湖南有色金屬股份有限公司

Hunan Nonferrous Metals Corporation Limited

（於中華人民共和國註冊成立的股份有限公司）

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

Stock Code : 2626

Annual Report 2007

Contents

Summary Financial Information

Consolidated Income Statement

	Year ended 31 December				
	2003	2004	2005 (RMB'000)	2006	**2007**
CONTINUING OPERATIONS					
REVENUE	5,821,800	7,308,974	9,291,232	17,765,129	**21,493,689**
Cost of sales	(5,017,760)	(6,171,089)	(7,779,944)	(15,152,177)	**(19,412,091)**
Gross profit	804,040	1,137,885	1,511,288	2,612,952	**2,081,598**
Other revenue and gains	66,884	385,662	52,688	186,560	**358,132**
Selling and distribution costs	(149,005)	(145,411)	(164,662)	(234,905)	**(311,318)**
Administrative expenses	(386,170)	(500,025)	(560,312)	(896,408)	**(970,601)**
Other operating expenses, net	(47,204)	(13,677)	(40,940)	(249,466)	**(27,829)**
Finance costs	(130,542)	(148,043)	(174,489)	(245,022)	**(343,731)**
Share of profits and losses of associates	17,430	29,390	47,660	(8,608)	**(70,689)**
PROFIT BEFORE TAX	175,433	745,781	671,233	1,165,103	**715,562**
Income tax expense	(4,752)	(95,961)	(133,978)	(290,461)	**(239,362)**
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	170,681	649,820	537,255	874,642	**476,200**
DISCONTINUED OPERATIONS					
Profit for the year from discontinued operations	464	344	–	–	**–**
NET PROFIT FOR THE YEAR	171,145	650,164	537,255	874,642	**476,200**
Attributable to:					
Equity holders of the parent	169,308	555,210	426,013	451,409	**314,896**
Minority interests	1,837	94,954	111,242	423,233	**161,304**
	171,145	650,164	537,255	874,642	**476,200**

Summary Financial Information

Extracts from the Consolidated Balance Sheet

	As of 31 December				
	2003	2004	2005	2006	**2007**
			(RMB'000)		
Total non-current assets	3,814,231	3,646,911	4,917,682	6,381,662	**8,711,387**
Total current assets	2,659,555	2,647,945	5,114,730	8,272,793	**9,886,861**
Total assets	6,473,786	6,294,856	10,032,412	14,654,455	**18,598,248**
Total current liabilities	3,164,009	3,549,567	5,234,844	7,175,389	**7,476,243**
Total non-current liabilities	1,373,944	874,585	1,591,694	1,708,978	**3,083,589**
Equity attributable to equity holders of the parent	1,313,938	1,421,726	1,940,768	4,225,395	**5,764,286**
Minority interests	621,895	448,978	1,265,106	1,544,693	**2,274,130**
Total equity	1,935,833	1,870,704	3,205,874	5,770,088	**8,038,416**

Corporate Information

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

11/F, Block A Yousedasha
No. 342 Laodongxi Road
Changsha City, Hunan, PRC
(410015)

PLACE OF BUSINESS IN HONG KONG

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

LEGAL REPRESENTATIVE

He Renchun

AUTHORISED REPRESENTATIVES

Liao Luhai
Lam Kai Yeung

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Lam Kai Yeung

COMPLIANCE ADVISER

BOCI Asia Limited

DEPARTMENT FOR CORPORATE INFORMATION AND INQUIRY

Finance and Securities Department

CORPORATE INFORMATION AND INQUIRY HOTLINE

(86) 731 5385 556

H SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
46th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

STOCK EXCHANGE LISTING

Hong Kong Stock Exchange Company Limited

STOCK NAME

Hunan Nonferrous Metals Corporation Limited (HNC)

STOCK CODE

2626

PRINCIPAL BANKERS

Bank of China, Hunan Branch
Industrial and Commercial Bank of China, Hunan Branch
China Construction Bank, Hunan Branch
The Export-Import Bank of China, Hunan Branch
China Merchants Bank, Changsha Branch
China Development Bank, Hunan Branch

Corporate Information

AUDITORS

Mainland China:
Vocation International Certified Public
Accountants Limited

Hong Kong:
Ernst & Young

LEGAL ADVISORS

As to Hong Kong law:
Charltons

As to PRC law:
Jia Yuan Law Firm

Corporate Profile

Hunan Nonferrous Metals Corporation Limited ("HNC" or the "Company") was established by Hunan Nonferrous Metals Holding Group Co., Ltd. ("HNG"), Shenzhen City Bangxin Investment Development Co., Ltd. ("Shenzhen Bangxin"), Zijin Mining Group Co., Ltd. ("Zijin"), Hunan Valin Steel and Iron Group Co., Ltd. ("Hunan Valin") and Powerise Information Technology Co., Ltd. ("Powerise") as a joint stock company in the People's Republic of China ("PRC") on 1 September 2005. The Company successfully issued its H Shares in Hong Kong and was listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 31 March 2006 (the "Listing").

On 9 July 2007, the Company placed 272,118,000 new H shares (of which 24,738,000 shares was converted from the same number of State-owned domestic shares and was sold with related proceeds payable to National Council for Social Security Fund ("NSSF") of the People's Republic of China ("PRC")) of RMB1.00 each in the share capital of the Company at a placing price of HK$4.93 per H share.

The Company and its subsidiaries (the "Group") is the largest integrated producer of nonferrous metals, excluding aluminum, in the PRC as measured by production volume. Our mines contain the largest tungsten and bismuth reserve in the world and we possess a substantial reserve of antimony. We possess a vertically-integrated and centralized production chain that includes upstream exploration, mining and ore processing as well as midstream smelting and downstream refining and value-added processing. We are the largest producer of cemented carbides, zinc and antimony in the PRC, as measured by production volume, as well as a major producer of products such as lead, silver, indium, tantalum and niobium.

Profiles of Directors, Supervisors and Senior Management

EXECUTIVE DIRECTORS

He Renchun (何仁春), aged 50, is our Chairman and the Chairman of HNG. He is a senior engineer.

Mr. He graduated from Central South University with a major in powder metallurgy in 1976. He spent the next 10 years working as an assistant engineer and an engineer at Zhuzhou Cemented Carbides Plant ("Zhuying Plant"). From 1986 to 1993, Mr. He pursued his postgraduate study in Japan and worked as a researcher at the Association for Overseas Technical Scholarship, Department of International Economics, National Otaru University of Commerce and Izawa Technology Research Center ((株)伊澤技術研究所) in Japan.

Mr. He played a managerial or supervisory role in the Group or its predecessor for the most part of the Track Record Period. Mr. He served in various positions in the nonferrous metal industry including deputy general manager at Zhuying Plant Import and Export Company from May 1993 to September 1993, deputy general manager at Diamond Tools Company, a sino-foreign joint venture from October 1993 to December 1994, Manager and deputy general manager at Hunan Province International Economy Development (Group) Company from January 1995 to April 2002, director and deputy general manager of Hunan Ping He Tang Co., Ltd. from 1998 to 2002. Mr. He served as Deputy General Manager at Hunan Nonferrous Metals Industry Company ("HNMC") from May 2002 to July 2004, and was primarily responsible for the reform and restructuring, technological improvement, research and development, and other aspects of the entities under the management of HNMC, including our five operating centers. In August 2004, he was appointed the chairman of HNG and, in September 2005, the Chairman of HNC and is responsible for the overall management of our Company and our five operating centers.

Mr. He is the vice president of China Nonferrous Metal Industry Association, the vice president of Hunan Province International Business Association and a researcher at Strategic Research Center of the Emergence of Central China (中國中部崛起戰略研究中心). He holds a doctorate in management science and engineering and is an adjunct professor at Central South University.

Li Li (李立), aged 44, is our executive director and general manager. He is a senior administrator (高級政工師).

Mr. Li graduated from Zhuzhou Metallurgy Industrial School (株洲冶金工業學校) in 1982 and received his bachelor's degree in industrial automation from Central South University of Technology (中南工業大學) in 1989. From October 1996 to June 1997, he attended the Hunan Provincial Party Committee School (湖南省委黨校). Mr. Li studied economic law at postgraduate level from September 1999 to July 2001, during which period he also participated in a senior executive training program organized by the China National Nonferrous Metals Corporation Changsha Branch ("CNNCCS") at the University of Maryland in the United States. He holds an Executive Master of Business Administration for Senior Management at Hunan University. Mr. Li worked at Zhuzhou Cemented Carbides Group Co., Ltd. ("Zhuying") (and its predecessors) from July 1982 to September 2004 in various positions. From January 1998 to June 2002, he was a deputy secretary and secretary of the party committee of the Zhuying Plant. From June 2002 to September 2004, Mr. Li was the party secretary and deputy chairman of Zhuying. He has served as the deputy general manager of HNG from September 2004 to August 2005. Mr. Li is a member of the CPPCC (Chinese People's Political Consultative Conference) of Hunan Province (省政協委員).

Profiles of Directors, Supervisors and Senior Management

During his tenure as the secretary of the party committee at the Zhuying Plant, which was reorganized as Zhuying in 2002, Mr. Li was responsible for implementing general policies and guidelines of the Chinese Communist Party and the PRC Government regarding the operation and management of a state-owned enterprise at the Zhuying plant and Zhuying, respectively. Mr. Li was also responsible for the system of appointing senior management at the Zhuying Plant and Zhuying.

Liao Luhai (廖魯海), aged 37, is our executive Director, deputy general manager and secretary of the Board. He is a senior economist.

Mr. Liao graduated in July 1992 from the Department of Exploration, University of Petroleum (East China) (華東石油大學) with a bachelor's degree in engineering in oil geology and exploration. He received his master's degree in geology and exploration of coal fields, petroleum and natural gas (煤田油汽地質與勘探) in July 1995 from University of Petroleum (Beijing) (北京石油大學) where he also obtained a doctoral degree in mine exploration (management of engineering (管理工程)) in July 1998. Prior to joining HNG, Mr. Liao served as an officer and division head at China Development Bank from July 1998 to February 2005. From March 2005 to August 2005, Mr. Liao served as a deputy general manager of HNG.

Chen Zhixin (陳志新), aged 52, is our executive Director, deputy general manager and financial controller. He is a senior accountant. He is a member of the Chinese Institute of Certified Public Accountants.

Mr. Chen graduated from Hubei University of Finance and Economics with a major in industrial accounting. Prior to joining HNG in August 2004, Mr. Chen served as head of the finance departments of Hunan Nonferrous Labor Protection Research Institute and CNNCCS. From January 2001 to August 2004, Mr. Chen was the deputy chief accountant and head of the finance division of HNMC. He was primarily responsible for the financial and accounting matters concerning the entities under the management of HNMC which includes our five operating centers. From September 2004 to August 2005, Mr. Chen joined HNG as chief accountant. He was in charge of financial matters and supervised areas such as asset management, accounting and fund raising activities. Since the establishment of HNC on 1 September 2005, Mr. Chen has been our executive Director, deputy general manager and financial controller.

Profiles of Directors, Supervisors and Senior Management

NON-EXECUTIVE DIRECTORS

Cao Xiuyun (曹修運), aged 46, is our non-executive Director, our Vice Chairman and a Director and the general manager of HNG. He is a senior engineer.

Mr. Cao received his master's degree in engineering from Central South University of Technology in 1989. He had extensive experience in quality control and research and development in the nonferrous metal industry when he was working for Zhuzhou Smelter Group Co., Ltd. ("Zhuye") (and its predecessors) and CNNCCS between 1992 and 2004. He was in charge of quality control, environmental protection, energy technology and management at Zhuye. Mr. Cao studied and conducted research at Mitsubishi Materials Group in Japan in 1990 and 1991. From February 1992 to August 2004, Mr. Cao served in various executive positions as a deputy chief of a zinc roasting plant and the head of a leaching plant, a deputy head of Zhuye, a director, a deputy general manager and the general manager of Hunan Zhuye Torch Metals Co., Ltd. ("Zhuye Torch"), a director and the general manager of Zhuye. Since August 2004, Mr. Cao has been a Director and the general manager of HNG.

Wu Longyun (吳龍雲), aged 56, is our non-executive Director. He is a senior administrator（高級政工師）.

Mr. Wu graduated from Central South Institute of Mining and Metallurgy (中南礦冶學院) in 1976 and the Central Party School (中央黨校) in December 1994. Prior to joining HNG, Mr. Wu served in various positions at Shuikoushan Mines Bureau as technician, engineer, secretary of the party committee and deputy chairman. He was appointed a deputy secretary of the party committee of HNG in August 2004.

Zhang Yixian (張一憲), aged 53, is our non-executive Director, and a deputy general manager at HNG since December 2005. He is an economist.

Mr. Zhang graduated from the Department of Economics and Management at Changsha University in 1986. Prior to joining HNG in September 2004, Mr. Zhang was a technician at Hengyang Jianxiang Machinery Plant, an officer at Changsha Semiconductors Materials Plant, an officer at HNMC and a manager at Changsha Station of China Nonferrous Civil Engineering and Construction Quality Supervision Station. From October 2004, Mr. Zhang was an assistant general manager of HNG. Since 21 December 2005, Mr. Zhang has been the deputy general manager of HNG.

Yu Jiang (于江), aged 31, is our non-executive Director, and a deputy general manager at Shenzhen Bangxin. He is a certified public accountant.

Mr. Yu graduated from the Treasury and Finance Department at Renmin University with a bachelor's degree in currency and banking. He is currently pursuing a master's degree at the Finance Department of Wuhan University. From September 1998 to March 2000, Mr. Yu worked in the Risk Management Division of the Shenzhen Branch of Bank of China. Since April 2000, Mr. Yu worked in the Department of Disposition and Review (處置審查辦事處) and Asset Accounting Unit (資產財會部) at the Shenzhen office of China Orient Asset Management Corporation ("COAMC"). Since June 2003, Mr. Yu has served as the deputy general manager of Shenzhen Bangxin.

Profiles of Directors, Supervisors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Gu Desheng (古德生), aged 70, has been our independent non-executive Director since September 2005.

Mr. Gu is a professor and an academic adviser to Ph.D. students at Central South University. Mr. Gu graduated from Central South University in July 1960 and joined the faculty thereafter as a professor and academic adviser to its Ph.D. students, department head, head of the research institute and member of the degree-awarding committee (校學位委員會).

In 1995, Mr. Gu became a fellow of the Chinese Academy of Engineering. Mr. Gu received the first prize in the National Technology Advancement Award (國家科技進步一等獎), two second prizes of National Technological Advancement Awards, and the State Major Technology Contribution and Breakthrough Award (國家重大科技攻關突出貢獻獎). He has authored and published more than 180 professional articles worldwide. Mr. Gu was a member of the 9th and 10th National Committee of the Chinese People's Political Consultative Conference (全國政協第九、第十屆委員會委員) and a member of the Evaluation Committee of the National Natural Science Foundation (國家自然科學基金). Mr. Gu also serves as a consultant and an independent director of various companies and he is a holder of four patents.

Chan Wai Dune (陳維端), aged 55, has been our independent non-executive Director since September 2005. He is the managing Director of CCIF CPA Limited.

Mr. Chan is a fellow member of the Association of Chartered Certified Accountants, a fellow member of the Taxation Institute of Hong Kong and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Chan is currently a member of CPPCC of Guangzhou Municipal Committee and was a member of the Selection Committee for the establishment of the First Government of the Hong Kong Special Administrative Region.

Mr. Chan has served as a member of the Executive Council of China Overseas Friendship Association (中華海外聯誼會), an executive of Shanghai Chinese Overseas Friendship Association (上海海外聯誼會), the Vice President of the Hong Kong Culture Association Limited, a voluntary Treasurer of Hong Kong Professional Consultations Association and a member of Central Committee of the Democratic Alliance for the Betterment and Progress of Hong Kong (民主建港聯盟中央委員會).

Profiles of Directors, Supervisors and Senior Management

Wan Ten Lap (溫天納), aged 38, has been an independent non-executive director since September 2005. He is an expert in finance and investment banking, serving as a chair professor (講座教授) at School of Business of Renmin University of China (中國人民大學商學院), a managing director and the head of investment banking of BOCOM International and a member of Examination Committee of Hong Kong Securities Institute. He is a registered responsible officer under the SFC and a member of the Hong Kong Securities Institute. Mr. Wan has been repeatedly appointed by Hong Kong Securities Institute as a working group member for the Ad Hoc Working Group which was established in 2006 in relation to the papers on the licensing examination for the securities and futures intermediaries on the basis of his substantial knowledge and expertise in financial markets and the corresponding practices in Hong Kong.

Mr. Wan graduated from the London School of Economics and Political Science with a master's degree in international accounting and finance. He joined the corporate finance department of Standard Chartered Asia Limited in 1993, and then joined Creditanstalt Group as an associate director in 1996. Mr. Wan later joined Sun Hung Kai International Limited as a director in 1998. Mr. Wan specialized in corporate financing, mergers and acquisitions, restructurings and insolvencies before he assisted in the establishment of BOCOM International in 2004.

Chen Xiaohong (陳曉紅), aged 44, has been an independent Supervisor since September 2005. Ms. Chen resigned on 2 November 2007 and was appointed as an independent non-executive Director on 21 December 2007.

Ms. Chen is a professor and an academic adviser to Ph.D. students, having obtained a doctorate degree from Tokyo Institute of Technology. Ms. Chen is now an assistant to the Principal and Dean of Business School at Central South University, and is also an expert with the Evaluation Committee of the National Nature Science Funds and National Social Science Funds. Ms. Chen is a member of the National Steering Committee of MBA Programs (全國工商管理碩士指導委員會). Ms. Chen is also an economic consultant in the government sector and acts as an independent director of many large-scale enterprises and listed companies.

Ms. Chen has received numerous awards, including the Fok Ying Tung Education Fund – National Outstanding Young Teachers (Research)" in 1998, "Outstanding Individual of Younger Generation in Hunan Province" in 1999 and "Outstanding Economists in Hunan Province" in 2001.

Profiles of Directors, Supervisors and Senior Management

SUPERVISORS

Zeng Shaoxiong (曾少雄), aged 48, is presently a deputy general manager of HNG and the Chairman of our Supervisory Standing Committee. He is a senior engineer.

Mr. Zeng graduated from the Central South Institute of Mining and Metallurgy (中南礦冶學院) in December 1981 with a major in ore processing. From December 1981 to 1995, Mr. Zeng was a technician, deputy chief of a branch and the head and secretary of the Party Committee of Hunan Shizhiyuan Nonferrous Metals Co., Ltd. ("Shizhiyuan") (and its predecessors). Mr. Zeng spent the next seven years as the head of mining, deputy secretary of the Party Committee, and the chairman of Shizhuyuan. From May 2002 to August 2004, Mr. Zeng was a deputy general manager and a member of the Party Committee of HNMC. Since September 2004, Mr. Zeng has been a member of the Party Committee and a deputy general manager of HNG.

He Hongsen (賀洪森), aged 47, is one of our Supervisors and is a Director of HNG.

Mr. He graduated from the Central Party School in December 1995. Prior to joining HNG, Mr. He served in various positions in the Hunan provincial government. Since August 2004, Mr. He has been a member of the Party Committee of HNG, secretary of the Discipline Inspection Commission, the chairman of the Labor Union and a director of HNG.

Liu Xiaochu (劉曉初), aged 62, is one of our Supervisors and a deputy chief executive of Zijin Mining Group Co. Ltd.

Mr. Liu graduated from Xiamen University in July 1982. Mr. Liu was previously an officer, deputy manager and manager of the Economic System Reform Committee in Fujian Province. Before August 2000, he was the director and deputy chief executive of Newhuadu Industrial Group Co. Ltd. Mr. Liu was appointed the vice chairman of Zijin in August 2000.

Jin Liangshou (金良壽), aged 49, is one of our Supervisors and has been the manager of the Financial Resources Department of HNG since October 2004.

Mr. Jin graduated from Zhuzhou Metallurgy Industrial School in July 1981 and is a senior accountant and a member of the Chinese Institute of Certified Public Accountants. From July 1981 to July 1986, Mr. Jin worked in various positions at Zhuying as the capital department manager, assistant to the manager, the deputy manager and the manager of the Department of Finance. Between 1998 and 2004, Mr. Jin was a researcher at HNMC and the deputy general manager and general manager of Hunan Nonferrous Metals Enterprise Finance Company (湖南有色金屬企業財務公司). Mr. Jin joined HNG in August 2004.

He Liu (賀柳), aged 37, was one of our supervisors. Because he was transferred out of the Company, he is no longer serving as our Supervisor since March 2007.

Profiles of Directors, Supervisors and Senior Management

Qi Xiaocun (戚小村), aged 34, is one of our Supervisors and has been the manager of our Human Resources Department since February 2007. Mr. Qi succeeded Mr. He Liu as our Supervisor since March 2007.

Mr. Qi graduated from Hunan Normal University (湖南師範大學) with a bachelor's degree in arts in 1996. He was awarded a Ph.D degree in 2006. He is currently undertaking a Post-doctorate degree of Economics at the Central South University (中南大學). Mr. Qi was an officer at the Hunan Local Taxation Bureau, and a senior officer at the Education Office in 1996. In 2003, he was the Supervisor and Deputy Secretary of the Hunan Youth Office (湖南青年聯合會辦公室), and the Deputy Secretary of the "Hunan-Hong Kong Youth Exchange Conference" (湖南－香港青年交流促進會). In 2005, he was also the Assistant to the Supervisor of the "Hunan Provincial Foreign Trade Association's "Hunan – EU SME Partnership Fair" (湖南省對外貿易促進會「湖南－歐盟中小企業合作項目」). Mr Qi joined our Group in February 2007.

Li Junli (李俊利), aged 30, is one of our Supervisors and has been a manager of our Finance and Securities Department since September 2005. She was promoted as the senior manager of our Finance and Securities Department since June 2006. She has been a secretary of the Board of ZhongWu Gaoxin Metarials Company Limited since 22 April 2008.

She graduated with a bachelor's degree in engineering from Henan University of Technology (河南工業大學) in 2000. She holds a MBA degree at the School of Business of Central South University. From 2000 to 2001, Ms. Li was a sales supervisor of Guangdong Foshan Sanshui Fengshun Food Limited (廣東佛山三水豐順食品有限公司), Guangzhou branch. From 2001 to 2003, she was a sales manager of Guangzhou Mega-Fun Food Products Ltd. (廣州萬家歡食品有限公司). From 2004 to February 2005, she was an assistant general manager of Changsha Tature Industry Co., Ltd. (長沙大嘉實業有限公司). Immediately prior to joining us, she was a manager at HNG.

Zhan Yijie (戰毅杰), aged 49, is one of our Supervisors and has been a manager of our Audit and Legal Affairs Department since September 2005. He has been a senior manager of our Financial Resources Department since June 2006.

Mr. Zhan graduated from Liaoning Benxi School of Metallurgy (遼寧本溪冶金專科學校) and Hunan Institute of Finance and Economics (湖南財經專科學校) in 1987 and 1996, respectively. From September 1976 to December 1989, Mr. Zhan was an accounting manager at the Finance Department of Handan-Xingtai Administrative Bureau for Metallurgy and Mine of Handan Metallurgy Department, Hebei Province (河北省邯鄲市冶金邯邢冶金礦山管理局). From December 1989 to August 2002, he was an accountant and a manager at the Finance Department of China National Nonferrous Metals Import and Export Corporation (中國有色金屬進出口公司), Hunan branch. From September 2002 to August 2004, he was a manager at the Finance Department of the Service Center of HNMC. Mr. Zhan joined HNG in September 2004 as a manager of the Finance Assets Department, he had been a manager of our Audit and Legal Affairs Department since September 2005 and has been a senior manager of our Financial Resources Department since June 2006.

Profiles of Directors, Supervisors and Senior Management

INDEPENDENT SUPERVISORS

Chen Xiaohong (陳曉紅), aged 44, has been an independent Supervisor since September 2005. Ms. Chen resigned on 2 November 2007 and was appointed as an independent non-executive Director on 21 December 2007.

Mao Lihui（毛利輝）, aged 50, is an auditor and certified accountant in the PRC, currently serves as a supervisor and director of the 5th office of State-Owned Assets Supervision and Administration Commission of Hunan Province since March 2004. Mr. Mao holds a distance learning diploma in Industrial Economics from Hubei College of Finance and Economics. From January 1978 to April 1986, Mr. Mao served in financial accounting in Lian Shao Mining Bureau Treasury Department. Mr. Mao also served in auditing department in Changsha City Accounting Office from May 1986 to August 1990. From September 1990 to December 2001, Mr. Mao served as a deputy director in both treasury and auditing bureau in Second Light Industry Bureau of Hunan Province. Mr. Mao also served as supervisor and deputy director of the 6th office of the Committee of the Board of Enterprise Work Supervision Commission from January 2001 to March 2004. Mr. Mao has extensive experience in working for the government and enterprises and in management.

Liu Dongrong (劉冬榮), aged 66, has been an independent Supervisor since September 2005.

Ms. Liu is a professor of industrial management at Central South University, and an adviser to Ph.D candidates for management science and engineering. She was a delegate to the 9th and 10th People's Congress, and an adviser to the Hunan Provincial Government (湖南省參事室參事).

The State Council of the PRC has granted Ms. Liu a special stipend based on her capacity as an expert in her field.

Profiles of Directors, Supervisors and Senior Management

OTHER SENIOR MANAGEMENT

Zhou Xianlin (周獻林), aged 50. Mr. Zhou graduated from Changsha Nonferrous Metal Industrial School in July 1980 majoring in Mineral Sciences. In July 1986, Mr. Zhou graduated from the Corporate Management faculty of Jiangxi Institute of Metallurgy. Mr. Zhou received a postgraduate degree in Business Management from the Chinese Academy of Social Sciences in 1998. From 1976 to 1978, Mr. Zhou taught at the School of Agricultural Sciences and Miluoyuchi Secondary School before working in the Descloizite Mine in Taolin. From December 1995 to June 2003, Mr. Zhou was the deputy mine officer of the Descloizite Mine, deputy secretary of the party committee, chief deputy mine officer, secretary of the party discipline committee and secretary of the party committee (Sub-departmental Level). From June 2003 to December 2003, Mr. Zhou served as the secretary of the party committee of the Descloizite Mine in Taolin, mine co-officer and secretary of the discipline party committee. From September 2004 to July 2006, Mr. Zhou was the chief officer of the human resources department of Hunan Nonferrous Metals Group Corporation Limited and was a member of the party committee of the Hunan Nonferrous Metals Group Corporation Limited since August 2006. Mr. Zhou was appointed as the deputy general manager on 18 July 2007.

Hong Mingyang (洪明洋), aged 51. Mr. Hong joined the workforce in August 1980 after tertiary education. Mr. Hong was a senior engineer, a senior economist and the deputy Chairman of China Tungsten Industry Association. Mr. Hong received honorable titles such as the Top Ten Outstanding Contribution Entrepreneurs of Chenzhou City (郴州市十大突出貢獻企業家) and Ten Best Ideological and Political Workers of Hunan Province (湖南省十佳思想政治工作者). From March 1978 to August 1980, Mr. Hong studied in Changsha Nonferrous Metals Industrial School. From August 1980 to August 1982, Mr. Hong studied in Central South Mineral Sciences and Metallurgy School. From August 1982 to July 1984, Mr. Hong served as the assistant and assistant engineer in Shizhu Yuan Multi-Metals Mine. From July 1984 to February 2000, Mr. Hong served at Shizhu Yuan Multi-Metals Mine, his positions served include: Communist Young League Committee secretary, stope officer, officer and secretary of an ore processing plant, mine branch officer, deputy general manager of a developmental company, officer of the sales department and general manager of an import and export company. From February 2000 to May 2002, Mr. Hong was the deputy officer of Shizhu Yuan Nonferrous Metals Mine, deputy general manager and financial controller of Hunan Shizhu Yuan Nonferrous Metals Co, Ltd. (during that period, Mr. Hong was engaged in the economic management professional course organized by the Central Party School through distance learning). From May 2002 to November 2007, Mr. Hong served as the Director and party committee secretary of Hunan Shizhu Yuan Nonferrous Metals Co, Ltd. Mr. Hong was appointed as the deputy manager on 21 December 2007.

Profiles of Directors, Supervisors and Senior Management

Deng Yingjie (鄧英傑), aged 44. Mrs. Deng received a master degree from the English department of the Foreign Language faculty of Sichuan University on July 1988. Mrs. Deng was assigned to Hunan Technology Import & Export Corporation after graduation and was responsible for import and export trading and invitations for international tender and bidding business. In 1994, Mrs. Deng was assigned to Hunan Gold Fruit Industry Co., Ltd as deputy general manager and incharge of the developmental department. In 1996, Mrs Deng served as the general manager of External Trade Co., Ltd. In 1997, Mrs Deng served as the deputy general manager of Hunan Gold Fruit. Mrs. Deng was the legal representative and general manager after Hengyang Gas Co. Ltd acquired and established Hengyang Natural Gas Co. Ltd from 2002 to 2006. Hunan Gold Fruit appointed Mrs. Deng as the general manager in August 2004. In October 2006, Mrs. Deng was assigned to Hunan Electronic Information production Group as the deputy general manager; Mrs. Deng was responsible for managing the investment operation and corporation planning and development department of the Group. Mrs. Deng received the doctorate from Business School of Central and South University in December 2006. In November 2007, Mrs. Deng was assigned to Hunan Nonferrous Metals Corporation Limited as the deputy general manager.

Lam Kai Yeung (林繼陽), aged 39, has been the company secretary and qualified accountant of the Company since July 2006. Mr. Lam is a Fellow of the Association of Chartered Certified Accountants and a Fellow of the Hong Kong Institute of Certified Public Accountants. Mr. Lam possesses financial and auditing experience in excess of 10 years.

Chairman's Statement

Dear Shareholders,

I am pleased to present the report of Hunan Nonferrous Metals Corporation Limited ("HNC" or the "Company") for the period from 1 January 2007 to 31 December 2007 and of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007 to the shareholders for their review. On behalf of the Board of Directors and all the employees of the Company, I would like to express our sincere gratitude to all our shareholders for their consideration and support for the Group.

RESULTS AND DIVIDEND

In 2007, the turnover of the Group was RMB21,494 million, representing an increase of 21% as compared to 2006. The profit attributable to the equity holder of the parent company was RMB315 million, decreased 30.2% as compared to 2006. The basic earnings per share of the Group were RMB0.0891.

The Company has proposed to distribute dividend of RMB0.034 per share for 2007.

BUSINESS REVIEW

During the reporting period in 2007, equipped with efficient management, highly effective organization and unanimous efforts, the Group took the initiative to benefit from the right time of having strong demand on the nonferrous market and high-rising prices for various kinds of nonferrous metals, endeavoured to solve the problems due to the adverse factors of shortage of resources, rising cost of raw materials, reduction of export tax refund, increase of resource tax, higher interest rate for loans, and in particular the substantial fall of the zinc price in the fourth quarter, stuck to the target for the year, kept on enhancing capital operation, integration, M & A, technical reform and control of resources, achieved the goal of output and profit for the year in better shape, and maintained proper production, operation and development.

- During the reporting period in 2007, the Group fulfilled the output of 7,745 tons of cemented carbides, that is, 48.80% up from 2006, 447,997 tons of zinc products, 10.97% up from 2006, 28,206 tons of antimony products, 2.37% up from 2006, 94,383 tons of lead products, 12.00% up from 2006.

- During the reporting period in 2007, the Company acquired 98.33% equity of Hengyang Yuanjing Tungsten Company Limited (衡陽遠景鎢業有限公司) at the consideration of RMB354 million and increased around 300,000 tons of scheelite resource reserve for the Company. In 2007, emphasis was made in the reform on the techniques of increasing output from the mines. It is estimated that upon attaining the output target in 2008, the annual output of tungsten concentrate will reach 1,500 tons.

Chairman's Statement

- During the reporting period in 2007, the Company went further with the Compass project of exploring resources in Australia. The Company has set up the wholly owned subsidiary in Australia to take charge of exploring resources for the Compass project. At present, the exploration works for oxidized ores is under construction, the pre-exploration cooperative preparation for sulphide ores and the regional cooperative survey are under way. The investment of RMB500 million approximately has been completed for Phase I works of oxidized ores. It is expected to launch production in 2008.

- During the reporting period in 2007, the Company had further resource integration of the nonferrous metals in Hunan Province. The Company set-up Hunan Nonferrous Xin Tian Ling Tungsten Company Limited and intended to integrate and control Xin Tian Ling tungsten resource reserve of 300,000 tons approximately.

- During the reporting period in 2007, the Company and Hong Kong Kerry Holdings Limited signed the strategic cooperation framework agreement with the intent to set up a joint venture in Hong Kong to establish the exploration platform for integrating resources.

- During the reporting period in 2007, the Group made further investment in technical reform. The Group actually invested RMB1.7 billion in achieving technical reform for the year. At the same time, the Company put the application of the raised funds under tracking and monitoring to a greater extent. As of 31 December 2007, the Company has used a total of RMB1.839 billion. In particular, a total of RMB409 million has been used during the reporting period in 2007.

- In light of the expedited pace of technical innovation, the Company placed emphasis on the advantage of inherent technical resources, and took the initiative to enhance the synergetic effects of technical innovation and the preliminary work for constructing the platform of technology. In 2007, the state took cognizance of our applications for 32 patents. The research and development centre for cemented materials and the technology industrial park primarily for the research and development of atimony products were constructed.

- Recycling economy, energy-saving and emission reduction have obtained remarkable results. By means of adopting technical reform on the main process, the environmental protection and the energy-saving techniques or the equipment reform, and reinforcing the operation and management of various facilities, the Group has managed to upgrade further our technical and economic indices, and improved further our environmental protection and energy-saving indices.

- Along with the rapid business development, we have stressed the importance of information-related construction and endeavoured to upgrade the level of company management, placed emphasis on reinforcing the risks control, subsidiaries overseas, finance, investment, safety, environmental protection, network management, practical management foundation, and management innovation to further the development of our enterprise culture.

Chairman's Statement

PRODUCT MARKET REVIEW

In 2007, the overall world economy was under stable operation. As the economy development of the emerging market particularly China and India remained strong, coupled with the on-going depreciation of the U.S. currency, the demand for the base materials such as nonferrous metals was comparatively great. It provided supporting effect to the high pricing operation on the global market of nonferrous metals. In particular, except zinc having experienced the comparatively substantial price cut in the fourth quarter, several main products of the Group, such as tungsten, atimony and lead were still operation at high price level. The price for lead has even soared record high. The following information except on the part of the tungsten market, was quoted from the website of Antaike: www.metalchina.com. The value added tax was included in the relevant commodities.

Tungsten Market

In 2007, the respective APT market prices were US$246.09 and US$254.99 per ton in Europe and the U.S., down 4.27% and 1.53% respective from 2006. In 2007, the average price for domestic tungsten concentrate was RMB96,608 per ton, representing a decrease of 8.75% from RMB105,875 per ton in 2006.

In 2007, the output of tungsten concentrate increased by 0.72% when compared to 2006. The tungsten export in 2007 was 26,111 tons, down 7.96% from 2006. The import of 5,467.8 tons represented a decrease of 24.16% from 2006. The net export decreased by 2.44%. The export quota totalled 15,400 tons for 2007, that is, 400 tons less than that of 2006. It is 14,900 tons for 2008. In order to meet the domestic demand, the export has decreased year by year. It is expected that the demand and supply for tungsten will basically be balanced in 2008, with the possibility of have shortage.

Lead Market

On 25 June 2007, the lead price was higher than the aluminium price for the first time in history and exceeded the zinc price in August. On 10 October, the highest price for three-month commodity futures was US$3,890 per ton as quoted by LME. However, due to the global economy prospect concern of close out of lead, the price of lead rapidly dropped since November and dropped back to US$2,500 per tone at the end of the year.

The 2007 global production volume of lead increased 4.1% as compared to 2006. The greatest increase appeared in China, with an increase of 9.2% (1.45 million tons). The average spot price of lead as quoted by LME was US$2,578 per tone, doubling the price in 2006. The average price for three-month commodity futures was US$2,550 per tone, with an increase of 98.7% as compared to 2006.

Chairman's Statement

Zinc Market

The 2007 global production volume of zinc reached 11.40 million tons, representing an increase of 9% as compared to 2006. According to the latest indicator of China Nonferrous Metals Industry Association, the 2007 total zinc production volume of the country was 2.737 million tons; with an increase of 17% as compared to the same survey in 2006. The estimate included unreported production volume. The 2007 actual zinc production volume of the country reached approximately 3.17 million tons, representing an increase of 10.5% or approximately 0.30 million tons. In 2007, China imported an actual volume of 2.15 million tons of refined zinc and mine, with a 159.7% increase as compared to 2006, and metal contents are approximately 80 million tons with a 110.50% increase as compared to 2006. In 2007, China imported 14.9 million tons of refined zinc, with a 56.3% decline as compared to 2006. The volume of refined zinc export was 0.276 million tons, representing an increase of 15.6% as compred to 2006.

The price was firm for the first half of 2007; the average was US$3,671 per tone, which was 74% higher than the price in same period of 2006. The price of zinc dramatically declined from over RMB25,000 to RMB16,530 in less than a month from the end of October to November 22. The dramatic fall of the price for zinc and the declaration of the refund policy of export tax stabilized the market; on November 25, the price of zinc bounced back to around RMB19,000. The price of zinc wandered around RMB18,000 to RMB20,000 at the end of the year.

Antimony Market

The average price was US5,533 per tone and was slightly higher than the US5,175 per tone of 2006. In 2007, China produced 152,869 tons of refined antimony (antimony content), the Antaike estimated amount was around 130,000 tons, representing an increase of 1.83% as compred to last year. China exported 62,876.94 tons of antimony product in 2007, representing a cumulative decrease of 18.72%. Affected by the refund policy of export tax, the decline in antimony ingot export was the most obvious. Total export of antimony ingot for the year was 8,230.3 tons, with an accumulative decrease of 61.11%. In 2007, the export of oxidized antimony was 52,208.94 tons, representing a decrease of 4.07%. The cancel of export tax refund on oxidized antimony together cause the decline in oxidized antimony export for the second half of 2007. The decrease in export in turns increased the supply in the country, which lead to a decline in import. The total import of antimony products for January to December was 23,676.6 tons, representing an accumulative decrease of 24.49%

Chairman's Statement

BUSINESS PROSPECTS AND OUTLOOK

In 2008, the Group will continue to adhere to scientific research and development and seize the business opportunities of nonferrous metals such as lead, tungsten and antimony. We will emphasize on the control of resources and in-depth processing. Through internal expansion and external acquisition, we further promote innovation among our management team, strengthen our internal integration, optimize product structure and reasonably enhance productivity. We will also strength operational cooperation, effectively control the cost, upgrade the overall benefits, focus on achieving operational target of the year, and moving on to make the Company a leader of the nonferrous metal industry in China.

- Further promote capital operation. Perform our best to achieve the return of H-shares to A-shares; at the same time to ensure the smooth operation of multi-channel funding, in order to guarantee the domestic investment projects and timely capital investment.

- Further heighten resource control and development. Overseas, emphasis is placed on the launch of production and operation of Phase 1 Compass project and at the same time, expedite the implement of other overseas resource control projects. In China, emphasis is placed on expediting the implement the integration and resumed production after technical reform of Chenzhou Xin Tian Ling mine site tungsten resources and the achievement of target production after technical reform of Hengyang Yuanjing Tungsten Company Limited so as to become the new profit growth source of the Company. At the time of continuing to reinforce the survey in the deep side zone resource on the mine site, it is to enhance the survey of overseas and domestic re-sources.

- Reasonably control and effectively lower the cost of M & A, with greater emphasis on the rate of application of funds and the rate of return. Persistently improve the profitability and market value of the Company and safeguard the sustainable financing capability of the Company. It is to further reinforce the financial management, enhance cost control, financial surveillance, and heighten the profitability of the Group.

- Further reinforce the operation and coordination of energy-saving, reduced emission and environmental protection to ensure the fulfilment of the energy-saving and decreased consumption target. Carry out safe production and environmental protection properly and earnestly and perform the responsibilities for society progressively.

- Further standardize the decision-making formula for the investment of the Company and endeavour to upgrade the standard of making decision. Feasibly and properly coordinate and instruct the branches and subsidiaries in technical reform and in particular, heighten the tracking management of the fund-raising investment projects. At the same time, take the initiative to coordinate and instruct the management of other investment projects and seek to secure early and abundant benefits.

Chairman's Statement

- Stably promote the information construction of company management and further standardize the disclosal of information, improve the employees' fringe benefits and development and enhance employees' training, enhance the employees' quality and integrate the culture of the enterprise for the establishment of Hunan Nonferrous Metals Corporation Limited in harmony.

With the joint efforts of our directors, senior management and employees, I deeply believe that the Company will benefit from on-going and sustainable growth and provide our clients with much better products and services and bring about much higher return for our shareholders.

Finally, I would like to take this opportunity to express my appreciation for the support of our customers and shareholders as well as the dedication of all Directors and employees over the past year.

He Renchun
Chairman

Shenzhen, PRC
27 April 2008

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 "SEHK") as well as the regulations of other relevant regulatory organisations. The Articles of Association, the terms of reference for the Audit Committee, the terms of reference for the Supervisory Committee and the Model Code for Securities Transactions by Directors and specific employees are the bases of reference. Save as disclosed in this annual report, the Company has complied with all the code provisions of the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 of the Listing Rules during the year ended 31 December 2007. The Company will continue to improve its corporate governance and enhance the transparency to shareholders.

OUR BOARD OF DIRECTORS

Our 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. Our Board of Directors consists of eleven Directors, four of whom are executive Directors including Mr. He Renchun, Mr. Li Li, Mr. Liao Luhai and Mr. Chen Zhixin; another four of whom are non-executive Directors including Mr. Cao Xiuyun, Mr. Wu Longyun, Mr. Zhang Yixian and Mr. Yu Jiang; the remaining four of whom are independent non-executive Directors including Mr. Chan Wai Dune, Mr. Gu Desheng, Mr. Wan Ten Lap and Ms. Chen Xiaohong. Mr. He Renchun is the chairman. Our Directors are elected at Shareholder's Meetings for a term of three years.

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, preparing the Company's profit distribution and loss recovery proposals, formulating the Company's capital operation proposals, and implementing resolutions approved at Shareholders' Meetings etc.

Mr. He Renchun is the Chairman of the Company and Mr. Li Li is the general manager of the Company. The Chairman of the Board and the general manager are responsible for different areas. The Chairman of the Board is responsible for leading the Board and its effective operation. The Chairman of the Board is responsible for ensuring that the Directors perform their duties and obligations and discuss all important matters on a timely basis, and for ensuring that the Board operates effectively. The Chairman also conducted inter-views individually with each of the non-executive Directors to understand their opinion and advice on the operation of the Company and the duties of the Board. The general manager is an executive director. The Chief Executive Officer exercises the power and responsibilities in relation to this company and its subsidiaries conferred by the Executive Committee.

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

Corporate Governance Report

The Company has appointed a sufficient number of independent non-executive Directors with suitable professional qualifications, such as expertise in accounting or financial management, in accordance with the requirements of the Listing Rules. The four independent non-executive Directors of the Company are independent of the Company and are professionals with extensive experience in the respective fields of accounting, nonferrous metals, finance and higher education. They have also provided professional comments on safeguarding and coordinating the interests of the Company and its shareholders.

Pursuant to the requirement under Rule 3.13 of the Listing Rules, the Company has appointed four independent non-executive Directors, one of whom has professional qualification in accounting and financial management expertise. The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and considers each of the independent non-executive Directors to be independent.

In 2007, the Company held twelve regular Board meetings, with an average attendance rate of 87%, in which Mr. He Renchun, Mr. Liao Luhai, Mr. Chen Zhixin, Mr. Wu Longyun, Mr. Zhang Yixian and Ms. Chen Xiaohong had an attendance rate of 100%. Mr. Cao Xiuyun had an attendance rate of 93% and Mr. Li Li had an attendance rate of 93%. Mr. Yu Jiang had an attendance rate of 64%. Mr. Gu Desheng had an attendance rate of 71%. Mr. Wan Ten Lap had an attendance rate of 71%. Mr. Chan Wai Dune had an attendance rate of 57%. Those who failed to attend the meetings in person for various reasons voted by writing. Details of all the meetings are recorded by a designated officer, and all proposals approved in each meeting are passed as resolutions of the Board, which are recorded and filed in accordance with relevant laws and regulations. The principal activities of the Board in 2007 were as follows:

1. Resolution in relation to the additional issue of overseas listed foreign capital shares of Hunan Nonferrous Metals Corporation Limited;

2. Resolution in relation to acquire the equity interest of Hengyang Yuanjing Tungsten Company Limited;

3. Resolution in relation to recruit 2007 domestic and foreign audit firm and authorize the Board to decide remuneration;

4. Resolution in relation to apply and adjust the cap of the connected transaction waiver in the next three years and increase the cap of 2007 Comprehensive Agreement;

5. Resolution in relation to issue Renminbi ordinary share (A share) and the Articles of *Association (draft)* applicable after listing;

6. Resolution in relation to appoint members comprising the nomination committee and resolution in relation to their working rules;

7. Resolution in relation to Hunan Nonferrous Metals Corporation Limited and Hong Kong Kerry Holdings Limited collectively contribute to establish a joint venture in the Hong Kong Special Administration Region;

Corporate Governance Report

8. Resolution in relation to establish Hunan Nonferrous Xin Tian Ling Tungsten Company Limited and acquire ore related asset in the Xin Tian Ling ore area;

9. Resolution in relation to modify the *Connected Transaction Management System*.

The Company includes all matters to be discussed in the agendas of the Board meeting. In general, each board meeting notification is sent out 14 days before the meeting and the resolutions will be provided to the Directors 10 days prior to the meeting, which gives them sufficient time to review the resolutions. The Company Finance and Securities Department and the Secretary to the Board of Director will ensure that the Board of Directors' Meeting confirm with the designated process and the related laws and regulations. All of the Directors may make enquiries with the Company's Finance and Securities Department. The Directors may obtain independent professional opinion when appropriate, in order to assist them performing the duties of the Company. According to the Company's Article of Association, the Directors may not vote in relation to contracts, arrangements, transactions and other recommendations where they or their related parties have a major interest. The votes of the said Directors shall not be counted as a vote in relation to contracts, arrangements, transactions and other recommendations where they or their related parties have a major interest. The records of the Board of Directors' Meetings or the records of the Meetings of the Committee Members shall be kept by the Company's Finance and Securities Department. All Directors have the right to peruse the said records.

Details of the Director's remuneration are disclosed in note 8 to the financial statements.

Appointments, re-election and removal

Pursuant to the Articles of Association, each Director shall retire from office by rotation every 3 years. The specific term of a Director shall not be over three years. Directors who have retired from office may stand for re-election in the annual general meeting.

Our Company adopts a formal, careful and transparent procedure when appointing our new Directors. Before formal nomination of Directors occurred, the Company shall request opinions from the existing Directors (including Independent Non-executive Directors). After the nomination was investigated and discussed, the executive committee members shall make recommendations to the Board of Directors, so that the Board of Directors can make further decisions. After the new Directors were appointed, they shall stand election at the next shareholders' meeting.

Capacities and responsibilities of the Directors

Our 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 operation, business activities and development of our Company at the Board of Directors' Meeting.

Corporate Governance Report

Model Code for Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. Based on specific enquiry with all the Directors of the Company, the Directors have complied with the required standard as set out in the Model Code for the period from 1 January 2007 to 31 December 2007.

Availability and use of information

All of the Directors can obtain all information about our Company on a comprehensive and regular basis, such that the same Directors can exercise their rights and responsibilities as Directors. Our Company has in place a procedure for all Directors to follow when they wish to obtain independent professional advice. All of the professional fees shall be bore by the Company. In addition, all Directors shall have their own independent channel to contact the senior managerial personnel of our Company.

The Managing Power and the Committee under the Board of Directors

4 Committees under the Board of Directors: The Audit Committee, the Remuneration Committee, the Nomination Committee and the Strategy Committee.

All of the above-mentioned Committees have written responsibilities that clearly detailed their powers and responsibilities.

AUDIT COMMITTEE

An audit committee has been established by the Board. The audit committee's duties are mainly to review the Company's financial reports and internal control system, consider the appointment of independent auditors, provide recommendation to the Board, approve audit and audit-related services, and supervise the Company's internal financial reporting procedures and management policies. The committee consists of the Company's two independent non-executive Directors including Mr. Chan Wai Dune and Mr. Wan Ten Lap, and one non-executive Director Mr. Zhang Yixian. Mr. Chan Wai Dune is the chairman of the committee. The audit committee meetings will be held at least twice a year. 2 meeting was held in the reporting period with all committee members attending the meeting to review the Group's annual and interim results for the year 2007.

Corporate Governance Report

REMUNERATION COMMITTEE

A remuneration committee has been established by the Board. The duties of the remuneration committee include: to consider the Company's policy of remuneration and other benefits, to assess the performance of the Company's Directors and senior management and to make recommendations to the Board regarding such matters. The committee consists of one non-executive Director Mr. Wu Longyun and one executive Director Mr. Liao Luhai, three independent non-executive Directors Mr. Chan Wai Dune, Mr. Gu Desheng and Mr. Wan Ten Lap. Mr. Wu Longyun is the chairman of the remuneration committee. The remuneration committee reviews the structure of the Board, the number of Directors in the Board and the work of Directors regularly. For the avoidance of doubt, the Directors and their associates do not participate in decisions making relating to their own remuneration. No meeting was held by the committee during the reporting period.

NOMINATION COMMITTEE

The nomination committee was established on 21 December 2007. The committee consists of Ms. Chen Xiaohong, Mr. Gu Desheng and Mr. Cao Xiuyun. Ms. Chen Xiaohong is the Chairwoman of the committee. All members are non-executive Directors and majority of them are independent non-executive Directors. The duties of the nomination committee include: to formulate nomination policies and to propose to the Board regarding arrangements of nomination, appointment and replacement of Directors. The committee will also establish recruitment procedures, review the structure, number of members and composition of the Board and audit the independence of the independent non-executive directors.

STRATEGY COMMITTEE

A strategy committee has also been established by the Board. The Committee consists of four executive Directors Mr. He Renchun, Mr. Li Li, Mr. Liao Luhai, Mr. Chen Zhixin, two non-executive Directors Mr. Cao Xiuyun, Mr. Yu Jiang and two independent non-executive Directors Mr. Gu Desheng, Mr. Wan Ten Lap. Mr. He Renchun is the chairman of the strategy committee. No meeting was held by the committee during the reporting period.

The duties of the strategy committee are to review and evaluate the development, budget, investment, business operation and strategic planning of the annual investment returns of the Company. The committee members perform their duties in accordance with their respective rules.

Corporate Governance Report

SUPERVISORY COMMITTEE

The Company's supervisory committee consists of nine Supervisors. Zeng Shaoxiong is the Chairman of the Supervisory Committee. Six of the Supervisors are elected by our shareholders in the Shareholder's Meetings, including two independent Supervisors and four Supervisors elected as shareholders' representatives. The other three Supervisors are elected by our employees. Supervisors serve for a term of three years, after which they are subject to re-election. The Supervisory Committee is responsible for exercising supervision over the Board of Directors and its members and the senior management; and preventing them from abusing their power and authorities and jeopardizing the legal interests of the shareholders, the Company and its employees. Two meetings were held by the supervisory committee during the reporting period in 2007. During the meeting, the committee re-viewed the financial condition and operation of the Company in accordance with the law and the due diligence of the senior management, and the committee carried out their work actively in accordance with is fiduciary duties. All Supervisors attended the meeting.

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 meetings. During the reporting period in 2007, the Company convened 4 Shareholders' Meetings. The meetings mainly reviewed and passed the following issues:

1. In the extraordinary general meeting held on 5 February 2007, to authorize the Board the unconditional general mandate for placing, issuing and dealing with new domestic shares and overseas listed foreign capital shares;

2. In the annual general meeting held on 12 June 2007, to approve the audited consolidated financial statements of the Company for the year ended 31 December 2006; to approve the appointment of Vocation International Certified Public Account Co., Ltd and Ernst & Young as the domestic and international auditor of the Company for the year ended 31 December 2007, and to authorize the Board to fix their remuneration and to re- authorize the general mandate of newly issued shares;

3. In the extraordinary general meeting and the class meeting held on 21 December 2007, to approve and adopt the rules and procedures of the shareholders' general meeting and to authorize the Board to make other amendments to the rules and procedures of the shareholders' general meeting in order to cope and comply with relevant requirements; to approve the resignation of Ms. Chen Xiaohong as supervisor of the Company; to appoint Mr. Mao Lihui as supervisor and to appoint Ms. Chen Xiaohong as independent non-executive Director of the Company, and to authorize the Board to fix the remuneration of Mr. Mao Lihui and Ms. Chen Xiaohong; to approve the proposal for the issuance of A shares in the PRC;

Corporate Governance Report

4. In the extraordinary general meeting held on 28 December 2007, to approve, ratify and confirm the comprehensive agreement dated 2 November 2007, to restate the internal connected transaction agreement, to restate guarantees given, its terms and the underlying intended non-waived connected transactions; and to approve the proposed cap for such restated comprehensive agreement for the three years ended 31 December 2010. To authorize any Directors of the Company as the Company and represent the Company to sign any supplemental, or relevant file, documentation and agreement regarding restated comprehensive agreement, restated internal connected transaction agreement, restated guarantees given, its underlying intended transactions and proposed cap for such restated comprehensive agreement for the three years ended 31 December 2010 and take all other relevant actions or matters.

The Chairman of the Board chaired such Shareholders' Meetings and explained matters concerning the procedures for voting for shareholders' consideration and the shareholders voted on each resolution. Each Director had been notified of such meetings and some Directors attended the Shareholders' Meetings.

The Company has established a designated department for investor relations, which is responsible for matters concerning investor relations and has formulated the "Investor Relations Policy" to regulate the relationships with the investors. 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, our investor relations department is also responsible for answering investors' enquiries and mail on a timely basis.

INTERNAL CONTROL AND CORPORATE MANAGEMENT

The Board of Directors shall be responsible for the internal control system of the Company and its subsidiaries and the reviewing of system effectiveness.

The internal control system of the company includes the perfection of the organizational structure, and the establishment of a comprehensive set of policies and standards. The responsibilities of each of the business and operational units shall be clearly presented to ensure effective control.

The Company has adopted a series of procedures to prevent the unauthorised usage and handling of assets, to ensure the due maintenance of the accounting records, and to ensure that the financial data used in the business operation and released to the public are reliable. This procedure can only provide reasonable assurance. However, the same procedure does not ensure there will be no occurrence of major errors, loss or fraudulent activities. The Company has adopted a series of procedures to ensure that we adhere to the law, rules and regulations.

The Company has adopted a series of policies and process to identify, control and report the major risks faced by the Company. The Company has laid down procedures to control the risk of losing goodwill out of daily business activities.

Corporate Governance Report

Our Company shall conduct a review on the effectiveness of the internal control system on an annual basis. Our Company shall conduct a review on the control of financial, operational and risk management activities. The Company appointed professional firm to review the internal control system of the Company periodically.

The Board of the Company appointed professional institutes to arrange training for Director, Supervisors and senior management on Director's responsibilities and offer seminars on Listing Rules and the Securities and Futures Ordinance ("SFO") for Directors, Supervisors and senior management in order to ensure strict compliance with the relevant laws and regulations in their work.

The Company regularly held managerial meetings chaired by the Chief 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 Headquarter. Discussions and decisions on company operation and the implementation of investment projects and financial matters are conducted at the meetings. The managerial personnel, who include the managers of the related companies, subsidiary companies and joint ventures and responsible persons of the Departments at the Company Headquarters, shall host regular managerial meetings to assist in the cooperation, communication and supervision of the commencement and execution of all joint projects.

ACCOUNTABILITY AND AUDIT

Financial Report

The Board of Directors strives to provide a balanced, clear and comprehensive assessment on the performance, condition and future prospect of the company. Our Company submitted the annual operating budget to the Board of Directors for discussion and voting. All discrepancies between the monthly results, monthly performance and annual budget shall be submitted to the Board of Directors' Meeting for regular discussion.

Our Company shall announce the annual and interim results within 4 months and 2 months of the completion of the accounting period, respectively.

All of our Directors acknowledged that they bear the responsibilities for the accuracy of the accounts produced by our Company. As at 31 December 2007, none of the Directors has any knowledge on any or potential major issues or situations that may affect the operation of the business. Our Directors prepare our accounts under the perpetual business principle.

The responsibilities of the independent auditors are detailed in the Auditors' Report in the 2007 Financial Report of our Company.

Internal Audit

The Company has set up an Internal Audit Department. The performance of an internal audit is an important aspect of the internal control system. Internal audit is performed to supervise the effectiveness of the internal control process, and to ensure all business and operational units can adhere to the designated policies and standards. The internal audit can provide recommendations on operational efficiency and other risk management matters to the managerial level.

Management Discussion and Analysis

DESCRIPTION

The profit before tax decreased to RMB716 million in the year ended December 31, 2007 from RMB1,165 million in the year ended 31 December 2006, representing a decrease of RMB449 million, or 38.5%. The profit attributable to the equity holders of the parent company was RMB315 million, representing a decrease of RMB136 million, or 30.2% from RMB451 million in the year ended 31 December 2006.

The following is the comparison of the two years ended 31 December 2007 and 31 December 2006:

TURNOVER

The turnover increased to RMB21,494 million in the year ended 31 December 2007, from RMB17,765 million in the year ended 31 December 2006, representing an increase of RMB3,729 million, or 21.0%, primarily due to the respective increases, before sales tax and surcharge of the turnover, of the nonferrous metals mine site segment amounting to RMB359 million or 16.7%, of the nonferrous metals smelting segment amounting to RMB1,386 million or 11.3%, and of the cemented carbides, tungsten, molybdenum, tantalum, niobium and their compounds segment amounting to RMB2,060 million or 59.7%.

Our gross profit decreased 20.3% from RMB2,613 million in the year ended 31 December 2006 to RMB2,082 million in the year ended 31 December 2007. The gross profit margin in the respective years ended 31 December 2006 and 31 December 2007 were 15% and 10%.

NONFERROUS METALS MINE SITE SEGMENT

The following data are the sales volume and average selling price of our nonferrous metals mine site segment products:

	2006		**2007**	
	Sales volume *(ton)*	Average selling price *(RMB/ton)*	**Sales volume *(ton)***	**Average selling price *(RMB/ton)***
Shizhuyuan				
Tungsten concentrates	1,507	96,490	**2,305**	**84,195**
Oxidized molybdenum	718	188,197	**990**	**190,887**
Huangshaping Branch				
Zinc concentrates	4,141	14,420	**3,638**	**19,779**
Lead concentrates	9,884	9,392	**5,732**	**17,626**
Hsikwangshan				
Antimony products	25,749	31,923	**26,879**	**33,515**
Zinc products	32,528	23,022	**33,197**	**23,502**

Management Discussion and Analysis

The turnover before sales tax and surcharge of the nonferrous metals mine site segment increased RMB359 million, or 16.7%, from RMB2,155 million in the year ended 31 December 2006 to RMB2,514 million in the year ended 31 December 2007. The increase of the turnover is primarily due to the increase of the average selling prices of the nonferrous metals mine products other than tungsten concentrates and the increase of the sales volume of tungsten concentrates, oxidized molybdenum and antimony products compared to 2006.

The gross profit from our nonferrous metals mine site segment decreased 0.22% from RMB457 million in the year ended 31 December 2006 to RMB456 million in the year ended 31 December 2007. The gross profit margin in the year ended 31 December 2007 decreased to 18% from 22% in the year ended 31 December 2006. The decrease of the gross profit margin of the antimony products, the zinc products and the tungsten concentrates of our nonferrous metals mine site segment, and the antimony products and the zinc products with bigger decrease in the gross profit margin comprising a comparatively bigger proportion of the sales led to the decrease of the gross profit margin of the segment.

NONFERROUS METALS SMELTING SEGMENT

The following data are the sales volume and average selling price of our nonferrous metals smelting segment products:

	2006 (For the year ended 31 December)		**2007 (For the year ended 31 December)**	
	Sales volume *(ton or kg)*	Average selling price *(RMB/ton or RMB/kg)*	**Sales volume *(ton or kg)***	**Average selling price *(RMB/ton or RMB/kg)***
Zinc products *(ton)*	404,818	22,390	**405,077**	**24,784**
Lead products *(ton)*	84,409	10,212	**104,801**	**18,764**
Precious metal – indium *(kg)*	48,000	6,593	**23,000**	**4,838**
Precious metal – silver *(ton)*	414	2,854,419	**281**	**3,090,528**

The turnover before sales tax and surcharge of the nonferrous metals smelting segment increased RMB1,386 million, or 11.32%, from RMB12,246 million in the year ended 31 December 2006 to RMB13,632 million in the year ended 31 December 2007. The increase of the turnover is primarily due to the increase of the average selling prices of the lead products and the zinc products compared to 2006 and the increase of the sales volume.

The gross profit from our nonferrous metals smelting segment, decreased 43.0% from RMB1,559 million in the year ended 31 December 2006 to RMB888 million in the year ended 31 December 2007. The gross profit margin in the year ended 31 December 2007 decreased to 7% from 13% in the year ended 31 December 2006. The decrease is primarily due to a dramatic decline in selling price of our zinc products in all four seasons of 2007, couple with the high cost of raw material and the decrease of RMB176 million in the value of zinc inventory.

Management Discussion and Analysis

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

The following data are the sales volume and average selling price of our cemented carbides, tungsten, molybdenum, tantalum, niobium and their compounds:

	2006		**2007**	
	Sales volume *(ton)*	Average selling price *(RMB/ton)*	**Sales volume *(ton)***	**Average selling price *(RMB/ton)***
Cemented carbides	5,722	310,134	**11,166**	**306,927**
Tungsten and compounds	5,397	221,936	**4,989**	**213,975**
Molybdenum and compounds	571	508,473	**748**	**508,417**
Tantalum, niobium and their compounds	477	389,454	**544**	**397,243**

The turnover before sales tax and surcharge of the cemented carbides, tungsten, molybdenum, tantalum, niobium and their compounds segment increased RMB2,060 million, or 59.7%, from RMB3,448 million in the year ended 31 December 2006 to RMB5,508 million in the year ended 31 December 2007. The increase of the turnover is primarily due to the increase of the sales volume of the cemented carbides.

The gross profit from the cemented carbides, tungsten, molybdenum, tantalum, niobium and their compounds segment increased 23.5% from RMB597 million in the year ended 31 December 2006 to RMB737 million in the year ended 31 December 2007. The gross profit margin in the year ended 31 December 2007 decreased to 14% from 17% in the year ended 31 December 2006. The decrease is primarily due to the substantial increase of the price of the cobalt powder which is the raw material for our cemented carbides. In addition, Zigong has been included in our consolidated accounting entries since 1 August 2006. As the gross profit margin of the product is comparatively low, it has caused the decrease of the overall gross profit margin of this segment.

OTHER INCOME AND GAINS

Other revenue and gains increased RMB171 million, or 91.4% from RMB187 million in the year ended 31 December 2006 to RMB358 million in the year ended 31 December 2007. The increase is primarily due to the revenue originating from the transaction of future commodities in 2007 and the disposal of Compass shares by the Group.

Management Discussion and Analysis

SELLING AND DISTRIBUTION COSTS

The selling and distribution costs increased RMB76 million, or 32.3% from RMB235 million in the year ended 31 December 2006 to RMB311 million in the year ended 31 December 2007. The increase is primarily due to the growth of our product sales.

ADMINISTRATIVE EXPENSES

The administrative expenses increased RMB75 million, or 8.4% from RMB896 million in the year ended 31 December 2006 to RMB971 million in the year ended 31 December 2007. The increase is primarily due to the increase of the costs for employing intermediary institutions, the research and development expenses, the labor expenses, the travel expenses and other expenses.

OTHER EXPENSES, NET

Other net operating expenses, decreased RMB221 million, or 88.8% from RMB249 million in the year ended 31 December 2006 to RMB28 million in the year ended 31 December 2007. The main reasons for the decrease of the expenses are: (1) China Tungsten & Hightech Materials Co., Ltd. proceeded with the equity division reform in 2006. Our beneficial interest in China Tungsten & Hightech Materials Co., Ltd. was diluted to 32.98% from 42.91% prior to the equity division reform, resulting in the decrease of the net assets of China Tungsten & Hightech Materials Co., Ltd. attributed to the Group. Consequently, the dilution loss of RMB60 million was incurred before taking into account the minority interest; (2) The impairment loss of RMB45 million for the goodwill was incurred by the Group in the acquisition of China Tungsten & Hightech Materials Co., Ltd. in 2006; (3) The provisions for bad debts were decreased by RMB29 million for the period; (4) Shizhuyuan and Huangshaping Branch suffered a loss of RMB39 million from the flood in July 2006.

FINANCE COSTS

The finance costs increased RMB99 million, or 40.4% from RMB245 million in the year ended 31 December 2006 to RMB344 million in the year ended 31 December 2007. The increase is primarily due to the increase of the bank loans.

INCOME TAX EXPENSES

The income tax expenses decreased RMB51 million, or 17.6% from RMB290 million in the year ended 31 December 2006 to RMB239 million in the year ended 31 December 2007. The decrease is primarily due to the decrease of the operating profit. Our effective tax rate increased from 25% in the year ended 31 December 2006 to 33.4% in the year ended 31 December 2007, primarily due to the income tax exemption for the flood suffered by Shizhuyuan and Huangshaping Branch in the year ended 31 December 2006.

Management Discussion and Analysis

MINORITY INTEREST

The minority interest decreased RMB262 million, or 61.9% from RMB423 million in the year ended 31 December 2006 to RMB161 million in the year ended 31 December 2007, primarily due to the decrease of the operating profit of our Group.

NET PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY

The net profit attributable to the equity holders of the parent company decreased RMB136 million, or 30.2% from RMB451 million in the year ended 31 December 2006 to RMB315 million in the year ended 31 December 2007, and the net profit margin decreased from 2.5% in the year ended 31 December 2006 to 1.5% in the year ended 31 December 2007, primarily due to the decrease of the operating profit of the Group.

LIQUIDITY AND SOURCE OF FUNDS

In the year ended 31 December 2007, the short-term and the long-term loans were the main sources of funds. The funds of the Group were applied mainly to the operating activities, the capital expenditure, and the repayment of the bank loans. As of 31 December 2007, we have been granted the banking facilities up to RMB10,338 million, RMB6,428 million of which have been used. Our company expects that our sources of fund in the coming year include internal resources and/or banking facilities.

ASSET MORTGAGE OF THE GROUP

As of 31 December 2007, the assets of the Group amounting to the net book value of RMB1,413 million have been mortgaged for securing loans (RMB1,282 million in 2006).

DEBT TO TOTAL ASSETS RATIO

As of 31 December 2007, the debt to total assets ratio of the Group increased from 33.4% in 2006 to 34.6% in 2007. The debt to total assets ratio is equivalent to total liabilities divided by total assets and multiplied by 100%. The debt to total assets ratio went up as the growth rate of the total bank loans and borrowings incurring interest was higher than that of the total assets.

FLUCTUATION RISK IN FOREIGN EXCHANGE RATE

The Group is primarily engaged in the operating business in China, with export to various countries in small quantities. Apart from the export sales transacted mainly in the U.S. currency, the sales income of the Group is denominated in Renminbi at present. The risk in foreign exchange of the Group involves primarily the sales of products and the purchase of raw materials in foreign currency. At present, the Group has neither adopted any formal hedging policy nor executed any foreign exchange contract or derivative to hedge against our currency risk.

Management Discussion and Analysis

RISK IN COMMODITY PRICES

As the selling and buying prices of the nonferrous metals of the Group are calculated at the global and the local prices, subject to substantial fluctuation, therefore, the Group has to bear the risk in the fluctuation of commodity prices. The prices of the nonferrous metals (as commercial products) depend primarily on the market supply and demand in the long run. The Group has not taken the initiative to manage this risk, except the execution of the contract for future commodities on limited basis.

RISK IN INTEREST RATE

The risk in the interest rate concerning the Group was primarily related to our short-term and long-term bank loans and other borrowings (amounting to RMB6,428 million, as of 31 December 2007). The interest for the outstanding debts of the Group was calculated at fixed rate and floating interest rate. Any rise in the current interest rate will increase the interest cost of our loans. Up to the present moment, the Group has neither executed any form of interest rate agreements or derivatives to hedge against the fluctuation in the interest rate.

CONTINGENT LIABILITIES

As of 31 December 2007, the Group has provided the following bank guarantee for the bank loans granted to various parties:

	2007	2006
	RMB'000	*RMB'000*
The related party and the third party	**89,003**	130,299

HISTORICAL CAPITAL EXPENDITURE

The respective capital expenditure and the proportion of the capital expenditure out of the total capital expenditure of various segments of the Group in the year ended December 31, 2007 are illustrated in the following table.

	2007	Total
	RMB'000	*(%)*
Nonferrous metals mine site segment	**758,386**	44.48%
Nonferrous metals smelting segment	**486,482**	28.53%
Cemented carbides, tungsten, molybdenum, tantalum, niobium and their compounds	**457,548**	26.83%
The Company and others	**2,769**	0.16%
Total	**1,705,185**	100%

Management Discussion and Analysis

The capital expenditure was primarily used to expand the production capacity of the Group, and improve mining, processing, smelting and the production technology of the cemented carbides of the Group.

EMPLOYEES

As of 31 December 2007, the Group had a total of 22,570 full-time employees, classified by function and location as follows:

Department	**Employees**	**Of the total** (%)
Management and administration	2,050	9.1%
Engineering and technical personnel	3,980	17.6%
Production personnel	13,380	59.3%
Repair and maintenance	1,800	8.0%
Inspection	830	3.7%
Sales	530	2.3%
Total	22,570	100.00%

The employees' remuneration package of the Group includes salary, bonus and allowance. The Group has participated in the social insurance contribution plans implemented by the local government in PRC. Pursuant to the relevant national and local labour and social welfare laws and regulations, the Group shall pay for the employees the monthly social insurance premium covering the pension insurance the medical insurance, the unemployment insurance and the housing reserve fund. According to the current local regulations applicable, the contribution of the Group to the employees' pension insurance, medical insurance, unemployment insurance and housing reserve fund shall be equivalent to 20%, 8%, 2% and 5% to 12% respectively of the total basic monthly salary of each employee.

Report of the Directors

The Directors are pleased to present their 2007 report and the audited financial statements of the Company for the year ending 31 December 2007.

GROUP REORGANISATION

The Company was incorporated in the PRC on 1 September 2005 as a joint stock limited company as a result of a reorganisation of HNG in preparation for the listing of the Company's shares on Stock Exchange. HNG is a state-owned enterprise established in August 2004. In the opinion of the Directors, the parent and ultimate holding company of the Group is HNG.

Pursuant to an agreement for the reorganisation (the "Reorganisation Agreement"), the Company became the holding company of the subsidiaries and branch now comprising the Group with effect from 31 December 2004 (the "Group Reorganisation"). Further details of the Group Reorganisation are set out in note 1 to the financial statements and in the Company's prospectus dated 21 March 2006.

On 31 March 2006, the Company completed its initial public offering and the shares of the Company were successfully listed on the Stock Exchange.

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and mining, processing and sale of nonferrous metals. Details of the principal activities of the principal subsidiaries are set out in note 18 to the financial statements. 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 59 to 66.

The Board of Directors shall announce a final dividend of RMB0.034 per share. The said dividend shall be distributed to the shareholders whose name appeared on the Shareholders' Registry on 18 May 2008.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The Company received an aggregate net proceeds of approximately HK$1.9 billion from the issue of new H shares at the time of its listing on the Stock Exchange; and an aggregate net proceeds of approximately HK$1.214 billion from placing new shares on 9 July 2007. Such net proceeds were derived after deduction of related issuance expenses. The Directors are of the opinion that the remaining proceeds will be applied in the coming years to their intended uses as set out in the Company's prospectus dated 21 March 2006 and the announcement of placing new shares dated 9 July 2007.

Report of the Directors

Use of Proceeds

As of 31 December 2007, the Company used the proceeds in the amount of RMB1,839.68 million from the Company's initial offering as follows:

- In July 2006, the Company used the proceeds in the amount of RMB400 million for acquisition of 80% equity interest in Ziying.

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

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

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

- In October 2006, the Company used the proceeds in the amount of RMB214 million for acquisition of 23.77% equity interest in ZhongWu GaoXin, an A-Share company.

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

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

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

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

- In October 2007, the Company used the proceeds in the amount of RMB52 million for investing in the establishment of Hunan Nonferrous Nan Ning Resources Development Company Limited, the Company held its equity interest of 52%.

- As at 31 December 2007, we have not used the net proceeds of approximately HK$1,214 million from the placing on 9 July 2007 and deposited the same in bank.

Report of the Directors

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the Company's audited financial statements for the year ended 31 December 2007 if appropriate, is set out on pages 2 to 3. 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 14 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the period are set out in note 34 to the 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, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

As at 9 July 2007, the Company placed 272,118,000 new H shares of RMB1.00 each from the share capital of the Company, in which 24,738,000 shares was converted from the same number of State-owned domestic shares and was sold with the related proceeds payable to the National Social Security Fund Council (the "NSSF") of the People's Republic of China (the "PRC"). The placing was conducted at a price of HK$4.93 per H Share.

The Company's shares were listed on the Stock Exchange on 31 March 2006. Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the period and as at 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 note 35 to the financial statements and in the consolidated statement of changes in equity, respectively.

Report of the Directors

DISTRIBUTABLE RESERVES

Details of reserves available for distribution are set out in note 35 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2007, the proportion of purchase and sales from our major suppliers and major customers to our total purchase and sales are as follows:

Purchase

The total purchase from our major supplier is 9.8% of our total purchase value
The total purchase from our five largest suppliers is 16.08% of our total purchase value

Sales

The total sales to our major customer is 2.29% of our total sales value
The total sales to our five largest customers is 8.54% of our total sales value

During the year, none of the Directors or Supervisors or their related persons, or to the best of the Directors' knowledge, any shareholder who hold more than 5% of our shares, hold any material rights in our five largest customers or our five largest suppliers.

Report of the Directors

Directors and Supervisors

The Directors and Supervisors of the Company during the period are:

Executive Directors:	
Mr. He Renchun	(appointed on 1 September 2005)
Mr. Li Li	(appointed on 1 September 2005)
Mr. Liao Luhai	(appointed on 1 September 2005)
Mr. Chen Zhixin	(appointed on 1 September 2005)
Non-Executive Directors:	
Mr. Cao Xiuyun	(appointed on 1 September 2005)
Mr. Wu Longyun	(appointed on 1 September 2005)
Mr. Zhang Yixian	(appointed on 1 September 2005)
Mr. Yu Jiang	(appointed on 1 September 2005)
Independent Non-Executive Directors:	
Mr. Gu Desheng	(appointed on 1 September 2005)
Mr. Chan Wai Dune	(appointed on 1 September 2005)
Mr. Wan Ten Lap	(appointed on 1 September 2005)
Ms. Chen Xiaohong	(appointed on 21 December 2007)
Supervisors:	
Mr. Zeng Shaoxiong	(appointed on 1 September 2005)
Mr. He Hongsen	(appointed on 1 September 2005)
Mr. Liu Xiaochu	(appointed on 1 September 2005)
Mr. Jin Liangshou	(appointed on 1 September 2005)
Mr. Qi Xiaocun	(appointed on 19 March 2007)
Ms. Li Junli	(appointed on 1 September 2005)
Mr. Zhan Yijie	(appointed on 1 September 2005)
Independent Supervisors:	
Ms. Chen Xiaohong	(resigned on 2 November 2007)
Mr. Mao Lihui	(appointed on 21 December 2007)
Ms. Liu Dongrong	(appointed on 1 September 2005)

In accordance with the Company's Articles of Association, all Directors and Supervisors are elected to a term of three years and may serve consecutive terms upon re-election.

The Company has received annual confirmations of independence from Messrs. Gu Desheng, Chan Wai Dune, Wan Ten Lap and Chen Xiaohong, and as at the date of this report still considers them to be independent.

Report of the Directors

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 7 to 16 of the annual report.

Directors' and Supervisors' service contracts

The Company has entered into service contracts with all its Directors and Supervisors for a period of 3 years. The Company's Directors and Supervisors receive compensation in the form of salaries, bonuses, housing allowances and other benefits-in-kind, including contributions to pension plans.

Save as disclosed above, there are no service contracts (excluding expiring or terminable by the Company within one year without payment of compensation other than statutory compensation) between the Company and any of the Directors and Supervisors.

Directors', Supervisors' and senior management remuneration

The Directors' and Supervisors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's Board of Directors with reference to Directors' and Supervisors' duties, responsibilities and performance and the results of the Group. In compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules, the Company has a remuneration committee to formulate compensation policies and to determine and manage the compensation of the Company's senior management. Details of the Directors' and Supervisors' remuneration are disclosed in note 8 to the 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 any of its subsidiaries or fellow subsidiaries 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 the SFO), which would be required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or which would be required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Report of the Directors

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.

Stock Appreciation Rights Plan ("STARs")

An extraordinary shareholders meetings was held on 25 September 2006. It authorised (including) the preliminary stock appreciation recommendations pursuant to the Stock Appreciation Rights Plan. (Please read the section "Stock Plan" as detailed in the Prospectus dated 21 March 2006). This move attracts, retain and encourage senior executive officers and major officers to work towards increasing the performance of the Group and the value of the Group.

Below listed are the recipient of the Stocks and their allocated stock number:

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

The exercise price of the initial stock appreciation rights shall closely track the closing price of the first day after the 30th trading days on the Stock Exchange and the highest closing price of the 5-day average closing price after the 30th trading day. The exercise price calculated using the formula is HK$2.8 per share. This price shall substitute the initial public offering price as presented in the Prospectus on 21 March 2006 (HK$1.65 per share).

Report of the Directors

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 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 issued share capital *(%)*
Hunan Nonferrous Metal Holdings Group Company Limited	1,947,074,266 (L)	Domestic Share	53.08 (L)
UBS AG	134,021,193 (L)	H Share	8.21 (L)
USB AG	165,731,463 (S)	H Share	10.15 (S)
Citadel Equity Fund Ltd	69,844,000 (L)	H Share	5.13 (L)
The Hamon Investment Group Pte Limited	68,704,000 (L)	H Share	5.05 (L)

**Note:* (L) – long position

(S) – short position

Save as disclosed above and so far as is known to the Directors, as at 31 December 2007, none of any other persons (other than the Directors, supervisors, chief executives or senior management of the Company had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under provisions of Division 2 and 3 of Part XV of the SFO, and to be recorded in the register required to be kept under Section 336 of the SFO, or is the substantial shareholders of the Company.

Report of the Directors

Connected transactions

The details of the connected transactions of the Group for the year ended 31 December 2007 is set out in note 41 to the financial statements. Certain transactions with connected person also constitute the connected transactions/continuing connected transactions as defined in the Listing Rules, and are required to be disclosed under the requirements of Rule 14A.45 of the Listing Rules. These connected transactions/ continuing connected transactions are summarized below:

(A) On 2 November 2007, the Company entered into the Renewed Mutual Supply Agreement, the Renewed Comprehensive Services Agreement, the Revised Rental under the Land Leasing Agreement, the Renewed Internal Connected Transactions Agreement and the Renewed Provision of Guarantees with HNG.

The applicable percentage ratios for the transactions under the Renewed Mutual Supply Agreement, the Renewed Internal Connected Transactions Agreement and the Renewed Provision of Guarantees exceed 2.5% pursuant to Rule 14.07 of the Listing Rules, the entering into the above-mentioned agreements constitute non-exempt continuing connected transactions under Chapter 14A of the Listing Rules and are subject to the reporting and disclosure requirements under Rules 14A.45 to 14A.47 of the Listing Rules, the approval of the Independent Shareholders by way of poll under Rule 14A.48 of the Listing Rules at the general meeting and the annual review requirements by the independent non-executive Directors and the auditors of the Company under Rules 14A.37 and 14A.38 of the Listing Rules.

(1) Approximate Annual amount paid by HNG to the Group for the provision of production supplies and ancillary services for the three years ended 31 December 2010 is RMB679 million, RMB733 million and RMB787 million, respectively; and

(2) According to the comprehensive agreement, the approximate annual income of the Group for the provision of production supplies and ancillary services to HNG for the three years ended 31 December 2010 is RMB522 million, RMB563 million and RMB605 million, respectively.

In relation to the Renewed Comprehensive Services Agreement and the Revised Rental under the Land Leasing Agreement, given that each of the applicable percentage ratios under Chapter 14 of the Listing Rules on an annual basis for the respective transactions thereunder is more than 0.1% but less than 2.5%, the transactions under the Renewed Comprehensive Services Agreement and the Revised Rental under the Land Leasing Agreement will be exempt from the Independent Shareholders' approval requirements but subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules.

(1) For the year ended 31 December 2006 and 30 June 2007 were RMB9.2 million and RMB4.20 million, respectively.

Report of the Directors

(2) The maximum approved amount of the ancillary services under the service agreement which paid to HNG (as the case may be) for the year ended 31 December 2006 and 31 December 2007 were RMB10.59 million and RMB11.55 million, respectively.

(3) The annual amount for for the year ended 31 December 2006 was RMB15.12 million. The annual amount for for the year ended 31 December 2007 was RMB15.12 million.

(B) On 2 November 2007, Zhuzhou Smelter entered into a purchase agreement with Shuikoushan Group Limited in respect of the purchase of approximately 300 tons of lead anode slime. The value of the lead anode slime to be purchased by Zhuzhou Smelter under the Purchase Agreement is approximately RMB109 million. The Purchase Agreement is not continuing in nature. The Purchase Agreement was on normal commercial terms and the amount under the Purchase Agreement is less than 2.5% of each of the appropriate percentage ratios calculated in accordance with the Listing Rules. Accordingly, the Purchase Agreement is only subject to the reporting and an announcement requirement set out in Chapter 14A of the Listing Rules and is exempt from the Independent Shareholders' approval requirements set out in Chapter 14A of the Listing Rules.

(C) On 2 November 2007, the Company entered into a supply agreement with Shuikoushan in respect of the supply of nonferrous metals from 2 November 2007 to 31 December 2007. The value of the nonferrous metals to be supplied by our Company to Shuikoushan under the Supply Agreement is estimated to be approximately RMB201 million.

The Supply Agreement was on normal commercial terms and the amount under the Supply Agreement is less than 2.5% of each of the appropriate percentage ratios calculated in accordance with the Listing Rules. Accordingly, the Supply Agreement is only subject to the reporting and an announcement requirement set out in Chapter 14A of the Listing Rules and is exempt from the Independent Shareholders' approval requirements set out in Chapter 14A of the Listing Rules.

(D) On 2 November 2007, the Company re-entered the internal connected transaction and restated guarantees given.

For the three years ended 31 December 2010, the approximate annual amount paid by Zhuye Connected Persons to the Group for the provision of production supplies and ancillary services is expected to not exceed RMB10,623 million, RMB11,474 million and RMB12,324 million.

For the three years ended 31 December 2010, the approximate annual income of Zhuye Connected Persons paid by the Company for the provision of production supplies and ancillary services is expected to not exceed RMB10,028 million, RMB10,831 million and RMB11,634 million.

For the 3 years ended 31 December 2010, the restated guarantees given to Zhuye by Zhuying and the Company is expected to not exceed RMB1,050 million.

Report of the Directors

As the applicable percentage ratios for the transactions under the Renewed Internal Connected Transactions Agreement on an annual basis exceed 2.5% or the aggregate annual consideration will be more than HK$10 million, the entering into the Renewed Internal Connected Transactions Agreement constitutes non-exempt continuing connected transactions under Chapter 14A of the Listing Rules, and is subject to the reporting and disclosure requirements under Rules 14A.45 to 14A.47 of the Listing Rules and the approval of the Independent Shareholders by way of poll under Rule 14A.48 of the Listing Rules at the general meeting and the annual review requirements by the respective independent non-executive Directors and the auditors of the Company under Rules 14A.37 and 14A.38 of the Listing Rules.

In addition, the Group has the following Internal Connected Transactions (as defined in the Company's Prospectus) for the year ended 31 December 2007:

Annual amount paid to Zhuye Connected Persons by the Group for the provision of production supplies and ancillary services was RMB7.67 billion.

Approximate Annual amount paid by Zhuye Connected Persons to the Group for the provision of production supplies and ancillary services was RMB7.126 billion.

Amount of outstanding guarantees provided by Zhuying and the Company to Zhuye was RMB330 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.

(i) That the connected transactions were conducted in the daily operation of the Company;

(ii) That the connected transactions were conducted pursuant to ordinary commercial clauses. Should there be no similar transaction clause to determine whether the clauses for connected transactions, the said transactions should not be inferior to the clauses used for transactions between the Company and third parties;

(iii) That the connected transactions were conducted in accordance with the agreed clauses. The said clauses are fair and reasonable to the Company and its shareholders; and

(iv) The total amount of the connected transactions did not exceed the annual cap of the year as permitted by the Stock Exchange.

Non-competition Agreement

As disclosed in the prospectus, the independent non-executive Directors will review, on an annual basis, the exercise or non-exercise of the option to acquire CRB, and the first right options to purchase CRB's products under the Non-competition Agreement (as defined in the prospectus). The non-competition restrictions took effect on 31 March 2006.

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.

Report of the Directors

Directors' interests in a competing business

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

Mr. He Renchun and Cao Xiuyun are also the Directors of HNG, and provide the management services to the company.

As the Board of Directors of the Company is independent from the Board of Directors of HNG and the above Directors do 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 HNG.

Management Contracts

There was no management and administrative contracts relating to the business as a whole or any principal operations of the Company entered into the Company or existing for the year ended 31 December 2007.

Proposed amendments to the articles of association

Resolution regarding proposed amendments to the articles of association was approved by shareholders on the extraordinary general meeting (the "EGM") of the Company held on 21 December 2007. For details of the resolution, please refer to our circular dated 5 November 2007.

Post balance sheet events

Details of the significant post balance sheet events of the Group are set out in note 44 to the financial statements.

Closure of register for Annual General Meeting

The AGM of the Company will be held at 9:30 a.m. on 18 June 2008 at the conference room of the Hunan Bestride Hotel, No. 215 Labor Road West, Changsha City, Hunan, the PRC. The register of members of the Company will be closed from 19 May 2008 to 18 June 2008 (both days inclusive). In order to be eligible to attend and vote on the AGM of the Company and to qualify for the final dividends for the year ended 31 December 2007, instruments of transfer accompanied by share certificates and other appropriate documents must be lodged with the Company's H share registrar, no later than 4:30 p.m. on 18 May 2008. Final dividend will be distributed on or before 18 July 2008.

Report of the Directors

Audit committee

Written terms of reference of the board audit committee based primarily on "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants have been adopted by the Board of Directors.

The board audit committee provides an important link between the Board of Directors and the Company's auditors in matters falling within the scope of the audit of the Company and the Group. It will review the effectiveness of the external audit and of internal controls and risk evaluation and will provide comments and advice to the Board of Directors. The board audit committee comprises one non-executive Director and two independent non-executive Directors, namely, Mr. Zhang Yixian, Mr. Chan Wai Dune and Mr. Wan Ten Lap. The board audit committee and management have reviewed the audited results for the year ended 31 December 2007.

Auditors

The financial statements are audited by Ernst & Young. The auditors have to retire at the end of the period. However, they are eligible to be reappointment as auditors of the Company at the next Annual General Meeting.

By order of the Board
He Renchun
Chairman

Shenzhen, PRC
27 April 2008

As at the date of this report, the Board of Directors of the Company comprises four executive Directors, namely, Mr. He Renchun, Mr. Li Li, Mr. Liao Luhai and Mr. Chen Zhixin, four non-executive Directors, namely, Mr. Cao Xiuyun, Mr. Wu Longyun, Mr. Zhang Yixian and Mr. Yu Jiang and four independent non-executive Directors, namely, Mr. Gu Desheng, Mr. Chan Wai Dune, Mr. Wan Ten Lap and Ms. Chen Xiaohong.

Report of the Supervisory Committee

Dear Shareholders,

On behalf of the first session of the Supervisory Committee of Hunan Nonferrous Metals Corporation Limited, I would like to submit to the Annual General Meeting a report on the results of this session of the Supervisory Committee during the reporting period.

This session of the Supervisory Committee was approved at the General Meeting held on 1 September 2005. This session of the Supervisory Committee was attended by 9 supervisors.

I. MEETING CONVENED DURING THE REPORTING PERIOD

During the reporting period, 2 conferences of the Supervisory Committee were held.

II. PRINCIPAL DUTIES OF THE SUPERVISORY COMMITTEE

During the reporting period, this session of the Supervisory Committee strictly complied with PRC Company Law, the laws and rules of Hong Kong and the Articles of Association. The Supervisory Committee has performed its work diligently, and protected the rights of the shareholders and the Company. The Supervisory Committee adheres to the principles of fiduciary duty, and performed its work carefully and diligently.

During the financial year, the Supervisory Committee carefully reviewed the operational and development plans of the Company. The Supervisory Committee also raised reasonable recommendations and opinions to the Board of Directors. It also stringently and effectively supervised the important decisions made at the managerial level, and ensured that the decisions made adhere to the national laws and regulations and the Articles of Association. It also ensured that the decisions made are to the benefit of the shareholders.

During the reporting period in 2007, the Supervisory Committee mainly carried out the following work:

1. Inspection over Implementation of Resolutions of the General Meetings

The Supervisory Committee exercised supervision and inspection of the implementation of the General Meetings' resolutions by the Board, the Directors and the management through observation and attendance at the Board Meetings and General Meetings. The Supervisory Committee is of the opinion that the Directors and management of the Company have diligently performed their duties in compliance with resolutions of the General Meetings. No violation of any laws or regulations or Articles of Association or any act which jeopardizes the interests of the Company and shareholders has been found in the performance of the Company's Directors and the management.

Report of the Supervisory Committee

2. Inspection over Legal Compliance of the Company's Operations

The Supervisory Committee exercised supervision on a regular basis over the legal compliance and rationality of the Company's operation and management. It has also exercised supervision over work performance of the Company's Directors and senior management. The Supervisory Committee is of the opinion that the Company's operation is sound and rational, and is in compliance with all applicable laws, regulations and rules. The members of the Board and senior management of the Company have faithfully and diligently performed their duties, and accomplished the mission entrusted to them by the shareholders.

3. Inspection over the Company's Daily Operating Activities

The Supervisory Committee exercised supervision over the Company's operating activities. The Supervisory Committee is of the opinion that the Company has established a sound internal control system, and has made great progress in the formulation and implementation of its internal work procedures, thus effectively controlling its exposure to various operating risks. The Company's operation is in compliance with the PRC laws and regulations, the Articles of Association and its internal work procedures.

4. Inspection over the Company's Financial Condition

The Supervisory Committee has carefully verified and agreed to the contents of the Report of the Board of Directors that is to be presented to this Annual General Meeting and the audited financial statements and the dividend distribution plans. The Supervisory Committee is of the opinion that the members of the Board of Directors, the Managers and other senior officers have stringently adhered to the principle of integrity, and have worked diligently and exercise their duties with the interests of the Company as a main issue. The above personnel is able to exercise their duties pursuant to the Articles of Association. All work is undertaken uniformly, and the internal control system is improving overtime. Transactions between the company and its related parties strictly adhered to clauses that protect the rights of the shareholders as a whole. Such transactions are conducted at a fair and reasonable cost. The Supervisory Committee approved the Company's financial audit report presented by Ernst & Young, the international auditors.

The Supervisory Committee is optimistic about the prospect of the Company. In 2008, the Supervisory Committee will continue to carry out its duties in strict compliance with the Articles of Association and the relevant laws and regulations and protect the interests of the shareholders.

Zeng Shaoxiong
Chairman of the Supervisory Committee

Shenzhen, PRC
27 April 2008

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Hunan Nonferrous Metals Corporation Limited (the "Company") will be held at 9:30 a.m. on 18 June 2008 (Wednesday) at Hunan Bestride Hotel, No.215, Labor Road West, Changsha City, Hunan, the People's Republic of China to consider and, if thought fit, to pass the following matters:

1. To consider and approve the Report of the Board of the Company for the year 2007;

2. To consider and approve the Report of the Supervisory Committee of the Company for the year 2007;

3. To consider and approve the Audited Financial Statements of the Company for the year 2007;

4. To consider and approve the declaration and payment of final dividend for the year ended 31 December 2007 in the amount and in the manner recommended by the Board;

5. To consider and approve the appointment of international and domestic auditors of the Company and to authorise the Board to determine their remuneration;

6. To consider and, if thought fit, to pass the following special resolution:

   "**THAT**:

   To grant to the board of directors (the "Board") of the Company an unconditional general mandate to allot, issue and deal with new domestic shares ("Domestic Shares") and overseas listed foreign shares ("H Shares"):

   6.1 Subject to resolutions numbered 6.3 and 6.4 and pursuant to the Company Law (the "Company Law") of the People's Republic of China (the "PRC") and the Rules governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") (as amended from time to time), the exercise by the Board of all the powers of the Company granted by the general and unconditional mandate to allot, issue and deal with shares during the Relevant Period (as defined below) and to determine the terms and conditions for the allotment and issue of new shares including the following terms:

   (1) class and number of new shares to be issued;

   (2) price determination method of new shares and/or issue price (including price range);

   (3) the starting and closing dates for the issue; and

   (4) the making or granting of offers, agreements and options which might require the exercise of such powers.

   6.2 The approval in resolution numbered 6.1 shall authorise the Board during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such powers after the end of the Relevant Period.

Notice of Annual General Meeting

6.3 The aggregate nominal amount of new Domestic Shares and new H Shares allotted, issued and dealt with or agreed conditionally or unconditionally to be allotted, issued and dealt with (whether pursuant to an option or otherwise) by the Board pursuant to the approval in resolution numbered 6.1, other than pursuant to issue of shares by conversion of the surplus reserve into share capital in accordance with the Company Law of the PRC and the Articles of Association of the Company, shall not exceed 20% of each class of the existing Domestic Shares and H Shares.

6.4 In exercising the powers granted under resolution numbered 6.1, the Board must (1) comply with the Company Law of the PRC and other applicable laws and regulations (as amended from time to time); and (2) obtain approval from the China Securities Regulatory Commission and other relevant PRC government departments.

6.5 For the purpose of this resolution:

"Relevant Period" means the period from the date of passing this resolution until whichever is the earliest of:

(i) twelve months from the date of passing this resolution;

(ii) the conclusion of the next general meeting of the Company; and

(iii) the revocation or variation of the mandate granted under this resolution by special resolution of the shareholders in general meeting.

6.6 The Board, subject to the approval of the relevant authorities of the PRC and in accordance with the Company Law of the PRC, be and is hereby authorised to increase the registered share capital of the Company to the required amount upon the exercise of the powers pursuant to resolution numbered 6.1 above.

6.7 The Board be authorised to sign the necessary documents, complete the necessary formalities and take other necessary steps to complete the allotment and issue and listing of new shares, provided the same do not violate the relevant laws, administrative regulations, listing rules of the relevant stock exchange and the Articles of Association.

6.8 Subject to the approval of the relevant PRC authorities, the Board be and is hereby authorised to make appropriate and necessary amendments to the Articles of Association after completion of the allotment and issue of new shares to reflect the alternative in the share capital structure and registered capital of the Company pursuant to the exercise of this mandate."

7. To consider and approve other matters, if any.

By order of the Board
Hunan Nonferrous Metals Corporation Limited
He Renchun
Chairman

Hong Kong, 27 April 2008

Notice of Annual General Meeting

Notes:

(1) Holders of the Company's overseas listed foreign shares (in the form of H Shares) ("H Shares") whose names appear on the Company's register of members maintained by Computershare Hong Kong Investor Services Limited on 19 May 2008 (Monday) and representative holders of domestic shares are entitled to attend and vote at the Annual General Meeting.

(2) Shareholders who intend to attend the Annual General Meeting must complete and return the written replies for attending the Annual General Meeting to the Company's registered office by facsimile or post, for the attention of the Finance and Securities Department, no later than 28 May 2008 (Wednesday):

Details of the Finance and Securities Department of the Company are as follows:

Address:	Room 1116, 11/F, Block A, Yousedasha, No. 342 Laodongxi Road, Changsha, Hunan Province, the PRC
Tel:	(86) 731-538-5556
Fax:	(86) 731-552-9468

(3) Each holder of Shares who has the right to attend and vote at the Annual General Meeting is entitled to appoint in writing one or more proxies, whether a shareholder nor not, to attend and vote on his behalf of the Annual General Meeting. Where a shareholder has appointed more than one proxy to attend the Annual General Meeting, such proxies may only vote on a poll or a ballot. The instrument appointing a proxy must be in writing under the hand of the appointor or his attorney duly authorised in writing. In case that an appointer is a legal person, the power of attorney must be either under the common seal of the legal person or under the hand of its director or other person, duly authorised. If the instrument appointing a proxy is signed by an attorney of the appointor, the power of attorney authorising that attorney to sign, or other documents of authorisation, must be notarially certified. For holders of H Shares, the power of attorney or other documents of authorisation and proxy forms must be delivered to the Company's H Share Registrar at Computershare Hong Kong Investor Services at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no less than 24 hours before the time appointed for the holding of the Annual General Meeting in order for such documents to be valid.

(4) The Company's register of member will be closed from 19 May 2008 (Monday) to 18 June 2008 (Wednesday) (both days inclusive) (both days inclusive), during which time no transfer of shares will be registered. Transferees of H Shares who wish to attend the Annual General Meeting must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to Computershare Hong Kong Investor Services Limited by no later than 4:30 p.m. on 18 May 2008 for completion of the registration of the relevant transfer in accordance with the Articles of Association of the Company. Computershare Hong Kong Investor Services Limited's address is as follows:

46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

(5) Shareholders or their proxies must present proof of their identities upon attending the Annual General Meeting. Should a proxy be appointed, the proxy must also present copies of his/her Proxy Form, copies of appointing instrument and power of attorney, if applicable.

(6) The Annual General Meeting is expected to last not more than one day. Shareholders or proxies attending the Annual General Meeting are responsible for their own transportation and accommodation expenses.

Notice of Annual General Meeting

As at the date of this notice, the Board of Directors comprises:

Executive Directors
Mr. He Renchun *(Chairman)*
Mr. Li Li
Mr. Liao Luhai
Mr. Chen Zhixin

Independent Non-executive Directors
Mr. Gu Desheng
Mr. Chan Waidune
Mr. Wen Tenlap
Ms. Chen Xiaohong

Non-executive Directors
Mr. Cao Xiuyun
Mr. Wu Longyun
Mr. Zhang Yixian
Mr. Yu Jiang

Independent Auditors' Report

安永會計師事務所

To the shareholders of
Hunan Nonferrous Metals Corporation Limited
(A joint stock company incorporated in the People's Republic of China with limited liability)

We have audited the accompanying financial statements set out on pages 59 to 162 of Hunan Nonferrous Metals Corporation Limited (the "Company") and its subsidiaries (collectively the "Group"), 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 financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made 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 auditors' judgement, 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 auditors consider 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.

Independent Auditors' Report

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 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 International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
27 April 2008

Consolidated Income Statement

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
REVENUE	4,5	**21,493,689**	17,765,129
Cost of sales		**(19,412,091)**	(15,152,177)
Gross profit		**2,081,598**	2,612,952
Other income and gains	5	**358,132**	186,560
Selling and distribution costs		**(311,318)**	(234,905)
Administrative expenses		**(970,601)**	(896,408)
Other expenses, net	6	**(27,829)**	(249,466)
Finance costs	7	**(343,731)**	(245,022)
Share of profits and losses of associates	19	**(70,689)**	(8,608)
PROFIT BEFORE TAX	6	**715,562**	1,165,103
Income tax expense	10	**(239,362)**	(290,461)
PROFIT FOR THE YEAR		**476,200**	874,642
Attributable to:			
Equity holders of the parent	11	**314,896**	451,409
Minority interests		**161,304**	423,233
		476,200	874,642
PROPOSED FINAL DIVIDEND – RMB0.034 (2006: RMB0.026) PER ORDINARY SHARE	12	**124,714**	88,938
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**8.91 cents**	14.49 cents
Diluted		**N/A**	N/A

Consolidated Balance Sheet

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**5,308,740**	4,047,600
Land lease prepayments	15	**958,770**	885,628
Intangible assets	16	**855,541**	591,732
Goodwill	17	**77,927**	56,546
Interests in associates	19	**164,972**	254,455
Available-for-sale investments	20	**1,188,841**	464,441
Deferred tax assets	21	**156,596**	81,260
Total non-current assets		**8,711,387**	6,381,662
CURRENT ASSETS			
Inventories	22	**4,198,518**	4,504,612
Trade receivables	23	**601,310**	474,233
Bills receivable	24	**725,423**	401,497
Prepayments, deposits and other receivables	25	**665,867**	885,421
Tax recoverable		**6,972**	10,791
Pledged deposits	26	**53,063**	57,148
Cash and cash equivalents	26	**3,635,708**	1,939,091
Total current assets		**9,886,861**	8,272,793
CURRENT LIABILITIES			
Trade payables	27	**847,519**	964,243
Bills payable	28	**209,780**	187,579
Other payables and accruals	29	**1,493,470**	1,552,591
Interest-bearing bank and other borrowings	30	**4,571,225**	4,175,736
Tax payable		**291,088**	252,112
Dividend payable		**63,161**	43,128
Total current liabilities		**7,476,243**	7,175,389
NET CURRENT ASSETS		**2,410,618**	1,097,404
TOTAL ASSETS LESS CURRENT LIABILITIES		**11,122,005**	7,479,066

Consolidated Balance Sheet

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	*30*	**1,856,935**	721,888
Other liabilities	*31*	**392,810**	386,559
Payables for mining rights	*32*	**304,277**	405,702
Government grants	*33*	**150,196**	117,234
Deferred tax liabilities	*21*	**379,371**	77,595
Total non-current liabilities		**3,083,589**	1,708,978
NET ASSETS		**8,038,416**	5,770,088
EQUITY			
Equity attributable to equity holders of the parent			
Issued share capital	*34*	**3,668,058**	3,420,678
Reserves	*35*	**1,971,514**	715,779
Proposed final dividend	*12*	**124,714**	88,938
		5,764,286	4,225,395
Minority interests		**2,274,130**	1,544,693
TOTAL EQUITY		**8,038,416**	5,770,088

He Renchun
Director

Chen Zhixin
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2007

		Attributable to equity holders of the parent									
		Issued share capital	Capital reserve*	Statutory reserves*	Exchange fluctuation reserve*	Other reserves*	Retained profits*	Proposed final dividend	Total	Minority interests	Total equity
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2006		2,183,760	(669,534)	73,946	529	–	121,087	230,980	1,940,768	1,265,106	3,205,874
Exchange realignment		–	–	–	(1,198)	–	–	–	(1,198)	(612)	(1,810)
Changes in fair value of available-for-sale investments, net of deferred tax		–	–	–	–	157,541	–	–	157,541	–	157,541
Net actuarial losses of defined benefit retirement schemes, net of deferred tax	*21, 31(i)*	–	–	–	–	–	(40,896)	–	(40,896)	(4,328)	(45,224)
Total income and expense recognized directly in equity		–	–	–	(1,198)	157,541	(40,896)	–	115,447	(4,940)	110,507
Profit for the year		–	–	–	–	–	451,409	–	451,409	423,233	874,642
Total income and expense for the year		–	–	–	(1,198)	157,541	410,513	–	566,856	418,293	985,149
New shares issued, net of expenses		1,236,918	711,833	–	–	–	–	–	1,948,751	–	1,948,751
Capital contribution from minority shareholders		–	–	–	–	–	–	–	–	2,178	2,178
Acquisition of a subsidiary		–	–	–	–	–	–	–	–	105,414	105,414
Disposal of a subsidiary		–	–	–	–	–	–	–	–	(3,341)	(3,341)
Acquisition of minority interests		–	–	–	–	–	–	–	–	(115,234)	(115,234)
Dividend paid and payable to minority shareholders		–	–	–	–	–	–	–	–	(127,723)	(127,723)
Transfer to reserves		–	–	42,638	–	–	(42,638)	–	–	–	–
Special dividend		–	–	–	–	–	–	(230,980)	(230,980)	–	(230,980)
Proposed final dividend	*12*	–	–	–	–	–	(88,938)	88,938	–	–	–
At 31 December 2006		3,420,678	42,299	116,584	(669)	157,541	400,024	88,938	4,225,395	1,544,693	5,770,088

Consolidated Statement of Changes in Equity

Year ended 31 December 2007

		Attributable to equity holders of the parent									
	Notes	Issued share capital RMB'000	Capital reserve* RMB'000	Statutory reserves* RMB'000	Exchange fluctuation reserve* RMB'000	Other reserves* RMB'000	Retained profits* RMB'000	Proposed final dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 31 December 2006 and 1 January 2007		3,420,678	42,299	116,584	(669)	157,541	400,024	88,938	4,225,395	1,544,693	5,770,088
Exchange realignment		–	–	–	163	–	–	–	163	(1,748)	(1,585)
Disposal of available-for-sale investments, net of deferred tax		–	–	–	–	(78,771)	–	–	(78,771)	–	(78,771)
Changes in fair value of available-for-sale investments, net of deferred tax		–	–	–	–	251,346	–	–	251,346	462,300	713,646
Net actuarial losses of defined benefit retirement schemes, net of deferred tax	21, 31(i)	–	–	–	–	–	(6,492)	–	(6,492)	967	(5,525)
Total income and expense recognized directly in equity		–	–	–	163	172,575	(6,492)	–	166,246	461,519	627,765
Profit for the year		–	–	–	–	–	314,896	–	314,896	161,304	476,200
Total income and expense for the year		–	–	–	163	172,575	308,404	–	481,142	622,823	1,103,965
New shares issued, net of expenses		247,380	928,197	–	–	–	–	–	1,175,577	–	1,175,577
New shares issued by a subsidiary		–	(28,890)	–	–	–	–	–	(28,890)	201,329	172,439
Capital contribution from minority shareholders		–	–	–	–	–	–	–	–	87,078	87,078
Acquisitions of subsidiaries	36(a)	–	–	–	–	–	–	–	–	6,014	6,014
Disposal of subsidiaries	36(b)	–	–	–	–	–	–	–	–	(8,862)	(8,862)
Acquisition of minority interests		–	–	–	–	–	–	–	–	(47,708)	(47,708)
Dividend paid and payable to minority shareholders		–	–	–	–	–	–	–	–	(131,237)	(131,237)
Distribution of dividend		–	–	–	–	–	–	(88,938)	(88,938)	–	(88,938)
Transfer to reserves		–	–	(22,607)	–	–	22,607	–	–	–	–
Proposed final dividend	12	–	–	–	–	–	(124,714)	124,714	–	–	–
At 31 December 2007		3,668,058	941,606	93,977	(506)	330,116	606,321	124,714	5,764,286	2,274,130	8,038,416

* *These reserve accounts comprise the consolidated reserves of RMB1,971,514,000 (2006: RMB715,779,000) in the consolidated balance sheet.*

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**715,562**	1,165,103
Adjustments for:			
Finance costs	7	**343,731**	245,022
Share of profits and losses of associates		**70,689**	8,608
Interest income	5	**(72,647)**	(136,138)
Dividend income	5	**(11,222)**	(5,616)
Losses/(gains) on disposal of items of property, plant and equipment	5,6	**(12,022)**	14,230
Gains on disposal of other financial assets, net	5	**–**	(2,443)
Gains on disposal of available-for-sale investments	5	**(62,886)**	–
Excess over the cost of a business combination	5	**(995)**	–
Gains on acquisition of minority interests	5	**(8,951)**	–
Losses/(gains) on disposal of subsidiaries	5,6	**(2,197)**	3,670
Net realized and unrealized losses/(gains) on derivative financial instruments	5,6	**(74,326)**	35,281
Depreciation	6	**428,573**	374,419
Amortization of land lease prepayments	6	**19,321**	15,636
Amortization of intangible assets	6	**55,036**	55,297
Provision for impairment on trade and other receivables, net	6	**1,436**	30,537
Provision for obsolete inventories	6	**200,249**	16,124
Share appreciation rights	6	**12,840**	3,949
Cost of supplementary pension subsidies and early retirement benefits		**20,224**	33,484
Recognition of government grants	5	**(23,865)**	(13,205)
Impairment of an interest in an associate	6	**–**	45,328
Loss on dilution of an interest in an associate	6	**–**	59,744
Operating profit before working capital changes		**1,598,550**	1,949,030
Decrease/(increase) in inventories		**148,481**	(1,503,111)
Increase in trade receivables		**(82,619)**	(84,451)
Increase in bills receivable		**(342,968)**	(193,554)
Decrease in prepayments, deposits and other receivables		**296,558**	75,176
Increase/(decrease) in trade payables		**(152,893)**	170,088
Increase in bills payable		**22,201**	160,970
Decrease in other payables and accruals		**(91,460)**	(215,954)
Movement of balances with associates		**(20,000)**	(15,281)
Cash generated from operations		**1,375,850**	342,913
Interest paid		**(330,139)**	(252,168)
Income tax paid		**(261,951)**	(182,829)
Net cash inflow/(outflow) from operating activities		**783,760**	(92,084)

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	5	**72,647**	136,138
Dividend income		**11,222**	–
Dividends received from associates		**–**	2,016
Additions to intangible assets		**(7,796)**	(13,177)
Additions to land lease prepayments	15	**(7,366)**	(29,045)
Purchases of items of property, plant and equipment	14	**(1,674,496)**	(801,007)
Proceeds from disposal of items of property, plant and equipment		**7,017**	21,476
Proceeds from disposal of available-for-sale investments		**131,113**	–
Proceeds from disposal of other financial assets		**–**	40,624
Acquisitions of subsidiaries, net of cash acquired	36(a)	**(322,306)**	(77,736)
Disposal of subsidiaries, net of cash disposed of	36(b)	**15,952**	(8,847)
Acquisition of minority interests		**(59,200)**	(139,281)
Acquisition of associates		**–**	(213,141)
Loan to an associate		**20,000**	(20,000)
Receipt of government grants	33	**54,827**	64,790
Purchases of available-for-sale investments		**(8,020)**	(195,538)
Payment for mining rights		**(75,000)**	–
Purchase of other financial assets		**–**	(11,583)
Decrease in pledged deposits		**4,085**	25,455
Decrease/(increase) in non-pledged time deposits with original maturity over three months when acquired		**72,490**	(27,094)
Net cash outflow from investing activities		**(1,764,831)**	(1,245,950)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**7,222,165**	6,331,903
Repayment of bank loans		**(5,705,676)**	(5,711,428)
Proceeds from issue of shares		**1,359,331**	2,111,506
Share issue expenses		**(11,315)**	(162,755)
Dividends paid	35	**(88,938)**	(230,980)
Capital contributions by minority shareholders		**87,078**	2,178
Dividends paid to minority shareholders		**(111,204)**	(93,728)
Net cash inflow from financing activities		**2,751,441**	2,246,696
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,770,370**	908,662
Cash and cash equivalents at beginning of year		**1,704,501**	797,646
Effect of foreign exchange rate changes, net		**(1,263)**	(1,807)
CASH AND CASH EQUIVALENTS AT END OF YEAR	26	**3,473,608**	1,704,501

Balance Sheet

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**97,869**	65,902
Land lease prepayments	15	**76,605**	78,090
Intangible assets	16	**50,327**	73,897
Interests in subsidiaries	18	**3,032,442**	1,733,759
Interests in associates	19	**78,557**	213,141
Available-for-sale investments	20	**114,496**	419,284
Deferred tax assets	21	**7,460**	5,008
Total non-current assets		**3,457,756**	2,589,081
CURRENT ASSETS			
Inventories	22	**26,421**	20,749
Trade receivables	23	**54,397**	16,905
Bills receivable	24	**222,614**	13,434
Dividend receivable		**31,722**	114,630
Prepayments, deposits and other receivables	25	**68,236**	58,018
Cash and cash equivalents	26	**2,285,637**	1,106,552
Total current assets		**2,689,027**	1,330,288
CURRENT LIABILITIES			
Trade payables	27	**49,416**	41,278
Bills payable	28	**–**	4,600
Other payables and accruals	29	**242,355**	85,683
Interest-bearing bank and other borrowings	30	**173,652**	–
Tax payable		**56,335**	5,559
Total current liabilities		**521,758**	137,120
NET CURRENT ASSETS		**2,167,269**	1,193,168
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,625,025**	3,782,249
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	30	**846,638**	90,100
Other liabilities	31	**68,004**	58,417
Payables for mining rights	32	**50,086**	66,781
Government grants	33	**82**	100
Deferred tax liabilities	21	**5,606**	77,595
Total non-current liabilities		**970,416**	292,993
NET ASSETS		**4,654,609**	3,489,256
EQUITY			
Issued share capital	34	**3,668,058**	3,420,678
Reserves	35	**861,837**	(20,360)
Proposed final dividend	12,35	**124,714**	88,938
TOTAL EQUITY		**4,654,609**	3,489,256

He Renchun
Director

Chen Zhixin
Director

Notes to the Financial Statements

31 December 2007

1. GROUP REORGANISATION AND CORPORATE INFORMATION

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

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

(i) the nonferrous metal mining business of Hunan Huangshaping Lead and Zinc Mine, a wholly-owned subsidiary of HNG, together with related assets and liabilities;

(ii) the shareholding interests in certain subsidiaries and associates which principally carry on the business of mining and smelting of nonferrous metals and engage in the manufacture of cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds, after carving out (i) the assets, liabilities and interests in relation to non-core businesses which are unrelated to the aforesaid businesses transferred to the Company; and (ii) certain assets and liabilities including staff quarters, buildings, bank balances, investments in securities and creditors to companies controlled by HNG; and

(iii) a 4.68% shareholding interest in Hunan Zhuye Torch Metals Co., Ltd. ("Zhuye Torch").

In addition, as part of the Reorganization, Zhuzhou Smelter Group Co., Ltd. ("Zhuye"), a subsidiary of the Company, entered into various agreements with China Orient Asset Management Corporation ("COAMC"). Pursuant to these agreements, COAMC agreed to give up its 48.35% equity interest in Hunan Zhuye Nonferrous Metals Co., Ltd. ("Zhuye Nonferrous"), a company owned as to 51.65% by Zhuye and 48.35% by COAMC, in exchange for an equity interest of 36.686% in Zhuye. Thereafter, Zhuye Nonferrous' entire assets and liabilities as at 31 December 2004 were transferred to Zhuye, and Zhuye Nonferrous was dissolved. The Company's interest in Zhuye was reduced from 100% to 63.314% upon the completion of the Reorganization.

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

Notes to the Financial Statements

31 December 2007

1. GROUP REORGANISATION AND CORPORATE INFORMATION *(continued)*

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

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

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

In July 2007, the Company entered into a placing agreement in relation to the placing, on a fully underwritten basis, of an additional 247,380,000 overseas listed foreign invested shares of RMB1.00 in the share capital of the Company at a price of HK$4.93 per H share (equivalent to approximately RMB4.77 per share), and such H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited. In addition, 24,738,000 H shares converted from the Company's same number of domestic shares were disposed of and the proceeds thereon were payable to the NSSF.

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

The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the mining and smelting of nonferrous metals and the manufacture of cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds.

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

Notes to the Financial Statements

31 December 2007

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Board that remain in effect, and the disclosure requirements of the Hong Kong Companies Ordinance (the "Companies Ordinance"). They have been prepared under the historical cost convention, except for the measurement at fair value of available-for-sale investments. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries after elimination of intercompany transactions and balances within the Group.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Where there is a loss of control of subsidiaries, the consolidated financial statements include the results for the part of the reporting year during which the Group has control.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

The acquisition of subsidiaries by the Group has been accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of a business combination to the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of 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.

Notes to the Financial Statements

31 December 2007

2.2 IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised IFRSs during the year. Adoption of these new and revised standards and interpretations did not have significant effect on these financial statements. They did however give rise to additional disclosures.

IFRS 7	Financial Instruments: Disclosures
IAS 1 Amendment	Capital Disclosures
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment

The principal effects of adopting these new and revised IFRSs are as follows:

IFRS 7 Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

IAS 1 Amendment – Capital Disclosures

This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 43 to the financial statements.

IFRIC 8 Scope of IFRS 2

This interpretation requires IFRS 2 to be applied to any arrangements in which the Group can not identify specifically some or all of the goods received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liability incurred. As the Company has only operated a share appreciation plan in accordance with its share option scheme, the interpretation has had no impact on these financial statements.

Notes to the Financial Statements

31 December 2007

2.2 IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

IFRIC 9 Reassessment of Embedded Derivatives

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements.

IFRIC 10 Interim Financial Reporting and Impairment

The Group has adopted this Interpretation as of 1 January 2007, which requires that an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective, in these financial statements.

IFRS 2 Amendment	Share-based Payments – Vesting Conditions and Cancellations
IFRS 3 (Revised)	Business Combinations
IFRS 8	Operating Segments
IAS 1 (Revised)	Presentation of Financial Statements
IAS 1 Amendment	Puttable Financial Instruments
IAS 23 (Revised)	Borrowing Costs
IAS 27 (Revised)	Consolidated and Separate Financial Statements
IAS 32 Amendment	Puttable Financial Instruments
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer Loyalty Programmes
IFRIC 14	IAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Notes to the Financial Statements

31 December 2007

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

Amendment to IFRS 2 Share-based Payments – Vesting Conditions and Cancellations

This amendment will become effective for annual periods beginning on or after 1 January 2009. This amendment restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that such award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation.

IFRS 3 (Revised) Business Combinations

The revised standard will become effective for annual periods beginning on or after 1 July 2009. The revised standard introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. The changes introduced by the revised standard must be applied prospectively and will affect future acquisitions and transactions with minority interest.

IFRS 8 Operating Segments

This standard will become effective for annual periods beginning on or after 1 January 2009. The standard specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purpose of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt IFRS 8 from 1 January 2009.

IAS 1 (Revised) Presentation of Financial Statements

The revised standard will become effective for annual periods beginning on or after 1 January 2009. The revised standard separates owners and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the revised standard introduces the statement of comprehensive income which presents all items of income and expense recognized in profit or loss, together with all other items of recognized income and expenses, either in one single statement or in two linked statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

Amendment to IAS 1 Puttable Financial Instruments

The amendment was issued in February 2008 and will become effective for annual periods beginning on or after 1 January 2009. The amendment requires disclosure of certain information relating to puttable instruments classified as equity.

IAS 23 (Revised) Borrowing Costs

The revised standard will become effective for annual periods beginning on or after 1 January 2009 and requires capitalization of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset.

IAS 27 (Revised) Consolidated and Separate Financial Statements

The revised standard will become effective for annual periods beginning on or after 1 July 2009. The revised standard requires that a change in the ownership interest of a subsidiary be accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by subsidiaries as well as the loss of control of a subsidiary. The changes introduced by the revised standard must be applied prospectively and will affect future acquisitions and transactions with minority interest.

Amendment to IAS 32 Puttable Financial Instruments

The amendment will become effective for annual periods beginning on or after 1 January 2009. The amendment requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met.

IFRIC-Int 11 IFRS 2 – Group and Treasury Share Transactions

This interpretation will become effective for annual periods beginning on or after 1 March 2007. This interpretation requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. The interpretation also addresses the accounting for share-based payment transactions involving two or more entities within the Group.

Notes to the Financial Statements

31 December 2007

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

IFRIC-Int 12 Service Concession Arrangements

This interpretation will become effective for annual periods beginning on or after 1 January 2008. The interpretation requires an operator under public-to-private service concession arrangements to recognize the consideration received or receivables in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. The interpretation also address how an operator shall apply existing IFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public service.

IFRIC-Int 13 Customer Loyalty Programmes

This interpretation will become effective for annual periods beginning on or after 1 July 2008. This interpretation requires that the loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

IFRIC-Int 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction

This interpretation will become effective for annual periods beginning on or after 1 January 2008. This interpretation provides guidance on how to assess the limit under IAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognized as an asset, in particular, when a minimum funding requirement exists.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the impact of these new and revised IFRSs cannot be reasonably estimated except for the adoption of IFRS 8 may result in new or amended disclosure.

Notes to the Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated in the Company's balance sheet at cost less any impairment losses.

Associates

The Group's interests in associates are accounted for under the equity method of accounting. Associates are entities on which the Group has significant influence and which are neither subsidiaries nor jointly-controlled entities.

The interests in associates are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates, less any impairment in value. Goodwill arising on the acquisition of associates is included as part of the Group's interests in associates. The consolidated income statement and consolidated reserves include the Group's share of the post-acquisition results of operation and reserves of the associates. Unrealized gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except where unrealized losses provide evidence of an impairment of the asset transferred.

The results of associates are included in the Company's income statement to the extent of dividend received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the business combination over the Group's interests in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognized in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates, goodwill is included in the carrying amount thereof, rather than a separately identified asset in the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Notes to the Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Excess over the cost of business combinations

Any excess of the Group's interests in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries and associates, after reassessment, is recognized immediately in the consolidated income statement.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

On consolidation, the financial statements of overseas subsidiaries are translated into RMB. As at the balance sheet date, the assets and liabilities of these entities are translated into RMB at the exchange rates ruling at the balance sheet date, and their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the consolidated income statement.

Notes to the Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after an item of property, plant and equipment has been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalized as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment over its estimated useful life, after taking into account its estimated residual value. The estimated useful lives and residual values of property, plant and equipment are as follows:

	Estimated useful life	Residual value
Buildings and mining structures	20 to 40 years	Nil to 5%
Plant, machinery and equipment	5 to 15 years	3% to 5%

Residual value, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

The gain or loss on disposal or retirement of property, plant and equipment recognized in the consolidated income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset at the time of disposal.

Construction in progress represents buildings, plant, machinery and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction and capitalized interest charges on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Notes to the Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Land lease prepayments

Land lease prepayments represent the cost of land use rights paid to the PRC government authorities. Land lease prepayments are stated at cost less accumulated amortization and any impairment losses. The land lease prepayments are amortized on the straight-line basis over the terms of the land use rights of 50 years.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset are reviewed at least at each balance sheet date.

Mining rights

Mining rights are stated at cost less accumulated amortization and any impairment losses. The mining rights are amortized over the estimated useful lives of the mines based on the proven and probable reserves of the mines using the units of production method.

Technical know-how

Technical know-how is stated at cost less accumulated amortization and any impairment losses. The technical know-how is amortized on the straight-line basis over a period of 10 to 20 years.

Research and development costs

Research costs are expensed as incurred. Development expenditure incurred on an individual project is carried forward when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and any impairment losses. Any expenditure capitalized is amortized over the period of expected future sales from the related project on the straight-line basis.

The carrying value of development expenditure is reviewed for impairment annually when the asset is not yet in use, or otherwise when events or changes in circumstances indicate that the carrying value may not be recoverable.

Notes to the Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets other than goodwill

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and goodwill), the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in the consolidated income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case the carrying amount of the asset is increased to its recoverable amount, that increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated income statement in the period in which it arises.

Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale investments, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

Notes to the Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on investments held for trading are recognized in the consolidated income statement. The net fair value gain or loss recognized in the consolidated income statement does not include any dividends on these financial assets, which are recognized in accordance with the policy set out for "Revenue recognition" below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the consolidated income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortized cost less any allowance for impairment. Amortized cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in the consolidated income statement when the investments are derecognized or impaired, as well as through the amortization process.

Notes to the Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Available-for-sale investments

Available-for-sale investments are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other three categories. After initial recognition, available-for-sale investments are measured at fair value, with gains or losses recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity are included in the consolidated income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognized in the consolidated income statement as "Other income and gains" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognized in the consolidated income statement as "Impairment losses on available-for-sale investments" and are transferred from the available-for-sale investment revaluation reserve.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Notes to the Financial Statements
31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Assets carried at amortized cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognized in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Notes to the Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Available-for-sale investments

If an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated income statement, is transferred from equity to the consolidated income statement. A provision for impairment is made for an available-for-sale equity investment when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available for sale are not reversed through the consolidated income statement. Impairment losses on debt instruments are reversed through the consolidated income statement; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the consolidated income statement.

Financial liabilities at amortized cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortized cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognized within "Finance costs" in the consolidated income statement.

Gains and losses are recognized in the consolidated income statement when the liabilities are derecognized as well as through the amortization process.

Financial guarantee contracts

Financial guarantee contracts in the scope of IAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognized initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognized at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 *Revenue*.

Notes to the Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in the consolidated income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labor and an appropriate proportion of manufacturing overheads.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated income statement.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalized.

All other borrowing costs are recognized as expenses in the consolidated income statement in the period in which they are incurred.

Notes to the Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the consolidated income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the consolidated income statement on the straight-line basis over the lease terms.

Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the consolidated income statement or in equity if it relates to items that are recognized in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to the Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Conversely, previously unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated income statement over the expected useful life of the relevant asset by equal annual installments.

Notes to the Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) rental income, on a time proportion basis over the lease terms;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(d) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

(i) Pension obligations

The Company and its subsidiaries which were established in Mainland China are required to participate in a central pension scheme operated by the relevant municipal and provincial governments in the PRC. The Group contributes on a monthly basis to various defined contribution pension schemes. The relevant municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. The contributions are charged to the consolidated income statement as they become payable in accordance with the rules of the central pension scheme.

In addition, the Group also pays supplementary pension subsidies to its employees after they reach the normal retirement age. As detailed in notes 31 below, such supplementary pension payables are assessed using the projected unit credit method; the costs of providing such subsidies are charged to the consolidated income statement so as to spread the service costs over the average service lives of the employees, in accordance with the actuarial reports which contain full valuations of plans.

These supplementary pension subsidy obligations are measured at the present values of the estimated future cash outflows using the interest rates of government securities which have terms to maturity approximating the terms of the related liabilities. Actuarial gains and losses are recognized directly in equity in the period in which they are incurred.

Notes to the Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

(ii) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated voluntarily before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for the benefits. The Group recognizes termination benefits when it is demonstrably committed to terminate the employment of current employees before their normal retirement dates according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

(iii) Share appreciation rights

The Company operates a share appreciation rights plan in order to attract, retain and motivate senior executives and key employees who make important contributions to the Group to enhance the profitability and value of the Group. Certain directors, supervisors and senior management members of the Group are granted share appreciation rights ("SARs"), which can only be settled in cash (cash-settled transactions).

The cost of the SARs is measured initially at fair value at the grant date using a binomial model, taking into account the terms and conditions upon which the SARs were granted (note 31). The fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is remeasured at each balance sheet date up to and including the settlement date with changes in fair value recognized in the consolidated income statement.

Notes to the Financial Statements

31 December 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognized as a liability.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the assets or liabilities affected in the future.

Notes to the Financial Statements

31 December 2007

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Judgements

Impairment of assets

The Group has to exercise judgements in determining whether an asset is impaired or the event previously causing the asset impairment no longer exists, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates and growth rate assumptions in the cash flow projections, could materially affect the net present value result in the impairment test.

Income tax

The Group is subject to income taxes in various regions within the PRC. Since certain matters relating to the income taxes have not been confirmed by the local tax bureaus, objective estimates and judgements based on the currently enacted tax laws, regulations and other related policies are required in determining the provisions of income taxes to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact the income tax and taxes provisions in the period in which the differences realize.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, 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.

Mine reserves

Engineering estimates of the Group's mine reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated mine reserves can be designated as proven and probable. Proven and probable mine reserve estimates are updated on a regular basis and have taken into account recent production and technical information about each mine. In addition, as price and cost levels change from year to year, the estimates of proven and probable mine reserves also change. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in the related amortization rates of mining rights.

Notes to the Financial Statements

31 December 2007

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Mine reserves (continued)

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining amortization expenses and impairment losses of mining rights. Amortization rates are determined based on estimated proven and probable mine reserve quantity and capitalized costs of mining rights. The capitalized costs of mining rights are amortized over the estimated useful lives of the mines based on the proven and probable reserves of the mines using the units of production method.

In addition, the estimated useful lives of the mining structures for depreciation expenses and impairment losses calculation purposes are determined after taking into account the estimates of the proven and probable mine reserves.

Impairment of goodwill

The Group determines whether goodwill is impaired on annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision previously made.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of receivables

The Group's policy for impairment of receivables is based on the evaluation of collectibility and the aging analysis of trade and other receivables and on judgement of management. A considerable amount of judgement is required in assessing the ultimate realization of these receivables, including the current creditworthiness and the past collection history of the customers. Management reassesses the judgement on each of the balance sheet date.

Notes to the Financial Statements

31 December 2007

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Provision for obsolete inventories

Management reviews the condition of inventories of the Group at each balance sheet date and makes provision for obsolete and slow-moving inventory items identified that are no longer suitable for sale. Management estimates the net realizable value for such inventories based primarily on the latest invoice prices and current market conditions. Management reassesses the estimation at each balance sheet date.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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

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

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

(c) Cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds segment: manufacture and trading of hard alloys and refractory metal compounds such as cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds.

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

Inter-segment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

Notes to the Financial Statements

31 December 2007

4. SEGMENT INFORMATION *(continued)*

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2007 and 2006.

Year ended 31 December 2007	Nonferrous metal mine site	Nonferrous metal smelting	Cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds	Corporate and others	Eliminations	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue:						
Sales to external customers	2,514,209	13,632,000	5,507,880	–	–	21,654,089
Inter-segment sales	673,662	1,137	6,031	–	(680,830)	–
Less: Sales tax and surcharge	(31,514)	(95,053)	(33,833)	–	–	(160,400)
Total	3,156,357	13,538,084	5,480,078	–	(680,830)	21,493,689
Segment results	146,074	608,064	353,615	(51,879)	–	1,055,874
Dividend income and gains on disposal of available-for-sale investments						74,108
Finance costs						(343,731)
Share of profits and losses of associates	–	122	(22,527)	(48,284)	–	(70,689)
Profit before tax						715,562
Income tax expense						(239,362)
Net profit for the year						476,200

Notes to the Financial Statements

31 December 2007

4. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Year ended 31 December 2007	Nonferrous metal mine site	Nonferrous metal smelting	Cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds	Corporate and others	Eliminations	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets and liabilities:						
Segment assets	4,522,553	5,336,347	5,028,206	2,193,761	–	17,080,867
Interests in associates	–	11,528	74,983	78,461	–	164,972
Unallocated assets						1,352,409
Total assets						18,598,248
Segment liabilities	1,330,473	1,021,976	987,057	121,707	–	3,461,213
Unallocated liabilities						7,098,619
Total liabilities						10,559,832
Other segment information:						
Depreciation and amortization	142,607	140,795	219,002	526	–	502,930
Provision for obsolete inventories	25,224	176,369	(1,344)	–	–	200,249
Provision for impairment on trade and other receivables, net	(4,721)	10,561	(4,404)	–	–	1,436
Capital expenditure	758,386	486,482	457,548	2,769	–	1,705,185

Notes to the Financial Statements

31 December 2007

4. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Year ended 31 December 2006	Nonferrous metal mine site	Nonferrous metal smelting	Cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds	Corporate and others	Eliminations	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue:						
Sales to external customers	2,154,713	12,245,904	3,448,372	–	–	17,848,989
Inter-segment sales	517,224	591	–	–	(517,815)	–
Less: Sales tax and surcharge	(22,057)	(48,784)	(13,019)	–	–	(83,860)
Total	2,649,880	12,197,711	3,435,353	–	(517,815)	17,765,129
Segment results	137,368	1,067,476	244,225	(172,090)	–	1,276,979
Interest and dividend income						141,754
Finance costs						(245,022)
Share of profits and losses of associates	(6,976)	(49)	(1,583)	–	–	(8,608)
Profit before tax						1,165,103
Income tax expense						(290,461)
Net profit for the year						874,642

Notes to the Financial Statements

31 December 2007

4. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

Year ended 31 December 2006	Nonferrous metal mine site	Nonferrous metal smelting	Cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds	Corporate and others	Eliminations	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets and liabilities:						
Segment assets	2,872,415	5,449,464	4,668,688	852,941	–	13,843,508
Interests in associates	126,745	11,405	116,305	–	–	254,455
Unallocated assets						556,492
Total assets						14,654,455
Segment liabilities	1,187,237	1,218,686	1,181,716	69,396	–	3,657,035
Unallocated liabilities						5,227,332
Total liabilities						8,884,367
Other segment information:						
Depreciation and amortization	117,272	152,481	175,410	189	–	445,352
Capital expenditure	328,858	195,768	325,511	211	–	850,348
Impairment losses recognized in the consolidated financial statements	–	–	6,188	39,140	–	45,328

Notes to the Financial Statements

31 December 2007

4. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

The following tables present revenue and certain asset and expenditure information of the Group's geographical segments for the years ended 31 December 2007 and 2006.

Year ended 31 December 2007	Mainland China	Other Asian Countries	Others	Eliminations	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue:					
Sales to external customers	17,811,707	2,653,186	1,189,196	–	21,654,089
Inter-segment sales	680,830	–	–	(680,830)	–
Less: Sales tax and surcharge	(160,400)	–	–	–	(160,400)
	18,332,137	2,653,186	1,189,196	(680,830)	21,493,689
As at 31 December 2007					
Other segment information:					
Segment assets	16,258,332	–	822,535	–	17,080,867
Interests in associates	164,972	–	–	–	164,972
Unallocated assets					1,352,409
					18,598,248
Capital expenditure	1,296,914	–	408,271	–	1,705,185

Notes to the Financial Statements

31 December 2007

4. SEGMENT INFORMATION *(continued)*

(b) Geographical segments *(continued)*

Year ended 31 December 2006	Mainland China	Other Asian Countries	Others	Eliminations	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue:					
Sales to external customers	14,008,971	3,029,273	810,745	–	17,848,989
Inter-segment sales	517,815	–	–	(517,815)	–
Less: Sales tax and surcharge	(83,860)	–	–	–	(83,860)
	14,442,926	3,029,273	810,745	(517,815)	17,765,129
As at 31 December 2006					
Other segment information:					
Segment assets	13,843,508	–	–	–	13,843,508
Interests in associates	254,455	–	–	–	254,455
Unallocated assets					556,492
					14,654,455
Capital expenditure	850,348	–	–	–	850,348

Notes to the Financial Statements

31 December 2007

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, net of discounts and returns.

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

	Notes	**2007** **RMB'000**	2006 RMB'000
Revenue:			
Sale of goods		**21,654,089**	17,848,989
Less: Sales tax and surcharge		**(160,400)**	(83,860)
		21,493,689	17,765,129
Other income and gains:			
Interest income		**72,647**	136,138
Dividend income		**11,222**	5,616
Profit from scrap sales		**53,769**	17,350
Gross rental income		**2,945**	2,028
Gains on disposal of other financial assets, net		**–**	2,443
Gains on disposal of available-for-sale investments		**62,886**	–
Gains on disposal of items of property, plant and equipment		**12,022**	–
Recognition of government grants	*(i)*	**23,865**	13,205
Rendering of service		**8,345**	3,029
Donation received		**–**	1,595
Excess over the cost of a business combination	*36(a)*	**995**	–
Gains on disposal of subsidiaries	*36(b)*	**2,197**	–
Gains on acquisition of minority interests		***8,951***	–
Net realized and unrealized gains on derivative financial instruments		**74,326**	–
Others		**23,962**	5,156
		358,132	186,560

Notes to the Financial Statements

31 December 2007

5. REVENUE, OTHER INCOME AND GAINS *(continued)*

(i) The Group's government grants (note 33) are as follows:

	2007	2006
	RMB'000	*RMB'000*
Subsidies for payment of staff salaries and benefits	**7,130**	7,500
Subsidies for business development and recovery of accumulated losses	**11,837**	1,018
Subsidies to encourage export sales	**1,010**	1,170
Others	**3,888**	3,517
	23,865	13,205

Government grants received for which the related expenditures have not yet been undertaken are deferred in government grants in the balance sheets. There is no unfulfilled condition or contingency relating to these grants.

Notes to the Financial Statements

31 December 2007

6. PROFIT BEFORE TAX

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

	Notes	2007 RMB'000	2006 RMB'000
Cost of inventories sold		**19,412,091**	15,152,177
Staff costs (including directors' and supervisors' remuneration as set out in note 8):			
Wages, salaries and bonuses		**905,436**	736,385
Share appreciation rights*		**12,840**	3,949
Contributions to defined contribution pension schemes	*(a)*	**158,967**	129,594
Cost of supplementary pension subsidies and early retirement benefits:	*31(i)*		
– current service costs*		**2,881**	2,094
– interest costs*		**17,343**	16,290
		20,224	18,384
Welfare and other expenses		**245,367**	242,117
		1,342,834	1,130,429
Auditors' remuneration*		**11,801**	5,600
Depreciation	*14*	**428,573**	374,419
Amortization of land lease prepayments	*15*	**19,321**	15,636
Amortization of intangible assets:	*16*		
Mining rights		**50,838**	50,816
Technical know-how and others*		**4,198**	4,481
		55,036	55,297
Minimum lease payments under operating leases in respect of land:			
Lease of land from HNG	*41(e)*	**14,930**	15,125
Lease of land from other parties		**4,726**	2,980
		19,656	18,105

Notes to the Financial Statements

31 December 2007

6. PROFIT BEFORE TAX *(continued)*

	Notes	2007 RMB'000	2006 RMB'000
Provision for obsolete inventories		**200,249**	16,124
Exchange losses/(gains), net*		**(30,533)**	28,926
Research and development costs*		**91,943**	52,641
Donations*		**7,565**	4,242
Other expenses, net:			
Net realized and unrealized losses on derivative financial instruments		**–**	35,281
Losses on disposal of items of property, plant and equipment		**–**	14,230
Provision for impairment on trade and other receivables, net		**1,436**	30,537
Loss on dilution of an interest in an associate	19	**–**	59,744
Flood loss		**7,131**	38,856
Loss from sale of utilities		**4,820**	4,185
Rental of property, plant and equipment		**12,592**	13,892
Impairment of an interest in an associate	19	**–**	45,328
Loss from disposal of a subsidiary	36(b)	**–**	3,670
Others		**1,850**	3,743
		27,829	249,466

* *Items classified under "Administrative expenses" on the face of the consolidated income statement.*

(a) All of the Group's full-time employees in Mainland China are covered by government-regulated defined contribution pension schemes pursuant to which the Group is required to make monthly contributions to the government-regulated retirement schemes at a percentage of 20% of the employees' salaries and the relevant municipal and provincial governments are responsible for the pension liabilities to the Group's current and retired employees. The related pension costs are expensed as incurred.

Notes to the Financial Statements

31 December 2007

7. FINANCE COSTS

The Group's finance costs are as follows:

	2007 RMB'000	2006 RMB'000
Interest on bank and other borrowings wholly repayable within five years	**359,258**	252,168
Less: Interest capitalized as construction in progress *(note 14)*	**(15,527)**	(7,146)
	343,731	245,022

8. DIRECTORS' AND SUPERVISORS' REMUNERATION

Details of directors' and supervisors' remuneration of the Group for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	2007 RMB'000	2006 RMB'000
Fees	**438**	400
Salaries, allowances and benefits in kind	**2,064**	1,995
Performance-related bonuses*	**4,670**	6,025
Share appreciation rights	**9,548**	2,936
Pension scheme contributions	**142**	354
	16,862	11,710

* *Certain executive directors of the Company are entitled to bonus payments which are determined as a percentage of the profit after tax of the Group.*

During the year, certain directors and supervisors were granted share appreciation rights, in respect of their services to the Group, under the share appreciation right plan of the Company, further details of which are set out in note 31 to the financial statements. The expenses arising from these SARs are included in the above directors' and supervisors' remuneration disclosures.

The directors and supervisors were the key management personnel of the Group. The compensation to the Group's key management personnel has been disclosed above.

Notes to the Financial Statements

31 December 2007

8. DIRECTORS' AND SUPERVISORS' REMUNERATION *(continued)*

The names of the directors and supervisors of the Company and their remuneration for the year ended 31 December 2007 are as follows:

	Fees *RMB'000*	Salaries allowances and benefits in kind *RMB'000*	Performance-related bonuses *RMB'000*	Share appreciation rights *RMB'000*	Pension scheme contributions *RMB'000*	Total *RMB'000*
Executive directors:						
He Renchun	–	216	557	1,646	11	2,430
Li Li	–	173	445	1,152	11	1,781
Liao Luhai	–	173	445	988	11	1,617
Chen Zhixin	–	173	445	988	11	1,617
	–	735	1,892	4,774	44	7,445
Non-executive directors:						
Cao Xiuyun	–	216	557	1,317	11	2,101
Wu Longyun	–	173	445	823	11	1,452
Zhang Yixian	–	173	445	823	11	1,452
Yu Jiang	–	100	–	–	–	100
	–	662	1,447	2,963	33	5,105
Independent non-executive directors:						
Gu Desheng	100	–	–	–	–	100
Chan Wai Dune	–	–	–	–	–	–
Wan Ten Lap	238	–	–	–	–	238
Chen Xiaohong	50	–	–	–	–	50
	388	–	–	–	–	388
	388	1,397	3,339	7,737	77	12,938
Supervisors:						
Zeng Shaoxiong	–	173	445	988	11	1,617
He Hongsen	–	173	445	823	11	1,452
Liu Xiaochu	–	–	50	–	–	50
Jin Liangshou	–	90	200	–	11	301
Li Junli	–	99	54	–	11	164
Qi Xiaocun	–	65	7	–	10	82
Zhan Yijie	–	67	130	–	11	208
	–	667	1,331	1,811	65	3,874
Independent supervisors:						
Mao Lihui	–	–	–	–	–	–
Liu Dongrong	50	–	–	–	–	50
	50	–	–	–	–	50
	50	667	1,331	1,811	65	3,924
	438	2,064	4,670	9,548	142	16,862

Notes to the Financial Statements

31 December 2007

8. DIRECTORS' AND SUPERVISORS' REMUNERATION *(continued)*

The names of the directors and supervisors of the Company and their remuneration for the year ended 31 December 2006 are as follows:

	Fees	Salaries allowances and benefits in kind	Performance-related bonuses	Share appreciation rights	Pension scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:						
He Renchun	–	190	796	506	49	1,541
Li Li	–	153	605	354	21	1,133
Liao Luhai	–	153	581	304	21	1,059
Chen Zhixin	–	153	595	304	38	1,090
	–	649	2,577	1,468	129	4,823
Non-executive directors:						
Cao Xiuyun	–	190	677	405	26	1,298
Wu Longyun	–	153	535	253	21	962
Zhang Yixian	–	153	362	253	32	800
Yu Jiang	–	100	–	–	–	100
	–	596	1,574	911	79	3,160
Independent non-executive directors:						
Gu Desheng	100	–	–	–	–	100
Chan Wai Dune	90	–	–	–	–	90
Wan Ten Lap	210	–	–	–	–	210
	400	–	–	–	–	400
	400	1,245	4,151	2,379	208	8,383
Supervisors:						
Zeng Shaoxiong	–	153	575	304	39	1,071
He Hongsen	–	153	535	253	39	980
Liu Xiaochu	–	50	–	–	–	50
Jin Liangshou	–	95	282	–	26	403
He Liu	–	76	117	–	16	209
Li Junli	–	58	190	–	9	257
Zhan Yijie	–	65	175	–	17	257
	–	650	1,874	557	146	3,227
Independent supervisors:						
Chen Xiaohong	–	50	–	–	–	50
Liu Dongrong	–	50	–	–	–	50
	–	100	–	–	–	100
	–	750	1,874	557	146	3,327
	400	1,995	6,025	2,936	354	11,710

There was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the year.

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9. FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

The five highest paid employees during the year included five directors (2006: five directors), details of whose remuneration are set out in note 8 above.

10. INCOME TAX EXPENSE

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

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

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

(ii) Zigong Cemented Carbides Company Limited is located in the west area of Mainland China, which is subject to a preferential CIT rate of 15% according to the PRC tax regulations.

Major components of the Group's income tax expense are as follows:

	2007	2006
	RMB'000	*RMB'000*
PRC corporate income tax		
Current	**312,618**	283,877
Deferred *(note 21)*	**(73,256)**	6,584
Total tax charge for the year	**239,362**	290,461

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10. INCOME TAX EXPENSE *(continued)*

A reconciliation of the income tax expense applicable to profit before tax using the statutory corporate income tax rate in the PRC in which the Company and the majority of its subsidiaries are domiciled to the income tax expense at the effective tax rate, and a reconciliation of the applicable rates (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	The Group			
	2007		2006	
	RMB'000	**%**	*RMB'000*	%
Profit before tax	**715,562**		1,165,103	
Tax at the PRC statutory corporate income tax rate of 33%	**236,135**	**33.0**	384,484	33.0
Differential tax rates on the assessable profits and losses of certain subsidiaries	**(35,460)**	**(5.0)**	(29,802)	(2.6)
Tax concessions granted by the local tax authorities	**–**	**–**	(86,090)	(7.4)
Income tax benefit on locally purchased machinery	**(6,876)**	**(1.0)**	(9,752)	(0.8)
(Profits)/losses attributable to associates	**23,327**	**3.3**	(1,573)	(0.1)
Income not subject to tax	**(7,102)**	**(1.0)**	(16,245)	(1.4)
Expenses not deductible for tax and others	**29,338**	**4.1**	49,439	4.3
Total tax charge for the year	**239,362**	**33.4**	290,461	25.0

The share of income tax attributable to associates amounting to RMB903,000 (2006: RMB1,573,000) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law"), which is effective from 1 January 2008. Under the New CIT Law, the corporate income tax rate applicable to domestic companies from 1 January 2008 will decrease from 33% to 25%. This reduction in the income tax rate will directly reduce the Group's effective tax rate prospectively from 2008. According to IAS 12, the Group's deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

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11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2007 includes a profit of RMB219,304,000 (2006: RMB537,131,000) which has been dealt with in the financial statements of the Company (note 35).

12. DIVIDEND

	2007	2006
	RMB'000	*RMB'000*
Proposed final dividend – RMB0.034 (2006: RMB0.026) per ordinary share	124,714	88,938

The proposed final dividend for the year ended 31 December 2007 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of basic earnings per share is based on:

	2007	2006
	RMB'000	*RMB'000*
Earnings		
Profit for the year attributable to ordinary equity holders of the parent	**314,896**	451,409

	Number of shares	
	'000	*'000*
Shares		
Weighted average number of ordinary shares in issue during the year	**3,533,863**	3,115,979

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

Notes to the Financial Statements
31 December 2007

14. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings and mining structures *RMB'000*	Plant, machinery and equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2007				
At 31 December 2006 and at 1 January 2007:				
Cost	2,358,460	3,992,883	322,624	6,673,967
Accumulated depreciation and impairment	(815,913)	(1,809,878)	(576)	(2,626,367)
Net carrying amount	1,542,547	2,183,005	322,048	4,047,600
At 1 January 2007, net of accumulated depreciation and impairment	1,542,547	2,183,005	322,048	4,047,600
Additions	61,246	120,251	1,492,999	1,674,496
Interest capitalized *(note 7)*	–	–	15,527	15,527
Acquisitions of subsidiaries *(note 36(a))*	14,710	8,329	10,629	33,668
Disposal of subsidiaries *(note 36(b))*	(2,543)	(11,990)	(1,435)	(15,968)
Disposals	(4,205)	(13,805)	–	(18,010)
Depreciation provided during the year	(120,555)	(308,018)	–	(428,573)
Transfers	171,093	348,060	(519,153)	–
At 31 December 2007, net of accumulated depreciation and impairment	1,662,293	2,325,832	1,320,615	5,308,740
At 31 December 2007:				
Cost	2,630,470	4,412,865	1,321,191	8,364,526
Accumulated depreciation and impairment	(968,177)	(2,087,033)	(576)	(3,055,786)
Net carrying amount	1,662,293	2,325,832	1,320,615	5,308,740

Notes to the Financial Statements

31 December 2007

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The Group

	Buildings and mining structures *RMB'000*	Plant, machinery and equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2006				
At 1 January 2006:				
Cost	2,019,888	3,290,890	373,835	5,684,613
Accumulated depreciation and impairment	(751,482)	(1,534,400)	(575)	(2,286,457)
Net carrying amount	1,268,406	1,756,490	373,260	3,398,156
At 1 January 2006, net of accumulated depreciation and impairment	1,268,406	1,756,490	373,260	3,398,156
Additions	8,586	125,009	667,412	801,007
Interest capitalized *(note 7)*	–	–	7,146	7,146
Acquisition of a subsidiary *(note 36(a))*	119,974	137,203	2,392	259,569
Disposal of a subsidiary *(note 36(b))*	–	(8,823)	–	(8,823)
Disposals	(23,500)	(11,536)	–	(35,036)
Depreciation provided during the year	(88,641)	(285,778)	–	(374,419)
Transfers	257,722	470,440	(728,162)	–
At 31 December 2006, net of accumulated depreciation and impairment	1,542,547	2,183,005	322,048	4,047,600
At 31 December 2006:				
Cost	2,358,460	3,992,883	322,624	6,673,967
Accumulated depreciation and impairment	(815,913)	(1,809,878)	(576)	(2,626,367)
Net carrying amount	1,542,547	2,183,005	322,048	4,047,600

As at 31 December 2007, certain of the Group's buildings and mining structures, plant, machinery and equipment, which had an aggregate net book value of approximately RMB1,158,709,000 (2006: RMB995,171,000) were pledged to secure bank loans granted to the Group (note 30).

Notes to the Financial Statements

31 December 2007

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The Company

	Buildings and mining structures RMB'000	Plant, machinery and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2007				
At 31 December 2006 and at 1 January 2007:				
Cost	115,746	89,816	3,950	209,512
Accumulated depreciation and impairment	(79,474)	(64,136)	–	(143,610)
Net carrying amount	36,272	25,680	3,950	65,902
At 1 January 2007, net of accumulated depreciation and impairment	36,272	25,680	3,950	65,902
Additions	10,349	20,839	18,256	49,444
Depreciation provided during the year	(8,783)	(8,140)	–	(16,923)
Disposal	(18)	(536)	–	(554)
Transfers	343	–	(343)	–
At 31 December 2007, net of accumulated depreciation and impairment	38,163	37,843	21,863	97,869
At 31 December 2007:				
Cost	126,344	109,115	21,863	257,322
Accumulated depreciation	(88,181)	(71,272)	–	(159,453)
Net carrying amount	38,163	37,843	21,863	97,869

Notes to the Financial Statements

31 December 2007

14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The Company

	Buildings and mining structures RMB'000	Plant, machinery and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2006				
At 1 January 2006:				
Cost	121,272	74,869	1,166	197,307
Accumulated depreciation and impairment	(74,845)	(58,534)	–	(133,379)
Net carrying amount	46,427	16,335	1,166	63,928
At 1 January 2006, net of accumulated depreciation and impairment	46,427	16,335	1,166	63,928
Additions	987	17,959	6,733	25,679
Depreciation provided during the year	(7,251)	(6,338)	–	(13,589)
Disposal	(7,782)	(2,334)	–	(10,116)
Transfers	3,891	58	(3,949)	–
At 31 December 2006, net of accumulated depreciation and impairment	36,272	25,680	3,950	65,902
At 31 December 2006:				
Cost	115,746	89,816	3,950	209,512
Accumulated depreciation	(79,474)	(64,136)	–	(143,610)
Net carrying amount	36,272	25,680	3,950	65,902

Notes to the Financial Statements

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15. LAND LEASE PREPAYMENTS

The Group

	2007 RMB'000	2006 RMB'000
Carrying amount at 1 January	**885,628**	775,483
Additions	**7,366**	29,045
Acquisitions of subsidiaries *(note 36(a))*	**88,366**	100,002
Disposal of subsidiaries *(note 36(b))*	**(2,240)**	(3,266)
Amortization during the year	**(19,321)**	(15,636)
Disposal	**(1,029)**	–
Carrying amount at 31 December	**958,770**	885,628

The Company

	2007 RMB'000	2006 RMB'000
Carrying amount at 1 January	**78,090**	80,230
Additions	**120**	–
Amortization during the year	**(1,605)**	(2,140)
Carrying amount at 31 December	**76,605**	78,090

As at 31 December 2007, certain of the Group's bank loans were secured by certain of the Group's land lease prepayments, which had an aggregate net carrying amount of RMB254,563,000 (2006: RMB287,159,000) (note 30).

Notes to the Financial Statements

31 December 2007

16. INTANGIBLE ASSETS

The Group

	Mining rights *RMB'000*	Technical know-how *RMB'000*	Others *RMB'000*	Total *RMB'000*
31 December 2007				
At 31 December 2006 and at 1 January 2007				
Cost	617,553	29,140	24,295	670,988
Accumulated amortization	(60,048)	(7,381)	(11,827)	(79,256)
Net carrying amount	557,505	21,759	12,468	591,732
At 1 January 2007, net of accumulated amortization	557,505	21,759	12,468	591,732
Additions	61	7,735	–	7,796
Acquisitions of subsidiaries *(note 36(a))*	320,318	15	–	320,333
Disposal of subsidiaries *(note 36(b))*	(6,750)	(26)	(470)	(7,246)
Disposals	–	–	(2,038)	(2,038)
Amortization provided during the year	(50,838)	(3,531)	(667)	(55,036)
At 31 December 2007	820,296	25,952	9,293	855,541
At 31 December 2007:				
Cost	929,088	36,866	20,047	986,001
Accumulated amortization	(108,792)	(10,914)	(10,754)	(130,460)
Net carrying amount	820,296	25,952	9,293	855,541

Notes to the Financial Statements

31 December 2007

16. INTANGIBLE ASSETS *(continued)*

The Group

	Mining rights *RMB'000*	**Technical know-how** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
31 December 2006				
At 1 January 2006				
Cost	608,553	25,607	17,057	651,217
Accumulated amortization	(9,232)	(4,646)	(10,030)	(23,908)
Net carrying amount	599,321	20,961	7,027	627,309
At 1 January 2006, net of accumulated amortization	599,321	20,961	7,027	627,309
Additions	9,000	3,499	651	13,150
Acquisition of a subsidiary *(note 36(a))*	–	27	6,543	6,570
Amortization provided during the year	(50,816)	(2,728)	(1,753)	(55,297)
At 31 December 2006	557,505	21,759	12,468	591,732
At 31 December 2006:				
Cost	617,553	29,140	24,295	670,988
Accumulated amortization	(60,048)	(7,381)	(11,827)	(79,256)
Net carrying amount	557,505	21,759	12,468	591,732

Notes to the Financial Statements

31 December 2007

16. INTANGIBLE ASSETS *(continued)*

The Company

	Mining rights RMB'000
31 December 2007:	
At 1 January 2007	
Cost	**100,171**
Accumulated amortization	**(26,274)**
Net carrying amount	**73,897**
At 1 January 2007, net of accumulated amortization	**73,897**
Amortization provided during the year	**(23,570)**
At 31 December 2007	**50,327**
At 31 December 2007	
Cost	**100,171**
Accumulated amortization	**(49,844)**
Net carrying amount	**50,327**
31 December 2006:	
At 1 January 2006	
Cost	100,171
Accumulated amortization	(2,877)
Net carrying amount	97,294
At 1 January 2006, net of accumulated amortization	97,294
Amortization provided during the year	(23,397)
At 31 December 2006	73,897
At 31 December 2006	
Cost	100,171
Accumulated amortization	(26,274)
Net carrying amount	73,897

Notes to the Financial Statements

31 December 2007

17. GOODWILL

The Group

	Notes	2007 RMB'000	2006 RMB'000
At 1 January, net of accumulated impairment		**56,546**	–
Acquisition of a subsidiary	*36(a)*	**–**	30,550
Acquisition of minority interests*		**21,381**	25,996
At 31 December		**77,927**	56,546
At 31 December			
Cost		**77,927**	56,546
Accumulated impairment		**–**	–
Net carrying amount		**77,927**	56,546

* In August 2006, the Group completed the acquisitions of additional 14.56% and 9.86% equity interests of Hsikwangshan Twinkling Star Antimony Co., Ltd. from a third party and HNG respectively, increasing its ownership to 100%. Cash considerations of RMB32,810,000 and RMB45,661,000 were paid respectively. The difference of RMB24,246,000 between the considerations and the book value of the net assets of Hsikwangshan Twinkling Star Antimony Co., Ltd. attributed to the additional interests acquired has been recognized as goodwill.

In September 2006, the Group acquired the additional 18.35% equity interest of Hunan Shizhuyuan Nonferrous Metals Co., Ltd., increasing its ownership to 97.35%. Cash consideration of RMB60,810,000 was paid. The difference of RMB1,750,000 between the consideration and the book value of the net assets of Hunan Shizhuyuan Nonferrous Metals Co., Ltd. attributed to the additional interest acquired has been recognized as goodwill.

In November 2007, the Group acquired the additional 7.93% equity interest of Zhuzhou Quanxin Industry Co., Ltd., increasing its ownership to 100%. Cash consideration of RMB36,073,000 was paid. The difference of RMB21,381,000 between the consideration and the book value of the net assets of Zhuzhou Quanxin Industry Co., Ltd. attributed to the additional interest acquired has been recognized as goodwill.

Notes to the Financial Statements

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18. INTERESTS IN SUBSIDIARIES

The Company

	2007 RMB'000	2006 RMB'000
Unlisted investments, at cost	**2,442,907**	1,720,259
Due from subsidiaries	**589,535**	13,500
	3,032,442	1,733,759

The amounts due from subsidiaries are unsecured and, interest-free and have no fixed terms of repayment, except for the balances due from HNC (Australia) Resources Holding PTY Ltd. totaling RMB568,248,000 (AU$88,739,000) (2006: Nil). Such balance of RMB568,248,000 (AU$88,739,000) are unsecured and payable by installments prior to year 2016. The balance due from HNC (Australia) Resources Holding PTY Ltd. of RMB80,045,000 (AU$12,500,000), RMB191,993,000 (AU$29,982,000) and RMB296,210,000 (AU$46,257,000) bears interest at 4.32%, 0.9% above LIBOR and 1.3% above LIBOR per annum respectively.

Particulars of the principal subsidiaries as at 31 December 2007 are as follows:

Name	Notes	Place and date of incorporation/ establishment and operations	Paid-up/ registered capital (in thousands)	Percentage of equity interests attributable to the Company Direct %	Indirect %	Principal activities
Zhuzhou Cemented Carbides Group Corp., Ltd. ("Zhuying") (株洲硬質合金集團有限公司)		PRC/Mainland China 15 November 1980	RMB745,761	99.28	–	Manufacture of hard alloys and refractory metal compounds
Zhuzhou Smelter Group Holding Co., Ltd. ("Zhuye Holding") (株洲冶煉集團有限責任公司)		PRC/Mainland China 6 July 1992	RMB872,888	63.31	–	Investment holding
Hengyang Yuanjing Tungsten Co., Ltd. ("Yuanjing Tungsten") (衡陽遠景鎢業有限責任公司)	36(a)	PRC/Mainland China 23 January 2003	RMB25,840	98.33	–	Mining of nonferrous metals
Hsikwangshan Twinkling Star Antimony Co., Ltd. (錫礦山閃星銻業有限責任公司)	17	PRC/Mainland China 4 June 2001	RMB317,310	100	–	Mining and smelting of nonferrous metals

Notes to the Financial Statements

31 December 2007

18. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Notes	Place and date of incorporation/ establishment and operations	Paid-up/ registered capital (in thousands)	Percentage of equity interests attributable to the Company Direct %	Indirect %	Principal activities
Hsikwangshan Twinkling Star Imp. & Exp. Company (湖南錫礦山閃星銻業進出口有限公司)		PRC/Mainland China 17 November 2006	RMB15,000	–	100	Import and export of nonferrous metals
Hunan Shizhuyuan Nonferrous Metals Co., Ltd. (湖南柿竹園有色金屬有限責任公司)	17	PRC/Mainland China 19 December 1981	RMB189,169	97.35	–	Mining of nonferrous metals
Zhuzhou Smelter Group Co., Ltd. ("Zhuye Listco")*/# (株洲冶煉集團股份有限公司)		PRC/Mainland China 20 December 1993	RMB527,458	3.28	28.16	Smelting of zinc products and nonferrous metals
Shanghai Jinhuoju Metals Ltd.*/& (上海金火炬金屬有限公司)		PRC/Mainland China 14 April 1999	RMB1,500	–	31.44	Trading of metal ingots
Foshan City Nanhai Jinhuoju Metals Ltd.*/& (佛山市南海金火炬金屬有限公司)		PRC/Mainland China 17 November 2000	RMB3,000	–	31.44	Trading of metal ingots
Chenzhou Huoju Kuangye Ltd.*/& (郴州火炬礦業有限責任公司)		PRC/Mainland China 16 April 2003	RMB2,000	–	31.44	Trading of metal ingots
Hunan Zhuye Torch Metals Import and Export Company Limited*/& (湖南株冶火炬金屬進出口有限公司)		PRC/Mainland China 2 July 2001	RMB80,000	–	31.44	Export and import of commercial products and technology
Torch Metals Limited*/& ("Hong Kong Torch") (火炬金屬有限公司)		Hong Kong 15 December 1992	HK$5,000	–	22.01	Trading of metal ingots
Torch Zinc Limited*/& (火炬鋅業有限公司)		Hong Kong 16 April 2004	US$100	–	28.30	Trading of metal ingots
Zhuzhou Quanxin Industry Co., Ltd. ("Zhuye Quanxin")* (株洲全鑫實業有限責任公司)	17	PRC/Mainland China 24 December 1999	RMB64,600	–	63.31	Manufacture of metal ingots

Notes to the Financial Statements
31 December 2007

18. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Notes	Place and date of incorporation/ establishment and operations	Paid-up/ registered capital	Percentage of equity interests attributable to the Company Direct	Indirect	Principal activities
			(in thousands)	%	%	
Shanghai Zhuye Nonferrous Metals Co., Ltd.*/& (上海株冶有色金屬有限公司)		PRC/Mainland China 4 March 2004	RMB1,000	–	28.30	Trading of metal ingots
Foshan City Nanhai Zhuye Nonferrous Metals Co., Ltd.*/& (佛山市南海株冶金屬有限公司)		PRC/Mainland China 4 March 2004	RMB1,000	–	28.30	Trading of metal ingots
ZCC Import and Export Company Limited ("ZCC Import and Export")* (株洲硬質合金進出口公司)		PRC/Mainland China 29 October 1987	RMB30,000	–	99.24	Import and export of metal compounds
Shenzhen Jinzhou Jinggong Scientific and Technological Company Limited ("Shenzhen Jinzhou")* (深圳市金洲精工科技股份有限公司)		PRC/Mainland China 10 June 1986	RMB61,109	–	49.64	Manufacture of metal and alloy products
Chenzhou Diamond Tungsten Products Company Limited ("Chenzhou Diamond Tungsten")* (郴州鑽石鎢製品有限責任公司)		PRC/Mainland China 18 December 2001	RMB60,000	–	98.51	Manufacture of chemical products
Zhuzhou Diamond Cutting Tools Company Limited ("Zhuzhou Diamond")*/# (株洲鑽石切削刀具股份有限公司)		PRC/Mainland China 7 June 2002	RMB250,000	–	44.38	Manufacture of metal and alloy products
Zigong Cemented Carbides Company Limited ("Ziying") (自貢硬質合金有限責任公司)	*36(a)*	PRC/Mainland China 28 July 1998	RMB500,000	80	–	Manufacture of hard alloys and refractory metal compounds
Zigong Cemented Carbides Company Limited Guangzhou Sales Center* (自貢硬質合金廠廣州銷售中心)	*36(a)*	PRC/Mainland China 3 July 1997	RMB2,000	–	80	Trading of hard alloys, tungsten,molybdenum products

Notes to the Financial Statements

31 December 2007

18. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Notes	Place and date of incorporation/ establishment and operations	Paid-up/ registered capital *(in thousands)*	Percentage of equity interests attributable to the Company Direct %	Indirect %	Principal activities
Zigong Cemented Carbide Import and Export Company Limited* (自貢硬質合金進出口貿易有限責任公司)	36(a)	PRC/Mainland China 22 September 2003	RMB3,000	–	78.40	Import and export of metal compounds
Zigong AsiaTech High-Tech Ltd.* (自貢亞西泰克高新技術有限責任公司)	36(a)	PRC/Mainland China September 2001	RMB6,600	–	43.64	Manufacture hard alloys equipments
HNC (Australia) Resources Holding PTY Ltd. (湖南有色澳洲資源有限公司)		Australia 28 March 2007	AU$37,000	100	–	Development of nonferrous metal resources business
Chenzhou Wuling Ming Resource Perambulation Company Limited (郴州五嶺礦產資源勘查有限責任公司)		PRC/Mainland China 25 May 2007	RMB6,000	70	–	Perambulation of nonferrous metal resources
Hunan Nonferrous Nanling Resource Development Company Limited (湖南有色南嶺資源開發有限公司)		PRC/Mainland China 9 November 2007	RMB87,500	59.43	–	Development of nonferrous metal resources

* *These companies are controlled by the non wholly-owned subsidiaries of the Company and accordingly, they are accounted for as subsidiaries by virtue of the Group's control over them.*

These companies are controlled by the Group by virtue of voting agreements with other shareholders, pursuant to which the Group secured more than 50% of the voting rights eligible to be cast in the shareholders' meeting of such companies.

& *These companies are subsidiaries of Zhuye Listo.*

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year ended 31 December 2007 or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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31 December 2007

19. INTERESTS IN ASSOCIATES

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Listed shares, at cost	**–**	–	**213,141**	213,141
Share of net assets of associates	**164,972**	234,455	**–**	–
Goodwill on acquisition *(note (i))*	**45,328**	45,328	**–**	–
Due from an associate	**–**	20,000	**–**	–
	210,300	299,783	**213,141**	213,141
Provision for impairment on interests in associates	**–**	–	**(134,584)**	–
Provision for impairment on goodwill *(note (i))*	**(45,328)**	(45,328)	**–**	–
	164,972	254,455	**78,557**	213,141
Market value of listed shares	**–**	–	**1,127,109**	531,176

The balance with the associate was unsecured, interest-free and settled in 2007.

Particulars of the principal associates as at 31 December 2007 are as follows:

Name	Place and date of incorporation/ establishment and operations	Paid-up/ registered capital	Percentage of equity interests attributable to the Group		Principal activities
			Direct	Indirect	
		RMB'000	*%*	*%*	
ZhongWu GaoXin Materials Corporation Limited ("ZhongWu GaoXin") (中鎢高新材料股份有限公司)	PRC/Mainland China 18 March 1993	222,575	23.77	9.21	Manufacture, sales import and export of hard alloy products
Zhuzhou Changjiang Cemented Carbides Tools Company Limited ("Zhuzhou Changjiang") (株洲長江硬質合金工具有限公司)	PRC/Mainland China 20 April 1992	38,832	–	46.02	Manufacture of metal and alloy products
Zigong Keruide New Materials Co., Ltd. (自貢科瑞德新材料有限責任公司)	PRC/Mainland China 24 January 2003	23,565	–	37.60	Manufacture and trading of hard alloy products

Notes to the Financial Statements

31 December 2007

19. INTERESTS IN ASSOCIATES *(continued)*

In the opinion of the directors, the above associates of the Group principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

The aggregate amounts of the assets, liabilities, revenue and profits of the associates attributable to the Group are as follows:

	2007	2006
	RMB'000	*RMB'000*
Total assets	**458,593**	520,290
Total liabilities	**293,621**	265,835
Net assets	**164,972**	254,455
Total revenue	**720,480**	268,430
Losses attributable to equity holders of the parent	**70,689**	8,608

(i) Goodwill on acquisition of ZhongWu GaoXin:

Effective in October 2006, the Company completed the acquisitions of 27.78% and 3.15% equity interests in ZhongWu GaoXin, a company listed on Shenzhen Stock Exchange, from two independent third parties. Ziying, a subsidiary of the Company (note 36(a)), also held 14.97% equity interest in ZhongWu GaoXin, thus the Company directly and indirectly held 45.9% equity interest in ZhongWu GaoXin after the acquisitions. The excess of the cost of acquisition of RMB45,328,000 (net of minority interests thereof: RMB44,091,000) over the acquired interests in the net fair value of the identifiable assets, liabilities and contingent liabilities assessed as at the date of acquisition is capitalized as goodwill in the Group's consolidated balance sheet.

Full impairment of RMB45,328,000 was made against the goodwill in 2006 based on cash flow projections of related CGU in accordance with financial budgets covering a five-year period approved by management. The discount rate applied to cash flow projections is 6%. No growth rate has been projected beyond five-year period.

Notes to the Financial Statements

31 December 2007

19. INTERESTS IN ASSOCIATES *(continued)*

(ii) Loss on dilution of the interest in ZhongWu GaoXin:

Pursuant to the share reform plan of ZhongWu GaoXin implemented on 26 October 2006, the Group is required to grant certain of its shares in ZhongWu GaoXin to the public shareholders of ZhongWu GaoXin in order to convert the non-tradeable shares held by the Company and Ziying into tradeable shares. Thereafter the shareholding of the Group in ZhongWu GaoXin was diluted from 42.91% to 32.98% and the loss of RMB59,744,000 (net of minority interests thereof: RMB55,851,000) attributable to the decrease in the share of the net assets of ZhongWu GaoXin was accounted for as a dilution loss in the consolidated income statement for the year ended 31 December 2006.

In addition to ZhongWu GaoXin, some other associates were indirectly acquired in the year ended 31 December 2006 through the acquisition of Zigong as disclosed in note 36(a) to the financial statements.

20. AVAILABLE-FOR-SALE INVESTMENTS

	The Group		**The Company**	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Listed equity investments, at fair value	**1,166,168**	419,284	**114,496**	419,284
Unlisted equity investments, at cost	**22,673**	45,157	**–**	–
	1,188,841	464,441	**114,496**	419,284

Available-for-sale investments consist of investments in equity securities which were designated as available for sale and have no fixed maturity date or coupon rate.

The fair values of listed equity investments are based on quoted market prices. The unlisted equity investments are stated at cost less any accumulated impairment losses because there are no quoted market prices for such equity investments. In addition, the variability in the range of reasonable fair value estimates is significant and the probabilities of the value estimates cannot be reasonably assessed. Accordingly, the directors are of the opinion that a reasonable estimate of the fair value cannot be made.

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21. DEFERRED TAX

Deferred tax assets

The movements in deferred tax assets during the year are as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**81,260**	57,274	**5,008**	3,006
Acquisitions of subsidiaries *(note 36(a))*	**28**	9,107	**–**	–
Disposal of subsidiaries *(note 36(b))*	**(69)**	–	**–**	–
Recognition of net actuarial losses	**1,684**	21,463	**113**	5,008
Deferred tax (debited)/ credited to the income statement during the year *(note 10)*	**73,693**	(6,584)	**2,339**	(3,006)
At 31 December	**156,596**	81,260	**7,460**	5,008

The recognition of deferred tax assets is attributable to the following items:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Assets impairment	**85,729**	–	**2,339**	–
Property, plant and equipment with higher tax base	**35,052**	50,690	**–**	–
Recognition of actuarial losses	**27,490**	21,463	**5,121**	5,008
Other temporary differences	**8,325**	9,107	**–**	–
	156,596	81,260	**7,460**	5,008

The Group has tax losses arising in Mainland China of RMB27,343,000 (2006: RMB4,593,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognized in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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21. DEFERRED TAX *(continued)*

Deferred tax liabilities

The movements in deferred tax liabilities during the year are as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**77,595**	–	**77,595**	–
Acquisitions of subsidiaries *(note 36(a))*	**101,299**	–	**–**	–
Disposal of available-for-sale investments	**(38,798)**	–	**(38,798)**	–
Recognition of unrealized gains/(losses) on available-for-sale investments	**238,838**	77,595	**(33,191)**	77,595
Deferred tax debited to the income statement during the year *(note 10)*	**437**	–	**–**	–
At 31 December	**379,371**	77,595	**5,606**	77,595

22. INVENTORIES

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Raw materials	**1,579,118**	1,770,472	**12,112**	8,615
Work in progress	**1,421,165**	1,340,176	**–**	–
Finished goods	**1,433,572**	1,428,993	**14,309**	12,134
	4,433,855	4,539,641	**26,421**	20,749
Less: Provision for obsolete inventories	**(235,337)**	(35,029)	**–**	–
	4,198,518	4,504,612	**26,421**	20,749

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23. TRADE RECEIVABLES

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

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

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**600,122**	485,659	**54,397**	17,414
Over 1 year but within 2 years	**7,736**	12,271	**–**	–
Over 2 years but within 3 years	**6,022**	5,758	**–**	39
Over 3 years	**22,623**	18,767	**5,313**	5,274
	636,503	522,455	**59,710**	22,727
Less: Provision for impairment	**(35,193)**	(48,222)	**(5,313)**	(5,822)
	601,310	474,233	**54,397**	16,905

The movements in provision for impairment of trade receivables are as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**48,222**	32,965	**5,822**	7,377
Impairment losses recognized/(reversed)	**(12,602)**	15,433	**(509)**	(1,555)
Amount written off as uncollectible	**(484)**	–	**–**	–
Acquisitions of subsidiaries	**78**	314	**–**	–
Disposal of subsidiaries	**(21)**	(490)	**–**	–
At 31 December	**35,193**	48,222	**5,313**	5,822

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB35,193,000. The individually impaired trade receivables relate to customers that were in financial difficulties and almost all of the receivables cannot be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

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23. TRADE RECEIVABLES *(continued)*

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Neither past due nor impaired	**572,652**	440,206	**52,939**	16,905
Less than 3 months past due	**10,008**	11,162	**1,458**	–
3 to 9 months past due	**11,056**	11,179	**–**	–
More than 9 months past due	**7,594**	11,686	**–**	–
	601,310	474,233	**54,397**	16,905

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

24. BILLS RECEIVABLE

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 120 days	**372,465**	264,758	**134,415**	6,634
Over 121 days but within 1 year	**352,958**	136,739	**88,199**	6,800
	725,423	401,497	**222,614**	13,434

The bills receivable are non-interest-bearing.

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25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Prepayments, deposit and other receivables from:				
– HNG and its subsidiaries excluding the Group ("HNG Group")	**63,217**	4,554	**16,975**	–
– an associate	**–**	20,000	**–**	–
– third parties	**661,831**	908,970	**52,840**	60,094
	725,048	933,524	**69,815**	60,094
Less: Provision for impairment	**(59,181)**	(48,103)	**(1,579)**	(2,076)
	665,867	885,421	**68,236**	58,018

The amounts receivable from HNG Group were unsecured, interest-free and repayable on demand.

The amount receivable from an associate as at 31 December 2006 was unsecured, bearing interest of about 6% and was repaid in the year ended 31 December 2007.

The other amounts with the third parties are unsecured and non-interest-bearing and have no fixed terms of repayment.

Impairment allowances have been assessed individually for individual asset with significant balance. None of the above assets is past due but not impaired in current and prior years.

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26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash and bank balances	**1,784,180**	1,563,349	**886,646**	711,797
Time deposits	**1,904,591**	432,890	**1,398,991**	394,755
	3,688,771	1,996,239	**2,285,637**	1,106,552
Less: Pledged cash and time deposits	**(53,063)**	(57,148)	**–**	–
Cash and cash equivalents in the balance sheets	**3,635,708**	1,939,091	**2,285,637**	1,106,552
Less: Non-pledged time deposits with original maturity over three months or more when acquired	**(162,100)**	(234,590)	**(143,500)**	(209,590)
Cash and cash equivalents in the cash flow statements	**3,473,608**	1,704,501	**2,142,137**	896,962

At the balance sheet date, the cash and bank balances and time deposits of the Group denominated in RMB amounted to RMB1,895,010,000 (2006: RMB1,662,596,000). The RMB is not freely convertible into other currencies; however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through bank's authorization to conduct foreign exchange business.

As at 31 December 2007, the cash and bank balances and time deposits of the Group included HK$1,321,327,000 (2006: HK$143,473,000), US$10,271,000 (2006: US$19,109,000) and AU$64,127,000 (2006: Nil) respectively.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

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27. TRADE PAYABLES

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

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 1 year	**826,997**	943,899	**49,033**	41,278
Over 1 year but within 2 years	**8,912**	8,327	**383**	–
Over 2 years but within 3 years	**6,034**	7,499	**–**	–
Over 3 years	**5,576**	4,518	**–**	–
	847,519	964,243	**49,416**	41,278

The amounts due to HNG Group, totaling RMB49,132,000 (2006: RMB23,039,000) included in the Group's trade payables were unsecured, interest-free and repayable within trade credit periods.

28. BILLS PAYABLE

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

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 120 days	**90,000**	102,079	**–**	4,600
Over 121 days but within 1 year	**119,780**	85,500	**–**	–
	209,780	187,579	**–**	4,600

Certain of the Group's cash and time deposits amounting to RMB44,086,000 (2006: RMB36,400,000) were pledged to banks for the issuance of bills payable.

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29. OTHER PAYABLES AND ACCRUALS

Included in other payables and accruals of the Group are balances due to HNG Group of RMB23,412,000 (2006: RMB27,582,000).

Included in other payables and accruals of the Company are balances due to HNG Group of RMB4,136,000 (2006: RMB1,636,000).

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

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

Included in other payables and accruals of the Group and the Company is the current portion of other payables of RMB204,276,000 (2006: RMB177,852,000) and RMB45,835,000 (2006: RMB29,140,000), respectively, in connection with the purchases of mining rights (note 10)

30. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2007			2006		
The Group	**Effective interest rate (%)**	**Maturity**	***RMB'000***	Effective interest rate (%)	Maturity	*RMB'000*
Current:						
Bank loans – unsecured	**5.30-7.47**	**2008**	**1,799,454**	4.38-6.44	2007	1,106,545
Bank loans – secured	**5.51-8.02**	**2008**	**2,390,991**	3.78-7.81	2007	2,255,577
Entrusted loans	**6.12-6.48**	**2008**	**84,000**	4.16-4.38	2007	590,000
Other borrowings – unsecured	**5.83-8.50**	**2008**	**44,589**	3.24-4.32	2007	203,614
Other borrowings – secured	**6.00-6.43**	**2008**	**252,191**	6.13	2007	20,000
			4,571,225			4,175,736
Non-current:						
Bank loans – unsecured	**6.03-6.48**	**2009-2011**	**201,144**	3.78-6.63	2008-2011	120,100
Bank loans – secured	**4.32-7.65**	**2009-2013**	**1,106,730**	3.78-7.49	2008-2010	552,785
Bank loans – secured	**Libor+0.9**	**2009**	**182,615**			–
Bank loans – secured	**Libor+1.3**	**2009-2016**	**277,575**			–
Other borrowings-unsecured	**2.55-2.88**	**2013-2023**	**48,871**	2.10-2.88	2008-2025	49,003
Other borrowings-secured	**5.7**	**2010-2012**	**40,000**			–
			1,856,935			721,888
			6,428,160			4,897,624

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30. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

The Company	**2007** Effective interest rate (%)	**2007** Maturity	**2007** *RMB'000*	2006 Effective interest rate (%)	2006 Maturity	2006 *RMB'000*
Current:						
Bank loans – unsecured	**5.91-6.72**	**2008**	**170,000**			–
Bank loans – secured	**6.71**	**2008**	**3,652**			–
			173,652			–
Non-current:						
Bank loans – unsecured	**6.48**	**2009-2011**	**70,100**	6.48	2011	90,100
Bank loans – secured	**4.32**	**2009-2013**	**320,000**			–
Bank loans – secured	**Libor+0.9**	**2009**	**182,615**			–
Bank loans – secured	**Libor+1.3**	**2009-2016**	**273,923**			–
			846,638			90,100
			1,020,290			90,100

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30. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Analyzed into:				
Bank loans repayable:				
Within one year or on demand	**4,190,445**	3,362,122	**173,652**	–
In the second year	**551,616**	374,400	**249,572**	–
In the third to fifth years, inclusive	**973,137**	298,485	**353,755**	90,100
Beyond five years	**243,311**	–	**243,311**	–
	5,958,509	4,035,007	**1,020,290**	90,100
Entrusted loans repayable:				
Within one year	**84,000**	590,000	**–**	–
Other borrowings repayable:				
Within one year	**296,780**	223,614	**–**	–
In the second year	**–**	50	**–**	–
In the third to fifth years, inclusive	**40,000**	–	**–**	–
Beyond five years	**48,871**	48,953	**–**	–
	385,651	272,617	**–**	–
	6,428,160	4,897,624	**1,020,290**	90,100

Note:

As at 31 December 2007, certain of the Group's bank loans are secured by mortgages over certain of the Group's property, plant and equipment and land lease prepayments, which had an aggregate carrying value of approximately RMB1,413,272,000 (2006: RMB1,282,330,000);

As at 31 December 2006, the entrusted loans of RMB590,000,000 were provided by HNG, the ultimate holding company of the Group and such entrusted loans were settled in 2007.

As at 31 December 2007, HNG guaranteed certain of the Group's bank loans to the extent of RMB597,575,000.

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31. OTHER LIABILITIES

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Provisions for supplementary pension subsidies and early retirement benefits *(note (i))*	**413,530**	416,809	**56,217**	59,175
Share appreciation right plan *(note (ii))*	**16,789**	3,949	**16,789**	3,949
Balance as at 31 December	**430,319**	420,758	**73,006**	63,124
Represented by:				
Current portion included in other payables and accruals	**37,509**	34,199	**5,002**	4,707
Long term liabilities	**392,810**	386,559	**68,004**	58,417
	430,319	420,758	**73,006**	63,124

Notes:

(i) Provisions for supplementary pension subsidies and early retirement benefits

Changes in the present value of the above defined benefit obligations are as follows:

	The Group	
	2007	2006
	RMB'000	*RMB'000*
Defined benefit obligations at 1 January	**416,809**	329,449
Interest cost recognized in administrative expenses *(note 6)*	**17,343**	16,290
Current service cost recognized in administrative expenses *(note 6)*	**2,881**	2,094
Acquisitions of subsidiaries *(note 36(a))*	**–**	60,711
Net actuarial loss recognized in equity	**7,209**	66,687
Amounts paid	**(30,712)**	(58,422)
Defined benefit obligations at 31 December	**413,530**	416,809

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31. OTHER LIABILITIES *(continued)*

Notes: (continued)

(i) Provisions for supplementary pension subsidies and early retirement benefits *(continued)*

The principal assumptions used by the actuary in determining the above defined benefit obligations are shown below:

	2007 %	2006 %
Discount rate:	**4.5**	4.0
Future salary increases:	**–**	–
Future pension increases:	**–**	–

Prior to the Reorganization, the Group paid certain supplementary pension subsidies to its employees. Such supplementary pension subsidies mainly included living allowances which were payable to employees on a monthly basis after they reached the normal retirement age. The amount of monthly allowances to be paid to the employees depended on the number of years of service and the policy of the local subsidiaries concerned. The costs of providing these supplementary pension subsidies were charged to the then consolidated income statement of the Group so as to spread the service costs over the average service lives of the employees.

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

However, in March 2006, the Group agreed with HNG that the supplementary pension subsidy obligations previously transferred to HNG should be assumed by the Group again and the Group was no longer liable to settle the outstanding consideration payable to HNG. The Group also agreed with HNG to settle the difference between the amount of supplemental pension subsidies paid by HNG to the Group's retirees during the period from 1 January 2005 to 28 February 2006 and the Group's first annual installment paid to HNG in January 2006, and such difference was fully settled between the Group and HNG in March 2006.

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

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

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31. OTHER LIABILITIES *(continued)*

Notes: (continued)

(i) Provisions for supplementary pension subsidies and early retirement benefits *(continued)*

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

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

In addition, Ziying and its subsidiaries also provided early retirement benefits to its employees and the obligations thereof were calculated based on the factors including the number of years from the date of early retirement to the date of normal retirement and the salary on the date of early retirement of an employee and recognized in the Group's consolidated financial statements.

(ii) Share appreciation right plan

In order to attract, retain and motivate senior executives and key employees who make important contributions to the Group to enhance the profitability and value of the Group, the Company operates a share appreciation rights plan with effect on 25 September 2006. The following directors, supervisors and senior management members of the Group are granted share appreciation rights ("SARs"), which can only be settled in cash.

Name	**Share Appreciation Rights** *(Number of Shares)*	**Note**
He Renchun	1,282,051	Chairman of the board of directors and executive director
Cao Xiuyun	1,025,641	Vice Chairman of the board of directors and non-executive director
Li Li	897,436	Executive director and general manager
Zeng Shaoxiong	769,231	Chairman of the supervisory committee and supervisor
Liao Luhai	769,231	Executive director
Chen Zhixin	769,231	Executive director
Wu Longyun	641,027	Non-executive director
He Hongsen	641,026	Supervisor
Zhang Yixian	641,026	Non-executive director
Yang Bohua	512,820	Senior management member
Fu Shaowu	512,820	Senior management member
Yang Lingyi	512,820	Senior management member
Hong Mingyang	512,820	Senior management member
Zhu Chongzhou	512,820	Senior management member
Total:	10,000,000	

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31. OTHER LIABILITIES *(continued)*

Notes: (continued)

(ii) Share appreciation right plan *(continued)*

The SARs can vest zero share in the first year from the grant date, and no more than 1/3 shares in the second and third year from the grant date, respectively. From the fourth year from the grant date, all SARs can freely vest. The exercise price of the SARs as approved by the board of directors is HK$2.80. The SARs which are not exercised on 25 September 2014 shall not be exercised and shall lapse upon their expiry.

The cost of the SARs is measured initially at fair value at the grant date using a binomial model. The services received and the liability to pay for these services is recognized over the expected vesting periods. Until the liability is settled, it is remeasured at each reporting date with changes in fair value recognized in consolidated income statement.

The expense arising from the SARs during the year is RMB12,840,000 (2006: RMB3,949,000) and the carrying amount of the liability relating to the SARs as at 31 December 2007 is RMB16,789,000 (2006: RMB3,949,000). No SARs had exercised during the year ended 31 December 2007.

The following table lists the inputs to the model used for the SAR plan as at 31 December 2007:

	The Group	
	2007	2006
Dividend yield (%)	**1**	0
Expected volatility (%)	**50**	50
Risk-free interest rate (%)	**2.96**	3.7
Expected life of option (years)	**4.11**	5.2
Weighted average share price (RMB)	**2.4177**	2.3287
Model used	**Binomial**	Binomial

The expected life of the SARs is based on the historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The SARs are cash-settled and the fair value is remeasured at the reporting date.

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32. PAYABLES FOR MINING RIGHTS

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Payables in connection with the purchases of mining rights	**508,553**	583,554	**95,921**	95,921
Less: Portion classified as current liabilities *(note 29)*	**(204,276)**	(177,852)	**(45,835)**	(29,140)
Long term liabilities	**304,277**	405,702	**50,086**	66,781

The considerations for the purchases of the mining rights are payable to the relevant government authorities over six years by annual installments commencing from September 2005. The payables are unsecured and non-interest-bearing.

33. GOVERNMENT GRANTS

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At beginning of year	**117,234**	64,536	**100**	100
Received during the year	**54,827**	64,790	**–**	–
Acquisitions of subsidiaries *(note 36(a))*	**2,000**	1,113	**–**	–
Recognized as other income during the year *(note 5)*	**(23,865)**	(13,205)	**(18)**	–
At end of year	**150,196**	117,234	**82**	100

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34. ISSUED SHARE CAPITAL

	2007	2006
	RMB'000	*RMB'000*
Registered, issued and fully paid		
– Domestic shares of RMB1.00 each	**2,035,330**	2,060,068
– H shares of RMB1.00 each	**1,632,728**	1,360,610
	3,668,058	3,420,678

A summary of the movements in the issued share capital is as follows:

	Notes	**Domestic shares of RMB1.00 each**	**H Shares of RMB1.00 each**	**Total**
		'000	*'000*	*RMB'000*
At 1 January 2006		2,183,760	–	2,183,760
Issuance of new H shares upon listing	*1*	–	1,075,582	1,075,582
Domestic shares converted into H shares upon listing	*1*	(107,558)	107,558	–
Issuance of new H shares upon full exercise of the over-allotment option	*1*	–	161,336	161,336
Domestic shares converted into H shares upon full exercise of the over-allotment option	*1*	(16,134)	16,134	–
At 31 December 2006 and 1 January 2007		**2,060,068**	**1,360,610**	**3,420,678**
Issuance of new H shares upon placing	*1*	**–**	**247,380**	**247,380**
Domestic shares converted into H shares upon placing	*1*	**(24,738)**	**24,738**	**–**
At 31 December 2007		**2,035,330**	**1,632,728**	**3,668,058**

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35. RESERVES

The Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

The Company

	Capital reserve	Statutory reserve	Other reserve	Accumulated profits/ (losses)	Proposed final dividend	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2006	(1,178,319)	73,946	–	(223,386)	230,980	(1,096,779)
New shares issued *(note 1)*	711,833	–	–	–	–	711,833
Profit for the year	–	–	–	537,131	–	537,131
Changes in fair value of available-for-sale investments, net of deferred tax	–	–	157,541	–	–	157,541
Net actuarial losses of defined benefit retirement schemes, net of deferred tax	–	–	–	(10,168)	–	(10,168)
Transfer to reserves *(note (a))*	–	42,638	–	(42,638)	–	–
Special dividend paid	–	–	–	–	(230,980)	(230,980)
Proposed final dividend	–	–	–	(88,938)	88,938	–
At 31 December 2006 and 1 January 2007	**(466,486)**	**116,584**	**157,541**	**172,001**	**88,938**	**68,578**
New shares issued *(note 1)*	**928,197**	**–**	**–**	**–**	**–**	**928,197**
Profit for the year	**–**	**–**	**–**	**219,304**	**–**	**219,304**
Disposal of available-for-sale investments, net of deferred tax	**–**	**–**	**(78,771)**	**–**	**–**	**(78,771)**
Changes in fair value of available-for-sale investments, net of deferred tax	**–**	**–**	**(61,953)**	**–**	**–**	**(61,953)**
Net actuarial gains of defined benefit retirement schemes, net of deferred tax	**–**	**–**	**–**	**134**	**–**	**134**
Transfer to reserves *(note (a))*	**–**	**(22,607)**	**–**	**22,607**	**–**	**–**
Final dividend paid	**–**	**–**	**–**	**–**	**(88,938)**	**(88,938)**
Proposed final dividend	**–**	**–**	**–**	**(124,714)**	**124,714**	**–**
At 31 December 2007	**461,711**	**93,977**	**16,817**	**289,332**	**124,714**	**986,551**

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35. RESERVES *(continued)*

Notes:

(a) In accordance with the articles of association of the Company approved by the relevant government authorities on 30 September 2005, the net profit after tax of the Company for the purpose of dividend distribution is deemed to be the lesser of (i) the net profit determined in accordance with the PRC GAAP and (ii) the net profit determined in accordance with IFRSs. Under the PRC Company Law and the Company's articles of association, net profit after tax can only be distributed as dividends after an allowance has been made for the following:

(i) Making up prior years' cumulative losses, if any.

(ii) Allocations to the statutory common reserve fund of at least 10% of net profit after tax, until the fund reaches 50% of the Company's share capital. For the purpose of calculating the transfer to the reserve fund, the net profit after tax shall be the amount determined under the PRC GAAP.

The statutory common reserve fund can be used to offset prior years' losses, if any, and part of the statutory common reserve fund can be capitalized as the Company's share capital provided that the amount of such reserve remaining after the capitalization shall not be less than 25% of the Company's share capital.

(iii) Allocations to the discretionary common reserve if approved by the shareholders.

The above reserves can not be used for purposes other than those for which they are created and are not distributable as cash dividends.

For dividend distribution purposes, the amounts which the Company's subsidiaries can legally distribute by way of a dividend are determined with reference to their profits available for distribution as reflected in their respective PRC statutory financial statements which are prepared in accordance with the PRC GAAP. These profits differ from those reflected in the financial statements which are prepared in accordance with IFRSs.

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36 ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES

(a) Acquisitions of subsidiaries

The fair values of the identifiable assets, liabilities and contingent liabilities of the subsidiaries acquired by the Group and dealt with in the consolidated financial statements as at the dates of acquisitions were as follows:

		Fair value recognized on acquisition	
	Notes	**2007** ***RMB'000***	2006 *RMB'000*
Property, plant and equipment	*14*	**33,668**	259,569
Land lease prepayments	*15*	**88,366**	100,002
Intangible assets	*16*	**320,333**	6,570
Available-for-sale investments		**4,500**	14,200
Interests in associates	*19*	**–**	102,168
Deferred tax assets	*21*	**28**	9,107
Inventories		**29,108**	214,163
Trade receivables		**1,644**	140,844
Bills receivable		**–**	29,670
Prepayments, deposits and other receivables		**12,073**	55,616
Pledged deposits		**–**	58,330
Cash and cash equivalents		**31,776**	322,264
Trade payables		**(920)**	(119,918)
Bills payable		**–**	(264,000)
Other payables and accruals		**(35,375)**	(122,261)
Government grants	*33*	**(2,000)**	(1,113)
Dividend payable		**–**	(9,134)
Other liabilities	*31*	**–**	(60,711)
Interest-bearing bank and other borrowings		**–**	(260,857)
Tax payable		**(1,769)**	(45)
Deferred tax liabilities	*21*	**(101,299)**	–
Minority interests		**(6,014)**	(105,014)
Fair value of the net assets at the dates of acquisitions		**374,119**	369,450
Excess over the cost of a business combination recognized in the consolidated income statement	*5*	**(995)**	–
Goodwill on acquisition	*17*	**–**	30,550
		373,124	400,000
Satisfied or represented by:			
Cash		**354,082**	400,000
Bills receivable		**19,042**	–
		373,124	400,000

Notes to the Financial Statements

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36 ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES *(continued)*

(a) Acquisitions of subsidiaries *(continued)*

An analysis of the net outflow of cash and cash equivalents in respect of the acquisitions of subsidiaries is as follows:

	2007	2006
	RMB'000	*RMB'000*
Cash and bank balances acquired	**31,776**	322,264
Less: Cash consideration	**(354,082)**	(400,000)
Net outflow of cash and cash equivalents in respect of the acquisitions of subsidiaries in the consolidated cash flow statement	**(322,306)**	(77,736)

Notes:

(i) On 21 June 2006, a joint venture agreement was entered into between the Company and the State-owned Assets Supervision and Administration Commission of Zigong City ("Zigong SASAC") pursuant to which, among other things, businesses and assets relating to cemented carbides and molybdenum valued at RMB100 million which were held by Zigong SASAC would be contributed to the registered capital of Ziying (in return for a 20% equity interest in Ziying) and the Company would contribute an aggregate amount of RMB400 million to the registered capital of Ziying (in return for a 80% equity interest in Ziying).

Since the date of acquisition, Ziying had contributed RMB11,744,000 to the Group's profit attributable to equity holders of the parent and RMB767,078,000 to the Group's revenue for the year ended 31 December 2006.

Had the aforesaid acquisition of Ziying taken place at the beginning of year 2006, the Group's profit attributable to equity holders of the parent would have been RMB452,962,000 for the year ended 31 December 2006 and the Group's revenue would have been RMB18,482,154,000 for that year.

(ii) On 22 April 2007, the Company and thirty-three individual shareholders of Yuanjing Tungsten entered into various agreements pursuant to which the Company agreed to acquire the equity interests in Yuanjing Tungsten, which represented approximately 98.33% of the registered capital of Yuanjing Tungsten, for an aggregate consideration of RMB354,082,000. Yuanjing Tungsten is principally engaged in the mining, flotation and sale of tungsten concentrates and its by-products such as copper, bismuth and molybdenum.

The Group acquired the 100% equity interest in Shenzhen Zengke Alloy Co., Ltd ("Shenzhen Zengke") in December 2007 for a consideration of RMB19,042,000. Shenzhen Zengke is a synthetic nonferrous metal corporation, which focuses on production and sale of die-casting zinc alloy.

Since the dates of the acquisitions, Yuanjing Tungsten and Shenzhen Zengke had contributed a loss of RMB14,945,000 to the Group's profit attributable to equity shareholders of the parent and RMB26,461,000 to the Group's revenue for the year ended 31 December 2007.

Had the aforesaid acquisitions of Yuanjing Tungsten and Shenzhen Zengke taken place at the beginning of year 2007, the Group's profit attributable to equity holders of the parent would have been RMB305,496,000 for the year ended 31 December 2007 and the Group's revenue would have been RMB21,937,628,000 for that year ended.

Notes to the Financial Statements

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36 ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES *(continued)*

(b) Disposal of subsidiaries

	Notes	2007 RMB'000	2006 RMB'000
Property, plant and equipment	14	**15,968**	8,823
Land lease prepayments	15	**2,240**	3,266
Intangible assets	16	**7,246**	–
Deferred tax assets	21	**69**	–
Inventories		**4,306**	15,571
Trade receivables		**2,763**	11,201
Prepayments, deposits and other receivables		**1,689**	1,514
Cash and cash equivalents		**9,429**	8,847
Trade payables		**(4,549)**	(4,078)
Other payables and accruals		**(6,900)**	(31,929)
Tax payable		**(215)**	(21)
Minority interests		**(8,862)**	–
Carrying value of the net assets at the dates of disposal		**23,184**	13,194
Gains/(Losses) on disposal of subsidiaries	5, 6	**2,197**	(3,670)
		25,381	9,524
Satisfied by:			
Trade payables		**–**	9,524
Cash		**25,381**	–

During the year ended 31 December 2007, the Group disposed of its 100%, 51% and 64% equity interests in Xizang Shannan Twinkling Star Mining Exploitation Co., Ltd., Ganzhou Haichuang Tungsten Co., Ltd., and Zigong Changcheng Tungsten and Molybdenum High Tech Co., Ltd for considerations of RMB15,472,000, RMB9,588,000 and RMB321,000, respectively.

The net inflow of cash and cash equivalents in respect of the disposal is RMB15,952,000 (2006: outflow RMB8,847,000).

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Except for the transactions mentioned in notes 36 to the financial statements, the Group had no major non-cash transactions during the years ended 31 December 2007 and 2006.

Notes to the Financial Statements

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38. CONTINGENT LIABILITIES

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Guarantees given to banks in respect of bank loans granted to:				
Associates *(note 41(d))*	**74,000**	54,000	**–**	–
Third parties	**15,003**	76,299	**–**	–
	89,003	130,299	**–**	–

The above guarantees have not been recognized in the financial statements because the fair values of such guarantees are immaterial.

39. OPERATING LEASE ARRANGEMENTS

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

As at 31 December 2007, the Group had total future minimum lease payments under such non-cancellable operating leases falling due as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**22,854**	17,899	**7,229**	–
In the second to fifth years, inclusive	**88,885**	62,688	**14,458**	–
After five years	**181,356**	208,909	**–**	–
	293,095	289,496	**21,687**	–

Notes to the Financial Statements

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40. COMMITMENTS

In addition to the operating lease commitments detailed in note 39 to the financial statements, the Group and the Company had the following capital commitments at the balance sheet date:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Contracted, but not provided for:				
Property, plant and equipment	**697,881**	72,025	**126,505**	–
Authorized, but not contracted for:				
Property, plant and equipment	**2,618,218**	3,371,713	**179,237**	–

Note:

As at 31 December 2007, the Group had commitments of RMB3,316 million principally relating to Zhuye Listco's investment on cyclic economy project: a process of zinc production with atmospheric direct leaching with oxygen able to treat zinc leach residue (實施循環經濟項目常壓富氧直接浸出搭配鋅浸出渣煉鋅) of RMB1,320 million, Zhuye Listco's investment on lead smelter modernization able to treat zinc leach residue (搭配處理鋅浸出渣煉鉛技術改造) of RMB1,191 million, the treatment of waste water containing heavy metals and the engineering project of zero-discharge of waste water (重金屬廢水處理與「零排放」工程) of RMB54 million; and relating to the investment of RMB306 million on Browns Project, which was located in Darwin, Australia, targeted in mining and smelting of Copper-Cobalt-Nickel deposits.

The cash outflow of the above investment can be met by the Group's internal financial resources, banking facilities and future cash inflow from operating activities.

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41. RELATED PARTY TRANSACTIONS

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

(a) Transactions with the HNG Group

Nature of transactions	2007 *RMB'000*	2006 *RMB'000*
Sales of raw materials and products	**197,777**	26,666
Sales of property, plant and equipment	**456**	–
Provision of electricity and water	**3,484**	3,559
Subcontracting income	**6,631**	3,351
Rental income	**490**	–
Purchase of raw materials and products	**325,457**	249,087
Transportation service fees	**42,422**	33,321
Repairs and maintenance fees	**4,968**	9,267
Construction service fees	**56,336**	29,773
Subcontracting fees	**18,964**	16,674
Rental fees	**1,860**	–
Property management service fees	**7,869**	3,576

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

Notes to the Financial Statements

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41. RELATED PARTY TRANSACTIONS *(continued)*

(b) Transactions with associates

Nature of transactions	**2007** *RMB'000*	2006 *RMB'000*
Sales of raw materials and products	**337,544**	25,258
Sales of property, plant and equipment	**–**	16
Rental income	**612**	615
Dividend income	**1,711**	2,016
Provision of electricity and water	**17,919**	28,746
Other service income	**932**	1,511
Purchases of raw materials and products	**1,420,306**	684,724
Purchases of property, plant and equipment	**7,188**	893
Other service fees	**–**	2,150

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

(c) Guarantee granted by HNG to the Group (note 30)

Nature of the guarantee	**2007** *RMB'000*	2006 *RMB'000*
Corporate guarantee	**597,575**	–

Guarantees granted by HNG for securing the Group's bank loans are disclosed in Note 30 to the financial statements. These guarantees were provided free of charge.

Notes to the Financial Statements

31 December 2007

41. RELATED PARTY TRANSACTIONS *(continued)*

(d) Guarantee granted for securing associates' bank loans (note 38)

Nature of guarantee	**2007**	2006
	RMB'000	*RMB'000*
Corporate guarantee	**74,000**	54,000

At 31 December 2007, the Group executed guarantees of RMB74,000,000 (2006: RMB54,000,000) to banks as securities for bank loans granted to its associates. These guarantees were provided free of charge and the expiry dates of such guarantees fell between 30 January 2008 and 16 November 2008 (2006: between 12 March 2007 and 30 December 2007).

(e) Lease of land use right from HNG

Nature of transaction	**2007**	2006
	RMB'000	*RMB'000*
Lease of land use right	**14,930**	15,125

The Group has entered into property lease agreements of 35 pieces of lands with HNG for terms of one to twenty years. The total annual rental fee was around RMB15 million.

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42. FINANCIAL INSTRUMENT BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

The Group

Financial assets

	2007		
	Loans and receivables	**Available-for-sale financial assets**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
Available-for-sale investments	–	1,188,841	1,188,841
Trade receivables	601,310	–	601,310
Bills receivable	725,423	–	725,423
Financial assets included in prepayments, deposits and other receivables	248,837	–	248,837
Pledged deposits	53,063	–	53,063
Cash and cash equivalents	3,635,708	–	3,635,708
	5,264,341	1,188,841	6,453,182

Financial liabilities

	2007
	Financial liabilities at amortised cost
	RMB'000
Trade payables	847,519
Bills payable	209,780
Financial liabilities included in other payables and accruals	617,137
Interest-bearing bank and other borrowings *(note 30)*	6,428,160
Payables for mining rights	304,277
	8,406,873

Notes to the Financial Statements

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42. FINANCIAL INSTRUMENT BY CATEGORY *(continued)*

The Group

Financial assets

	2006		
	Loans and receivables	Available-for-sale financial assets	Total
	RMB'000	*RMB'000*	*RMB'000*
Interests in associates *(note 19)*	20,000	–	20,000
Available-for-sale investments	–	464,441	464,441
Trade receivables	474,233	–	474,233
Bills receivable	401,497	–	401,497
Financial assets included in prepayments, deposits and other receivables	182,361	–	182,361
Pledged deposits	57,148	–	57,148
Cash and cash equivalents	1,939,091	–	1,939,091
	3,074,330	464,441	3,538,771

Financial liabilities

	2006
	Financial liabilities at amortised cost
	RMB'000
Trade payables	964,243
Bills payable	187,579
Financial liabilities included in other payables and accruals	581,433
Interest-bearing bank and other borrowings *(note 30)*	4,897,624
Payables for mining rights	405,702
	7,036,581

Notes to the Financial Statements

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42. FINANCIAL INSTRUMENT BY CATEGORY *(continued)*

The Company

Financial assets

	2007		
	Loans and receivables	Available-for-sale financial assets	Total
	RMB'000	*RMB'000*	*RMB'000*
Interests in subsidiaries *(note 18)*	589,535	–	589,535
Available-for-sale investments	–	114,496	114,496
Trade receivables	54,397	–	54,397
Bills receivable	222,614	–	222,614
Financial assets included in prepayments, deposits and other receivables	26,345	–	26,345
Cash and cash equivalents	2,285,637	–	2,285,637
	3,178,528	114,496	3,293,024

Financial liabilities

	2007
	Financial liabilities at amortised cost
	RMB'000
Trade payables	49,416
Financial liabilities included in other payables and accruals	174,601
Interest-bearing bank and other borrowings *(note 30)*	1,020,290
Payables for mining rights	50,086
	1,294,393

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42. FINANCIAL INSTRUMENT BY CATEGORY *(continued)*

The Company

Financial assets

	2006		
	Loans and receivables *RMB'000*	Available-for-sale financial assets *RMB'000*	Total *RMB'000*
Interests in subsidiaries *(note 18)*	13,500	–	13,500
Available-for-sale investments	–	419,284	419,284
Trade receivables	16,905	–	16,905
Bills receivable	13,434	–	13,434
Financial assets included in prepayments, deposits and other receivables	35,754	–	35,754
Cash and cash equivalents	1,106,552	–	1,106,552
	1,186,145	419,284	1,605,429

Financial liabilities

	2006 Financial liabilities at amortised cost *RMB'000*
Trade payables	41,278
Bills payable	4,600
Financial liabilities included in other payables and accruals	46,108
Interest-bearing bank and other borrowings *(note 30)*	90,100
Payables for mining rights	66,781
	248,867

Notes to the Financial Statements

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43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise cash and cash equivalents, pledged deposits and bank and other borrowings. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payable, which arise directly from its operations.

The Group also enters into derivative transactions, primarily futures contracts. The purpose is to manage the risk of metals price fluctuations arising from the Group's operations.

The carrying amounts of the financial assets and liabilities of the Group approximated to their fair values as at each of the balance sheet dates. Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and commodity price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarized below.

Interest rate risk

The Group's consolidated income statement is affected by changes in interest rates due to the impact of such changes on interest income and expenses from bank balances and interest-bearing bank and other borrowings. The Group's policy is to obtain the most favorable interest rates available. The Group has not used any derivatives to mitigate its interest rate risk exposure.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates of borrowings, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

The Group	**Increase/(decrease) in basis points**	**Increase/(decrease) in profit before tax**	**Increase/(decrease) in equity**
		RMB'000	*RMB'000*
2007	**100**	**(13,618)**	**(11,640)**
	(100)	**13,618**	**11,640**
2006	100	(1,431)	(1,185)
	(100)	1,431	1,185

Notes to the Financial Statements

31 December 2007

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Foreign currency risk

Except for export sales which are mainly transacted in United States dollars ("US$") and Hong Kong dollars ("HK$"), the Group's revenue is demonstrated in RMB which is not freely convertible into foreign currencies. Fluctuation of exchange rates of RMB against foreign currencies can affect the Group's results of operations. The Group accepted the exposure to foreign currency risk and has not used forward currency contracts to eliminate the foreign currency exposures on individual transaction.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the US$ and HK$ exchange rates, with all other variables held constant, of the Group's profit before tax and the Group's equity (due to changes in the fair value of monetary assets and liabilities).

The Group	**Increase/ (decrease) in exchange rates** %	**Increase/ (decrease) in profit before tax** *RMB'000*	**Increase/ (decrease) in equity** *RMB'000*
2007			
If RMB strengthens against US$	**5**	**69,201**	**53,801**
If RMB weakens against US$	**(5)**	**(69,201)**	**(53,801)**
If RMB strengthens against HK$	**5**	**(61,670)**	**(61,605)**
If RMB weakens against HK$	**(5)**	**61,670**	**61,605**
2006			
If RMB strengthens against US$	5	22,370	14,419
If RMB weakens against US$	(5)	(22,370)	(14,419)
If RMB strengthens against HK$	5	(7,205)	(7,184)
If RMB weakens against HK$	(5)	7,205	7,184

Notes to the Financial Statements

31 December 2007

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk

The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, pledged deposits, available-for-sale investments, amounts due from associates, other receivables and certain derivative instruments, arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments. The Group is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in note 38 to the financial statements.

Since the Group trades only with recognized and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in note 23 and note 25 to the financial statements.

Substantial amounts of the Group's cash and cash equivalents are held in major financial institutions located in the PRC and Hong Kong, which management believes are of high credit quality.

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31 December 2007

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents or make available funding through an adequate amount of committed credit facilities from banks to meet its commitments over the foreseeable future in accordance with its strategic plan. In the opinion of the directors, the Group expects to have adequate sources of funding to finance the Group and manage the liquidity position.

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted payments, was as follows:

The Group

	2007				
	Within one year or on demand *RMB'000*	**In the second year** *RMB'000*	**In the third to fifth years, inclusive** *RMB'000*	**Beyond five years** *RMB'000*	**Total** *RMB'000*
Interest-bearing bank and other borrowings	**4,571,225**	**551,616**	**1,013,139**	**292,180**	**6,428,160**
Trade and bills payables	**1,057,299**	**–**	**–**	**–**	**1,057,299**
Other payables	**617,137**	**–**	**–**	**–**	**617,137**
Payables for mining rights	**–**	**170,482**	**133,795**	**–**	**304,277**
	6,245,661	**722,098**	**1,146,934**	**292,180**	**8,406,873**

	2006				
	Within one year or on demand *RMB'000*	In the second year *RMB'000*	In the third to fifth years, inclusive *RMB'000*	Beyond five years *RMB'000*	Total *RMB'000*
Interest-bearing bank and other borrowings	4,175,736	374,450	298,485	48,953	4,897,624
Trade and bills payables	1,151,822	–	–	–	1,151,822
Other payables	581,433	–	–	–	581,433
Payables for mining rights	–	206,307	199,395	–	405,702
	5,908,991	580,757	497,880	48,953	7,036,581

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43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk *(continued)*

The Company

	2007				
	Within one year or on demand *RMB'000*	**In the second year** *RMB'000*	**In the third to fifth years, inclusive** *RMB'000*	**Beyond five years** *RMB'000*	**Total** *RMB'000*
Interest-bearing bank and other borrowings	**173,652**	**249,572**	**353,755**	**243,311**	**1,020,290**
Trade and bills payables	**49,416**	**–**	**–**	**–**	**49,416**
Other payables	**174,601**	**–**	**–**	**–**	**174,601**
Payables for mining rights	**–**	**33,391**	**16,695**	**–**	**50,086**
	397,669	**282,963**	**370,450**	**243,311**	**1,294,393**

	2006				
	Within one year or on demand *RMB'000*	In the second year *RMB'000*	In the third to fifth years, inclusive *RMB'000*	Beyond five years *RMB'000*	Total *RMB'000*
Interest-bearing bank and other borrowings	–	–	90,100	–	90,100
Trade and bills payables	45,878	–	–	–	45,878
Other payables	46,108	–	–	–	46,108
Payables for mining rights	–	33,390	33,391	–	66,781
	91,986	33,390	123,491	–	248,867

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43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Commodity price risk

The Group is exposed to commodity price risk through fluctuations of the prices of zinc, lead, silver, tungsten, antimony and other commodities sold by the Group. The Group does not actively manage this risk, except to a limited extent through commodity futures contracts, representing approximately 5% of annual production during the year.

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt includes interest-bearing bank and other borrowings, trade and bills payable, other payable and accruals, and long-term payables for mining rights, less cash and cash equivalents. Capital includes equity attributable to equity holders of the parent. The gearing ratios as at the balance sheet dates were as follows:

	The Group	
	2007	2006
	RMB'000	*RMB'000*
Interest-bearing bank and other borrowings	**6,428,160**	4,897,624
Trade payables	**847,519**	964,243
Bills payable	**209,780**	187,579
Other payables and accruals	**1,493,470**	1,552,591
Payables for mining rights	**304,277**	405,702
Less: Cash and cash equivalents	**(3,635,708)**	(1,939,091)
Net debt	**5,647,498**	6,068,648
Equity attributable to equity holders of the parent	**5,764,286**	4,225,395
Capital and net debt	**11,411,784**	10,294,043
Gearing ratio	**49%**	59%

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44. EVENTS AFTER THE BALANCE SHEET DATE

(a) On 10 January 2008, the Company incorporated Hunan Nonferrous Xin Tian Ling Tungsten Company Limited (湖南有色新田嶺鎢業有限公司) in Chenzhou City, Hunan Province, the PRC, with an registered capital of RMB500 million. It is a wholly owned subsidiary of the Company. Hunan Nonferrous Xin Tian Ling Tungsten Company Limited is expected to carry out asset acquisitions in relation to about 14 ore deposits in Xin Tian Ling ore area (新田嶺礦區). The mining resources in Xin Tian Ling ore area thereby will be further consolidated.

(b) As affected by the once-happen-in-50-years continuous icy rain and snow in Hunan Province, the PRC, five subsidiaries of the Company temporarily suspended or partly suspended productions in late January and early February due to electricity supply failure and part of the equipment's damage. The Company used its best endeavors in taking relevant measures to repair the damaged equipment and recovered production shortly after the comeback of electricity supply in February 2008.

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on 27 April 2008.