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

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

(Stock Code: 2626)

# Interim Report 2008

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# CORPORATE INFORMATION

## DIRECTOR

### Executive Directors

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

### Non-Executive Directors

Cao Xiuyun
Wu Longyun
Zhang Yixian
Yu Jiang

### Independent Non-Executive Directors

Gu Desheng
Chan Wai Dune
Wan Ten Lap
Chen Xiaohong

### Supervisors

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

### Independent Non-Executive Supervisor

Liu Dongrong

## COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Lam Kai Yeung

## AUTHORISED REPRESENTATIVES

Liao Luhai
Lam Kai Yeung

## AUDIT COMMITTEE

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

## INTERNATIONAL AUDITOR

Ernst & Young

## LEGAL ADVISORS

Charltons
Jia Yuan Law Firm

## PRINCIPAL BANKERS

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

## HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

# CORPORATE INFORMATION

## REGISTERED OFFICE

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

## PRINCIPAL PLACE OF BUSINESSIN HONG KONG

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

## SHARE INFORMATION

| | |
|---|---|
| Stock Code: | 2626 |
| Listing Date: | 31 March 2006 |
| Number of shares issued: | 1,632,728,000 H Shares |
| Nominal Value: | RMB1.00 per share |
| Stock Name: | HNC |

## FINANCIAL SUMMARY

| | |
|---|---|
| Announcement of Interim Result | 24 August 2008 |
| Closure of Register | N/A |
| Interim Dividend | N/A |

## SHAREHOLDER'S ENQUIRIES

Finance and Securities Department
(86) 731 - 5385556

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

## MARKET REVIEW

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

### Tungsten

For the first half of 2008, the price of tungsten rose and fell in both domestic and international markets but fluctuation was relatively small. In the first half of the year, the highest price of tungsten concentrates was recorded in March at RMB98,000 - RMB100,000 per ton, with a decrease in prices between April and June. The average price of tungsten concentrates between January and June was RMB87,500 - RMB89,800 per ton, representing a decrease of 12% as compared with the same period in 2007.

Average international APT prices from January to June 2008 in European and U.S. markets were US$246.31 - US$250 per metric ton unit and US$250 - US$255 per metric ton unit respectively, representing a decrease of 2.83% and 2.66% as compared with the same period in 2007.

Looking back to the first half of 2008, the supply of tungsten in China faced issued such as the snowstorm, and mining safety rectifications, which lead to tight supply in the short term. Prices of tungsten were affected considerably by the short supply. The ferrotungsten market was more active than the APT market, which could be related to the high dependence of overseas countries on imports from the PRC. In the first half of 2008, volume of exports from China were lower than that for the same period in 2007. This was caused by the impact of the export tax refund policy and inactive overseas demand. However, despite weak demand from overseas, demand from the domestic cemented carbide industry was strong. Domestic tungsten power enterprises were at full production capacity ensure the supply of raw materials required for cemented carbide. The recent domestic keen demand and mine rectifications have ensured the relative stability of prices of tungsten concentrates. It is estimated that prices will remain stable in the second half of the year.

### Zinc

In view of the trend of the price of zinc in the London Metal Exchange ("LME") in the first half of the year, zinc price experienced two slight rebounds mainly caused by events in China. The first rebound occurred between late February and the middle of March, leading to the price of US$2,905 per ton, the highest for the first half of the year. Most provinces in the southern part of China suffered from the rarely seen snow disaster from January to February. Part of the production capacity for zinc, as well as for other basic metals such as copper, aluminum and lead, were affected. Together with other relevant issues such as congested transportation and shortage of electricity, this aroused concerns about supply. Driven by high copper and aluminum prices, the price of zinc also slightly increased. The second rebound occurred amidst the super-strong earthquake in Wenchuan County, Sichuan, in the PRC. This time, prices reacted immediately. The single-day increment was close to 7% on the day following the earthquake. This was because the market predicted that the earthquake had caused the suspension of production from smelters and mines, and that electricity supply and transportation had been interrupted. However, with the gradual emergence of the full impact of the disaster, the rebound was soon over with the reemergence of a downward trend. The highest price attained by this rebound was only US$2,375 per ton. The lowest price for the entire first half of 2008 was US$1,750 per ton, representing a decrease of 61.8% as compared with the historical highest price, and a decrease of 25.85% as compared with the end of 2007. The average price for the first half of the year was US$2,300.53.

The price of zinc in the domestic market in the first half of the year was generally in line with the LME price but with volatility less than the LME price. This was reflected in its small rise during a LME price increase and its stronger resistance to a decline than foreign positions while the LME price dropped. In the first half of the year, mainstream prices in the spot market generally fluctuated between RMB16,000 and RMB23,000, experiencing two rebounds in line with the LME.

The macroeconomic situation in China in 2008 is relatively special and has shown relatively big responses to both international and domestic market conditions and trends. Since the international and domestic economic atmosphere is still unclear, the volatility of prices in the second half of the year is expected to be greater than that in the first half of the year.

### Antimony

In the first half of 2008, prices of antimony repeatedly recorded new highs. In April, the supply of raw materials such as antimony concentrates was tight, causing prices of antimony to rise. As a result, prices of antimony exceeded the level of US$6,000 per ton. In May, market prices of refined antimony rose along with the continued increase in prices of antimony ore. The highest trading price of standard grade II refined antimony reached a record high of US$6,500 per ton. According to the latest statistics by the China Nonferrous Metals Industry Association (有色金屬工業協會), from January to May, the output of refined antimony in the PRC was 68,780 tons, representing an increase of 18.16% over the same period last year. The output of antimony concentrates was 26,520 tons, representing an increase of only 0.52% over the same period last year. Overall, affected by the tight supply, international antimony prices were very strong in the first half of 2008. The average price of standard grade II refined antimony was US$6,009.90 per ton in the first half of the year, representing an increase of almost 9% as compared with the same period in 2007.

Regarding domestic antimony market, due to continuing appreciation of Renminbi and the nicrease of output, the price of antimony remained steady.

### Lead

The first half of 2008 saw the sustained downturn of the LME lead market. The lead price has been lower than the LME aluminum price since late February and has been lower than the LME zinc price since the middle of June. In February, because of the snowstorm in southern China and institutional investors seizing the opportunity to take profits through speculation, the LME lead price achieved a stronger rebound and reached the second highest record in history. After that, prices of lead crashed and reached an one and a half year low in late June. The LME spot average price from January to June 2008 was US$2,637 per ton. The average price for three-month commodity futures was US$2,629 per ton.

As compared with overseas, the decrease in prices of refined lead in the PRC was relatively small. The LME closing price at the beginning of the year was US$2,615 per ton. The closing price on 30 June was US$1,790 per ton, representing a decrease of 31.5%. The average price of refined lead in the PRC at the beginning of the year was RMB19,300 per ton. The average price on 30 June was RMB16,900 per ton, representing a decrease of 12.4%.

# RESULTS

As compared with the same period last year, overseas lead production from January to April 2008 generally tended to be stable. According to the statistics of the China Nonferrous Metals Industry Association, from January to May 2008, the output of refined lead in the PRC was 1,151,000 tons, representing an increase of 3.54% over the same period last year. The output of lead concentrates from January to May was 39.85 tons, representing an increase of 40.4% over the same period last year. According to the statistics from the PRC Custom, imports of lead concentrates totaled 489,000 tons from January to May, representing a decrease of 8.83% as compared with the same period of last year.

In the second half of 2008, international and domestic lead market trends will still mainly depend on fundamental factors such as the macro-economic environment, crude oil prices and refined lead supply and demand. In the meantime, it will also be affected by technical factors such as institutional investors seizing the opportunity to take profits and rebounds from low prices during the period. As compared with the international market, the domestic market has brighter prospects. Affected by the recent ban on the transportation of explosives within the PRC, there are many uncertainties associated with lead production. However, consumption will maintain a certain growth, which may cause domestic lead prices to remain stable in the next half year.

## BUSINESS REVIEW AND OUTLOOK

In the first half of 2008, affected by multiple factors such as the severe snowstorm and the tightening international and domestic macroeconomic environments, the Group faced unprecedented pressure in its operations. Prices of most products of the Group decreased as compared with the same period last year resulted in drop of sales revenue. In particular, sales revenue from major products of the Group, lead and zinc, experienced a relatively significant decrease, and only sales revenue from a few products such as cemented carbides increased over the same period.

From January to June, the Group realized zinc production 215,940 tons, representing a decrease of 7.31% as compared with the same period of last year; lead production 38,787 tons, representing a decrease of 15.39% as compared with the same period of last year; antimony production 12,821 tons, representing a decrease of 15.24% as compared with the same period of last year; cemented carbides production 4,134 tons, representing an increase of 10.18% as compared with the same period of last year and bismuth production 575 tons, representing an increase of 17.11% as compared with the same period of last year.

During the year, with capital operation as the link and controlling resources as the basis, the Company made the establishment of an unified intensive processing industrial chain as the focus for industrial development. Internally, the Company strengthened the key technological reform projects of all member units and put great efforts in attaining both production and standard. Externally, the Company facilitated the construction of investment projects in a steady and orderly manner so that the investment projects could generate benefits as soon as possible, and ensured the effective control over investment risks.

Looking forward, with the growth of Chinese economy, the market demand of our products will grow steadily and the Company should benefit eventually. However, the impact of the appreciation of Renminbi, the increase of upstream raw materials and transportation charge as well as labor cost etc., the impact of which need to be carefully addressed.

## GENERAL DESCRIPTION

During the period ended 30 June 2008, profit before tax decreased by RMB443 million or 61.4%, from RMB722 million for the period ended 30 June 2007 to RMB279 million. Profit attributable to the equity holders of the parent company was RMB74 million, representing a decrease of RMB228 million or 75.5% from RMB302 million for the period ended 30 June 2007.

The following is the comparison of financial results between the six months periods ended 30 June 2008 and 30 June 2007:

### Turnover

Turnover decreased by RMB2,463 million or 21.7%, from RMB11,328 million for the period ended 30 June 2007 to RMB8,865 million for the period ended 30 June 2008, mainly due to the decreased turnover before sales tax and the surcharge from the nonferrous metals mine segment of RMB239 million or 18.2%, the decreased turnover from the nonferrous metals smelting segment of RMB2,727 million or 36.8%, the increased turnover from cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds segment of RMB499 million or 18.6%.

Gross profit decreased by 17.2%, from RMB1,304 million for the period ended 30 June 2007 to RMB1,078 million for the period ended 30 June 2008; the gross profit margin for the period ended 30 June 2008 was 12%, the same as the gross profit margin for the period ended 30 June 2007.

### The nonferrous metals mine site segment

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

| | **January – June 2008** | | January – June 2007 | |
|---|---|---|---|---|
| | **Sales Volume (tons)** | **Average sales price (RMB/ton)** | Sales Volume (tons) | Average sales price (RMB/ton) |
| **Shizhuyuan** | | | | |
| Tungsten concentrates | **1,105** | **75,633** | 1,042 | 84,864 |
| Oxidized molybdenum | **489** | **192,800** | 505 | 187,206 |
| **Huangshaping Branch** | | | | |
| Zinc concentrates | **1,890** | **10,544** | 3,003 | 19,577 |
| Lead concentrates | **1,911** | **17,377** | 2,743 | 14,249 |
| **Hsikwangshan** | | | | |
| Antimony products | **12,821** | **31,338** | 15,405 | 32,819 |
| Zinc products | **11,407** | **16,459** | 15,738 | 25,946 |

# MANAGEMENT'S DISCUSSION AND ANALYSIS

Turnover before sales tax and the surcharge from the nonferrous metals mine site segment decreased by RMB239 million or 18.2%, from RMB1,316 million for the period ended 30 June 2007 to RMB1,077 million for the period ended 30 June 2008, mainly due to a decrease in prices of products of nonferrous metals mine site segment, such as tungsten, zinc and decreased sales of lead concentrates, zinc products, antimony products as compared with the same period of 2007.

Gross profit from the nonferrous metals mine site segment decreased by 9.7% from RMB267 million for the period ended 30 June 2007 to RMB241 million for the period ended 30 June 2008. Gross profit ratio increased by 3%, from 20% for the period ended 30 June 2007 to 23% for the period ended 30 June 2008.

## NONFERROUS METALS SMELTING SEGMENT

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

| | **January – June 2008** | | January – June 2007 | |
|---|---|---|---|---|
| | **Sales volume (tons)** | **Average sales price (RMB/ton)** | Sales volume (tons) | Average sales price (RMB/ton) |
| Zinc products | **199,217** | **16,541** | 210,430 | 26,742 |
| Lead products | **35,978** | **17,560** | 44,366 | 13,910 |
| Precious metal-indium | **19** | **2,901,119** | 17 | 5,187,565 |
| Precious metal-silver | **54** | **3,560,445** | 190 | 2,953,131 |

Turnover before sales tax and the surcharge from the nonferrous metals smelting segment decreased by RMB2,727 million or 36.8%, from RMB7,416 million for the period ended 30 June 2007 to RMB4,689 million for the period ended 30 June 2008, mainly due to the sharp decrease in the average sales price of zinc products as compared with the corresponding period of 2007.

Gross profit from the nonferrous metals smelting segment decreased by 41.7% from RMB671 million for the period ended 30 June 2007 to RMB391 million for the period ended 30 June 2008, while the gross profit ratio decreased by 1% from 9% for the period ended 30 June 2007 to 8% for the period ended 30 June 2008.

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

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

| | **January – June 2008** | | January – June 2007 | |
|---|---|---|---|---|
| | **Sales Volume (tons)** | **Average sales price (RMB/ton)** | Sales Volume (tons) | Average sales price (RMB/ton) |
| Cemented carbides | **6,319** | **315,277** | 5,146 | 292,529 |
| Tungsten and its compounds | **4,070** | **201,121** | 2,639 | 207,364 |
| Molybdenum and its compounds | **343** | **514,623** | 408 | 496,398 |
| Tantalum, niobium and their compounds | **260** | **509,249** | 282 | 512,916 |

Turnover from cemented carbide, and tungsten, molybdenum, tantalum, niobium and their compounds before sales tax and surcharge increased by RMB499 million or 18.6%, from RMB2,677 million for the period ended 30 June 2007 to RMB3,176 million for the period ended 30 June 2008. The increase was mainly due to an increase in sales volume of cemented carbide, tungsten and their compounds as compared with the same period in 2007.

Gross profit of cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds increased by 22.2% from RMB365 million for the period ended 30 June 2007 to RMB446 million for the period ended 30 June 2008, and the gross profit ratio for the period ended 30 June 2008 was 14%, the same as gross profit ratio for the period ended 30 June 2007.

## OTHER INCOME AND GAINS

Other income and gains decreased by RMB61 million or 40.7%, from RMB150 million for the period ended 30 June 2007 to RMB89 million for the period ended 30 June 2008, mainly due to the gains from disposal of certain equity interests in Compass Resources NL by the Group during the same period last year but no gains in this regard for this year.

## SELLING AND DISTRIBUTION COST

Selling and distribution costs increased by RMB31 million, or 22.6%, from RMB137 million for the period ended 30 June 2007 to RMB168 million for the period ended 30 June 2008 primarily due to the increase in transportation fee and general remuneration.

## ADMINISTRATIVE EXPENSES

Administrative expenses increased by RMB17 million, or 3.8% from RMB445 million for the period ended 30 June 2007 to RMB462 million for the period ended 30 June 2008, primarily due to the increase in general remuneration and research and development expenses.

## OTHER OPERATING EXPENSES, NET

Other operating net expenses increased by RMB49.9 million, or from a net income of RMB0.9 million for the period ended 30 June 2007 to net expenses of RMB49 million for the period ended 30 June 2008, primarily due to the loss caused by the snowstorm and loss from the disposal of fixed assets for the current period.

## FINANCE COSTS

Finance costs increased by RMB60 million, or 40.8%, from RMB147 million for the period ended 30 June 2007 to RMB207 million for the period ended 30 June 2008, primarily due to the increased bank loans outstanding and the increased loan interest rate as compared with the same period last year.

## INCOME TAX EXPENSE

Income tax expense decreased by RMB129 million, or 59.2%, from RMB218 million for the period ended 30 June 2007 to RMB89 million for the period ended 30 June 2008, primarily due to the enterprise income tax system reform and the decrease in the operating profit.

## MINORITY INTERESTS

Minority interests decreased by RMB87 million, or 42.9%, from RMB203 million for the period ended 30 June 2007 to RMB116 million for the period ended 30 June 2008, primarily due to the decrease in the Group's operating profit.

## LIQUIDITY AND FINANCIAL RESOURCES

As of 30 June 2008, fund resources were from cash generated from its operations, short and long term bank loans. Our funds were mainly used in operating activities, capital expenditures, and bank loan repayments. As of 30 June 2008, cash and cash equivalents owned by the Group were RMB3,247 million. Cash and cash equivalents were mainly denominated in RMB (RMB accounted for approximately 61.56%, Hong Kong dollars accounted for approximately 30.29%, Australian dollars accounted for approximately 5.99%, US dollars accounted for approximately 1.7%, euros accounted for approximately 0.46%).

As of 30 June 2008, of the short term and long term bank and other borrowings, in the aggregate sum of RMB7,057 million, RMB accounted for approximately 80%, US dollars accounted for approximately 18.3%, euros accounted for approximately 1.7%.

## ASSETS PLEDGED OF THE GROUP

As of 30 June 2008, assets of the Group amounting to the net book value of RMB1,880 million have been pledged for securing certain bank loans, of which the net book value of buildings and mining structures, plant, machinery and equipment was RMB1,649 million and the net book value of land lease prepayments was RMB231 million. As of 31 December 2007,assets of the Group amounting to the net book value of RMB1,413 million have been pledged for securing certain bank loans, of which the net book value of buildings and mining structures, plant, machinery and equipment was RMB1,159 million and the net book value of land lease prepayments was RMB254 million.

## DEBT TO TOTAL ASSETS RATIO

As of 30 June 2008, our Group's debt to total assets increased from 34.6% for the period ended 31 December 2007 to 38.0% for the period ended 30 June 2008. As the growth rate of total interest-bearing bank loans and borrowings was higher than that of total assets, debt to total assets ratio increased.

## FOREIGN EXCHANGE RATE FLUCTUATION RISK

The Group conducts operations primarily in the PRC and sells part of our products to customers in various foreign countries. Except for export sales, which are mainly transacted in United States dollars, the Group currently mainly receives its sales revenue in Renminbi. The Group's exposure to exchange rate fluctuations results primarily from the unused proceeds denominated in Hong Kong dollars following the "Placing" to institutional investors in 2007 as well as the sales of products and purchase of raw materials in foreign currencies. The Group accepted the exposure to market risks and has not used forward currency contracts to eliminate the foreign currency exposures on individual transactions.

## COMMODITY PRICE RISKS

The Group faces commodity price risks as prices of our nonferrous metals purchases and sales are based on global and domestic prices, which are subject to significant fluctuations. As commodity products, nonferrous metals prices are principally dependent on the supply and demand dynamics in the market place in the long term. The Group does not actively manage this risk, except to a limited extent through commodity futures contracts.

## INTEREST RATE RISKS

The Group's exposure to interest rate risk relates primarily to our short-term and long-term bank loans and other borrowings, which totaled RMB7,057 million as at 30 June 2008. The Group's outstanding borrowings is subject to fixed rates of interest for the Renminbi portion and floating interest rates for the foreign exchange loan portion. An increase in prevailing interest rates would lead to an increase in interest cost on short-term debt in Renminbi when such debt is rolled over. To date, the Group has not entered into any type of interest rate agreements or derivatives to hedge against interest rate changes.

## CONTINGENT LIABILITIES

As of 30 June 2008, the Group has provided the following bank guarantee for bank loans granted to various parties:

| | **30 June 2008** *RMB'000* | 31 December 2007 *RMB'000* |
|---|---|---|
| The related party and the third party | **10,566** | 89,003 |

## 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 enquiries with all the Directors of the Company, the Directors have complied with the required standard as set out in the Model Code for the period ended 30 June 2008.

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

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

## PUBLICATION OF THE RESULTS ON WEBSITE

The financial information required to be disclosed under Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www. hnc2626.com in due course.

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

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

Shenzhen, the PRC, 24 August 2008

# DIRECTORS AND SENIOR MANAGEMENT

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

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

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

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

Other senior management: Zhou Xianlin, Hong Mingyang, Deng Yingjie, Lam Kai Yeung

# EMPLOYEES

As of 30 June 2008, the Group had approximately 22,080 full-time employees. Breakdowns by function and location are as follows:

| **Division** | **Employees** | **Proportion** (in percentages) |
|---|---|---|
| Management and administration | 2,010 | 9.10% |
| Engineering technician | 4,210 | 19.07% |
| Production staff | 12,590 | 57.02% |
| Repair and maintenance | 1,880 | 8.51% |
| Inspection | 850 | 3.85% |
| Sales | 540 | 2.45% |
| Total | 22,080 | 100% |

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

# SHARE CAPITAL

| | As at 30 June 2008 | | As at 31 December 2007 | |
|---|---|---|---|---|
| | **Number of shares '000** | **Amount RMB'000** | Number of shares '000 | Amount RMB'000 |
| Share capital issued and fully paid | | | | |
| Domestic shares at par value of RMB1.00 each | **2,035,330** | **2,035,330** | 2,035,330 | 2,035,330 |
| H shares at par value of RMB1.00 each | **1,632,728** | **1,632,728** | 1,632,728 | 1,632,728 |
| | **3,668,058** | **3,668,058** | 3,668,058 | 3,668,058 |

## SHARE CAPITAL STRUCTURE

As at 30 June 2008, the share capital structure of the Company was as follows:

| | As at 30 June 2008 | |
|---|---|---|
| | **Percentage of the number of shares in issue** | **Percentage of share capital** |
| **Holders of domestic shares or H shares** | | |
| **Holders of domestic shares** | | |
| Hunan Nonferrous Metals Holding Group Co. Ltd | 1,947,074,266 | 53.08% |
| Bangxin Asset Management Co., Ltd. | 55,859,566 | 1.52% |
| Zijin Mining Group Co., Ltd | 30,000,000 | 0.82% |
| Hunan Valin Steel and Iron Group Co., Ltd. | 1,396,168 | 0.04% |
| Chang Sha City Xinshi Technology Development Co., Ltd. | 1,000,000 | 0.03% |
| **Holders of H shares** | 1,632,728,000 | 44.51% |

| **Class of Shares** | **Number of Shares** | **Approximate percentage of the total share capital** |
|---|---|---|
| Domestic shares | 2,035,330,000 | 55.49% |
| H shares | 1,632,728,000 | 44.51% |
| Total number of shares | 3,668,058,000 | 100% |

# SUBSTANTIAL SHAREHOLDERS

So far as was known to any Director or Supervisor, as at 30 June 2008, the persons or companies (other than a Director or Supervisor of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company were as follow:

| Shareholders Name | Number of domestic shares held | Approximate percentage of shareholding |
|---|---|---|
| Hunan Nonferrous Metals Holding Group Co. Ltd# | 1,947,074,266 (L) | 53.08%(#) |
| UBS AG* | 107,613,391 (L) | 6.59%(*) |
| UBS AG* | 168,232,987 (S) | 10.30%(*) |
| The Hamon Investment Group Pte Limited | 93,669,000 (L) | 5.74%(*) |
| Citadel Equity Fund Ltd. | 69,844,000 (L) | 5.13%(*) |

Note: (L) - long positions, (S) - short positions, (#)Calculated by all issued share capital, (*)Calculated by H shares only

Save as disclosed above, as at 30 June 2008, the Directors were not aware of any other person (other than a Director or Supervisor of the Company) who had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

## DIRECTORS' AND SUPERVISORS' INTEREST IN CONTRACTS

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

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

### Stock Appreciation Rights Plan ("STAR")

An extraordinary shareholders meetings was held on 25 September 2006. It authorised (including) the preliminary stock appreciation recommendations pursuant to the Stock Plan. (Please read the section "Stock Plan" as detailed in the Prospectus dated 21 March 2006). This move attracts, retains and encourages 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 as of 30 June 2008:

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

Note: The above information in relation to STAR was disclosed in the 2007 interim report of the Company.

## DIRECTORS' AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN SHARES (Continued)

Save as disclosed above, as at 30 June 2008, none of Directors and Supervisors and their respective associates had 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 (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or (b) which would be required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

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

Save as disclosed above, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director and supervisor 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.

# USE OF PROCEEDS

By 30 June 2008, the Company has advanced the proceeds from the initial public offering totaling RMB2,456.96 million as follows:

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

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

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

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

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

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

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

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

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

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%.

In January 2008, the Company used the proceeds in the amount of RMB500 million for investing in the establishment of Hunan Nonferrous Xin Tian Ling Tungsten Company Limited, the Company held its equity interest of 100%.

In January 2008, the Company used the proceeds in the amount of RMB21 million for investing in the establishment of Hunan Nonferrous Metals Xitian Mining Company Limited (湖南有色錫田礦業有限公司), the Company held its equity interest of 70%.

Between March and April 2008, the Company used the proceeds in the amount of RMB87.28 million for investing in the establishment of Abra Mining Limited in Australia (澳大利亞愛博礦業有限公司), the Company held its equity interest of 17.76%.

In May 2008, the Company used the proceeds in the amount of RMB9 million for investing in the establishment of Gansu Jinda Mining Company Limited (甘肅金大礦業有限公司), the Company held its equity interest of 45%.

# CORPORATE GOVERNANCE

The Company is committed to improve its corporate governance and enhance the transparency to shareholders. In the opinion of the Board, for the six months ended 30 June 2008, the Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 of the Listing Rules.

## Board of Directors

Our Board of Directors consists of twelve Directors: four executive Directors, four non-executive Directors and four independent non-executive Directors. The Board met eight times during the six months ended 30 June 2008 (with an average attendance rate of 87%), in which four executive Directors had attended all the meetings of the Board of Directors.

## Supervisory Committee

The Company has a supervisory committee comprising eight supervisors to exercise supervision over the Board and its members and senior management and prevent them from abusing their power and authorities and jeopardising the legal interests of the shareholders, the Company and its employees. The committee met one time during the six months ended 30 June 2008 (with an average attendance rate of 77%).

## Model Code for Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. Based on specific enquiry with all the Directors of the Company, the Directors have complied with the required standard as set out in the Model Code for the period ended 30 June 2008.

## Board of Audit Committee

The Company has an audit committee comprising two independent non-executive Directors and one non-executive Director to review the Company's financial reports and internal control system, consider the appointment of independent auditors, provide recommendation to the Board, approve audit and audit related services, and supervise the Company's internal financial reporting procedures and management policies. The audit committee had reviewed the Group's unaudited results for the period ended 30 June 2008 and was of the opinion that the preparation of unaudited results complied with applicable accounting standards, the relevant regulatory and legal requirements and that adequate disclosure had been made. The committee met twice during the six months ended 30 June 2008 (with an average attendance rate of 100%).

## Independent Non-executive Director

The Company has complied with the requirement of Rule 3.10(1) and 3.10(2) of the Listing Rules regarding the appointment of an adequate number of independent non-executive directors, and at least one independent non-executive director has the necessary suitable professional qualification or has suitable accounting or relevant financial management expertise. The Company has appointed four independent non-executive directors, of which one independent non-executive director has the expertise in financial management. Details of the profile of independent non-executive directors can be referred to in the 2007 annual report of the Company.

# CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

| | Notes | Six months ended 30 June 2008 RMB'000 (Unaudited) | 2007 RMB'000 (Unaudited) |
|---|---|---|---|
| REVENUE | 4,5 | **8,864,865** | 11,328,123 |
| Cost of sales | | **(7,786,563)** | (10,024,196) |
| Gross profit | | **1,078,302** | 1,303,927 |
| Other income and gains | 5 | **89,008** | 150,322 |
| Selling and distribution costs | | **(167,905)** | (136,950) |
| Administrative expenses | | **(462,372)** | (444,661) |
| Other operating income/(expenses), net | | **(49,003)** | 892 |
| Finance costs | | **(207,210)** | (146,722) |
| Share of losses of associates | | **(1,326)** | (4,881) |
| PROFIT BEFORE TAX | 6 | **279,494** | 721,927 |
| Income tax expense | 7 | **(88,986)** | (217,506) |
| PROFIT FOR THE PERIOD | | **190,508** | 504,421 |
| Attributable to: | | | |
| Equity holders of the parent | | **74,168** | 301,873 |
| Minority interests | | **116,340** | 202,548 |
| | | **190,508** | 504,421 |
| DIVIDEND | 8 | **—** | — |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | 9 | | |
| Basic | | **2.02 cents** | 8.82 cents |
| Diluted | | **N/A** | N/A |

# CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2008

| | Notes | 30 June 2008 RMB'000 (Unaudited) | 31 December 2007 RMB'000 (Audited) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 10 | **5,996,840** | 5,308,740 |
| Land lease prepayments | | **958,544** | 958,770 |
| Intangible assets | | **829,033** | 855,541 |
| Other assets | 11 | **542,398** | — |
| Goodwill | | **79,547** | 77,927 |
| Interests in associates | | **124,129** | 164,972 |
| Available-for-sale investments | | **673,860** | 1,188,841 |
| Deferred tax assets | | **140,485** | 156,596 |
| Total non-current assets | | **9,344,836** | 8,711,387 |
| **CURRENT ASSETS** | | | |
| Inventories | | **3,776,280** | 4,198,518 |
| Trade receivables | 12 | **855,329** | 601,310 |
| Bills receivable | | **537,757** | 725,423 |
| Prepayments, deposits and other receivables | 13 | **766,773** | 665,867 |
| Tax recoverable | | **12,929** | 6,972 |
| Pledged deposits | 14 | **49,248** | 53,063 |
| Cash and cash equivalents | 14 | **3,247,354** | 3,635,708 |
| Total current assets | | **9,245,670** | 9,886,861 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 15 | **950,275** | 847,519 |
| Bills payable | | **138,140** | 209,780 |
| Other payables and accruals | 16 | **1,381,962** | 1,493,470 |
| Interest-bearing bank and other borrowings | 17 | **4,867,981** | 4,571,225 |
| Tax payable | | **190,135** | 291,088 |
| Dividend payable | | **124,477** | 63,161 |
| Total current liabilities | | **7,652,970** | 7,476,243 |
| **NET CURRENT ASSETS** | | **1,592,700** | 2,410,618 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **10,937,536** | 11,122,005 |

# CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2008

| | Notes | 30 June 2008 RMB'000 (Unaudited) | 31 December 2007 RMB'000 (Audited) |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing bank and other borrowings | 17 | **2,188,806** | 1,856,935 |
| Other liabilities | 18 | **413,294** | 392,810 |
| Payables for mining rights | | **261,912** | 304,277 |
| Government grants | | **139,189** | 150,196 |
| Deferred tax liabilities | | **230,700** | 379,371 |
| Total non-current liabilities | | **3,233,901** | 3,083,589 |
| **NET ASSETS** | | **7,703,635** | 8,038,416 |
| **EQUITY** | | | |
| **Equity attributable to equity holders of the parent** | | | |
| Issued share capital | 19 | **3,668,058** | 3,668,058 |
| Reserves | | **1,888,853** | 1,971,514 |
| Proposed final dividend | | **—** | 124,714 |
| | | **5,556,911** | 5,764,286 |
| **Minority interests** | | **2,146,724** | 2,274,130 |
| **TOTAL EQUITY** | | **7,703,635** | 8,038,416 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

For the six months ended 30 June 2008

| | Attributable to equity holders of the parent | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 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 1 January 2008 | 3,668,058 | 941,606 | 93,977 | (506) | 330,116 | 606,321 | 124,714 | 5,764,286 | 2,274,130 | 8,038,416 |
| Exchange realignment | | | | 6,357 | | | | 6,357 | (305) | 6,052 |
| Changes in fair value of available-for-sale investments, net of deferred tax | | | | | (150,449) | | | (150,449) | (303,010) | (453,459) |
| Net actuarial losses of defined benefit retirement schemes, net of deferred tax | | | | | | (15,720) | | (15,720) | (2,135) | (17,855) |
| Total income and expense recognized directly in equity | | | | 6,357 | (150,449) | (15,720) | | (159,812) | (305,450) | (465,262) |
| Profit for the period | | | | | | 74,168 | | 74,168 | 116,340 | 190,508 |
| Total income and expense for the period | | | | 6,357 | (150,449) | 58,448 | | (85,644) | (189,110) | (274,754) |
| Acquisition/consolidation of subsidiaries | | | | | | | | | 37,897 | 37,897 |
| Disposal of a subsidiary | | | | | | | | | (228) | (228) |
| Revaluation surplus | | 2,983 | | | | | | 2,983 | 78 | 3,061 |
| Capital contribution from minority shareholders | | | | | | | | | 79,160 | 79,160 |
| Distribution of dividend | | | | | | | (124,714) | (124,714) | — | (124,714) |
| Dividend paid and payable to minority shareholders | | | | | | | | | (55,203) | (55,203) |
| At 30 June 2008 (Unaudited) | 3,668,058 | 944,589 | 93,977 | 5,851 | 179,667 | 664,769 | — | 5,556,911 | 2,146,724 | 7,703,635 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

For the six months ended 30 June 2008

| | Attributable to equity holders of the parent | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 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 1 January 2007 | 3,420,678 | 42,299 | 116,584 | (669) | 157,541 | 400,024 | 88,938 | 4,225,395 | 1,544,693 | 5,770,088 |
| Exchange realignment | | | | 1,155 | | | | 1,155 | (389) | 766 |
| Changes in fair value of available-for-sale investments, net of deferred tax | | | | | (26,009) | | | (26,009) | — | (26,009) |
| Disposal of available-for-sale investments, net of deferred tax | | | | | (78,771) | | | (78,771) | — | (78,771) |
| Net actuarial losses of defined benefit retirement schemes, net of deferred tax | | | | | | (7,223) | | (7,223) | 827 | (6,396) |
| Total income and expense recognized directly in equity | | | | 1,155 | (104,780) | (7,223) | | (110,848) | 438 | (110,410) |
| Profit for the period | | | | | | 301,873 | | 301,873 | 202,548 | 504,421 |
| Total income and expense for the period | | | | 1,155 | (104,780) | 294,650 | | 191,025 | 202,986 | 394,011 |
| Acquisition of a subsidiary | | | | | | | | | 6,012 | 6,012 |
| Disposal of a subsidiary | | | | | | | | | (8,971) | (8,971) |
| The new shares issued by a subsidiary | | | | | | | | | 189,561 | 189,561 |
| Distribution of dividend | | | | | | | (88,938) | (88,938) | — | (88,938) |
| Dividend paid and payable to minority shareholders | | | | | | | | | (99,359) | (99,359) |
| At 30 June 2007 (Unaudited) | 3,420,678 | 42,299 | 116,584 | 486 | 52,761 | 694,674 | — | 4,327,482 | 1,834,922 | 6,162,404 |

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2008

| | Notes | Six months ended 30 June<br>2008<br>RMB'000<br>(Unaudited) | <br>2007<br>RMB'000<br>(Unaudited) |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | **459,598** | 100,283 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | **(1,366,509)** | (592,086) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | **499,604** | 627,093 |
| **NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS** | | **(407,307)** | 135,290 |
| Effect of foreign exchange rate changes, net | | **6,357** | 1,155 |
| Cash and cash equivalents at beginning of period | | **3,473,608** | 1,704,501 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | 14 | **3,072,658** | 1,840,946 |

## 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.

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").

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

In April 2006, as a result of the over-allotment option as detailed in the Company's prospectus dated 21 March 2006, an additional 161,336,000 new H shares were issued to the public at a price of HK$1.65 per share (equivalent to approximately RMB1.70 per share) and such H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited. In addition, 16,134,000 H shares converted from the Company's same number of domestic shares were transferred to the NSSF. Pursuant to the approval of the SASAC dated 20 March 2007, the NSSF entrusted the Company to effect a sale of the converted 24,738,000 H shares as part of the placing, and to remit the entire net proceeds of the sale 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 paid 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.

## 2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2008 have been prepared in accordance with IAS 34 Interim Financial Reporting and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2007.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the interim condensed consolidated financial statements of the Group are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2007, except for the adoption of new Standards and Interpretations, noted below:

| | |
|---|---|
| • IFRIC 11 | IFRS 2-Group and Treasury Share Transactions |
| • IFRIC 12 | Service Concession Arrangements |
| • IFRIC 14 | IAS 19-The limit on a Defined Benefit Asset,<br>Minimum Funding Requirements and their Interaction |

### 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. The adoption of this interpretation did not have material effect on the financial position or performance of the Group.

### 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. The adoption of this interpretation did not have material effect on the financial position or performance of the Group.

### 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 adoption of this interpretation did not have material effect on the financial position or performance of the Group.

## 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.

## 4. SEGMENT INFORMATION (Continued)

### (a) Business segments

| For the six months ended 30 June 2008 (Unaudited) | Nonferrous metal mine site RMB'000 | Nonferrous metal smelting RMB'000 | Cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds RMB'000 | Corporate and others RMB'000 | Eliminations RMB'000 | Consolidated RMB'000 |
|---|---|---|---|---|---|---|
| **Segment revenue:** | | | | | | |
| Sales to external customers | 1,077,042 | 4,688,647 | 3,175,908 | — | — | 8,941,597 |
| Inter-segment sales | 205,235 | 211 | 1,978 | — | (207,424) | — |
| Less: Sales tax and surcharge | (17,525) | (35,535) | (23,672) | — | — | (76,732) |
| Total | 1,264,752 | 4,653,323 | 3,154,214 | — | (207,424) | 8,864,865 |
| **Segment results** | 104,911 | 236,861 | 211,335 | (74,311) | — | 478,796 |
| Dividend income | | | | | | 9,234 |
| Finance costs | | | | | | (207,210) |
| Share of losses of associates | | | (1,326) | — | — | (1,326) |
| Profit before tax | | | | | | 279,494 |
| Income tax expense | | | | | | (88,986) |
| Net profit for the period | | | | | | 190,508 |

## 4. SEGMENT INFORMATION (Continued)

### (a) Business segments (Continued)

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

## 4. SEGMENT INFORMATION (Continued)

### (b) Geographical segments

| **For the six months ended 30 June 2008 (Unaudited)** | **Mainland China RMB'000** | **Other Asian Countries RMB'000** | **Others RMB'000** | **Eliminations RMB'000** | **Consolidated RMB'000** |
|---|---|---|---|---|---|
| **Segment revenue:** | | | | | |
| Sales to external customers | **7,692,293** | **733,509** | **515,795** | **—** | **8,941,597** |
| Inter-segment sales | **207,424** | **—** | **—** | **(207,424)** | **—** |
| Less: Sales tax and surcharge | **(76,732)** | **—** | **—** | **—** | **(76,732)** |
| | **7,822,985** | **733,509** | **515,795** | **(207,424)** | **8,864,865** |

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

## 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:

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| **Revenue:** | | |
| Sale of goods | **8,941,597** | 11,409,280 |
| Less: Sales tax and surcharge | **(76,732)** | (81,157) |
| | **8,864,865** | 11,328,123 |
| **Other income and gains:** | | |
| Interest income | **27,794** | 16,237 |
| Dividend income | **9,234** | 8,714 |
| Profit from scrap sales | **—** | 36,561 |
| Profit from sale of utilities | **—** | 6,120 |
| Gross rental income | **1,108** | 1,310 |
| Gains on disposal of available-for-sale investments | **—** | 63,889 |
| Net realized and unrealized gains on derivative financial instruments | **14,361** | 2,570 |
| Recognition of government grants | **19,299** | 3,148 |
| Rendering of service | **2,025** | 5,456 |
| Gains on disposal of items of property, plant and equipment | **—** | 1,064 |
| Gains on disposal of a subsidiary | **—** | 927 |
| Gains on disposal of an associate | **9,421** | — |
| Others | **5,766** | 4,326 |
| | **89,008** | 150,322 |

## 6. PROFIT BEFORE TAX

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

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| Cost of inventories sold | **7,786,563** | 10,024,196 |
| Depreciation | **239,354** | 194,746 |
| Amortization of land lease prepayments | **9,570** | 7,763 |
| Amortization of intangible assets | | |
| Mining rights | **26,602** | 26,494 |
| Technical know-how and others | **3,107** | 3,291 |
| Provision for obsolete inventories | **99,991** | 6,488 |
| Provision for impairment on trade and other receivables, net* | **1,690** | (18,517) |
| Losses/(gains) on disposal of items of property, plant and equipment* | **12,863** | (1,064) |
| Gains on disposal of available-for-sale investments* | **—** | (63,889) |
| Losses/(profit) from scrap sales* | **2,920** | (36,561) |
| Net realized and unrealized gains on derivative financial instruments* | **(14,361)** | (2,570) |

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

## 7. INCOME TAX EXPENSE

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

PRC corporate income tax ("CIT") has been provided at a rate of 25% on the taxable income as reported in the statutory accounts of the companies comprising the Group, which are prepared in accordance with PRC GAAP, as adjusted for income and expense items which are not assessable or deductible for income tax purpose, except for the following subsidiaries of the Company:

(i) Shenzhen Jinzhou Jinggong Scientific and Technological Company Limited is subject to a preferential CIT rate of 18% as it is located in the Shenzhen Special Economic Zone.

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

Major components of the income tax expense are as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| PRC corporate income tax: | | |
| Current | **73,094** | 203,542 |
| Deferred | **15,892** | 13,964 |
| Total tax charge for the period | **88,986** | 217,506 |

The share of income tax attributable to associates is nil (six months ended 30 June 2007: RMB184,000) which is included in "Share of losses of associates" on the face of the interim condensed consolidated income statement.

## 8. DIVIDEND

The board of directors does not recommend the payment of any interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil).

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

The calculation of basic earnings per share is based on:

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| **Earnings** | | |
| Net profit for the period attributable to equity holders of the parent | **74,168** | 301,873 |
| | **Number of shares** | |
| | **'000** | '000 |
| **Shares** | | |
| Weighted average number of shares in issue during the period | **3,668,058** | 3,420,678 |

The Company's weighted average number of shares used in the calculation during the six months period ended 30 June 2008 and 2007 is the ordinary shares in issue during the period.

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

## 10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2008, the Group acquired property, plant and equipment in an aggregate amount of approximately RMB892,527,000 and disposed of property, plant and equipment with an aggregate net book value of approximately RMB25,664,000, resulting in a net loss on disposal of approximately RMB12,863,000. No impairment provision on property, plant and equipment was made during the period.

## 11. OTHER ASSETS

| | **30 June 2008 RMB'000 (Unaudited)** | 31 December 2007 RMB'000 (Audited) |
|---|---|---|
| Prepayment for mining and exploration rights | **542,398** | — |
| | **542,398** | — |

## 12. 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:

| | **30 June 2008 RMB'000 (Unaudited)** | 31 December 2007 RMB'000 (Audited) |
|---|---|---|
| Within 1 year | **850,485** | 600,122 |
| Over 1 year but within 2 years | **15,484** | 7,736 |
| Over 2 years but within 3 years | **4,480** | 6,022 |
| Over 3 years | **27,078** | 22,623 |
| | **897,527** | 636,503 |
| Less: Impairment | **(42,198)** | (35,193) |
| | **855,329** | 601,310 |

## 13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 30 June 2008 RMB'000 (Unaudited) | 31 December 2007 RMB'000 (Audited) |
|---|---|---|
| Prepayments to suppliers | 545,669 | 452,677 |
| Other receivables | 281,366 | 272,371 |
| | 827,035 | 725,048 |
| Less: Provision for impairment | (60,262) | (59,181) |
| | 766,773 | 665,867 |

Included in the other receivables and prepayments of the Group are receivables from HNG and its subsidiaries excluding the Group ("HNG Group") of RMB52,149,000 as at 30 June 2008 (31 December 2007: RMB63,217,000) which were unsecured, interest-free and have no fixed terms of repayment.

## 14. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | 30 June 2008 RMB'000 (Unaudited) | 31 December 2007 RMB'000 (Audited) |
|---|---|---|
| Cash and bank balances | 1,925,087 | 1,784,180 |
| Time deposits | 1,371,515 | 1,904,591 |
| | 3,296,602 | 3,688,771 |
| Less: Pledged cash and time deposits against trade finance facilities | (49,248) | (53,063) |
| Cash and cash equivalents in the balance sheet | 3,247,354 | 3,635,708 |
| Less: Non-pledged time deposits with original maturity of three months or more when acquired | (174,696) | (162,100) |
| Cash and cash equivalents in the cash flow statements | 3,072,658 | 3,473,608 |

As at 30 June 2008, the cash and bank balances and time deposits of the Group included HK$1,118,752,000 (31 December 2007: HK$1,321,327,000), US$8,704,000 (31 December 2007: US$10,271,000) and AU$29,478,000 (31 December 2007: AU$64,127,000) respectively.

## 15. TRADE PAYABLES

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

| | **30 June 2008 RMB'000 (Unaudited)** | 31 December 2007 RMB'000 (Audited) |
|---|---|---|
| Within 1 year | **929,928** | 826,997 |
| Over 1 year but within 2 year | **5,153** | 8,912 |
| Over 2 years but within 3 year | **7,986** | 6,034 |
| Over 3 years | **7,208** | 5,576 |
| | **950,275** | 847,519 |

The amount due to the HNG Group of RMB50,993,000 as at 30 June 2008 (31 December 2007: RMB49,132,000) was unsecured, interest-free and repayable within trade credit periods.

## 16. OTHER PAYABLES AND ACCRUALS

| | **30 June 2008 RMB'000 (Unaudited)** | 31 December 2007 RMB'000 (Audited) |
|---|---|---|
| Advance from customers | **446,945** | 464,318 |
| Accrued taxes other than income tax | **183,024** | 259,306 |
| Accrued salaries, wages and benefits | **162,117** | 115,200 |
| Payables for mining rights- current portion | **246,642** | 204,276 |
| Accrued expenses and other payables | **343,234** | 450,370 |
| | **1,381,962** | 1,493,470 |

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

Included in other payables and accruals of the Group were balances due to the HNG Group of RMB36,239,000 as at 30 June 2008 (31 December 2007: RMB23,412,000).

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

## 17. INTEREST-BEARING BANK AND OTHER BORROWINGS

(i) Other than certain of the bank loans in the aggregate amount of US$187,945,000 and EUR11,373,000 as at 30 June 2008 (31 December 2007: US$192,703,000 and EUR16,385,000), all of the Group's bank loans are denominated in RMB.

(ii) 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 RMB1,880,020,000 as at 30 June 2008 (31 December 2007: RMB1,413,272,000).

(iii) The entrusted loans amounting to RMB450,000,000 were granted by HNG to the Group (31 December 2007: Nil) as at 30 June 2008.

## 18. OTHER LIABILITIES

| | **30 June 2008 RMB'000 (Unaudited)** | 31 December 2007 RMB'000 (Audited) |
|---|---|---|
| Provision for supplementary pension subsidies and early retirement benefits (note) | **424,801** | 413,530 |
| Share appreciation right plan | **5,278** | 16,789 |
| Balance as at period/year end | **430,079** | 430,319 |
| Represented by: | | |
| Current portion included in other payables and accruals | **16,785** | 37,509 |
| Long term liabilities | **413,294** | 392,810 |
| | **430,079** | 430,319 |

## 18. OTHER LIABILITIES (Continued)

Note:

**Provision for supplementary pension subsidies and early retirement benefits**

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

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

## 19. ISSUED SHARE CAPITAL

| | **Number of shares 30 June 2008 '000** | **Nominal value 30 June 2008 RMB'000 (Unaudited)** | Number of shares 31 December 2007 '000 | Nominal value 31 December 2007 RMB'000 (Audited) |
|---|---|---|---|---|
| Registered, issued and fully paid | | | | |
| - domestic shares of RMB1.00 each | **2,035,330** | **2,035,330** | 2,035,330 | 2,035,330 |
| - H shares of RMB1.00 each | **1,632,728** | **1,632,728** | 1,632,728 | 1,632,728 |
| | **3,668,058** | **3,668,058** | 3,668,058 | 3,668,058 |

## 20. ACQUISITION/CONSOLIDATION AND DISPOSAL OF SUBSIDIARIES

### (a) Acquisition/consolidation of subsidiaries

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

| | **Fair value recognized on acquisition/ consolidation** | **Carrying amount** | Fair value recognized on acquisition | Carrying amount |
|---|---|---|---|---|
| | **Six months ended 30 June** | | Six months ended 30 June | |
| | **2008** | **2008** | 2007 | 2007 |
| | **RMB'000** | **RMB'000** | RMB'000 | RMB'000 |
| | **(Unaudited)** | **(Unaudited)** | (Unaudited) | (Unaudited) |
| Property, plant and equipment | **60,703** | **50,259** | 18,193 | 18,193 |
| Land lease prepayments | **4,014** | **2,799** | 85,343 | — |
| Intangible assets | **1,354** | **1,354** | 318,181 | 493 |
| Available-for-sale investments | **178** | **178** | 4,500 | 4,500 |
| Inventories | **141,601** | **141,904** | 12,668 | 12,668 |
| Trade receivables | **47,554** | **47,554** | 168 | 168 |
| Prepayments, deposits and other receivables | **21,894** | **21,945** | 17,757 | 17,757 |
| Cash and cash equivalents | **25,735** | **25,735** | 16,325 | 16,325 |
| Bills receivable | **4,679** | **4,679** | — | — |
| Tax recoverable | **171** | **171** | — | — |
| Interest-bearing bank and other borrowings | **(101,000)** | **(101,000)** | — | — |
| Trade payables | **(53,200)** | **(53,200)** | (744) | (744) |
| Dividend payable | **(6,510)** | **(6,510)** | — | — |
| Other payables and accruals | **(49,586)** | **(49,586)** | (8,192) | (8,192) |
| Government grants | **(2)** | **(2)** | (2,000) | (2,000) |
| Tax payable | **(241)** | **(241)** | (1,448) | (1,448) |
| Deferred tax liabilities | **(1,993)** | **—** | (100,758) | — |
| Minority interests | **(37,897)** | **(34,197)** | (6,012) | (964) |
| Fair value/carrying value of net assets at dates of acquisition/consolidation | **57,454** | **51,842** | 353,981 | 56,756 |
| Goodwill on acquisition | **1,620** | | — | |
| | **59,074** | | **353,981** | |
| Satisfied or represented by: | | | | |
| Interests in associates | **37,371** | | — | |
| Cash | **21,703** | | 353,981 | |
| | **59,074** | | 353,981 | |

## 20. ACQUISITION/CONSOLIDATION AND DISPOSAL OF SUBSIDIARIES (Continued)

### (a) Acquisition/consolidation of subsidiaries (Continued)

An analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the acquisition/consolidation of subsidiaries is as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| Cash and bank balances acquired and net inflow of cash and cash equivalents in respect of the consolidation of subsidiaries in the condensed consolidated balance sheet | **25,735** | 16,325 |
| Less: Cash consideration | **(21,703)** | (353,981) |
| Net inflow/(outflow) of cash and cash equivalents in respect of the consolidation of subsidiaries in the condensed consolidated cash flow statements | **4,032** | (337,656) |

Notes:

Zhuzhou Changjiang Cemented Carbides Tools Company Limited ("Zhuzhou Changjiang") was accounted for as an associate as at 31 December 2007 when the Group held a 46.02% equity interest. In 2008, the Group injected RMB20,000,000 to acquire additional equity interest in Zhuzhou Changjiang. As a result, the Group held 60.60% equity interests in Zhuzhou Changjiang and incorporated it in the condensed consolidated financial statements starting from January 2008. Zhuzhou Changjiang is principally engaged in the manufacture of metal and alloy products.

Since the date of the consolidation, Zhuzhou Changjiang has contributed a loss of RMB 4,079,000 to the Group's profit distributable to equity shareholders of the parent and revenue of RMB130,167,000 for the six months ended 30 June 2008.

Zigong Keruide New Materials Co., Ltd. ("Zigong Keruide") was accounted for as an associate as at 31 December 2007 when Ziying, a subsidiary of the Company, held 47% equity interest of Zigong Keruide. In January 2008, Ziying acquired additional equity interests of Zigong Keruide for a cash consideration of RMB1,703,000, taking its ownership to 59.33%. As a result, Zigong Keruide was consolidated into the condensed consolidated financial statements of the Group. Zigong Keruide is principally engaged in the manufacture and trading of hard alloy products.

Since the date of the acquisition, Zigong Keruide has contributed a gain of RMB113,000 to the Group's profit distributable to equity shareholders of the parent and revenue of RMB 54,242,000 for the six months ended 30 June 2008.

## 20. ACQUISITION/CONSOLIDATION AND DISPOSAL OF SUBSIDIARIES (Continued)

### (b) Disposal of a subsidiary

| | Six months ended 30 June | |
|---|---|---|
| | **30 June 2008** | 30 June 2007 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| Property, plant and equipment | **105** | 11,779 |
| Lease prepayments | **—** | 2,238 |
| Intangible assets | **—** | 28 |
| Inventories | **1,215** | 2,915 |
| Bills receivables | **509** | — |
| Trade receivables | **274** | 72 |
| Prepayments, deposits and other receivables | **598** | 833 |
| Cash and cash equivalents | **1,335** | 4,879 |
| Trade payables | **(322)** | (3,091) |
| Other payables and accruals | **(298)** | (1,568) |
| Tax payable | **(1)** | (453) |
| Minority interests | **(228)** | (8,971) |
| Carrying value of net assets at the date of disposal | **3,187** | 8,661 |
| (Losses)/gains on disposal of a subsidiary | **(84)** | 927 |
| | **3,103** | 9,588 |
| Satisfied by: | | |
| Cash and cash equivalents | **3,103** | 9,588 |

During the six months ended 30 June 2008, the Group disposed of its 93.33% equity interests in Nanjing Diamond Cutting Tools Company Limited for considerations of RMB3,103,000.

The net inflow of cash and cash equivalents in respect of the disposal is RMB1,768,000.

## 21. OTHER MATTERS

On 12 May 2008, the Board of the Company announced that the company had made an offer to the shareholders of Abra Mining Limited ("Abra"), a company incorporated in Australia and whose shares are listed on the Australia Securities Exchange Limited, to purchase 70% of the issued Abra shares not held by the Company. The Company owned approximately 17.8% of the Abra shares (the 17.8% shares were acquired in March and April 2008 and the fair value as at 30 June 2008 was RMB100,782,000). The offer price is AU$0.83 per Abra share and the total consideration will be approximately AU$81,210,000 (equivalent to approximately RMB537,285,000).

The offer is subject to the approval by relevant authorities of Australia and China.

For more details, please refer to the Company's announcement on 15 May 2008 and 4 June 2008.

## 22. CONTINGENT LIABILITIES

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

| | **30 June 2008 RMB'000 (Unaudited)** | 31 December 2007 RMB'000 (Audited) |
|---|---|---|
| Guarantees given to banks in respect of bank loans granted to: | | |
| Associates | **—** | 74,000 |
| Third parties | **10,566** | 15,003 |
| | **10,566** | 89,003 |

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

## 23. OPERATING LEASE ARRANGEMENTS

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

At 30 June 2008, the Company had total future minimum lease payments under non-cancelable operating leases falling due as follows:

| | **30 June 2008 RMB'000 (Unaudited)** | 31 December 2007 RMB'000 (Audited) |
|---|---|---|
| Within one year | **23,385** | 22,854 |
| In the second to fifth years, inclusive | **85,079** | 88,885 |
| After five years | **178,615** | 181,356 |
| | **287,079** | 293,095 |

## 24. COMMITMENTS

In addition to the operating lease commitments detailed in note 23 to the condensed consolidated financial statements, the Group had the following capital commitments at the balance sheet date:

| | **30 June 2008 RMB'000 (Unaudited)** | 31 December 2007 RMB'000 (Audited) |
|---|---|---|
| Contracted, but not provided for: | | |
| Property, plant and equipment | **501,607** | 697,881 |
| Other assets | **41,440** | — |
| Authorized, but not contracted for: | | |
| Property, plant and equipment | **892,984** | 2,618,218 |

Note:

At 30 June 2008, the Company had commitments principally relating to Zhuye Listo'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).

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

## 25. RELATED PARTY TRANSACTIONS

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

### (a) Transactions with the HNG Group

| | Six months ended 30 June | |
|---|---|---|
| **Nature of transactions** | **2008<br>RMB'000<br>(Unaudited)** | 2007<br>RMB'000<br>(Unaudited) |
| Sales of raw materials and products | **114,281** | 22,811 |
| Sales of property, plant and equipment | **3,672** | — |
| Provision of electricity and water | **1,134** | 1,391 |
| Subcontracting income | **1,667** | 1,287 |
| Rental income | **930** | 368 |
| Purchase of raw materials and products | **137,560** | 131,667 |
| Purchases of electricity | **26** | — |
| Transportation service fees | **14,776** | 16,413 |
| Repairs and maintenance fees | **15,289** | 5,771 |
| Installation charges | **10,363** | 14,050 |
| Subcontracting fees | **10,079** | 6,817 |
| Rental fees | **889** | 865 |
| Property management service | **1,856** | 3,342 |

## 25. RELATED PARTY TRANSACTIONS (Continued)

### (b) Transactions with associates

| | Six months ended 30 June | |
|---|---|---|
| **Nature of transactions** | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| Sales of raw materials and products | **505,670** | 168,963 |
| Purchases of raw materials and products | **759,494** | 927,587 |
| Rental cost | **105** | — |
| Rental income | **150** | 360 |
| Provision of electricity and water | **11,202** | 8,589 |
| Provision of services | **8,729** | 370 |
| Purchases of property, plant and equipment | **781** | — |
| Purchases of services | **2,655** | 238 |

### (c) Guarantee granted by HNG to the Group

| | | |
|---|---|---|
| | **30 June** | 31 December |
| **Nature of the guarantee** | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Audited) |
| Corporate guarantee | **755,646** | 597,575 |

### (d) Guarantee granted for securing associates' bank loans (note 22)

| | | |
|---|---|---|
| | **30 June** | 31 December |
| **Nature of the guarantee** | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Audited) |
| Corporate guarantee | **—** | 74,000 |

## 25. RELATED PARTY TRANSACTIONS (Continued)

### (e) Lease of land use right from HNG

| | Six months ended 30 June | |
|---|---|---|
| **Nature of transactions** | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| | **(Unaudited)** | (Unaudited) |
| Lease of land use right | **6,992** | 6,992 |

## 26. EVENTS AFTER THE BALANCE SHEET DATE

There is no significant post balance sheet events subsequent to the period ended 30 June 2008.

## 27. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on 24 August 2008.