary	**3,301**	–
Scrap sales	**3,234**	935
Losses on disposal of property, plant and equipment	**(3,551)**	(957)
Others	**1,166**	73
	4,150	51

27 Subscription interest income

The subscription interest income is the interest income generated from the over subscription proceeds during the subscription period before the listing of the H shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

28 Finance costs – net

	Year ended 31 December	
	2007	2006
Net foreign exchange loss	**96,932**	–
Bank borrowings	**479**	616
Unwinding of discount *(Note 17 and 18)*	**5,466**	9,506
Others	**5,131**	–
	108,008	10,122

The net foreign exchange loss mainly related to the conversion/translation of the H shares IPO proceeds from Hong Kong Dollar to Renminbi during the period from the date the share proceeds received to the time of conversion/translation. The Hong Kong Dollar currency was depreciating as compared to Renminbi during the period.

(All amounts in RMB thousands unless otherwise stated)

29 Income tax expense

	Year ended 31 December	
	2007	2006
Current income tax	**238**	119
Deferred income tax	**–**	–
	238	119

The provision for PRC current income tax is calculated based on the statutory income tax rate of 33% of the assessable income of each of the companies of the Group determined in accordance with the relevant PRC income tax rules and regulations for the year ended 31 December 2006 and 2007.

The Company, except for its Shanghai branch, is exempted from enterprise income tax from 2005 to 2006 pursuant to the approval obtained from the Xinjiang Uygur Autonomous Region Government. This tax exemption was further extended to 2010 pursuant to the approval subject to annual review for the tax exemption from 2007 to 2010. The tax on profit for the year ended 31 December 2006 and 2007 mainly represent the tax for the Company's Shanghai branch.

Effective from 1 January 2008, the Company shall determine and pay the corporate income tax in accordance with the Corporate Income Tax Law of the PRC ("the new CIT Law") as approved by the National Congress on 16 March 2007. Under the new CIT Law the corporate income tax applicable to the Company will be 25% from 2008. The directors of the Company believe that the Company will get the approval for income tax exemption from 2008 to 2010.

Reconciliation between actual tax expense and accounting profit at applicable tax rates is as follows:

	Year ended 31 December	
	2007	2006
Profit before tax	**826,344**	442,796
Tax recalculated at statutory income tax of 33%	**272,694**	146,123
Effect of tax exemptions	**(225,982)**	(146,004)
Income not subject to tax	**(46,580)**	–
Expense not deductible for tax purpose	**106**	–
Income tax expense	**238**	119

(All amounts in RMB thousands unless otherwise stated)

30 Emoluments for directors, supervisors and five highest paid individuals

(a) Directors' and supervisors' emoluments

The aggregate amounts of emoluments payable to directors and supervisors of the Company during the year ended 31 December 2006 and 2007 are as follows:

	Year ended 31 December	
	2007	2006
Fees	**255**	135
Basic salaries, allowances and other benefits	**1,601**	1,252
Contributions to retirement benefit schemes	**50**	46
Discretionary bonus	**840**	417
	2,746	1,850

The remuneration of each of the directors and supervisors for the year ended 31 December 2006 is set out below:

	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit schemes	Discretionary bonus	Total
Directors					
Mr. Yuan Ze	–	175	–	–	175
Mr. Shi Wenfeng	–	254	9	100	363
Mr. Zhang Guohua	–	254	9	100	363
Mr. Liu Jun	–	204	9	80	293
Mr. Au Yiu Kwan	66	–	–	–	66
Mr. Chen Jianguo	23	–	–	–	23
Mr. Sun Baosheng	23	–	–	–	23
Supervisors					
Mr. Jiang Mingshun	–	229	9	50	288
Mr. Sun Baohui	–	136	10	87	233
Ms. Chen Yuping	12	–	–	–	12
Mr. Hu Zhijiang	11	–	–	–	11
	135	1,252	46	417	1,850

(All amounts in RMB thousands unless otherwise stated)

30 Emoluments for directors, supervisors and five highest paid individuals *(continued)*

(a) Directors' and supervisors' emoluments *(continued)*

The remuneration of each of the directors and supervisors for the year ended 31 December 2007 is set out below:

	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit schemes	Discretionary bonus	Total
Directors					
Mr. Yuan Ze	–	363	–	200	563
Mr. Shi Wenfeng	–	292	10	200	502
Mr. Zhang Guohua	–	292	10	200	502
Mr. Liu Jun	–	235	10	160	405
Mr. Ng Yuk Keung	105	–	–	–	105
Mr. Chen Jianguo	50	–	–	–	50
Mr. Sun Baosheng	50	–	–	–	50
Supervisors					
Mr. Jiang Mingshun	–	245	10	80	335
Mr. Sun Baohui	–	174	10	–	184
Ms. Chen Yuping	25	–	–	–	25
Mr. Hu Zhijiang	25	–	–	–	25
	255	1,601	50	840	2,746

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2006 and 2007 are as follows:

	Year ended 31 December	
	2007	2006
Directors	**3**	3
Non-director individuals	**2**	2
	5	5

(All amounts in RMB thousands unless otherwise stated)

30 Emoluments for directors, supervisors and five highest paid individuals *(continued)*

(b) Five highest paid individuals *(continued)*

The details of emoluments paid to the five highest individuals who were directors of the Company during the year ended 31 December 2006 and 2007 have been included in Note 30(a) above. Details of emoluments paid to the remaining non-director individuals are as follows:

	Year ended 31 December	
	2007	2006
Basic salaries, allowances and other benefits	**935**	601
Contributions to retirement benefit schemes	**22**	15
Discretionary bonus	**180**	80
	1,137	696

During the year ended 31 December 2006 and 2007, the emoluments paid to each of the highest paid non-director individuals did not exceed HK$1,000,000 (equivalent to RMB920,000).

(c) During the year ended 31 December 2006 and 2007, no directors, supervisors of the Company or the five highest paid individuals of the Group waived any emoluments and no emoluments were paid by the Group to any of the directors and supervisors of the Company or the five highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

31 Earnings per share

	Year ended 31 December	
	2007	2006
Profit attributable to equity holders of the Company *(RMB'000)*	**827,269**	444,004
Adjusted weighted average number of shares in issue *(thousand)*	**1,661,781**	1,398,136
Basic and diluted earnings per share *(RMB)*	**0.498**	0.318

Upon incorporation on 1 September 2005, the Company issued 300,000,000 shares at par value of RMB1 each to Xinjiang Non-ferrous, Shanghai Yilian Kuangneng Industry Co., Ltd., Zhongjin Investment (Group) Co., Ltd., Xiamen Zijin High-tech Co., Ltd., Xinjiang Xinying New Material Co., Ltd. and Shaanxi Honghao Industry Co., Ltd.. On 19 May 2006, the Company increased its paid-up capital from RMB300,000,000 to RMB380,000,000 by issuing of 80,000,000 new shares at par value of RMB1 each to existing equity holders of the Company. In addition, the weighted average number of shares in issue has been adjusted for the share split effective on 27 September 2007 and the new issue of H shares in October 2007 (Note 14).

Diluted earnings per share is equal to basic earnings per share as there was no dilutive potential share outstanding for all periods presented.

32 Profit distribution

The net assets contributed by Xinjiang Non-ferrous as at 1 September 2005 was in excess of the net assets which was approved by the State-owned Assets Supervision and Administration Commission of Xinjiang Uygur Autonomous Region. The excessive net assets of RMB13,045,000 would be distributed to Xinjiang Non-ferrous according to the reorganisation agreement. The distribution was approved by the directors of the Company on 7 March 2007 and subsequently approved by the Company's equity holders on 22 March 2007. The Company paid cash of RMB13,045,000 to the Holding Company as profit distribution in March 2007.

(All amounts in RMB thousands unless otherwise stated)

33 Dividends

	Year ended 31 December	
	2007	2006
Special dividend paid	**480,914**	–
Proposed final dividend	**176,800**	400,000
	657,714	400,000

At the extraordinary general meetings of the Company held on 11 May 2007 and 13 September 2007, it was resolved that the Company's promoters at the time of the incorporation of the Company (the "Promoters") should be entitled to all of the cumulative distributable profits of the Company as at 30 June 2007 (the "Special Dividend"). Pursuant to a resolution passed at the meeting of the Board of Directors held on 19 November 2007, it was resolved to declare and pay the special dividend of RMB1.2656 per share, amounting to a total of approximately RMB480,914,000 based on the original number of shares prior to the share split (Note 14), to the Company's Promoters. The special dividend was fully paid to the Company's Promoters in December 2007.

At the meeting of Board of Directors held on 1 April 2008, the directors proposed a final dividend of RMB0.08 per ordinary share, amounting to a total dividend of approximately RMB176,800,000 for the year ended 31 December 2007, and was subject to the approval by the Company's shareholders in the Annual General Meeting on 29 May 2008. This proposed dividend is not reflected as a dividend payable in the financial statements for the year ended 31 December 2007.

A dividend in respect of the period from 1 September 2005 to 31 December 2006 of RMB1.0526 per share, amounting to a total of RMB400,000,000, was proposed by the directors on 7 March 2007 and subsequently approved by the Company's equity holders on 22 March 2007. The dividend of RMB400,000,000 was paid to the Company's Promoters during the year ended 31 December 2007.

(All amounts in RMB thousands unless otherwise stated)

34 Notes to consolidated cash flow statement

(a) Cash generated from operations

	Year ended 31 December	
	2007	2006
Profit for the year	**826,106**	442,677
Adjustments for:		
Income tax expense	**238**	119
Depreciation of property, plant and equipment	**27,649**	23,163
Amortisation of mining rights	**9,907**	9,911
Amortisation of land use rights	**1,646**	1,077
Amortisation of other intangible assets	**2**	22
Losses on disposal of property, plant and equipment	**3,551**	957
Write-back of impairment for receivables	**(1,041)**	(568)
(Write-back)/Provision impairment for inventories	**(3,913)**	1,490
Profit on disposal of equity interest in subsidiary	**(3,301)**	–
Net foreign exchange loss	**96,932**	–
Subscription interest income	**(141,151)**	–
Interest income	**(31,852)**	(3,863)
Interest expense	**11,076**	10,122
Cash generated from operations before working capital changes	**795,849**	485,107
Changes in working capital:		
Increase in inventories	**(140,212)**	(62,002)
(Increase)/Decrease in accounts and bills receivable	**(651)**	21,686
(Increase)/Decrease in other receivables, prepayments and other current assets	**(35,925)**	3,240
Increase in trade and other payables	**107,658**	24,239
Cash generated from operations	**726,719**	472,270

(All amounts in RMB thousands unless otherwise stated)

34 Notes to consolidated cash flow statement *(continued)*

(b) Disposal of a subsidiary

On 25 May 2007, the Group disposed its 57% equity interests in Zhongxin Mining to Xinjiang I&D, for a consideration of RMB33,060,000 (Note 9) as follows:

Property, plant and equipment	86,439
Land use rights	10,841
Other intangible assets	15
Inventories	33,035
Other receivables, prepayments and other current assets	32,954
Cash on hand and at bank	68,840
Deferred income	(10,489)
Accounts payable	(12,487)
Other payables	(46,940)
Current-portion of long-term borrowings	(10,000)
Short-term borrowings	(50,000)
Long-term borrowings	(50,000)
Net assets disposed	52,208
Percentage of equity interest disposed	57%
Total consideration	29,759
Selling price received in cash	33,060
Cash of the subsidiary disposed	(68,840)
Net cash outflow in respect of the disposal of a subsidiary	(35,780)

(c) Proceeds from sale of property, plant and equipment

In the consolidated cash flow statement, proceeds from sale of property, plant and equipment comprise:

	Year ended 31 December	
	2007	2006
Net book amount	**3,662**	2,304
Losses on disposal of property, plant and equipment	**(3,551)**	(957)
Proceeds from sale of property, plant and equipment	**111**	1,347

34 Notes to consolidated cash flow statement *(continued)*

(d) Major non-cash transactions

	Year ended 31 December	
	2007	2006
Acquisition of land use rights from Holding Company by issuing new shares	–	79,072

35 Contingencies

(a) Environmental contingencies

Historically, the Group has not incurred any significant expenditure for environmental remediation. Further, except as disclosed in Note 18, the Group is presently not involved in any environmental remediation and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislations, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, may move further towards the adoption of more stringent environmental standards.

Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include (i) the exact nature and extent of the contamination at various sites including, but not limited to mines and land development areas, whether operating, closed or sold, (ii) the extent of required cleanup efforts, (iii) varying costs of alternative remediation strategies, (iv) changes in environmental remediation requirements, and (v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under future environmental legislations cannot reasonably be estimated at present, and could be material.

(b) Insurance

The Group carries commercial insurance for its employees who work underground for personal injury and its mining equipments underground. However, such insurance may not be sufficient to cover the potential future losses. While the effect of under-insurance on future incidents cannot be reasonably assessed at present, management believes this can have a material adverse impact on the results of operations or the financial position of the Group.

(All amounts in RMB thousands unless otherwise stated)

36 Commitments

(a) Capital commitments

Capital expenditure for property, plant and equipment at the respective balance sheet date but not yet incurred is as follows:

The Group

	As at 31 December	
	2007	2006
Contracted but not provided for:		
– Buildings	**85,686**	18,920
– Machinery and equipment	**36,624**	8,435
	122,310	27,355
Authorised but not contracted for:		
– Buildings	**446,799**	403,884
– Machinery and equipment	**680,515**	563,216
	1,127,314	967,100
	1,249,624	994,455

The Company

	As at 31 December	
	2007	2006
Contracted but not provided for:		
– Buildings	**85,686**	18,920
– Machinery and equipment	**36,624**	8,435
	122,310	27,355
Authorised but not contracted for:		
– Buildings	**446,799**	393,287
– Machinery and equipment	**680,515**	506,066
	1,127,314	899,353
	1,249,624	926,708

(All amounts in RMB thousands unless otherwise stated)

36 Commitments *(continued)*

(b) Operating lease commitments

The Company leases various offices and warehouses under non-cancelable operating lease agreements.

The future aggregate minimum lease payments under non-cancelable operating leases are as follows:

The Group and the Company

	As at 31 December	
	2007	2006
No later than 1 year	**1,636**	1,636
Later than 1 year and no later than 2 years	**1,636**	1,636
Later than 2 years and no later than 3 years	**–**	1,636
	3,272	4,908

37 Related-party transactions

The Group is part of a larger group of companies under Xinjiang Non-ferrous and has extensive transactions and relationships with members of the Xinjiang Non-ferrous Group. The Company's directors regard Xinjiang Non-ferrous as the ultimate holding company of the Company.

Xinjiang Non-ferrous itself is a state-owned enterprise and is controlled by the PRC government. In accordance with HKAS 24 (revised 2004), "Related Party Disclosure", state-owned enterprises and their subsidiaries, other than Xinjiang Non-ferrous Group's companies, directly or indirectly controlled by the PRC government are also defined as related parties of the Group. The directors of the Company are of the opinion that these transactions are conducted at terms multilaterally agreed by the underlying parties in the ordinary course of business.

37 Related-party transactions *(continued)*

During the year ended 31 December 2006 and 2007, the Group's management are of the view that the following companies are related parties of the Group:

Name of related parties	Relationship with the Group
Xinjiang Non-ferrous	Holding Company
Xinjiang Lithia Factory	Fellow subsidiary
Xinjiang A'xi Gold Mine	Fellow subsidiary
Xinjiang Non-ferrous Gold Construction Company	Fellow subsidiary
Xinjiang Non-ferrous Metallurgy Transportation Company Co., Ltd.	Fellow subsidiary
Xinjiang Non-ferrous Metal Dibian Trade Company	Fellow subsidiary
China Non-ferrous Metal Import and Export Company of Xinjiang	Fellow subsidiary
Metallurgical Design Institute of Non-ferrous Metals of Urumqi	Fellow subsidiary
Xinjiang Non-ferrous Metallurgy Manufacture Factory	Fellow subsidiary
Xinjiang Non-ferrous Industry Group Precious Metal Co., Ltd.	Fellow subsidiary
Xinjiang Non-ferrous Metal Industrial Materials (Group) Co., Ltd.	Fellow subsidiary
Fukang Non-ferrous Development Co., Ltd.	Fellow subsidiary
Xinjiang Non-ferrous Metal Industry (Group) Fuyun Xingtong Service Co., Ltd.	Fellow subsidiary
Xinjiang Jinhui Real Estate Development Co., Ltd.	Fellow subsidiary
Urumqi Mingyuan Property Management Co., Ltd.	Fellow subsidiary
Yinlong Aluminum-plastics Compound Tube Company of Xinjiang	Fellow subsidiary
Xinjiang Sangong Power Co., Ltd.	Fellow subsidiary
Fuyun Hengsheng Beryllium Industry Co., Ltd.	Fellow subsidiary
Beijing Baodi Xindi Kemao Co., Ltd.	Fellow subsidiary
Shaanxi Xinhao Trade and Industry Co., Ltd.	Shaanxi Xinhao Trade and Industry Co., Ltd. ("Shaanxi Xinhao") was the related party of Shaanxi Honghao Industry Co., Ltd. ("Shaanxi Honghao"), an investor of the Company by virtue of the fact that the controlling shareholder of Shaanxi Xinhao was related to the controlling shareholder of Shaanxi Honghao, as husband and wife. On 6 June 2006, the controlling shareholder of Shaanxi Honghao disposed all his equity interest in Shaanxi Xinhao to an independent third party.

(All amounts in RMB thousands unless otherwise stated)

37 Related-party transactions *(continued)*

(a) Deposits and interest income

	As at 31 December	
	2007	2006
Deposits placed with state-owned banks	**4,096,098**	562,477

	Year ended 31 December	
	2007	2006
Interest income from state-owned banks	**31,852**	3,863

(b) During the year ended 31 December 2006 and 2007, the Group had the following material transactions with related parties:

Transactions with the Holding Company

	Year ended 31 December	
	2007	2006
Nature of transactions		
Rental expense of building paid/payable	**1,636**	1,018
Interest expense paid/payable *(Note)*	**4,904**	8,676
Profit distribution	**13,045**	–
Dividend paid	**553,022**	–

Note:

The interest expense paid/payable to Holding Company represented the unwinding of discount of long-term mining rights payable to Holding Company (Note 17(a)).

Apart from the above transaction, the Company entered into trademark agreements with the Holding Company pursuant to which the Company has the right to use the registered trademark of “Bo Feng” at no cost from 1 September 2005 to 9 July 2009.

(All amounts in RMB thousands unless otherwise stated)

37 Related-party transactions *(continued)*

(b) *(continued)*

Transactions with companies controlled by the Holding Company

Name of related parties	Nature of transactions	Year ended 31 December 2007	2006
– Xinjiang Lithia Factory	Purchase of chemical materials	**–**	601
– Xinjiang Non-ferrous Metallurgy Manufacture Factory	Purchase of equipment and fittings	**1,921**	1,315
– Xinjiang Non-ferrous Industry Group Precious Metal Co., Ltd.	Purchase of equipment and fittings	**872**	959
– Xinjiang Non-ferrous Metal Dibian Trade Company	Purchase of coke	**–**	8,863
	Purchase of raw materials	**855**	2,731
– Xinjiang Non-ferrous Metal Industrial Materials (Group) Co., Ltd.	Purchase of raw materials	**153**	254
– Fukang Non-ferrous Development Co., Ltd.	Purchase of raw materials and consumables	**2,255**	3,222
	Purchase of coal	**4,417**	1,794
	Provision of manufacturing services	**15**	–
	Provision of transportation services	**7,416**	3,687
	Provision of heating	**28**	656
– Xinjiang Non-ferrous Gold Construction Company	Provision of construction services	**63,514**	80,925
– Xinjiang Non-ferrous Metallurgy Transportation Company Co., Ltd.	Provision of transportation services	**–**	181
– Xinjiang Non-ferrous Metal Industry (Group) Fuyun Xingtong Service Co., Ltd.	Provision of transportation services	**955**	271
	Provision of comprehensive supporting services	**2,321**	2,088
	Provision of other services	**1,178**	–
– Xinjiang Non-ferrous Metallurgy Manufacture Factory	Provision of manufacturing services	**1,475**	935
	Provision of transportation services	**7**	–
– Metallurgical Design Institute of Non-ferrous Metals of Urumqi	Provision of mining structure design services	**144**	1,040
		87,526	109,522

(All amounts in RMB thousands unless otherwise stated)

37 Related-party transactions *(continued)*

(b) *(continued)*

Transactions with companies controlled by the Holding Company (continued)

Name of related parties	Nature of transactions	Year ended 31 December 2007	2006
– Shaanxi Xinhao Trade and Industry Co., Ltd. *(Note)*	Sale of nickel cathode and copper cathode	**–**	155,609
– Fuyun Hengsheng Beryllium Industry Co., Ltd.	Sale of copper cathode	**4,281**	2,210
	Sale of industrial sulphuric acid	**258**	–
– Beijing Baodi Xindi Kemao Co., Ltd.	Sale of nickel cathode	**1,487**	17,380
– Xinjiang Non-ferrous Metal Industrial Materials (Group) Co., Ltd.	Sale of nickel cathode and copper cathode	**–**	33
– China Non-ferrous Metal Import and Export Company of Xinjiang	Sale of copper cathode	**439**	–
		6,465	175,232

Note:

Shaanxi Xinhao was a related party of Shaanxi Honghao, an investor of the Company. On 6 June 2006, Shaanxi Honghao disposed Shaanxi Xinhao's business to an independent third party.

(c) Guarantee provided to Holding Company and related parties for securing related parties' bank loans

Name of related parties	As at 31 December 2007	2006
– Xinjiang Non-ferrous	**–**	28,890
– Xinjiang A'xi Gold Mine	**–**	28,900
	–	57,790

(All amounts in RMB thousands unless otherwise stated)

37 Related-party transactions *(continued)*

(d) Guarantee granted by Holding Company and related parties for securing the Group's bank loans

	As at 31 December	
Name of related parties	**2007**	2006
– Xinjiang Non-ferrous	–	60,000
– Xinjiang Non-ferrous Industry Group Precious Metal Co., Ltd.	–	5,000
	–	65,000

(e) Balances due from or due to related parties

	As at 31 December	
	2007	2006
Accounts receivable from fellow subsidiaries		
– Xinjiang Lithia Factory	–	1,869
– Xinjiang Non-ferrous Industry Group Precious Metal Co., Ltd.	**38**	38
– Fuyun Hengsheng Beryllium Industry Co., Ltd.	**881**	–
	919	1,907
Accounts receivable from other state-owned enterprises	**601**	498
	1,520	2,405
Other receivables from fellow subsidiaries		
– Xinjiang Sangong Power Co., Ltd.	–	100
– Xinjiang Non-ferrous Gold Construction Company	–	20
	–	120
Other receivables from other state-owned enterprises	**151**	3
	151	123

(All amounts in RMB thousands unless otherwise stated)

37 Related-party transactions *(continued)*

(e) Balances due from or due to related parties *(continued)*

	As at 31 December	
	2007	2006
Advances to fellow subsidiaries		
– Xinjiang Non-ferrous Metallurgy Manufacture Factory	**106**	201
– Xinjiang Non-ferrous Gold Construction Company	**26**	–
– Xinjiang Non-ferrous Metal Industrial Materials (Group) Co., Ltd.	**–**	55
	132	256
Advances to other state-owned enterprises	**357**	2,057
	489	2,313
Trade payables to fellow subsidiaries		
– Xinjiang Non-ferrous Metallurgy Manufacture Factory	**187**	498
– Metallurgical Design Institute of Non-ferrous Metals of Urumqi	**112**	130
– Xinjiang Non-ferrous Industry Group Precious Metal Co., Ltd.	**–**	256
– Xinjiang Non-ferrous Metal Dibian Trade Company	**–**	733
– Fukang Non-ferrous Development Co., Ltd.	**885**	718
– Xinjiang Non-ferrous Gold Construction Company	**8,230**	9,429
– Xinjiang Non-ferrous Metal Industry (Group) Fuyun Xingtong Service Co., Ltd.	**1,048**	84
	10,462	11,848
Trade payables to other state-owned enterprises	**10,109**	6,790
	20,571	18,638
Other payables to Holding Company		
– Xinjiang Non-ferrous	**–**	527

(All amounts in RMB thousands unless otherwise stated)

37 Related-party transactions *(continued)*

(e) Balances due from or due to related parties *(continued)*

	As at 31 December	
	2007	2006
Other payables to fellow subsidiaries		
– Fukang Non-ferrous Development Co., Ltd.	**–**	807
– Xinjiang Non-ferrous Gold Construction Company	**100**	809
– Xinjiang Non-ferrous Metal Industry (Group) Fuyun Xingtong Service Co., Ltd.	**472**	1,848
– Xinjiang Non-ferrous Metallurgy Transportation Development Co., Ltd.	**–**	8
– Fuyun Hengsheng Beryllium Industry Co., Ltd.	**25**	–
	597	3,472
Other payables to other state-owned enterprises	**–**	365
	597	4,364
Long-term payables to Holding Company		
– Current	**1,824**	1,382
– Non-current	**1,967**	118,565
	3,791	119,947
Customer deposits and receipts in advance from fellow subsidiaries		
– Beijing Baodi Xindi Kemao Co., Ltd.	**1**	–
Customer deposits and receipts in advance from other state-owned enterprises	**–**	15
	1	15

(All amounts in RMB thousands unless otherwise stated)

37 Related-party transactions *(continued)*

(f) Loans from related parties

	Year ended 31 December	
	2007	2006
Loans from:		
State-owned banks		
– Long-term	–	50,000
– Short-term	–	10,000
	–	60,000
Non-bank financial institutions		
– Short-term	–	44,800

Movements of the loans from state-owned banks or non-bank financial institutions, or government bureau:

	Year ended 31 December	
	2007	2006
At beginning of the year	**104,800**	54,800
Additions	–	60,000
Payments	**(44,800)**	(10,000)
Disposal of a subsidiary	**(60,000)**	–
At end of the year	–	104,800

Interest expenses paid/payable to:

	Year ended 31 December	
	2007	2006
State-owned banks	**479**	616

(g) Key management compensation

	Year ended 31 December	
	2007	2006
Salaries and other short-term employee benefits	**2,822**	2,304
Retirement benefit contributions	**82**	81
	2,904	2,385

Xinjiang Xinxin Mining Industry Co., Ltd.
新疆新鑫礦業股份有限公司