



Hunan Nonferrous Metals Corporation Limited

湖南有色金属股份有限公司*

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

(Stock Code: 2626)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

The board of director ("the Board") of Hunan Nonferrous Metals Corporation Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") is pleased to announce the results for the year ended 31 December 2007.

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
REVENUE	2,3	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	3	358,132	186,560
Selling and distribution costs		(311,318)	(234,905)
Administrative expenses		(970,601)	(896,408)
Other expenses, net	4	(27,829)	(249,466)
Finance costs		(343,731)	(245,022)
Share of profits and losses of associates		(70,689)	(8,608)
PROFIT BEFORE TAX	4	715,562	1,165,103
Income tax expense	5	(239,362)	(290,461)
PROFIT FOR THE YEAR		476,200	874,642
Attributable to:			
Equity holders of the parent		314,896	451,409
Minority interests		161,304	423,233
		476,200	874,642
PROPOSED FINAL DIVIDEND – RMB 0.034 (2006: RMB0.026) PER ORDINARY SHARE	6	124,714	88,938
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7		
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	8	5,308,740	4,047,600
Land lease prepayments		958,770	885,628
Intangible assets	9	855,541	591,732
Goodwill		77,927	56,546
Interests in associates		164,972	254,455
Available-for-sale investments		1,188,841	464,441
Deferred tax assets		156,596	81,260
Total non-current assets		8,711,387	6,381,662
CURRENT ASSETS			
Inventories		4,198,518	4,504,612
Trade receivables	10	601,310	474,233
Bills receivable		725,423	401,497
Prepayments, deposits and other receivables		665,867	885,421
Tax recoverable		6,972	10,791
Pledged deposits		53,063	57,148
Cash and cash equivalents		3,635,708	1,939,091
Total current assets		9,886,861	8,272,793
CURRENT LIABILITIES			
Trade payables	11	847,519	964,243
Bills payable		209,780	187,579
Other payables and accruals		1,493,470	1,552,591
Interest-bearing bank and other borrowings		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
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		1,856,935	721,888
Other liabilities		392,810	386,559
Payables for mining rights		304,277	405,702
Government grants		150,196	117,234
Deferred tax liabilities		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	12	3,668,058	3,420,678
Reserves		1,971,514	715,779
Proposed final dividend	6	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

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
	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	-	-	-	-	-	(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	-	-	-	-	-	(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 (continued)
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
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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	-	-	-	-	-	(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
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	6,014	6,014
Disposal of subsidiaries	-	-	-	-	-	-	-	-	(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	-	-	-	-	-	(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

	2007 RMB'000	2006 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	715,562	1,165,103
Adjustments for:		
Finance costs	343,731	245,022
Share of profits and losses of associates	70,689	8,608
Interest income	(72,647)	(136,138)
Dividend income	(11,222)	(5,616)
Losses/(gains) on disposal of items of property, plant and equipment	(12,022)	14,230
Gains on disposal of other financial assets, net	-	(2,443)
Gains on disposal of available-for-sale investments	(62,886)	-
Excess over the cost of a business combination	(995)	-
Gains on acquisition of minority interests	(8,951)	-
Losses/(gains) on disposal of subsidiaries	(2,197)	3,670
Net realized and unrealized losses/(gains) on derivative financial instruments	(74,326)	35,281
Depreciation	428,573	374,419
Amortization of land lease prepayments	19,321	15,636
Amortization of intangible assets	55,036	55,297
Provision for impairment on trade and other receivables, net	1,436	30,537
Provision for obsolete inventories	200,249	16,124
Share appreciation rights	12,840	3,949
Cost of supplementary pension subsidies and early retirement benefits	20,224	33,484
Recognition of government grants	(23,865)	(13,205)
Impairment of an interest in an associate	-	45,328
Loss on dilution of an interest in an associate	-	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)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	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	(7,366)	(29,045)
Purchases of items of property, plant and equipment	(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
Acquisition of subsidiaries, net of cash acquired	(322,306)	(77,736)
Disposal of subsidiaries, net of cash disposed of	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	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	<u>(1,764,831)</u>	<u>(1,245,950)</u>
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)
Distribution to the ultimate holding company	(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	<u>2,751,441</u>	<u>2,246,696</u>
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	<u><u>3,473,608</u></u>	<u><u>1,704,501</u></u>

Notes:

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 Committee 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 and other financial assets. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2. SEGMENT INFORMATION

(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 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	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	<u>3,156,357</u>	<u>13,538,084</u>	<u>5,480,078</u>	<u>-</u>	<u>(680,830)</u>	<u>21,493,689</u>
Segment results	<u>146,074</u>	<u>608,064</u>	<u>353,615</u>	<u>(51,879)</u>	<u>-</u>	<u>1,055,874</u>
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						<u>476,200</u>
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						<u>1,352,409</u>
Total assets						<u>18,598,248</u>
Segment liabilities	1,330,473	1,021,976	987,057	121,707	-	3,461,213
Unallocated liabilities						<u>7,098,619</u>
Total liabilities						<u>10,559,832</u>
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	<u>758,386</u>	<u>486,482</u>	<u>457,548</u>	<u>2,769</u>	<u>-</u>	<u>1,705,185</u>

Year ended 31 December 2006	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	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	<u>2,649,880</u>	<u>12,197,711</u>	<u>3,435,353</u>	<u>-</u>	<u>(517,815)</u>	<u>17,765,129</u>
Segment results	<u>137,368</u>	<u>1,067,476</u>	<u>244,225</u>	<u>(172,090)</u>	<u>-</u>	<u>1,276,979</u>
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						<u>874,642</u>
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						<u>14,654,455</u>
Segment liabilities	1,187,237	1,218,686	1,181,716	69,396	-	3,657,035
Unallocated liabilities						5,227,332
Total liabilities						<u>8,884,367</u>
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

(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 RMB'000	Other Asian Countries RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated 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)
	<u>18,332,137</u>	<u>2,653,186</u>	<u>1,189,196</u>	<u>(680,830)</u>	<u>21,493,689</u>
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	-	-	-	-	<u>1,352,409</u>
					<u>18,598,248</u>
Capital expenditure	<u>1,296,914</u>	<u>-</u>	<u>408,271</u>	<u>-</u>	<u>1,705,185</u>
Year ended 31 December 2006	Mainland China RMB'000	Other Asian Countries RMB'000	Others RMB'000	Eliminations RMB'000	Consolidated 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)
	<u>14,442,926</u>	<u>3,029,273</u>	<u>810,745</u>	<u>(517,815)</u>	<u>17,765,129</u>
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	-	-	-	-	<u>556,492</u>
					<u>14,654,455</u>
Capital expenditure	<u>850,348</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>850,348</u>

3. 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:

	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	23,865	13,205
Rendering of service	8,345	3,029
Donation received	-	1,595
Excess over the cost of a business combination	995	-
Gains on disposal of subsidiaries	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

4. PROFIT BEFORE TAX

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

	2007 RMB'000	2006 RMB'000
Cost of inventories sold	19,412,091	15,152,177
Staff costs (including directors' and supervisors' remuneration):		
Wages, salaries and bonuses	905,436	736,385
Share appreciation rights*	12,840	3,949
Contributions to defined contribution pension schemes	158,967	129,594
Cost of supplementary pension subsidies and early retirement benefits:		
— 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	428,573	374,419
Amortization of land lease prepayments	19,321	15,636
Amortization of intangible assets		
Mining rights	50,838	50,816

Technical know-how and others*	4,198	4,481
	<u>55,036</u>	<u>55,297</u>
Minimum lease payments under operating leases in respect of land:		
Lease of land from HNG	14,930	15,125
Lease of land from other parties	<u>4,726</u>	<u>2,980</u>
	<u>19,656</u>	<u>18,105</u>
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	-	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	-	45,328
Loss from disposal of a subsidiary	-	3,670
Others	<u>1,850</u>	<u>3,743</u>
	<u>27,829</u>	<u>249,466</u>

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

5. 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 RMB'000	2006 RMB'000
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PRC corporate income tax

Current	312,618	283,877
Deferred	(73,256)	6,584
Total tax charge for the year	<u>239,362</u>	<u>290,461</u>

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 and 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	<u>239,362</u>	<u>33.4</u>	<u>290,461</u>	<u>25.0</u>

The share of income tax attributable to associates amounting to RMB 903,000 (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, 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. The change in the corporate income tax rate has had no significant impact on the results and financial position of the Group for the year ended 31 December 2007.

6. DIVIDEND

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

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.

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

The calculation of basic earnings per share is based on:

	2007 RMB'000	2006 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.

8. 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				
Additions	61,246	120,251	1,492,999	1,674,496
Interest capitalized	-	-	15,527	15,527
Acquisitions of subsidiaries	14,710	8,329	10,629	33,668
Disposal of subsidiaries	(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)

impairment				
Net carrying amount	1,662,293	2,325,832	1,320,615	5,308,740

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	-	-	7,146	7,146
Acquisition of a subsidiary	119,974	137,203	2,392	259,569
Disposal of a subsidiary	-	(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: RMB288,151,000) were pledged to secure bank loans granted to the Group.

9. INTANGIBLE ASSETS

The Group

	Mining rights RMB'000	Technical know-how RMB'000	Others RMB'000	Total RMB'000
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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	<u>557,505</u>	<u>21,759</u>	<u>12,468</u>	<u>591,732</u>
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	320,318	15	-	320,333
Disposal of subsidiaries	(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	<u>820,296</u>	<u>25,952</u>	<u>9,293</u>	<u>855,541</u>
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	<u>820,296</u>	<u>25,952</u>	<u>9,293</u>	<u>855,541</u>
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	<u>599,321</u>	<u>20,961</u>	<u>7,027</u>	<u>627,309</u>
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	-	27	6,543	6,570
Amortization provided during the year	(50,816)	(2,728)	(1,753)	(55,297)
At 31 December 2006	<u>557,505</u>	<u>21,759</u>	<u>12,468</u>	<u>591,732</u>
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	<u>557,505</u>	<u>21,759</u>	<u>12,468</u>	<u>591,732</u>

10. 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	
	2007	2006
	RMB'000	RMB'000
Within 1 year	600,122	485,659
Over 1 year but within 2 years	7,736	12,271
Over 2 years but within 3 years	6,022	5,758

Over 3 years	22,623	18,767
	636,503	522,455
Less: Provision for impairment	(35,193)	(48,222)
	601,310	474,233

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

	The Group	
	2007	2006
	RMB'000	RMB'000
At 1 January	48,222	32,965
Impairment losses recognized /(reversed)	(12,602)	15,433
Amount written off as uncollectible	(484)	-
Acquisition of subsidiaries	78	314
Disposal of subsidiaries	(21)	(490)
At 31 December	35,193	48,222

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB 35,193,000. 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.

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

	The Group	
	2007	2006
	RMB'000	RMB'000
Neither past due nor impaired	572,652	440,206
Less than 3 months past due	10,008	11,162
3 to 9 months past due	11,056	11,179
More than 9 months past due	7,594	11,686
	601,310	474,233

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.

11. 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 2007 RMB'000	2006 RMB'000
Within 1 year	826,997	943,899
Over 1 year but within 2 years	8,912	8,327
Over 2 years but within 3 years	6,034	7,499
Over 3 years	5,576	4,518
	<u>847,519</u>	<u>964,243</u>

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.

12. SHARE CAPITAL

	2007 RMB'000	2006 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
	<u>3,668,058</u>	<u>3,420,678</u>

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

	Domestic shares of RMB1.00 each RMB'000	H Shares of RMB1.00 each RMB'000	Total RMB'000
At 1 January 2006	2,183,760	-	2,183,760
Issuance of new H shares upon listing	-	1,075,582	1,075,582
Domestic shares converted into H shares upon listing	(107,558)	107,558	-
Issuance of new H shares upon full exercise of the over-allotment option	-	161,336	161,336
Domestic shares converted into H shares upon full exercise of the over-allotment option	(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	-	247,380	247,380
Domestic shares converted into H shares upon placing	(24,738)	24,738	-
At 31 December 2007	<u>2,035,330</u>	<u>1,632,728</u>	<u>3,668,058</u>

13. COMMITMENTS

The Group had the following capital commitments at the balance sheet date:

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

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 of RMB1,320 million, Zhuye Listco's investment on lead smelter modernization able to treat zinc leach residue of RMB1,191 million, the treatment of waste water containing heavy metals and the engineering project of zero-discharge of waste water 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.

RESULTS AND DIVIDEND

In 2007, the turnover of the Group was RMB 21,494 million, representing an increase of 21% compared to 2006. The profit attributable to the equity holder of the parent company was RMB315 million, decreased 30.2% compared to 2006. The basic earnings per share of the Group were RMB 0.0891.

The Company has proposed to distribute dividend of RMB 0.034 per share for 2007.

BUSINESS REVIEW

During the reporting period in 2007, equipped with efficient management, highly effective organization and unanimous efforts, the Group benefited from the strong demand 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 refunds, increase in resource tax, higher interest rate for loans, and in particular the substantial fall of the zinc price in the fourth quarter, maintained the target for the year, kept on enhancing capital operation, integration, M & A, technical reform and control of resources, achieved the goals of output 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, and 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 the same year, emphasis was on advancing the techniques for 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.

During the reporting period in 2007, the Company progressed with the Compass project of exploring resources in Australia. The Company has set up a wholly owned subsidiary in Australia to take charge of exploring resources for the Compass project. At present, the exploration facilities for oxidized ores is under construction, the pre-exploration cooperative preparation for sulphide ores and the regional cooperative survey are under way. Investment of approximately RMB0.5 billion 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 carried out 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 approximately 300,000 tons.

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

During the reporting period in 2007, the Group made further investment in technical reform. The Group invested a total of 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 technology platform. 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 antimony products was also setup.

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

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

Product Market Review

In 2007, the overall world economy was stable. As the economy development of emerging markets particularly China and India, remained strong, coupled with the on-going depreciation of the U. S. currency, the demand for commodities such as nonferrous metals was comparatively great. It provided a supporting effect to the high pricing on the global market of nonferrous metals. In particular, with the exception of zinc which experienced a comparatively substantial price slide, several main products of the Group, such as tungsten, antimony and lead were still operating at high price levels. The price for lead has soared to a record high. The following information, with the exception of the tungsten market, was quoted from the website of Antaika: 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 RMB 96,608 per ton, representing a decrease of 8.75% from RMB105,875 per ton in 2006.

In 2007, the global output of tungsten concentrates increased by 0.72% when compared to 2006. The tungsten export of China 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. The export quota is 14,900 tons for 2008. In order to meet the domestic demand, 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 a 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 over a close out of lead, the price of lead rapidly dropped since November and fell back to US\$2,500 per ton at the end of 2007.

The 2007 global production volume of lead increased 4.1% as compared to 2006. The greatest increase appeared in China was 9.2% (145 million tons). The average spot price of lead as quoted by LME was US\$2,578 per ton, doubling the 2006 price. The average price for three-month commodity futures was US\$2,550 per ton, with an increase of 98.7% as compared to 2006.

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 from the 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 with 2006, and metal contents are approximately 80 million tons with a 110.5% increase as compared with 2006. In 2007, China imported refined zinc of 14.9 million tons, 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 compared to 2006.

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

Antimony Market

The average price was US\$5,533 per ton and was slightly higher than the US\$5,175 per ton of 2006. In 2007, China produced 152,869 tons of refined antimony (antimony content), the Antaiko estimated amount was around 130,000 tons, representing an increase of 1.83% as compared to last year. China exported 62,876.94 tons of antimony products in 2007, representing a cumulative decrease of 18.72%. Affected by the refund policy of export tax, the decline in antimony ingot export was 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 cancellation of export tax refund on oxidized antimony together caused the decline in oxidized antimony export for the second half of 2007. The decrease in export in turn increased the supply in the country, which led 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%.

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 will further promote innovation among our management team, strengthen our internal integration, optimize product structure and reasonably enhance productivity. We will also strengthen operational cooperation, effectively control the cost, upgrade the overall benefits, focus on achieving operational targets for the year, and moving on to continue as one of the leaders in the nonferrous metal industry in China.

- Further promote capital operation. Perform our best to achieve the return of A-shares; at

the same time ensure the smooth operation of multi-channel funding in order to satisfy the capital requirement of domestic investment projects.

- Further heighten resource control and development. Overseas, emphasis is placed on the launch of production and operation of the Phase 1 Compass project and at the same time, expedite the implementation of other overseas resource control projects. In China, emphasis is placed on expediting the implement, integration and resumed production after technical reform of Chenzhou Xin Tian Ling mine site tungsten resources and the achievement of target production after the technical reform of Hengyang Yuanjing Tungsten Company Limited so as to become the new profit growth source of the Company. Reinforcing the survey in the deep side zone resource on the mine site is continuing in order to enhance the survey of overseas and domestic resources.
- 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. This will further reinforce the financial management, enhance cost control and 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 targets. Carry out safe production and environmental protection properly and earnestly and to fulfil social responsibility progressively.
- Further standardize the decision-making mechanism for the investment of the Company and endeavour to upgrade the procedures of decision-making. Feasibly and properly coordinate and instruct the branches and subsidiaries in technical reform and in particular, heighten the tracking management of 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.
- Stably promote the information construction of company management and further standardize the procedure on disclosure of information, improve employees' fringe benefits and development and enhance employees' training, enhance employees' quality and integrate the culture of the enterprise for the establishment of harmony in Hunan Nonferrous Metals Corporation Limited.

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 a 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.

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 December 31, 2006, representing a decrease of RMB449 million, or 38.58%. 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 December 31, 2006.

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

TURNOVER

The turnover increased to RMB21,494 million in the year ended December 31, 2007 from RMB17,765 million in the year ended December 31, 2006, representing an increase of RMB3,729 million, or 21%, 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 December 31, 2006 to RMB2,082 million in the year ended December 31, 2007. The gross profit margin in the respective years ended December 31, 2006 and December 31, 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

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 December 31, 2006 to RMB2,514 million in the year ended December 31, 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 December 31, 2006 to RMB456 million in the year ended December 31, 2007. The gross profit margin in the year ended December 31, 2007 decreased to 18% from 22% in the year ended December 31, 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 11.3%, from RMB12,246 million in the year ended December 31, 2006 to RMB13,632 million in the year ended December 31, 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 December 31, 2006 to RMB888 million in the year ended December 31,

2007. The gross profit margin in the year ended December 31, 2007 decreased to 7% from 13% in the year ended December 31, 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.

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 December 31, 2006 to RMB5,508 million in the year ended December 31, 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 December 31, 2006 to RMB737 million in the year ended December 31, 2007. The gross profit margin in the year ended December 31, 2007 decreased to 14% from 17% in the year ended December 31, 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 December 31, 2006 to RMB358 million in the year ended December 31, 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.

SELLING AND DISTRIBUTION COSTS

The selling and distribution costs increased RMB76 million, or 32.3% from RMB235 million in the year ended December 31, 2006 to RMB311 million in the year ended December 31, 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 December 31, 2006 to RMB971 million in the year ended December 31, 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, net decreased RMB221 million, or 88.8% from RMB249 million in the year ended December 31, 2006 to RMB28 million in the year ended December 31, 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 2006.

FINANCE COSTS

The finance costs increased RMB99 million, or 40.4% from RMB245 million in the year ended December 31, 2006 to RMB344 million in the year ended December 31, 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 December 31, 2006 to RMB239 million in the year ended December 31, 2007. The decrease is primarily due to the decrease of the operating profit. Our effective tax rate increased from 25% in the year ended December 31, 2006 to 33.4% in the year ended December 31, 2007, primarily due to the income tax exemption for the flood suffered by Shizhuyuan and Huangshaping Branch in the year ended December 31, 2006.

MINORITY INTEREST

The minority interest decreased RMB262 million, or 61.9% from RMB423 million in the year ended December 31, 2006 to RMB161 million in the year ended December 31, 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 RMB136million, or 30.2% from RMB451 million in the year ended December 31, 2006 to RMB315 million in the year ended December 31, 2007, and the net profit margin decreased from 2.5% in the year ended December 31, 2006 to 1.5% in the year ended December 31, 2007, primarily due to the decrease of the operating profit of the Group.

LIQUIDITY AND SOURCE OF FUNDS

In the year ended December 31, 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 December 31, 2007, we have been granted the banking facilities up to RMB10,338 million, RMB6,428 million of which have been used. The Company expects that our sources of funding in the coming year include internal resources and/or the banking facilities.

ASSET MORTGAGE OF THE GROUP

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

DEBT TO TOTAL ASSETS RATIO

As of December 31, 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.

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 December 31, 2007). The interest for the outstanding debts of the Group was calculated at fixed rate. Any rise in the current interest rate will increase the interest cost upon renewal of our short-term 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 December 31, 2007, the Group has provided the following bank guarantee for the bank loans granted to various parties:

	2007 RMB '000	2006 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 RMB '000	Total (%)
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%

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

Department	Employees	Of the total (%)
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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.

EVENTS AFTER THE BALANCE SHEET DATE

(a) On 10 January 2008, the Company incorporated Hunan Nonferrous Xin Tian Ling Tungsten Company Limited 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). 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.

USE OF PROCEEDS FROM THE OFFERING

The Company received 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.

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 billion from the placing on 9 July 2007 and deposited the same in banks.

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.

DIRECTORS' INTERESTS

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 any interests and short positions in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which would be required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or which would be required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director and supervisors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors or Supervisors to acquire such rights in any other body corporate.

Stock Appreciation Rights Plan (“SARs”)

An extraordinary shareholders meetings was held on 25 September 2006. It authorized (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, 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:

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 Xiaowu	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 Songzhou	512,820	Senior Manager of Subsidiary Company
Total	10,000,000	

The exercise price of the initial stock appreciation rights will 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).

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 allocated 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.

CORPORATE GOVERNANCE

The Company is committed to improve its corporate governance and enhance the transparency to shareholders. Saved as disclosed in our Annual Report, in the opinion of the Board, for the year ended 31 December 2007, the Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 of the Listing Rules.

Board of Directors

Our Board of Directors consists of twelve Directors, among them four are executive directors, four are non-executive directors and 4 are independent non-executive directors. For the year ended 31 December 2007, the Board of Directors held a total of 12 meetings (average attendance rate was 87%); four executive directors attended all of the Board meetings.

Supervisory Committee

The Company's supervisory committee consists of nine Supervisors; it 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 during the year ended 31 December 2007 and the attendance rate was 100%.

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.

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.

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.

Closure of register for Annual General Meeting

The AGM of the Company will be held at 9:30am on 18 June 2008 at the conference room of the Hunan Bestride Hotel, No.125, Lao Dong Xi Road, 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.

By Order of the Board
Hunan Nonferrous Metals Corporation Limited
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.

* for identification purposes