Xinjiang Xinxin Mining Industry Co., Ltd.*

新疆新鑫礦業股份有限公司

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

Stock Code : 3833

Annual Report 2008

We See The Future

* *For identification purpose only*

CONTENTS

2 Corporate Information

4 Summary of Financial Information

6 Chairman's Statement

13 Management Discussion and Analysis

19 Biographical Details of Directors, Supervisors and Senior Management

25 Report of the Directors

38 Report of the Supervisory Committee

42 Corporate Governance Report

51 Independent Auditor's Report

53 Consolidated Balance Sheet

55 Balance Sheet

57 Consolidated Income Statement

58 Consolidated Statement of Changes in Equity

59 Consolidated Cash Flow Statement

60 Notes to the Consolidated Financial Statements

Corporate Information

Summary

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

The Promoters hold in aggregate 1,451,000,000 domestic shares in the Company. In October 2007, 759,000,000 H Shares were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company was the first Chinese nickel cathode production enterprise listed outside the mainland China. As of 31 December 2008, the Company had a total number of 2,210,000,000 shares with par value of RMB0.25 in issue, of which 759,000,000 are H Shares, accounting for approximately 34.34% of the Company's total issued share capital.

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

As of 31 March 2007, the Company possessed approximately 247,000 tonnes of nickel resources in the PRC, of which approximately 163,800 tonnes were nickel reserves.

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

On 23 November 2008, the Company entered into two acquisition agreements for the acquisition of three nickel-copper mines in Hami, Xinjiang, namely: Huangshandong (黃山東), Huangshan (黃山) and Xiangshan (香山) (the "Acquisitions"). The Acquisitions were completed in February 2009 and as a result of which nickel resources and nickel reserves of the Company are expected to increase to approximately 330,500 tonnes and approximately 314,800 tonnes respectively.

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

Executive Directors

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

Non-executive Directors

Zhou Chuanyou (周傳有)
Niu Xuetao (牛學濤)

Independent non-executive Directors

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

Supervisors

Jiang Mingshun (姜明順)
Sun Baohui (孫寶輝)
Liu Dao Ying (劉道英)
Hu Zhijiang (胡志江)
Chen Yuping (陳玉萍)

Company secretaries

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

Audit committee

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

Authorised representatives

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

Registered office in Hong Kong

Unit 3102-3105, 31/F, Office Tower, Convention Plaza
1 Harbour Road
Wanchai, Hong Kong

Statutory address and principal place of business in the PRC

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

Compliance adviser

BOCI Asia Limited

Legal advisers to the Company

Stephen Mok & Co (Hong Kong law)
Beijing Grandfield Law Firm (PRC law)

Auditors

International auditors
PricewaterhouseCoopers

PRC auditors
PricewaterhouseCoopers Zhong Tian CPAs Limited Company

H Share Registrar in Hong Kong

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

Company website

www.xjxxky.com.cn

Stock Code

3833

Summary of Financial Information

Results of operations

	Year ended 31 December				
	2004	2005	2006	2007	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Revenue	439,669	544,741	869,068	1,581,163	**1,176,663**
Cost of sales	(226,387)	(270,664)	(348,419)	(721,705)	**(856,580)**
Gross profit	213,282	274,077	520,649	859,458	**320,083**
Distribution costs	(3,633)	(3,368)	(7,494)	(7,981)	**(7,100)**
Administrative expenses	(37,308)	(71,653)	(65,496)	(94,439)	**(115,462)**
Other income	3,058	3,037	5,208	161	**–**
Other (losses)/gains-net	(1,041)	(2,387)	51	4,150	**(29,386)**
Operating profit	174,358	199,706	452,918	761,349	**168,135**
Finance (cost)/income-net	(4,243)	(5,644)	(10,122)	64,995	**124,838**
Share of loss of a joint-venture	–	–	–	–	**(658)**
Profit before income tax	170,115	194,062	442,796	826,344	**292,315**
Income tax expense	(57,520)	(366)	(119)	(238)	**5,336**
Profit for the year	112,595	193,696	442,677	826,106	**297,651**
Attributable to:					
Equity holders of the Company	112,728	193,696	444,004	827,269	**297,648**
Minority interests	(133)	–	(1,327)	(1,163)	**3**
	112,595	193,696	442,677	826,106	**297,651**
Earnings per share					
– basic and diluted					
(note 1) (RMB)	0.157	0.220	0.318	0.498	**0.135**

The results for each of the years ended 31 December 2004, 2005 and 2006, respectively, which were extracted from the prospectus of the Company dated 27 September 2007, have been prepared on a combined basis as if the Company and its subsidiary had been in existence throughout those years.

Note 1: The basic earnings per share for each of the five years ended 31 December 2008 were computed by dividing the profits attributable to the equity holders of the Company by the weighted average numbers of shares in issue during the respective years and had been adjusted for the share split effective on 27 September 2007.

Summary of Financial Information

Financial position

	As at 31 December				
	2004	2005	2006	2007	**2008**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Total non-current assets	268,899	554,241	830,234	927,608	**1,651,271**
Total current assets	271,704	474,576	733,751	4,383,618	**3,744,032**
Total assets	540,603	1,028,817	1,563,985	5,311,226	**5,395,303**
Total non-current liabilities	13,711	136,913	189,454	26,707	**22,268**
Total current liabilities	206,989	283,265	202,230	193,559	**151,424**
Total liabilities	220,700	420,178	391,684	220,266	**173,692**
Equity attributable to equity holders of the Company	319,903	608,639	1,148,688	5,090,960	**5,211,808**
Minority interests	–	–	23,613	–	**9,803**
Total equity	319,903	608,639	1,172,301	5,090,960	**5,221,611**

Cash flows

	2004	2005	2006	2007	**2008**
Net cash generated from operating activities	223,969	190,862	459,046	719,959	**182,305**

Chairman's Statement

Dear Shareholders,

I would like to extend my gratitude for your confidence and support to Xinjiang Xinxin Mining Industry Co., Ltd. (the "Company") and its subsidiary (collectively referred to as the "Group") . I am pleased to report the operating results of the Group for the year ended 31 December 2008 (the "Reporting Year" or "Year"):

Market Overview

It is well-known that international and domestic prices of nickel and copper decreased significantly in 2008 as compared to 2007, which was resulted from the impact of the international financial crisis and economic recession. London Metal Exchange ("LME") three-month future price of nickel cathode was US$21,304 per tonne on average in 2008, representing a decrease of 40.9% as compared to 2007. LME three-month future price of copper cathode was US$6,890 per tonne on average in 2008, representing a decrease of 3.0% as compared to 2007. The average spot price of nickel cathode in Yangtze River Non-ferrous Metals Spot Market (**長江有色金屬現貨市場**) for 2008 was RMB177,126 per tonne in 2008, representing a decrease of 45.4% as compared to 2007. The average spot price of copper cathode was RMB55,412 per tonne in 2008, representing a decrease of 11.5% as compared to 2007. The domestic price trends for nickel cathode and copper cathode during the Reporting Year were basically in line with the international price trends.

For 2008, the Group recorded average selling price of nickel cathode of RMB141,272 (after tax) per tonne, representing a decrease of 44.8% as compared to 2007, and the average selling price of copper cathode of RMB46,670 (after tax) per tonne, representing a decrease of 12.0% as compared to 2007.

During 2008, although the international and domestic nickel and copper price experienced significant decrease as compared to 2007, as benefited from the momentum provided by the PRC's continuous economic growth and the relative shortage in nickel and copper resources supply, the volume of nickel cathode and copper cathode products provided by domestic producers still could not satisfy the growth in the consumption volume. The shortage of supply of nickel cathode and copper cathode in the domestic market therefore needed to be covered by import, which in turn caused active transactions in the domestic nickel cathode and copper cathode markets.

Industry Position

The Group is a group of mining companies principally engaged in the mining, ore processing, smelting and refining of nickel products and other non-ferrous metals, namely: copper, cobalt, gold, silver, platinum and palladium. According to the statistics collected by the China Non-ferrous Metals Industry Association in 2008, the total domestic production volume of nickel cathode for 2008 was 128,700 tonnes, representing an increase of 11.8% as compared to 2007. In 2008, the Company produced 6,083.1 tonnes of nickel cathode, representing an increase of 24.8% as compared to 2007. The Group is the second largest nickel cathode producer in the PRC, and the growth rate of its nickel cathode production volume in 2008 ranked number one among its peers in the same industry in the PRC.

Business Review

In 2008, the Group captured the market opportunities to further expand its production capacity for its products, resulting in record highs in both production volume and sales volume and significant growth from 2007. During the Year, the production volume of nickel cathode was 6,083.1 tonnes, representing an increase of 24.8% as compared to 2007 and the production volume of copper cathode was 4,502.0 tonnes, representing an increase of 22.1% as compared to 2007. Sales of nickel cathode for the Year amounted to 6,035.6 tonnes, representing an increase of 21.8%, sales of copper cathode amounted to 4,742.6 tonnes, representing an increase of 25.8% as compared to 2007.

Production and Operations

Despite the record highs in product volume and sales volume in 2008, the significant decline in product selling prices caused significant decreases in the Group's revenue and net profit after tax as compared to 2007. For 2008, the Group achieved revenue of RMB1,176.7 million representing a decrease of 25.6% as compared to 2007, net profit after tax (net profit after tax attributable to shareholders) of RMB297.6 million, representing a decrease of 64.0% as compared to 2007, and earnings per share (basic and diluted earnings per share) of RMB0.135 (basic and diluted earnings per share were calculated based on the profit attributable to equity holders of the parent and the weighted average of ordinary shares in issue of 2,210,000,000 shares (2007: 1,661,781,000 shares) for the year), representing a decrease of 72.9% as compared to 2007.

For mining operations, Kalatongke Mine accomplished an aggregate of 327,174 tonnes of mine output and produced water hardening and nickel matte ("水淬高冰鎳") of 9,804 tonnes in 2008. For refining processing operations, Fukang Refinery (阜康冶煉廠) produced nickel cathode of 6,083 tonnes and copper cathode of 4,502 tonnes in total in 2008.

In respect of sales of products in 2008, the Group achieved total revenue from operations of RMB1,176.7 million, of which nickel cathode achieved revenue of RMB852.7 million, which accounting for 72.5% of the Group's total revenue. Copper cathode achieved revenue of RMB221.3 million, accounting for 18.8% of the Group's total revenue. Other products from the Group's principal businesses, which include copper concentrate, cobalt cathode, gold, silver, platinum and palladium, achieved revenue of RMB102.7 million, accounting for 8.7% of the Group's total revenue.

Chairman's Statement

During the Reporting Year, the Group's profit margin of processing outside purchased raw materials decreased due to the sharp decline of nickel and copper prices and keen competition for quality raw materials in the domestic metal market. As shortage in domestic resources persists, in order to reduce the risk of depending on purchase of outside raw materials, the Group will continue to pursue opportunities of merger and acquisition of mines yielding raw materials, so as to further enrich its quantity of resources, expand the production capacity and hence uplift economic efficiency.

Save as disclosed in the above, the overall production operations of the Group were stable and in good condition in 2008 and encountered no material difficulties or operational problems.

Progress of Technical Improvement and Expansion Projects

During the Reporting Year, the Group continued its two technical improvement and expansion projects in relation to the enhancement in mining, ore processing and smelting capacity of Kalatongke Mine and the refining capacity of nickel and copper of Fukang Refinery (阜康冶煉廠). The technical improvement and expansion projects of the Group proceeded smoothly in 2008 and the required construction progress during the Reporting Year was completed on schedule. The investment of the projects amounted to RMB311.0 million.

Kalatongke Mine

The investment in the technical improvement and expansion project in mining, ore processing and smelting operations of Kalatongke Mine amounted to RMB209.6 million in 2008. The technical improvement on the main shaft has raised the production capacity, while the digging and laying of exhausted shafts has been completed and the auxiliary work has come close to an end. The construction of the main body of the technical improvement on ore processing has been completed and is expected to commence production by the end of 2009. The technical improvement on smelting commenced construction in October 2008, utilizing the internationally advanced oxygen side-blown bath smelting, which is a technique of converter smelting, and is expected to commence production in 2010.

Fukang Refinery (阜康冶煉廠)

The investment in the technical improvement and expansion project of 13,000 tonnes of nickel cathode and 12,000 tonnes of copper cathode of Fukang Refinery (阜康冶煉廠) amounted to RMB101.4 million in 2008. The technical improvement and expansion project of 13,000 tonnes of nickel cathode has been almost completed and commenced production partly, while the construction work of the technical improvement and expansion of 12,000 tonnes of copper cathode commenced in April 2008 and is expected to commence production by the end of 2009.

Geological Mine Searching

During the Reporting Year, the Group invested a total of RMB12.5 million in geological mine searching and exploration at depth and surrounding areas of Kalatongke Mine. Super rich grade ore in fine piece form was found in the course of inspection on ore bodies 6 and 9, preliminary estimates of reserves amounted to approximately 535,000 tonnes and the quantity of copper and nickel amounted to 11,200 tonnes. Super rich grade ore and rich grade ore were found in prospecting line 5 at level 530 of rockmass 2, of which the total depth could exceed 50 meters. The explored and controlled depth reached 50 meters and no boundary of the ore body has been identified. Follow-up exploration is currently in progress. Disseminated ore was found during the course of implementation of G11 and G22 exploration projects, of which the highest grade of copper was 0.7%, and that of nickel was 0.4%. The results of the geological mine searching and exploration are on-going and currently in the progress of preparation and submission for approval in accordance with the procedures.

Key Investments

During the Reporting Year, the Company acquired from independent third parties Xinjiang Yakesi Resources Co., Ltd ("Yakesi") and Hami Jubao Resources Co., Ltd ("Jubao"), both located at Hami, Xinjiang, which in aggregate possessed three nickel-copper mines located in Huangshandong, Huangshan and Xiangshan. The three nickel-copper mines are expected to increase the nickel reserves of the Group from 163,800 tonnes to approximately 314,800 tonnes, representing an increase of 151,000 tonnes or 92%. Nickel resources of the Group are expected to increase from 83,500 tonnes to 330,500 tonnes, representing an increase of 247,000 tonnes or 296%. Copper reserves of the Group are expected to increase from 258,000 tonnes to 349,200 tonnes, representing an increase of 91,200 tonnes or 35%. Copper resources of the Group are expected to increase from 161,300 tonnes to 306,800 tonnes, representing an increase of 145,500 tonnes or 90%.

Such investments amounted to RMB542.2 million, completed in February 2009, and provide an assurance for a long-term and stable supply of raw materials for future development of the Group's principal business, and thereby increase the resources self-sufficiency ratio of the Group.

Environmental Protection and Safety

The Group applies and implements scientific development concepts and the policies of "Safety First, Precaution Foremost" and "Equal Emphasis on both Development Works and Protection" to better perform its production safety and environmental governance works. In 2008, the Group achieved its target of production safety with zero death or severe injury in mines and factories. The environmental governance is stringently observed in accordance with the relevant national laws and regulations. The results in developing environmental-friendly factory and harmonious working condition in mines are remarkable.

Outlook

Operating Environment

In 2009, as affected by the international financial crisis and economic recession, the economic environment will be extremely harsh all over the world and metal prices are expected to remain at a low level. However, it is expected that the PRC economy will continue to grow at a fast pace (the PRC government expects the PRC's 2009 GDP growth rate to be at 8%). As a result, the Group expects the consumption volume of nickel and copper in the domestic non-ferrous metal market will continue to grow. Due to the relative shortage in the supply of nickel and copper resources, nickel cathode and copper cathode products provided by domestic producers still will not satisfy the growth in the demand for consumption volume. The shortage in supply in the domestic market therefore needs to be covered by import. It is expected that the domestic market for nickel cathode and copper cathode will continue to sustain with active transactions.

The market prices for nickel cathode and copper cathode in the PRC in 2009 is expected to fluctuate between the average spot price of the fourth quarter of 2008 and that of the first quarter of 2009 in Shanghai Yangtze Non-ferrous Metals Market.

Operating Objectives

In 2009, the Group plans to produce 7,121 tonnes of nickel cathode, representing an increase of 17.7% as compared to 2008, of which 4,226 tonnes will be produced using self-produced raw materials, representing an increase of 26.4% as compared to 2008 (3,343 tonnes). The planned production volume of copper cathode is 5,000 tonnes, all of which will be produced using self-produced raw materials, representing an increase of 11.1% as compared to 2008, and an increase of 25.3% as compared to the production volume of copper cathode using self-produced raw materials in 2008 (3,991 tonnes). Because of the considerable uncertainties in metal prices and domestic market of raw material, the Board of Directors of the Company may make adjustment on the abovementioned production volume of nickel cathode using outside purchased raw materials in due course depending on the market conditions. Please note that the above production plan was made on the basis of the current market situation and the existing conditions of the Group. The Board of Directors may, as situation warrants, vary the production plans.

Business Strategies

1. *Capture market opportunities, prepare for market challenges, explore internal potentials, increase production and revenue and uplift economic efficiency*

   The conditions of metal market in 2009 will be extremely harsh as the nickel and copper prices are expected to remain at a low level. The Group will explore its internal potentials and strive to increase its production and revenue in order to uplift economic efficiency. Regarded as the major mine of the Group, Kalatongke Mine will pioneer a new stage in respect of production operations, regulatory management, safety and environmental protection, expertise training and exploration of resources. As a newly acquired production mine of the Group, Xinjiang Yakesi Resources Co. Ltd. will strive for breakthrough in aspects such as production stabilization, cost control and technical improvement and expansion. Fukang Refinery (阜康冶煉廠), as the principal place for the production of end products of the Group, will put more efforts in refining management, boosting products quality and recycling rates for metals, and further enhancing the levels of skill and technologies and comprehensive recycling abilities. Furthermore, the Group is also active in exploring breakthrough ideas in procuring raw materials and further processing.

   The Group will endeavour to accomplish the production plan of 2009, and at the same time strive to increase production and further enhance the economic efficiency.

2. *Projects construction work*

   (1) The technical improvement and expansion project of mining, ore processing and smelting of Kalatongke Mine

   In 2009, the investment sum of the technical improvement and expansion project of mining, ore processing and smelting of Kalatongke Mine (continued construction work) is estimated to be RMB630 million. This project is expected to complete the entire construction work and commence production by the end of 2010.

   (2) The technical improvement and expansion project of 13,000 tonnes of nickel cathode and 12,000 tonnes of copper cathode of Fukang Refinery (阜康冶煉廠)

   In 2009, the investment sum of the technical improvement and expansion project of 13,000 tonnes of nickel cathode and 12,000 tonnes of copper cathode of Fukang Refinery (阜康冶煉廠) (continued construction work) is estimated to be RMB250 million. This project is expected to complete the entire construction work by the end of 2009 and commence production in 2010.

   (3) The technical improvement and expansion project of mining and ore processing of Xinjiang Yakesi Resources Co., Ltd.

In 2009, the investment sum of the technical improvement and expansion project of mining and ore processing of Xinjiang Yakesi Resources Co., Ltd. (continued construction work) is estimated to be RMB350 million. The construction of this project is expected to be completed by the end of 2012, of which the ore processing capacity will be increased by 1,000 tonnes per day by the end of 2010, while the ore processing capacity will be increased by 3,000 tonnes per day by the end of 2012.

3. *Mineral resources control and geological exploration*

Mineral resources are fundamental support for continuing development of a mining company. The control of mineral resources and the search of geological mine are the core components of the business development of the Group. The Group continues to focus on searching potential preliminary exploration projects for acquisition. The Group also expands the exploration work in depth and in width in the surrounding areas of its existing major mines, and applies effective mine searching methods so that the mineral resources of the Group can achieve a significant growth. In 2009, the Group plans to invest exploration fund of RMB21.2 million to explore resources and search for geological mines at depth and the surrounding areas of existing major mines. The planned investment in Kalatongke Mine amounted to RMB9.4 million, while the planned investment in Xinjiang Yakesi Resources Co., Ltd. and Hami Jubao Resources Co., Ltd. amounted to RMB11.8 million.

2009 is a year full of opportunities and challenges for the Group. We are taking strategic plans to respond to the currently weak global economic conditions so that the Group can maintain growth under a lean, efficient and low-cost basis operation condition. We have an experienced management team which enable us to operate effectively in varying market conditions. The Group's strong balance sheet, abundant reserves, leading market position in nickel product and attractive growth opportunities in an industry where production capacity growth has been constrained by shortage in resources will enable us to benefit as the world's economies improve. The Group's mines at Kalatongke, Huangshandong, Huangshan and Xiangshan with abundant nickel and copper reserves provide the solid foundation for sustaining its assets for future success. The Group believes that with its diligent staff and tremendous support from the society, the Group will continue to grow healthily in 2009.

By Order of the Board
Yuan Ze
Chairman

Xinjiang, the PRC, 8 April 2009

OPERATING RESULTS

In 2008, the turnover of the Group amounted to RMB1,176.7 million, representing a decrease of 25.6% as compared to RMB1,581.2 million in 2007. The profit attributable to the equity holders of the Company in 2008 amounted to RMB297.6 million, representing a decrease of 64% from 2007. The decrease in profit was primarily due to a significant decline in the market prices of nickel cathode and copper cathode, resulting in a substantial decrease in the average selling price of nickel cathode, being the major product of the Group, in 2008 from 2007. As of 31 December 2008, refining capacity was higher than that of mining and ore processing. During the Reporting Year, the Company increased the volume of outside purchase of raw materials containing nickel at appropriate time based on market situations to fully utilize its current refining facilities. The cost of that portion of raw materials containing nickel purchased from outside suppliers was significantly higher than the cost of raw materials supply internally.

TURNOVER AND GROSS PROFIT

In 2008, the turnover of the Group amounted to RMB1,176.7 million, representing a decrease of 25.6% as compared to RMB1,581.2 million in 2007.

The following table illustrates the details of sales by products of the Group for the two years ended 31 December 2007 and 2008:

	2008			2007		
Product name	**Sales volume** *tonnes*	**Amounts** *RMB'000*	**% to** *Turnover*	Sales volume *tonnes*	Amounts *RMB'000*	% to *Turnover*
Nickel cathode	**6,035.6**	**852,658**	**72.5%**	4,953.9	1,267,716	80.2%
Copper cathode	**4,742.6**	**221,335**	**18.8%**	3,769.8	199,873	12.6%
Copper concentrate	**4,858.6**	**62,286**	**5.3%**	4,805.0	67,889	4.3%
Other products		**40,384**	**3.4%**		45,685	2.9%
Total turnover		**1,176,663**	**100%**		1,581,163	100%
Cost of sales		**(856,580)**	**72.8%**		(721,705)	46.6%
Gross profit		**320,083**	**27.2%**		859,458	54.4%

In 2008, the turnover of nickel cathode amounted to RMB852.7 million, representing a decrease of 32.7% as compared to RMB1,267.7 million in 2007. The decrease in the turnover of nickel cathode was primarily due to the significant decline in the market price of nickel cathode. The average selling price of the Group's nickel cathode in 2008 amounted to RMB141,272 per tonne, representing a decrease of 44.8% as compared to the average selling price of RMB255,903 per tonne in 2007. The decrease in turnover of nickel cathode was partly offset by an increase of 21.8% in the sale volume of nickel cathode from 4,953.9 tonnes in 2007 to 6,035.6 tonnes in 2008.

In 2008, the turnover of copper cathode amounted to RMB221.3 million, representing a growth of 10.7% as compared to RMB199.9 million in 2007. The growth in the turnover of copper cathode was primarily due to an increase of 25.8% in its sales volume from 3,769.8 tonnes in 2007 to 4,742.6 tonnes in 2008. The growth in turnover of copper cathode was partly offset by a decline of 12% in the average selling price of copper cathode from RMB53,020 per tonne in 2007 to RMB46,670 per tonne in 2008.

In 2008, the turnover of copper concentrate amounted to RMB62.3 million, representing a decrease of 8.2% as compared to RMB67.9 million in 2007. The decrease in the turnover of copper concentrate was primarily due to the decline in the market price of copper product in 2008. The average selling price of the Group's copper concentrate in 2008 amounted to RMB12,820 per tonne, representing a decrease of 9.3% as compared to RMB14,129 per tonne in 2007. The decrease in turnover of copper concentrate was partly offset by a marginal increase of 1.1% in the sale volume of copper concentrate from 4,805 tonnes in 2007 to 4,858.6 tonnes in 2008.

In 2008, the turnover of other products amounted to RMB40.4 million, representing a decrease of 11.6% as compared to RMB45.7 million in 2007. The decrease in turnover of other products was primarily due to the decline in sales volume of super-fine nickel powder products.

Gross profit of the Group decreased by 62.8% from RMB859.5 million in 2007 to RMB320.1 million in 2008, and the gross profit margin for the two years ended 31 December 2007 and 2008 were 54.4% and 27.2%, respectively. The decrease in gross profit margin was primarily due to (1) a significant decline in the market prices of nickel cathode and copper cathode in 2008, resulting in a substantial fall in average selling price of nickel cathode and copper cathode, the major products of the Group, from 2007; (2) the timing and progress differences between the production capacity expansion of the mining and ore processing and that of the refining operation. As of 31 December 2008, refining capacity was higher than that of mining and ore processing. During the Reporting Year, the Company increased the volume of outside purchase of raw materials containing nickel at appropriate time based on market situations to fully utilize its current refining facilities. The cost of that portion of raw materials containing nickel purchased from outside suppliers was significantly higher than the cost of raw materials supply internally.

SELLING AND MARKETING EXPENSES

Selling and marketing expenses decreased by 11% from RMB8.0 million in 2007 to RMB7.1 million in 2008, primarily due to the Company adjusted its selling practice according to the market situation. Transportation cost decreased in 2008 as the transportation cost related to the sales of copper concentrate was borne by the purchasers while it was settled by the Company in the past.

ADMINISTRATIVE EXPENSES

Administrative expenses increased by 22.3% from RMB94.4 million in 2007 to RMB115.5 million in 2008, primarily due to changes in the computation and payment basis of mineral resources compensation fee and the exploration cost of relevant exploration projects written off by the Company in 2008.

OTHER NET GAINS

Other net gains decreased significantly from a gain of RMB4.2 million in 2007 to a loss of RMB29.4 million in 2008, primarily due to donations of RMB29 million in aggregate which were made to the local finance department and social non-profit organisations to support local development and social welfare as well as the earthquake relief programme of the state. In return for the support by the community and the favourable policies implemented by the government in the local area to reconstruct the infrastructure, improve the social environment and facilitate the advancement of the society, the Company took up its social responsibility by way of increasing its contribution and donation to the local area.

FINANCE INCOME AND FINANCE COST

Finance income increased approximately fourfold from RMB31.9 million in 2007 to RMB126.5 million in 2008, primarily due to the growth in interest income as a result of significant increase in average bank balance.

Finance cost decreased from RMB108 million in 2007 to RMB1.7 million in 2008, primarily due to substantial decrease in net exchange loss since the Company had converted a majority of the IPO proceeds into Renminbi in 2007.

Management Discussion and Analysis

FINANCIAL POSITION

The Group's consolidated balance sheet remains strong and free from bank debts or borrowings. In 2008, total assets increased by 1.6% to RMB5,395.3 million as at 31 December 2008. Shareholders' equity of the Company increased by 2.4% to RMB5,211.8 million as at 31 December 2008.

LIQUIDITY AND FINANCIAL RESOURCES

In 2008, the Group's net cash inflow generated from operating activities amounted to RMB182.3 million, representing a decrease of RMB537.7 million (or 74.7%) from 2007, primarily due to a decrease of operating profit.

In 2008, the Group's net cash outflow used in investing activities amounted to RMB933.4 million, mainly consisted of payment and prepayment of the consideration (deposit) for the equity transfer and equipment and project expenses in relation to the technology renovation work conducted in Fukang Refinery (阜康冶煉廠) and Kalatongke Mine. Net cash outflow used in financing activities amounted to RMB167.0 million, which mainly represented the dividend paid in June 2008.

As at 31 December 2008, the Group had total cash and cash equivalents amounting to RMB3,176.9 million, and those as at 31 December 2007 were RMB4,096.1 million.

As at 31 December 2008 and 31 December 2007, the Group did not have any bank debts or borrowings.

	As of 31 December 2008	As of 31 December 2007
Current ratio (x)	**24.7**	22.6
Gearing ratio	**N/A**	N/A

COMMODITY PRICE RISK

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

RISK OF FLUCTUATIONS IN EXCHANGE RATE

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

INTEREST RATE RISK

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

BORROWINGS AND CHARGE ON ASSETS

As at 31 December 2008, the Group did not have any outstanding bank loans or other borrowings nor any charges or pledges of assets.

CONTINGENT LIABILITIES

Save as disclosed in note 36 to the consolidated financial statements of the Group, the Group had no other significant contingent liabilities as at 31 December 2008.

HISTORICAL CAPITAL EXPENDITURE

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

	Year ended 31 December 2008 *RMB'000*	Percentage %
Mining, ore processing and smelting operations in Kalatongke Mine	**251,244**	68.8%
Refining and complementary operations in Fukang Refinery (阜康冶煉廠)	**105,729**	29.0%
Exploration cost in Mengxi Mining	**8,000**	2.2%
Total	**364,973**	100%

EMPLOYEES

As at 31 December 2008, the Group had a total of 2,433 full-time employees. Breakdowns by function and division are as follows:

Division	Employees	Total (in percentage)
Management and administration	155	6.4%
Engineering technician	353	14.5%
Production staff	1428	58.7%
Repair and maintenance	275	11.3%
Inspection	212	8.7%
Sales	10	0.4%
Total	2,433	100.0%

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

EXECUTIVE DIRECTORS

Mr. Yuan Ze (袁澤), male, aged 59, has been the Chairman of the Company since September 2005. Mr. Yuan completed a postgraduate course in natural geography at Nanjing University (南京大學) in December 1997. From October 1998 to January 2002, he served as the secretary of the communist party committee of Xinjiang Non-ferrous Industry Co. (新疆有色金屬工業公司). Since January 2002 and up to present, he has served as the secretary of the communist party committee and chairman of Xinjiang Non-ferrous Metal Industry (Group) Ltd. (新疆有色金屬工業(集團)有限責任公司) ("Xinjiang Non-ferrous"). Mr. Yuan received the Xinjiang Uygur Autonomous Region Model Labour Award (新疆維吾爾自治區勞動模範殊榮) in 2005 and 2007. He was elected a representative of the National People's Congress in March 2008.

Mr. Shi Wenfeng (史文峰), aged 41, has been a Director and the general manager of the Company since September 2005. Mr. Shi graduated from the Department of Chemical Engineering of Chengdu University of Science and Technology (成都科技大學) with a Bachelor's degree in engineering, majoring in the metallurgy of non-ferrous metals from September 1985 to July 1989 and is a senior engineer in Metallurgy. Mr. Shi has accumulated more than 19 years of experience in the smelting industry. From September 1993 to January 1994, he served as the deputy head of the central refinery workshop of the Fukang Refinery (阜康冶煉廠). From November 1994 to January 1995, he served as the head of the production division of Fukang Refinery (阜康冶煉廠). From February 1995 to March 1998, he served as the assistant head of Fukang Refinery (阜康冶煉廠). From March 1998 to January 2002, he served as the deputy head of Fukang Refinery (阜康冶煉廠). From January 2002 to August 2005, he served as the head of Fukang Refinery (阜康冶煉廠). Mr. Shi received the National Model Labour Award (全國勞動模範殊榮) awarded by the State Council in 2005, and he received the Scientific and Technological Progress First Prize (科學技術進步一等獎) 1995 and 2002 awarded by the National Committee of Science and Technology of the PRC (國家科學技術委員會) and the People's Government of Xinjiang, respectively, for his contribution to the development of the wet process in the refining of nickel and the development of technology and production application in extracting copper and precious metals from smelting tailing of nickel ore.

Mr. Zhang Guohua (張國華), aged 44, has been a Director and the Executive Deputy General Manager of the Company since September 2005. He completed a postgraduate course in management science and engineering at Dalian University of Technology in November 2003. From October 1988 to December 1993, he served as a deputy section leader and section leader of the environmental safety section of Kalatongke Mine. From January 1994 to June 1996, he served as a mining workshop supervisor of Kalatongke Mine. From June 1996 to March 1997, he served as an assistant to the head of Kalatongke Mine. From March 1997 to March 1998, he served as the chairman of the labour union of Kalatongke Mine. From March 1998 to March 1999, he served as the secretary of the communist party committee of the Kalatongke Mine. He served as the deputy general manager and general manager of the sales branch of Xinjiang Non-ferrous Metals Industry Co. from April 1999 to February 2002. Mr. Zhang has accumulated more than 24 years of experience in the mining industry. From March 2002 to August 2005, he served as the head of Kalatongke Mine. He has also served as the secretary of the Communist Party committee of the Company since September 2005. Mr. Zhang was recognised by Xinjiang Non-ferrous as the Model Labour (勞動模範) for the years of 2003 and 2004.

Biographical Details of Directors, Supervisors and Senior Management

Mr. Liu Jun (劉俊), aged 43, has been a Director of the Company since September 2005. Mr. Liu graduated from Kunming University of Science and Technology with a Bachelor's degree in engineering, majoring in mining engineering from September 1983 to July 1987. He served as the deputy supervisor (production technology) of the mining workshop of Kalatongke Mine from May 1991 to December 1993. From January 1994 to December 1994 he served as the head of production technology division of Kalatongke Mine. He served as the chief engineer of Kalatongke Mine from March 1997 to April 2000. From April 2000 to August 2005 he served as the deputy general manager of Kalatongke Mine. Since September 2005, he has become the head of Kalatongke Mine and has also served as a Director and deputy general manager of the Company. Mr. Liu has accumulated more than 21 years of experience in the mining industry. Mr. Liu's contribution to nickel matte blowing and recovery processing and industrialised production received a scientific and technological progress second prize from the People's Government of Xinjiang for the year of 2004.

NON-EXECUTIVE DIRECTORS

Mr. Zhou Chuanyou (周傳有), aged 44, has been a non-executive Director and the vice-chairman of the Company since September 2005. He completed a postgraduate course in law at Fudan University (復旦大學) in July 1987. Mr. Zhou taught in Huadong Politics and Law Institute from July 1987 to January 1990. From September 1995 he served as the Chairman of Shanghai Jinying Investment Company Ltd. (上海金鷹投資有限公司), which is the predecessor of Zhongjin Investment (Group) Ltd. (中金投資(集團)有限公司) ("Zhongjin Investment"), and he is currently the beneficial owner of 98.83% shareholding in Zhongjin Investment. Mr. Zhou has served as a director of Shanghai Yilian Kuangneng Co. Ltd. (上海怡聯礦能實業有限公司) ("Shanghai Yilian") since May 2005 and is currently the beneficial owner of the entire shareholding of Shanghai Yilian. Shanghai Yilian held 12.80% shareholding of the Company and Zhongjin Investment held 8.96% shareholding of the Company. The interest attributable to Mr. Zhou represents his indirect deemed interest in the Company's issued share capital via his equity interests in Shanghai Yilian and Zhongjin Investment. Mr. Zhou has served as a director of Shanghai Zhongjin Real Estate (Group) Co., Ltd. (上海中金房產(集團)有限公司) since February 1998 and a vice chairman and director of Dazhong Insurance Co., Ltd. of China (大眾保險股份有限公司) since September 1998.

Mr. Niu Xuetao (牛學濤), aged 44, has been a non-executive Director of the Company since September 2005. He completed an undergraduate course in law at Northwest Institute of Political Science and Law in July 1990. Since February 2003, he served as the deputy chief executive officer of Zhongjin Investment (Group) Ltd. Since 22 June 2004, Mr. Niu served as the vice-president and the director of Xinjiang Fanhua Mine and Energy Industrial Company Ltd. (新疆泛華礦能實業有限公司), a company principally engaged in real estate development business, which is not related to Xinjiang Nonferrous. He is also a general manager of Shanghai Yilian since May 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chen Jianguo (陳建國), aged 45, an independent non-executive Director since June 2006, graduated from the Xinjiang University of Finance and Economics (新疆財經大學) (previously known as Xinjiang Institute of Finance and Economics (新疆財經學院)) and obtained a Bachelor's degree in economics in July 1985. In 1988, he obtained a Master's degree in economics from Dongbei University of Finance and Economics (東北財經大學). Since September 1988, he has been teaching at the Faculty of Finance of Xinjiang Institute of Finance and Economics. He was promoted to an associate professor in July 1996 and has become the Head of Faculty of Finance of Xinjiang Institute of Finance and Economics since 1997. From January 1999 to August 1999, he studied in Nyenrode Business Universiteit (奈爾洛德商業大學) in Netherlands pursuant to the Chinese Management Development Program. In 2001, he obtained a Master's degree in Business Administration from Haagse Hogeschool, University of Professional Education in Netherlands. Since April 2002, he has served as a standing council member of Xinjiang International Taxation Research Institute (新疆國際税收研究會常務理事). He has also been the head of research and development department of Xinjiang University of Finance and Economics (新疆財經大學) since October 2007. Mr. Chen has acted as an independent director of Markor International Furniture Co. (美克國際傢俱股份有限公司) and Xinjiang Guannong Fruit & Antler Co., Ltd. (新疆冠農果茸股份有限公司), both of which are PRC companies listed on the Shanghai Stock Exchange. Mr. Chen has also acted as an independent director of Zhundong Petroleum Technology Co., Ltd. (準東石油技術股份有限公司), a PRC company listed on the Shenzhen Stock Exchange, and Great Western Region Tourism Co., Ltd. (大西部旅遊股份有限公司) since September 2004 and December 2003, respectively. On 8 September 2008, Mr. Chen was appointed as an independent director of Xinjiang International Enterprise Co., Ltd (新疆國際實業股份有限公司).

Mr. Sun Baosheng (孫寶生), aged 61, an independent non-executive Director since 2006, studied and obtained a postgraduate qualification in engineering in 1982. From August 1975 to September 1978, Mr. Sun served as the team leader and technician of the Bureau of Geominerals Exploration and Development of Xinjiang (新疆地礦局). From October 1975 to April 1976, he studied remote sensing geology in Peking University (北京大學). From September 1978 to April 1982, he studied minerogenetic rule and minerogenetic prognostic (成礦規律及成礦預測) at Xinjiang University (新疆大學) and obtained a Master's degree. He has served as the Head of the Teaching and Research Section of Deposits Geochemical (礦物地球化學教研室主任) since October 1981. From February 1993 to February 1994, he worked together with Professor R.W. Hachinson, the Chairman of the Society of Economic Geology (美國經濟地質學會) on deposit geological research in Colorado School of Mines (科羅拉多礦業學院) in the U.S.A. and was granted fund by the National Science Foundation of the U.S.A. (美國國家自然科學基金). He was the professor and the vice department head of the School of Resource and Environmental Science of the Xinjiang University between 2002 and 2004. He was qualified as a professor in June 1994. He is currently a tutor of PhD students in Xinjiang University, and also serving as deputy director of the Geological Society of Xinjiang Uygur Autonomous Region (新疆地質協會副理事長), member of Council of China Resource Industry (中國資源產業理事會理事), member of the group of experts of Xinjiang Resource and Environment Center (新疆資環中心專家組成員) and visiting fellow of Xinjiang Institute of Ecology and Geography Chinese Academy of Sciences (中國科學院新疆生態與地理研究所客座研究員).

Biographical Details of Directors, Supervisors and Senior Management

Mr. Ng Yuk Keung (吳育強), aged 44, an independent non-executive Director since January 2007, graduated from the University of Hong Kong with a Bachelor's degree in economics and management, and a Master's degree in global business management and E-commerce. He has been qualified as a Chartered Accountant with Institute of Chartered Accountants in England and Wales and is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. During the period from 1988 to 2001, he worked in PricewaterhouseCoopers and took part in various initial public offerings. From 2004 to 2006, he served as deputy chief financial officer, joint company secretary and qualified accountant in an H-share company listed in Hong Kong. Since August 2006, he has served as vice president, chief financial officer, company secretary and qualified accountant in China Huiyuan Juice Group (中國匯源果汁集團) (a company listed on the Stock Exchange). Mr Ng is currently an independent director of Beijing Capital Land Ltd. (首創置業股份有限公司).

EMPLOYEES' REPRESENTATIVE SUPERVISOR

Mr. Jiang Mingshun (姜明順), aged 53, has been the chairman of the Supervisory Committee since April 2006. He is a Supervisor elected by the employees as employees' representative in the Supervisory Committee. He graduated from Central Xinjiang Communist Party School (新疆自治區黨校) in 1988, majoring in political theory. Mr. Jiang had worked in Keketuohai Mining Bureau (可可托海礦務局) since 1973. From August 1983 to August 1986, he worked in the Labour Union of Keketuohai Mining Bureau. He served as the Party branch secretary of Keketuohai Mining Bureau No. 1 Mine and Transportation Section from August 1988 to January 1992. From 1 November 1991 he served as the assistant chief director (the deputy for the chief director) of the Keketuohai Mining Bureau (可可托海礦務局行政辦公室). He served as deputy head of Fukang Refinery (阜康冶煉廠) from January 2002 to August 2005.

Mr. Sun Baohui (孫寶輝), aged 39, has been a Supervisor of the Company since June 2006. He was elected by the employees as employees' representative in the Supervisory Committee. He majored in the metallurgy of non-ferrous metals and graduated from Kunming University of Science and Technology with a Bachelor's degree in engineering in July 1992. Mr. Sun served as a technician, the deputy head and the head of the smelting workshop at Kalatongke Mine successively from July 1992 to September 2000. From April 2003 to September 2005, he served as the head of the ore processing workshop at Kalatongke Mine. Since September 2005, he has served as the deputy head of and the president of the labour union at Kalatongke Mine.

SUPERVISOR

Mr. Liu Daoying (劉道英), aged 46, has been the chairman of the supervisory committee and the head of the supervising and auditing office of Zijin Mining Group Northwest Co., Ltd. (紫金礦業集團西北有限公司). He graduated from Nanping District Liangshi School (南平地區糧食學校) majoring in accounting in July 1981 and obtained professional auditor qualification in the PRC in December 1995. In December 2004, Mr. Liu obtained a diploma in business administration from Sichuan University (四川大學). He was acting as the deputy director and the chief accountant of the Food Bureau of Shanghang County (上杭縣糧食部門) in Fujian Province, and deputy section head and section head of the Auditing Bureau of Shanghang County (上杭縣審計局). Mr. Liu joined the Zijin Mining Group (紫金礦業集團) in December 2005 and served as the assistant to the head and the head of the supervising and auditing office. He is currently the chairman of the supervisory committee and the director of the supervising and auditing office of Zijin Mining Group Northwest Co., Ltd.* (紫金礦業集團西北有限公司).

INDEPENDENT SUPERVISOR

Ms. Chen Yuping (陳玉萍), aged 44, is an independent Supervisor of the Company since 12 June 2006. Ms. Chen majored in industry economics and obtained a Bachelor's degree in economics from Xinjiang University of Finance and Economics (新疆財經大學) (previously known as Xinjiang Institute of Finance and Economics (新疆財經學院)) in July 1985 and a Master's degree in business administration from Oklahoma City University (奧克拉荷馬城大學) in the U.S.A. in June 1989. Since July 1985, Ms. Chen has been teaching in the Faculty of Business Administration of Xinjiang Institute of Finance. Ms. Chen is now a professor and has been the deputy head of the Faculty of Business Administration of Xinjiang University of Finance and Economics since July 2001 and was appointed as the associate professor in July 1996. From January 2000 to September 2000, she studied in Nyenrode University in Netherlands pursuant to the Chinese Management Development Project. She was appointed as the professor in 2006 and the deputy head of the Student Registry of Xinjiang University of Finance and Economics (新疆財經大學) in October 2007.

Mr. Hu Zhijiang (胡志江), aged 63, is an independent Supervisor of the Company since 12 June 2006. He is a qualified senior accountant and a practising accountant. Mr. Hu was a deputy head in the Agricultural Planning and Finance Section of the Finance Department of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區財政廳農財處) from 1992 to 1994. From 1994 to 1997, he served as the head of the Legal and Taxation Section of the Finance Department of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區財政廳法制税政處). From 1997 to 2001, he served as the head of the Accounting Section of the Finance Department of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區財政廳會計處). From 1998 to 2000, he served as a member of the Senior Assessment Committee for Professional Qualification in Accounting of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區會計專業技術資格高級評審委員會). From 2001 to 2005, he served as the inspector at the deputy department level of the Finance Department of Xinjiang Uygur Autonomous Region (副廳級巡視員). Mr. Hu has been the vice chairman of the eighth committee of the Accounting Association of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區會計學會第八屆理事會) since 2002.

OTHER SENIOR MANAGEMENT

Mr. Zhang Junjie (張俊杰), aged 46, is one of the joint company secretaries of the Company. He graduated from Zhongnan Mining and Smelting Institute (中南礦冶學院) with a Bachelor's degree in engineering, majoring in mining engineering from September 1979 to July 1983. Mr. Zhang has more than 24 years of experience in the mining industry. From July 1983 to September 1988, he was employed as the deputy head of the comprehensive planning department of Xinjiang Keketuohai Mining Bureau. From October 1988 to March 1991, he was the head of the production technology division and the head of the mining workshop of Kalatongke Mine. From April 1991 to March 1993, he was the deputy head and acting head of the production technology division of Xinjiang Keketuohai Mining Bureau. From March 1993 to August 1997, he was the deputy chief economist of Xinjiang Non-ferrous Industry Co. Copper and Nickel Branch (新疆有色金屬工業公司銅鎳分公司). From August 1997 to March 1998, he was a deputy general manager of Xinjiang Non-ferrous Industry Co. Copper and Nickel Branch (新疆有色金屬工業公司銅鎳分公司). From April 1998 to July 2002, he was the head of the finance department of Xinjiang Non-ferrous Metal Industry Co.. From July 2002 to August 2005, he was the head of the assets management department of Xinjiang Non-ferrous. Since September 2005, he has been the secretary to the Board of Directors.

Biographical Details of Directors, Supervisors and Senior Management

Mr. Lam Cheuk Fai (林灼輝), aged 55, is the qualified accountant and one of the joint company secretaries of the Company. He joined the Company in June 2006. Mr. Lam was awarded a Higher Certificate in Accountancy from the Hong Kong Polytechnic University (formerly known as the Hong Kong Polytechnic) in 1979, and a Master's degree of Business Administration from the University of East Asia, Macau in 1988. Mr. Lam is a fellow member of both the Association of Chartered Certified Accountants of the United Kingdom and the Hong Kong Institute of Certified Public Accountants. From 1979 to 1985, Mr. Lam worked for Touche Ross & Co. (now known as Deloitte & Touche) in Hong Kong and the U.S.A. and Arthur Young & Co. (now known as Ernst & Young) in Hong Kong. Mr. Lam has approximately 30 years of working experience in auditing, accounting, internal control, taxation, company secretarial work and financial management in multinational organisations in the U.S.A., Hong Kong and the PRC. He was previously employed as the chief financial officer and the company secretary by a listed company in Hong Kong.

Mr. Wu Tao (吳濤), aged 42, is the chief engineer of the Company. Mr. Wu studied in the Department of Chemical Engineering at Chengdu University of Science and Technology from September 1985 to July 1989 specialising in the metallurgy of non-ferrous metals and graduated with a Bachelor's degree in engineering. He started working at Kalatongke Mine upon graduation. Since October 1991, he has been working at Fukang Refinery (阜康冶煉廠) and has been the chief engineer since September 2005. He was awarded two Scientific and Technological Progress First Prizes (科學技術進步一等獎), one by the National Committee of Science and Technology in 1995 for his contribution to the wet process adopted in refining and one by the People's Government of Xinjiang for the year of 2002 for his contribution to the development of production methods in smelting, extraction from tailings and the production of copper and precious metals.

Mr. He Hongfeng (何洪峰), aged 39, is the chief financial officer of the Company since September 2005. Mr. He graduated from Xinjiang College of Finance and Economics in 1992 with a Bachelor's degree in economics. Prior to joining the Company in September 2005, he was working in Zhongjin Investment as an accountant. Mr. He is a certified accountant, certified valuer and certified tax consultant in the PRC.

The Directors are pleased to present their 2008 report and the audited financial statements of Xinjiang Xinxin Mining Industry Co., Ltd. (the "Company") and its subsidiary (collectively referred to as the "Group") for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

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

The principal activities of the Company's jointly-controlled entity and subsidiary are detailed in notes (9) and (11) to the financial statements, respectively.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2008 and the state of financial affairs of the Company and the Group at that date are set out in the financial statements on pages 53 to 128.

The Board of Directors proposed payment of a final dividend of RMB0.09 per share. Dividend for shareholders of H shares will be distributed to the shareholders whose names appear on the Company's register of members at the opening of business on 11 June 2009.

MAJOR INVESTMENTS

Hami Hexin Mining Company Limited*

On 20 August 2008, the Company acquired 50% equity interest in Hami Hexin Mining Company Limited*(哈密和鑫礦業有限公司) ("Hami Hexin") from Xinjiang Non-ferrous, the holding company of the Company for an aggregate cash consideration of RMB95.1 million. Hami Hexin thereby became a jointly-controlled entity of the Company. On 28 August 2008, the Company entered into an agreement with Qinghai Western Precious Metal Company Limited* (青海西部稀貴金屬有限公司), the other shareholder of Hami Hexin, that each of the shareholders further increased their investment in Hami Hexin by RMB50 million. The Company completed the capital injection of Hami Hexin on 4 September 2008. Hami Hexin was engaged in the development of mining resources, production, purchase and sales of mineral products.

Xinjiang Mengxi Mining Company Limited*

On 12 June 2008, the Company invested RMB10.2 million in cash in the registered capital of Xinjiang Mengxi Mining Company Limited*(新疆蒙西礦業有限公司) ("Mengxi Mining"), whose principal activities are exploration of mineral resources, investment in development projects, processing and selling of mineral products. The investment represents 51% equity interest in Mengxi Mining. The other investment partner is Xinjiang Baodi Mining Company Limited*(新疆寶地礦業有限責任公司), an independent third party, who holds the remaining 49% equity interest in Mengxi Mining.

Xinjiang Yakesi Resources Development Co., Ltd.*

On 23 November, 2008, the Company entered into equity transfer agreements with Alexis Investments Limited ("Alexis"), Xinjiang Kangshun Mineral Project Development Co., Ltd.*(新疆康順礦業項目發展有限公司), Hami Yatian Trading Co., Ltd.*(哈密市亞天商貿有限責任公司), Hami Jin Hai Xin Mining Development Co., Ltd.*(哈密市金海鑫礦業開發有限責任公司), Shanghai Lei Shi Investments Management Co., Ltd.*(上海疊石投資管理有限公司) and Beijing Jing Shi Li Mai Biology Technology Co., Ltd.*(北京京石立邁生物技術有限公司), to acquire 100% equity interest in Xinjiang Yakesi Resources Development Co., Ltd. ("Yakesi") for a cash consideration of RMB467,250,000. Yakesi has a registered and fully paid up capital of RMB243,000,000. The equity transfer agreements had been completed in February 2009 and Yakesi became a wholly owned subsidiary of the Company.

The principal business of Yakesi is the exploitation of copper and nickel mines, ore processing, and manufacturing and sale of copper and nickel products. Yakesi is the holder of certain mining rights of the Huangshandong nickel-copper mine, the Huangshan nickel-copper mine and the Xiangshan nickel-copper mine.

Hami Jubao Resources Development Co. Ltd.*

On 23 November 2008, the Company entered into an equity transfer agreement with Alexis to acquire 25% equity interest in Hami Jubao Resources Development Co. Ltd.*(哈密市聚寶資源開發有限公司) ("Jubao") for a cash consideration of RMB75,000,000. Jubao has a registered and fully paid up capital of RMB5,000,000. The equity interest of Jubao was held as to 75% by Yakesi and 25% by Alexis. The equity transfer agreement had been completed in February 2009 and Jubao became a wholly owned subsidiary of the Company.

The principal business of Jubao is the exploitation of copper and nickel mines, ore processing, and manufacturing and sale of copper concentrate and nickel concentrate. Jubao is the holder of certain mining rights of the Huangshandong nickel-copper mine.

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

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

During the Year, the Company applied the proceeds from its initial public offering totaling RMB750.2 million as follows:

- RMB12.5 million was used in relation to the further exploration of areas in which the Company currently holds mining rights;
- RMB204.2 million was used in relation to the further expansion of the mining and ore processing of Kalatongke Mine;
- RMB5.5 million was used in relation to the expansion of the smelting operation in Kalatongke Mine;
- RMB46.5 million was used in relation to the expansion of the refining capacity of Fukang Refinery (阜康冶煉廠) in respect of 13,000 tonnes of nickel cathode per year;
- RMB54.9 million was used in relation to the expansion of the refining capacity of Fukang Refinery (阜康冶煉廠) in respect of 12,000 tonnes of copper cathode per year;
- RMB10.2 million was used in relation to an investment in Mengxi Mining;
- RMB145.3 million was used in relation to an investment in Hami Hexin; and
- RMB271.1 million was used in relation to investments in Yakesi and Jubao.

SUMMARY OF FINANCIAL INFORMATION

A summary of the operating results and assets, liabilities and minority interests of the Group for the last five financial years, with the audited financial statements for the three years ended 31 December 2006, as extracted from the Company's Prospectus and the audited financial statements for the two years ended 31 December 2007 and 2008, is set out on pages 4 to 5 of this annual report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

The Group did not hold any investment property.

SHARE CAPITAL

Details of movements in the Company's share capital during the Year are set out in note 17 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the Year are set out in the consolidated statement of changes in equity and notes 17 and 18 to the consolidated financial statements.

BANK LOANS AND BORROWINGS

As at 31 December 2008, the Company did not have any outstanding bank loans or other borrowings.

DISTRIBUTABLE RESERVES

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

In accordance with the Company Law of the PRC, profit after tax can be distributed as dividends shall be deducted after the transfer to the statutory surplus reserve. As at 31 December 2008, the Company's distributable reserve under PRC generally accepted accounting standards and Hong Kong Financial Reporting Standards amounted to approximately RMB262,531,187 and RMB421,651,000, respectively, out of the former amount, the final dividend for 2008 of RMB198,900,000 was proposed.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling RMB29,000,000 (2007: RMB371,673).

MAJOR CUSTOMERS AND SUPPLIERS

As at 31 December 2008, the proportion of purchases and sales from major suppliers and major customers of the Company to the total purchases and sales, respectively, are as follows:

Purchases

The total purchases from the largest supplier of the Company is 34.7% of the total purchase value
The total purchases from the five largest suppliers of the Company is 47.1% of the total purchase value

Sales

The total sales to the largest customer of the Company is 37.7% of the total sales value
The total sales to the five largest customers of the Company is 63.4% of the total sales value

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

DIRECTORS AND SUPERVISORS

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

Executive Directors:

Mr. Yuan Ze	袁澤先生	(re-appointed on 14 October 2008) (Chairman)
Mr. Shi Wenfeng	史文峰先生	(re-appointed on 14 October 2008)
Mr. Zhang Guohua	張國華先生	(re-appointed on 14 October 2008)
Mr. Liu Jun	劉俊先生	(re-appointed on 14 October 2008)

Non-executive Directors:

Mr. Zhou Chuanyou	周傳有先生	(re-appointed on 14 October 2008)
Mr. Niu Xuetao	牛學濤先生	(re-appointed on 14 October 2008)

Independent non-executive Directors:

Mr. Chen Jianguo	陳建國先生	(re-appointed on 14 October 2008)
Mr. Sun Baosheng	孫寶生先生	(re-appointed on 14 October 2008)
Mr. Ng Yuk Keung	吳育強先生	(re-appointed on 14 October 2008)

Supervisors:

Mr. Jiang Mingshun	姜明順先生	(re-appointed on 14 October 2008)
Mr. Chen Jiahong	陳家洪先生	(retired on 13 October 2008)
Mr. Sun Baohui	孫寶輝先生	(re-appointed on 14 October 2008)
Mr. Liu Daoying	劉道英先生	(appointed on 14 October 2008)

Independent Supervisors:

Ms. Chen Yuping	陳玉萍女士	(re-appointed on 14 October 2008)
Mr. Hu Zhijiang	胡志江先生	(re-appointed on 14 October 2008)

Biographical details of the Directors and Supervisors are set out on pages 19 to 24.

Service contracts of Directors and Supervisors

Each of the Directors and Supervisors has entered into a three years service contract with the Company from 14 October 2008 to 13 October 2011.

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

Save as disclosed above, there are no service contracts between the Company or its subsidiary and any of the Directors or Supervisors which is not determinable by the Company within one year without payment of compensation apart from statutory compensation.

Confirmation of independence

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

Directors', Supervisors' and senior management's remunerations

The Directors', Supervisors' and senior management's remunerations including discretionary bonus are subject to Shareholders' approval at general meetings. In compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules, the Company has a remuneration and review committee to formulate compensation policies and to determine and manage the compensation of the Company's Directors, Supervisors and senior management. Details of the Directors', Supervisors' and senior management's remuneration are disclosed in note 32 to the consolidated financial statements.

Directors' and Supervisors' interests in contracts

No contract of significance, to which the Company or its subsidiary or any of its holding companies or fellow subsidiaries was a party and in which a Director or Supervisor of the Company had a material interest, subsisted as at the end of the Year or at any time during the Year.

Directors' and Supervisors' interests and short positions in shares

Share Appreciation Rights Incentive Scheme

At the annual general meeting held on 29 May 2008, the Company adopted and approved a share appreciation rights incentive scheme (the "Share Appreciation Rights Incentive Scheme" or "SARIS") to acknowledge the contributions of its senior management and key personnel. The SARIS is an arrangement providing for incentive for the management of the Company such that it attaches importance to the performance of the shares of the Company and its long-term development without the characteristics of shares. It is intended to align the senior management's interests to those of the Company and its shareholders. It is intended that the operation of the SARIS will not involve any issue of new H Shares of the Company, and the exercise of any share appreciation rights will not create a dilution effect on the Company's shareholding structure.

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

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

The recipients of the SARIS and their allocated number of SARIS as at 31 December 2008 are listed below:

Name	Position	Number of SARIS	Percentage of total issued shares
Yuan Ze	Chairman of the Board and executive director	3,000,000	0.136
Shi Wenfeng	General manager and executive director	2,000,000	0.090
Zhang Guohua	Executive deputy general manager and executive director	2,000,000	0.090
Liu Jun	Deputy general manager and executive director	1,000,000	0.045
Niu Xuetao	Non-executive director	500,000	0.023
He Hongfeng	Financial controller	1,000,000	0.045
Zhang Junjie	Company secretary	1,000,000	0.045
Wu Tao	Chief engineer	1,000,000	0.045
Twelve key personnel		3,120,000	0.141
Total		14,620,000	0.662

As at 31 December 2008, the interests or short positions, if any, of the Directors and Supervisors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

Long Positions in Shares and Underlying Shares of the Company

	Number of Shares held					
Director/Supervisor	Personal interest	Corporate interests	Total interests	Classes of share	Percentage of aggregate interests to relevant class of share	Percentage of aggregate interests to the total share capital
Zhou Chuanyou		480,924,000 *(Note 1)*	480,924,000	Domestic share	33.14	21.76
		192,000 *(Note 2)*	192,000	H share	0.03	0.01
		481,116,000	481,116,000			

Note 1: Domestic shares are held by Shanghai Yilian and Zhongjin Investment. The entire shareholding or equity interest of Shanghai Yilian and 98.83% shareholding of Zhongjin Investment are beneficially owned by Zhou Chuanyou (周傳有).

Note 2: H shares are held by Zhongjin Investment. These 192,000 H shares were subsequently disposed of on 5 January 2009.

Save as disclosed above, none of Directors and Supervisors and their respective associates had, as at 31 December 2008, any interests or short positions in the share, 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 and are recorded in the register required to be kept by the Company or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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, its subsidiary or any of fellow subsidiaries a party to any arrangement to enable the Directors or Supervisors to acquire such rights in any other body corporate.

DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESSES

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

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

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

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

So far as was known to any Director or Supervisor, as at 31 December 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 of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company were as follows:

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

(L) = Long positions

Note: The entire shareholding or equity interests of Shanghai Yilian and 98.83% shareholding of Zhongjin Investment are beneficially owned by Mr. Zhou Chuanyou (周傳有).

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

CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 38(b) to the financial statements also constituted connected transactions under the Listing Rules and are required to be disclosed in accordance with Chapter 14A of the Listing Rules.

Continuing connected transactions not exempt under the Listing Rules

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

   For each of the three years ended 31 December 2007, 2008 and 2009, the annual cap of the aggregate fees payable by the Company to the Xinjiang Non-ferrous Group amounted to approximately RMB120.4 million, RMB248.5 million and RMB181.9 million, respectively. For the year ended 31 December 2008, the actual fees payable to the Xinjiang Non-ferrous Group by the Company were approximately RMB115.9 million.

   For each of the three years ended 31 December 2007, 2008 and 2009, the annual cap of the aggregate fees payable by the Xinjiang Non-ferrous Group to the Company amounted to approximately RMB18.6 million, RMB18.5 million and RMB19.4 million, respectively. For the year ended 31 December 2008, the actual fees payable to the Company by the Xinjiang Non-ferrous Group were approximately RMB5.3 million.

2. The Company entered into a comprehensive services agreement with Xinjiang Non-ferrous Metal Industry (Group) Fuyun Xingtong Service Company Limited* (新疆有色金屬工業(集團)富蘊興銅服務有限公司) ("Fuyun Xingtong"), a wholly-owned subsidiary of Xinjiang Non-ferrous, on 17 September 2007 whereby Fuyun Xingtong agreed to provide certain supporting services including educational, nursery, medical and healthcare services to the employees of the Company from 12 October 2007 to 31 December 2009 (the "Comprehensive Services Agreement"). For each of the three years ended 31 December 2007, 2008 and 2009, the annual cap of the services fees payable to Fuyun Xingtong by the Company is approximately RMB3.3 million. For the year ended 31 December 2008, the actual fees payable by the Company to Fuyun Xingtong were approximately RMB2.8 million.

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

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

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

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

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

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

1. have been approved by the Board of Directors;

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

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

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

Non-competition Agreement

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

Related party transactions

The Group is also involved in a number of related party transactions which have been disclosed in note 38 to the financial statements.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

LITIGATION AND ARBITRATION

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

POST BALANCE SHEET EVENTS

Post balance sheet events of the Group are set out on note 39 to the financial statements.

CLOSURE OF REGISTER FOR ANNUAL GENERAL MEETING

The register of members of the Company will be closed from 12 May 2009 to 11 June 2009 (both days inclusive), during which time no share transfers will be registered. In order to qualify for the final dividends and be eligible to attend the 2008 annual general meeting of the Company, instruments of transfer accompanied by share certificates and other appropriate documents must be lodged with the Company's H share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, no later than 4:30 p.m. on 11 May 2009.

AUDIT COMMITTEE

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

The audit committee provides an important link between the Board of Directors and the Company's auditors in matters falling within the scope of the audit of the Company and the Group. It will review the effectiveness of the external audit and of internal controls and risk evaluation and will provide comments and advice to the Board of Directors. The audit committee comprises one non-executive Director namely, Mr. Zhou Chuanyou and two independent non-executive Directors, namely, Mr. Chen Jianguo and Mr. Ng Yuk Keung, with Mr. Chen Jianguo serving as the Chairman. The audit committee and management has reviewed the audited results for the year ended 31 December 2008.

AUDITORS

The consolidated financial statements have been audited by PricewaterhouseCoopers, who retire and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as international auditors of the Company and PricewaterhouseCoopers Zhong Tian CPAs Limited Company as PRC auditors of the Company are to be proposed at the forthcoming Annual General Meeting of the Company.

By order of the Board
Yuan Ze
Chairman

Xinjiang, the PRC
8 April 2009

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

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

Report of the Supervisory Committee

To all shareholders,

For the year 2008, the Supervisory Committee of the Company (the "Supervisory Committee") faithfully fulfilled the supervisory duties to safeguard the interests of the shareholders of the Company effectively in accordance with the requirements of regulations of the Company Law of the PRC and the Articles of Association of the Company. This independent report on the work progress and the due performance of duties by the Supervisory Committee is set out as below:

1. Routine Duties of the Supervisory Committee

(i) The Supervisory Committee held three meetings during the Reporting Year, two of which were held by the first session of the Supervisory Committee and the remaining meeting was held by the second session of the Supervisory Committee. During the three meetings, the supervisors of the Company individually reviewed or approved the *Working Report of the Supervisory Committee for 2007, the Annual Report of the Company for 2007*, *the Consolidated Financial Report for 2007, the Accrued Profit Distribution Plan for 2007, the Resolution regarding Adjustment to Remuneration Standards for the Chairman of the Supervisory Committee, the Resolution regarding Approval of Granting the Performance-based Remuneration and Incentive Remuneration to the Chairman of the Supervisory Committee for 2007, the Financial Statements of the Company prepared in accordance with Hong Kong Financial Report Standards and the PRC Generally Accepted Accounting Principles for the first half of 2008, the Interim Report of the Company for 2008, the Resolution regarding the Re-elections of the Supervisory Committee,* and *the Resolution regarding the election of the Chairman of the New Session of Supervisory Committee*. All Supervisors attended the meetings and expressed their opinions on the issues in compliance with the laws and the Articles of Association of the Company. The supervisors also performed their duties diligently and acted in the best interests of the Company's shareholders as a whole.

(ii) Through attending each and every meeting of the Board of Directors in 2008, the Supervisory Committee has effectively overseen the issues including the legitimacy of the Board meetings, the lawfulness of the resolutions, the compliance with the laws and regulations and the Articles of Association of the Company, the conformity with the resolutions of the general meetings as well as the practical needs to facilitate the operations and development of the Company.

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

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

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

The Supervisory Committee of the Company successfully completed its re-election in 2008. The newly formed second session of the Supervisory Committee still comprises one Supervisor elected by the shareholders, two Supervisors elected by employees and two independent Supervisors. In order to equip themselves with the necessary knowledge as a Supervisor and enhance their competence, all Supervisors of the second session of the Supervisory Committee have been actively participating in business-related training programmes during 2007 for the better understanding of the laws and regulations. The Supervisors carried out their obligations and duties diligently in accordance with the annual work plan of the Supervisory Committee. The two independent Supervisors, who are financial specialists, duly performed their supervisory duties by enhancing the capability of the Supervisory Committee and improving the independence of the Supervisory Committee when carrying out its functions.

2. Independent Opinion of the Supervisory Committee

(i) Legitimate Operation

In 2008, the Company carried out its operations in strict compliance with the relevant laws and regulations including the Company Law, the Articles of Association of the Company, the Code on Corporate Governance Practices as set out in the Rules Governing the Listing of Securities on the Stock Exchange and the Guidelines for the Internal Control System of Listed Companies. Each of the shareholders' meeting, the Board of Directors, the Supervisory Committee and the senior management has clear roles and has complied with operating procedures. The Company has further established and adopted a series of rules and codes which are feasible and effective for the Company. It has complied with codes, laws and regulations, attained efficiency, and ensured the implementation of various major works of the Company.

(ii) Assets of the Company

A major asset transaction was conducted during the Reporting Year. Upon review and approval in the second meeting of the second session of the Board of Directors, the Company decided to invest RMB542,250,000 to acquire Xinjiang Yakesi Resources Co., Ltd.*(新疆亞克斯資源開發股份有限公司) ("Yakesi") and its controlling subsidiary Hami Jubao Resources Co., Ltd.*(哈密市聚寶資源開發有限公司) in order to take advantage of the current low price level of the nonferrous metal market. Yakesi is the second largest producer of nickel within Xinjiang, which possesses abundant nickel and copper resources, maintains well-developed production procedures, high caliber management and employees. After successfully acquiring Yakesi, the Company will have three additional mines, with total nickel resources increased to 330,500 tonnes and copper resources increased to 306,800 tonnes, which will significantly increase the resources self-sufficiency ratio of the Company. As a consequence, the Company will control the major nickel resources of Xinjiang and therefore tremendously lift its position and influence in the industry nationwide. This solidifies the Company's strategic development which will bring healthy economic returns to the Company.

Detailed disclosure of other assets have been made in the financial statements of the Company.

(iii) Financial Management of the Company

PricewaterhouseCoopers have audited the financial statements of the Company prepared in accordance with Hong Kong Financial Reporting Standards for the year 2008 and issued the auditors' report with unqualified opinion. The Company has further improved its internal auditing system and the financial accounting management system, made tax payment in compliance with the laws and regulations, and accepted auditing supervision by internal and external entities. The financial statements prepared by the Company truly stated its financial condition. Revenue in 2008 was RMB1,176.7 million and the net profit was RMB297.6 million.

(iv) Connected Transactions

During the Reporting Year, the Company was involved in connected transactions with Xinjiang Non-ferrous Metal Industry (Group) Ltd. (新疆有色金屬工業(集團)有限責任公司) and its subsidiaries, with regard to construction service, supply of raw material and transportation which amounted to RMB115.90 million, labour service payment to Fuyun Xingtong Services Co., Ltd which amounted to RMB2.80 million, product sales which amounted to RMB5.3 million and lease payment which amounted to RMB1.6 million. All connected transactions were conducted within the scope of the relevant documents approved in the 7th meeting of the first session of the Board of Directors and pursuant to normal commercial terms, being fair and reasonable. No deterioration of the Company's interests was found upon reviews. The Company also engaged the international auditor, PricewaterhouseCoopers, to perform certain procedures on the connected transaction, for details, please refer to page 35 of this annual report.

During the Reporting Year, the Company did not assume any form of guarantee in relation to external loans.

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

All Directors and senior management of the Company were diligent and responsible in their work during 2008. They conformed with the laws and regulations and demonstrated cooperation. Their duties were properly segregated. They were responsible and ensured effective implementation of all resolutions approved at the shareholders' meetings and Board meetings. In carrying out their duties, there was no breach of the laws and regulations, the Articles of Association of the Company or any other action against the interests of the Company. As a result of the decisions made by the Board and the senior management, the Company had made tremendous achievements in various aspects including production, safety, operation, technical improvement and resources integration.

3. Focus of the Supervisory Committee in 2009

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

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

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

(iv) The members of the Supervisory Committee will endeavor to identify new situations and cope with new problems, and will strive to maintain its independent supervisory role and continue to improve its quality of work.

(v) During the Year, all members of the Supervisory Committee conducted a site visit at Kalatongke Mine, Fukang Refinery (阜康冶煉廠) and the subsidiary, Yakesi, respectively, to familiarise themselves with the production sites so as to improve their ability in carrying out their duties.

By order of the Supervisory Committee

Jiang Mingshun
Chairman

Xinjiang, the PRC
8 April 2009

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

Corporate Governance Report

The Company strives to maintain a high standard of corporate governance and to comply with the relevant regulations of China Securities Regulatory Commission and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") as well as the regulations of other relevant regulatory authorities. The Articles of Association of the Company, the terms of reference of the Audit Committee, the terms of reference of the Supervisory Committee and the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules are the bases of reference for formulation of the Company's corporate governance practice code. Save as disclosed herein, the Company has applied all the code provisions under the Code on Corporate Governance Practices (the "Practice Code") set out in Appendix 14 of the Listing Rules and has complied with the relevant code provisions and most of the recommended best practices for the financial year ended 31 December 2008. The Company will continue to improve its corporate governance and enhance the transparency of its operations to its shareholders.

THE BOARD OF DIRECTORS

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

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

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

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

The Company received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors to be in compliance with the independence guidelines as set out in Rule 3.13 of the Listing Rules and considers them to be independent Directors according to the provisions of the guidelines.

Pursuant to the Company's Articles of Association, the Directors are appointed for a term of three years and their re-appointment are to be approved in the forthcoming shareholders' meeting. The Company held an inaugural meeting on 29 August 2005 and elected members for the first session of the Board. The first session of the Board expired on 29 August 2008 and all nine Directors were subject to retirement but continued to discharge their duties before electing a new Board. Members for the second session of the Board were approved at the 2008 extraordinary general meeting held on 14 October 2008. All nine Directors of the first session of the Board were re-appointed as the members for the second session of the Board.

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

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

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

For the year ended 31 December 2008, four full Board meetings were held, including the twelfth meeting of the first session of the Board, the thirteenth meeting of the first session of the Board, the first meeting of the second session of the Board and the second meeting of the second session of the Board. Below is an attendance record of the meetings:

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

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

RESPONSIBILITIES OF THE DIRECTORS

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. All Directors and Supervisors have complied with the required standards as set out in the Model Code for the year ended 31 December 2008.

AVAILABILITY AND USE OF INFORMATION

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

THE COMMITTEES UNDER THE BOARD OF DIRECTORS

Remuneration and Review Committee

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

The Remuneration and Review Committee is mainly responsible for:

– reviewing the structure, number of members and composition (including skills, knowledge and experiences) of the Board on a regular basis; and proposing any changes to the Board;

– finding qualifying directors, selecting and nominating such persons or reflecting such opinions to the Board;

– reviewing and determining the independence of independent non-executive Directors;

– making recommendations on appointment and re-appointment issues, succession of Directors (in particular the Chairman) and relevant issues;

– formulating remuneration and incentive policies for the Directors and senior management;

– examining and evaluating the Directors and senior management in terms of fulfilling their responsibilities; and

– ensuring no Directors or their connected persons determine their own remuneration.

Two meetings of the Remuneration and Review Committee were held during the year with an attendance rate of 100%.

Auditors Remuneration

For the year ended 31 December 2008, audit fees charged by the auditors of the Company amounted to approximately RMB2.08 million and no non-audit service assignment was made.

Audit Committee

The first session of the Board of the Company established the Audit Committee and formulated the articles for the Audit Committee. The articles of the Audit Committee are set out in the Company's website.

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

Major responsibilities of the Audit Committee are:

- to make recommendation on the appointment or replacement of external audit firms;
- to oversee the Company's internal audit system and its implementation;
- to review the Company's financial information and its disclosure (including annual reports, interim reports and any other applicable financial review); and
- to review the Company's financial reporting and internal control system and perform auditing works for material connected transactions.

The Audit Committee has held meetings on a regular basis since its establishment and convened two meetings during the Reporting Year with 100% attendance. The 2008 audit plan and the 2008 interim results report of the Company have been reviewed in the meetings.

The annual report of the Company for the year ended 31 December 2008 has been reviewed by the Audit Committee.

The Director of the Company, Mr. Zhou Chuanyou, has interests in outstanding shares of the Company through Hong Kong Zhongjin Enterprise Company Limited* (香港中金國際實業有限公司). Mr. Zhou Chuanyou owns 98.83% of equity interests in Zhongjin Investment (Group), which in turn owns 100% of equity interests in Hong Kong Zhongjin Enterprise Company Limited* (香港中金國際實業有限公司). As of 31 December 2008, Hong Kong Zhongjin Enterprise Company Limited* (香港中金國際實業有限公司) held 192,000 outstanding shares of the Company, representing 0.03% of the outstanding shares of the Company. Save as disclosed above, neither of the Directors, Supervisors and senior management of the Company hold any other interests.

Strategic Development Committee

The first session of the Board of the Company established the Strategic Development Committee and formulated the articles for the Strategic Development Committee. The articles of the Strategic Development Committee are set out in the Company's website.

The Strategic Development Committee under the first session of the Board of the Company comprises executive Directors, Mr. Yuan Ze, Mr. Shi Wenfeng and Mr. Zhang Guohua, a non-executive Director, Mr. Zhou Chuanyou and an independent non-executive Director, Mr. Sun Baosheng. One of the executive Directors, Mr. Yuan Ze serves as the chairman. The Strategic Development Committee under the second session of the Board of the Company still comprises executive Directors, Mr. Yuan Ze, Mr. Shi Wenfeng and Mr. Zhang Guohua, a non-executive Director, Mr. Zhou Chuanyou and an independent non-executive Director, Mr. Sun Baosheng. One of the executive Directors, Mr. Yuan Ze remains to serve as the chairman.

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

Supervisory Committee

The first session of the Company's Supervisory Committee consists of five Supervisors. Mr. Jiang Mingshun is the Chairman of the Supervisory Committee. One of the Supervisors was elected by the shareholders as shareholders' representative, two Supervisors represented the employees of the Company were elected by the employees and two other independent Supervisors were appointed. Supervisors serve for a term of three years and are subject to re-election. The term of office of the first session of the Supervisory Committee members expired on 29 August 2008 and all five Supervisors were subject to retirement but continued to discharge their duties before electing a new Supervisory Committee. Members of the second Supervisory Committee were approved at the 2008 extraordinary general meeting held on 14 October 2008. One of the shareholders' representatives re-elected by the shareholders, Mr. Liu Daoying, was appointed as the shareholders' representative. Two other Supervisors elected by the employees of the Company and two other independent Supervisors have been re-appointed. Mr. Jiang Mingshun remains to serve as the chairman of the Supervisory Committee.

The Supervisory Committee is responsible for exercising supervision over the Board, its members and the senior management; and preventing them from abusing their authorities and jeopardizing the interests of the shareholders, the Company and its employees. Three meetings were held by the Supervisory Committee in 2008 with an attendance rate of 100%. During the meetings, the Supervisory Committee reviewed the financial conditions and operation of the Company and the due diligence of the senior management. The Supervisory Committee's members perform their duties in accordance with the committee's articles.

SHAREHOLDERS' MEETING AND INVESTOR RELATIONS

The shareholders' meeting provides a good opportunity for direct communications and the establishment of a sound relationship between the Board and the shareholders of the Company. Therefore, the Company attaches great importance to such meeting. In 2008, the Company convened two shareholders' meetings. All resolutions were approved with a rate of over 98% voting for the resolutions. The meetings were chaired by the Chairman of the Board, who explained matters concerning the procedures for voting for shareholders' consideration and the shareholders voted on each resolution. Each of the Directors and Supervisors were notified of and attended the shareholders' meetings.

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

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

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

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

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

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

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

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

As at 31 December 2008, total market capitalisation of the Company was approximately HK$4.42 billion of which public floatation of H Shares was approximately HK$1.52 billion.

INTERNAL CONTROL AND CORPORATE MANAGEMENT

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

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

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

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

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

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

The Company will conduct an effective review on the control of financial, operational and risk management activities. In 2008, the Company has followed through the internal control system. The internal audit of the Company plays an important role in the internal control system of the Company. It is responsible for monitoring the effectiveness of the internal control procedures and ensuring the compliance of policies and principals established by each business and operational units. The internal audit function will also make recommendations on operation effectiveness and other risk management issues to the management.

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

The Company regularly held managerial meetings chaired by the General Manager. These meetings were attended by the Directors, the senior management, and the responsible members of all departments at the Company's headquarter. Discussions and decisions on the Company's operations and the implementation of investment projects and financial matters are conducted at the meetings. The management of the Company and the department heads at the branch level and headquarter will host regular managerial meetings to assist in the cooperation, communication and supervision of the commencement and execution of all joint projects.

DELEGATION OF AUTHORITY

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

FINANCIAL REPORTING

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

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

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

We have audited the consolidated financial statements of Xinjiang Xinxin Mining Industry Co., Ltd. (the "Company") and its subsidiary (collectively referred to as the "Group") set out on pages 53 to 128, which comprise the consolidated and Company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

Independent Auditor's Report

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 8 April 2009

Consolidated Balance Sheet

(All amounts in RMB thousands unless otherwise stated)

	Note	As at 31 December 2008	2007
ASSETS			
Non-current assets			
Property, plant and equipment	*6*	**870,377**	556,702
Mining rights	*7*	**282,996**	292,896
Land use rights	*8*	**76,267**	77,913
Intangible assets		**458**	97
Investment in a joint-venture	*9*	**144,669**	–
Other non-current asset	*10*	**271,125**	–
Deferred tax assets	*12*	**5,379**	–
Total non-current assets		**1,651,271**	927,608
Current assets			
Inventories	*13*	**160,293**	274,389
Trade and bills receivables	*14*	**4,299**	2,672
Other receivables, prepayments and other current assets	*15*	**114,667**	10,454
Interest receivable		**16,755**	–
Cash and bank balances	*16*	**3,448,018**	4,096,103
Total current assets		**3,744,032**	4,383,618
Total assets		**5,395,303**	5,311,226
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	*17*	**552,500**	552,500
Capital reserve	*17*	**4,055,489**	4,055,489
Other reserves	*18*	**182,168**	153,076
Retained earnings			
– Proposed final dividend	*19/34*	**198,900**	176,800
– Others	*19*	**222,751**	153,095
		5,211,808	5,090,960
Minority interest in equity		**9,803**	–
Total equity		**5,221,611**	5,090,960

Consolidated Balance Sheet

(All amounts in RMB thousands unless otherwise stated)

		As at 31 December	
	Note	**2008**	2007
LIABILITIES			
Non-current liabilities			
Long-term payables	*20*	**1,361**	1,967
Provision for close down, restoration and environmental costs	*21*	**4,524**	4,354
Deferred income	*22*	**16,383**	20,386
Total non-current liabilities		**22,268**	26,707
Current liabilities			
Current portion of long-term payables	*20*	**978**	1,824
Trade payables	*23*	**69,713**	74,934
Other payables and accruals	*24*	**80,731**	116,801
Income tax payable		**2**	–
Total current liabilities		**151,424**	193,559
Total liabilities		**173,692**	220,266
Total equity and liabilities		**5,395,303**	5,311,226
Net current assets		**3,592,608**	4,190,059
Total assets less current liabilities		**5,243,879**	5,117,667

Yuan Ze
Chairman

Shi Wenfeng
Executive Director

The notes on pages 60 to 128 are an integral part of these consolidated financial statements.

Balance Sheet

(All amounts in RMB thousands unless otherwise stated)

		As at 31 December	
	Note	**2008**	2007
ASSETS			
Non-current assets			
Property, plant and equipment	*6*	**862,377**	556,702
Mining rights	*7*	**282,996**	292,896
Land use rights	*8*	**76,267**	77,913
Intangible assets		**458**	97
Investment in a joint-venture	*9*	**145,327**	–
Other non-current asset	*10*	**271,125**	–
Investment in a subsidiary	*11*	**10,200**	–
Deferred tax assets	*12*	**5,379**	–
Total non-current assets		**1,654,129**	927,608
Current assets			
Inventories	*13*	**160,293**	274,389
Trade and bills receivables	*14*	**4,299**	2,672
Other receivables, prepayments and other current assets	*15*	**114,667**	10,454
Interest receivable		**16,755**	–
Cash and bank balances	*16*	**3,435,999**	4,096,103
Total current assets		**3,732,013**	4,383,618
Total assets		**5,386,142**	5,311,226
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	*17*	**552,500**	552,500
Capital reserve	*17*	**4,055,489**	4,055,489
Other reserves	*18*	**182,168**	153,076
Retained earnings			
– Proposed final dividend	*19/34*	**198,900**	176,800
– Others	*19*	**223,406**	153,095
Total equity		**5,212,463**	5,090,960

Balance Sheet

(All amounts in RMB thousands unless otherwise stated)

		As at 31 December	
	Note	**2008**	2007
LIABILITIES			
Non-current liabilities			
Long-term payables	*20*	**1,361**	1,967
Provision for close down, restoration and environmental costs	*21*	**4,524**	4,354
Deferred income	*22*	**16,383**	20,386
Total non-current liabilities		**22,268**	26,707
Current liabilities			
Current portion of long-term payables	*20*	**978**	1,824
Trade payables	*23*	**69,713**	74,934
Other payables and accruals	*24*	**80,720**	116,801
Total current liabilities		**151,411**	193,559
Total liabilities		**173,679**	220,266
Total equity and liabilities		**5,386,142**	5,311,226
Net current assets		**3,580,602**	4,190,059
Total assets less current liabilities		**5,234,731**	5,117,667

Yuan Ze
Chairman

Shi Wenfeng
Executive Director

The notes on pages 60 to 128 are an integral part of these consolidated financial statements.

Consolidated Income Statement

(All amounts in RMB thousands unless otherwise stated)

	Note	Year ended 31 December 2008	2007
Revenue	*25*	**1,176,663**	1,581,163
Cost of sales	*26*	**(856,580)**	(721,705)
Gross profit		**320,083**	859,458
Distribution costs	*26*	**(7,100)**	(7,981)
Administrative expenses	*26*	**(115,462)**	(94,439)
Other income	*28*	**–**	161
Other (losses)/gains-net	*29*	**(29,386)**	4,150
Operating profit		**168,135**	761,349
Subscription interest income	*30*	**–**	141,151
Finance income	*30*	**126,501**	31,852
Finance costs	*30*	**(1,663)**	(108,008)
Finance income-net	*30*	**124,838**	64,995
Share of loss of a joint-venture	*9*	**(658)**	–
Profit before income tax		**292,315**	826,344
Income tax expense	*31*	**5,336**	(238)
Profit for the year		**297,651**	826,106
Attributable to:			
Equity holders of the Company		**297,648**	827,269
Minority interest		**3**	(1,163)
		297,651	826,106
Earnings per share for profit attributable to the equity holders of the Company during the year *(expressed in Renminbi per share)*			
– basic and diluted	*33*	**0.135**	0.498
Dividends	*34*	**198,900**	657,714

The notes on pages 60 to 128 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

(All amounts in RMB thousands unless otherwise stated)

	Note	Attributable to equity holders of the Company						
		Share capital	Capital reserve	Other reserves	Retained earnings	Total	Minority interest	Total equity
At 1 January 2007		380,000	90,750	213,457	464,481	1,148,688	23,613	1,172,301
Profit for the year		–	–	–	827,269	827,269	(1,163)	826,106
Profit distribution		–	–	–	(13,045)	(13,045)	–	(13,045)
Dividends	*34*	–	–	–	(880,914)	(880,914)	–	(880,914)
Appropriation to statutory reserve		–	–	67,896	(67,896)	–	–	–
Listing expenses charged to other reserves		–	–	(9,845)	–	(9,845)	–	(9,845)
Issue of new shares	*17*	172,500	4,172,414	–	–	4,344,914	–	4,344,914
Transfer of listing expenses to capital reserve		–	(21,838)	21,838	–	–	–	–
Share issue expenses		–	(185,837)	–	–	(185,837)	–	(185,837)
Termination of Mining Right Transfer Agreement signed with Xinjiang Non-ferrous Metal Industry (Group) Ltd. ("Xinjiang Non-ferrous")		–	–	(140,270)	–	(140,270)	–	(140,270)
Disposal of a subsidiary		–	–	–	–	–	(22,450)	(22,450)
At 31 December 2007		552,500	4,055,489	153,076	329,895	5,090,960	–	5,090,960
At 1 January 2008		**552,500**	**4,055,489**	**153,076**	**329,895**	**5,090,960**	**–**	**5,090,960**
Profit for the year		**–**	**–**	**–**	**297,648**	**297,648**	**3**	**297,651**
Dividends	*34*	**–**	**–**	**–**	**(176,800)**	**(176,800)**	**–**	**(176,800)**
Appropriation to statutory reserve		**–**	**–**	**29,092**	**(29,092)**	**–**	**–**	**–**
Appropriation to safety fund reserve		**–**	**–**	**2,655**	**(2,655)**	**–**	**–**	**–**
Utilisation of safety fund reserve		**–**	**–**	**(2,655)**	**2,655**	**–**	**–**	**–**
Capital contribution from minority interest		**–**	**–**	**–**	**–**	**–**	**9,800**	**9,800**
At 31 December 2008		**552,500**	**4,055,489**	**182,168**	**421,651**	**5,211,808**	**9,803**	**5,221,611**

The notes on pages 60 to 128 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

(All amounts in RMB thousands unless otherwise stated)

	Note	Year ended 31 December 2008	2007
Cash flows from operating activities			
Cash generated from operations	*35(a)*	**182,346**	726,719
Interest paid		**–**	(6,403)
Income tax paid		**(41)**	(357)
Net cash generated from operating activities		**182,305**	719,959
Cash flows from investing activities			
Investment in a joint-venture		**(145,327)**	–
Prepayments of investments	*10*	**(271,125)**	–
Cash pledged for other investing activities	*16*	**(271,125)**	–
Purchase of property, plant and equipment		**(356,178)**	(207,907)
Purchase of land use rights		**–**	(927)
Purchase of mining rights and intangible assets		**(445)**	(283,826)
Purchase of financial assets at fair value through profit or loss		**(3,820)**	–
Proceeds from disposal of property, plant and equipment	*35(b)*	**55**	111
Proceeds from disposal of financial assets at fair value through profit or loss		**4,792**	–
Net cash outflow in respect of the disposal of a subsidiary		**–**	(35,780)
Interest received		**109,746**	31,852
Net cash used in investing activities		**(933,427)**	(496,477)
Cash flows from financing activities			
Proceeds from issuance of new shares		**–**	4,344,914
Subscription interest income received		**–**	141,151
Share issue expenses		**–**	(189,746)
Profit distribution to Holding Company		**–**	(13,045)
Dividends paid	*34*	**(176,800)**	(880,914)
Capital contribution from a minority equityholder in a subsidiary		**9,800**	–
Proceeds from borrowings		**–**	50,000
Repayment of borrowings		**–**	(44,800)
Net cash (used in)/generated from financing activities		**(167,000)**	3,407,560
Net (decrease)/increase in cash and cash equivalents		**(918,122)**	3,631,042
Cash and cash equivalents at beginning of the year		**4,096,103**	562,482
Exchange losses on cash and cash equivalents		**(1,088)**	(97,421)
Cash and cash equivalents at end of the year	*35(c)*	**3,176,893**	4,096,103

The notes on pages 60 to 128 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

(All amounts in RMB thousands unless otherwise stated)

1 General information

Xinjiang Xinxin Mining Industry Co., Ltd. (the "Company") and its subsidiary (collectively referred to as the "Group") is principally engaged in the mining, ore processing, smelting, refining and sales of nickel, copper and other non-ferrous metal products. The Company was incorporated in the People's Republic of China (the "PRC") on 1 September 2005 as a joint stock company with limited liability. The address of the Company's office is 7/F Youse Building, No.4 You Hao North Road, Urumqi, Xinjiang Uygur Autonomous Region of the PRC.

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

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

These consolidated financial statements have been approved for issue by the Board of Directors on 8 April 2009.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

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

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

(a) Amendments and interpretations effective in 2008

- The HKAS 39, 'Financial instruments: Recognition and measurement', amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7, 'Financial instruments: Disclosures', introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have any impact on the Group's financial statements, as the Group has not reclassified any financial assets.

- HK(IFRIC) – Int 11, 'HKFRS 2 – Group and treasury share transactions', provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Group's financial statements.

(b) Interpretations effective in 2008 but not relevant

The following interpretation to published standards is mandatory for accounting periods beginning on or after 1 January 2008 but is not relevant to the Group's operations:

- HK(IFRIC) – Int 12, 'Service Concession arrangements'.

- HK(IFRIC) – Int 14, 'HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'.

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

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

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them:

- HKAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply HKAS 1 (Revised) from 1 January 2009.

- HKAS 23 (Revised), 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Revised) retrospectively from 1 January 2009.

- HKAS 27 (Revised), 'Consolidated and separate financial statements' (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

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

- HKAS 32 (Amendment), 'Financial instruments: Presentation', and HKAS 1 (Amendment), 'Presentation of financial statements' 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The Group will apply the HKAS 32 (Amendment) and HKAS 1 (Amendment) from 1 January 2009, but it is not expected to have any impact on the Group's financial statements.

- HKFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply HKFRS 2 (Amendment) from 1 January 2009, but it is not expected to have a material impact on the Group's financial statements.

- HKFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

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

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

- HKICPA's improvements to HKFRS published in October 2008.

  - HKAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009). The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with HKAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The Group will apply the HKAS 1 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's financial statements.

  - HKAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009).

    – The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

    – The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

    – The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

    – HKAS 37, 'Provisions, contingent liabilities and contingent assets' requires contingent liabilities to be disclosed, not recognised. HKAS 19 has been amended to be consistent.

    The Group will apply the HKAS 19 (Amendment) from 1 January 2009.

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

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

- HKAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in HKAS 39 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between HKAS 39 and HKAS 23. The Group will apply the HKAS 23 (Amendment) prospectively to the capitalisation of borrowing costs on qualifying assets from 1 January 2009.

- HKAS 28 (Amendment), 'Investments in associates' (and consequential amendments to HKAS 32, 'Financial Instruments: Presentation' and HKFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009). An investment in associate is treated as a single asset for the purposes of impairment testing and any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The Group will apply the HKAS 28 (Amendment) to impairment tests related to investment in associates and any related impairment losses from 1 January 2009.

- HKAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the HKAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

- HKAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009). A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group will apply HKAS 38 (Amendment) from 1 January 2009. It is not expected to have an impact to the Group's financial statements.

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

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

- HKAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009).

  – This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

  – The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.

  – The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes this requirement so that HKAS 39 is consistent with HKFRS 8, 'Operating segments' which requires disclosure for segments to be based on information reported to the chief operating decision maker.

  – When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used.

  The Group will apply the HKAS 39 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's consolidated income statement.

- HKFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to HKFRS 1, 'First-time adoption') (effective from 1 July 2009). The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to HKFRS 1 states that these amendments are applied prospectively from the date of transition to HKFRSs. The Group will apply the HKFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010.

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

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

- There are a number of minor amendments to HKFRS 7, 'Financial instruments: Disclosures', HKAS 8, 'Accounting policies, changes in accounting estimates and errors', HKAS 10, 'Events after the balance sheet date', HKAS 18, 'Revenue' and HKAS 34, 'Interim financial reporting' which are not addressed above. These amendments are unlikely to have an impact on the Group's financial statements and have therefore not been analysed in detail.

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

The following interpretations and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods but are not relevant for the Group's operations:

- HKFRS 1 (Amendment), 'First time adoption of HKFRS' and HKAS 27 'Consolidated and separate financial statements' (effective from 1 July 2009).
- HKAS 39 (amendment) 'Financial Instruments: Recognition and Measurement' – 'Eligible hedged items' (effective from 1 July 2009).
- HK(IFRIC) – Int 13, 'Customer loyalty programmes' (effective from 1 July 2008).
- HK(IFRIC) – Int 15, 'Agreements for construction of real estates' (effective from 1 January 2009).
- HK(IFRIC) – Int 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008).
- HK(IFRIC) – Int 17, 'Distributions of non-cash assets to owners' (effective from 1 July 2009).
- HK(IFRIC) – Int 18, 'Transfers of Assets from Customers' (effective for transfers on or after 1 July 2009).

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

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

- HKICPA's improvements to HKFRS published in October 2008.

  - HKAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to HKAS 7, 'Statement of cash flows') (effective from 1 January 2009).

  - HKAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance' (effective from 1 January 2009).

  - HKAS 27 (Amendment), 'Consolidated and separate financial statements' (effective from 1 January 2009).

  - HKAS 28 (Amendment), 'Investments in associates' (and consequential amendments to HKAS 32, 'Financial Instruments: Presentation' and HKFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009).

  - HKAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective from 1 January 2009).

  - HKAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009).

  - HKAS 40 (Amendment), 'Investment property' (and consequential amendments to HKAS 16) (effective from 1 January 2009).

  - HKAS 41 (Amendment), 'Agriculture' (effective from 1 January 2009).

2 Summary of significant accounting policies *(continued)*

2.2 Consolidation

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

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

Inter-company transactions, balances and unrealised gains on transactions between group companies, if any, are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary in the consolidated financial statements to ensure consistency with the policies adopted by the Group.

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

In the Company's balance sheet the investment in a subsidiary is stated at cost less provision for impairment losses (Note 2.8). The result of subsidiary is accounted by the Company on the basis of dividend received and receivable.

2 Summary of significant accounting policies *(continued)*

2.2 Consolidation *(continued)*

(b) Transactions with minority interests

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

(c) Joint ventures

The Group's interests in jointly controlled entities are accounted for using the equity method for accounting and are initially recognised at cost. The Group's investment in joint ventures includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its joint ventures' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investment in a joint-venture is stated at cost less provision for impairment losses (Note 2.8). The results of the joint venture are accounted for by the Company on the basis of dividends received and receivable.

2.3 Segment reporting

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

2 Summary of significant accounting policies *(continued)*

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the consolidated income statement within 'other (losses)/gains' net.

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

2.5 Property, plant and equipment

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

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

(All amounts in RMB thousands unless otherwise stated)

2 Summary of significant accounting policies *(continued)*

2.5 Property, plant and equipment *(continued)*

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

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

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

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

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

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

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

2.6 Land use rights

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

2 Summary of significant accounting policies *(continued)*

2.7 Mining rights and exploration rights

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

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

2.8 Impairment of investments in subsidiaries, joint-ventures and non-financial assets

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

2.9 Financial assets

2.9.1 Classification

The Group classifies its financial assets in the following categories: fair value through profit or loss, loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables comprise "trade and bills receivables", "other receivables, prepayment and other current assets", "interest receivable" and "cash and bank balances" in the balance sheets (Note 2.11 and Note 2.12).

2 Summary of significant accounting policies *(continued)*

2.9 Financial assets *(continued)*

2.9.1 Classification (continued)

(b) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term.

2.9.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated income statement within 'other (losses)/gains – net', in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade and other receivables is described in Note 2.11.

2 Summary of significant accounting policies *(continued)*

2.10 Inventories

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

2.11 Trade and other receivables

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

2.12 Cash and cash equivalents

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

2.13 Share capital

Ordinary shares are classified as equity.

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

2.14 Trade and other payables

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

2 Summary of significant accounting policies *(continued)*

2.15 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

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

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

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

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

2 Summary of significant accounting policies *(continued)*

2.16 Employee benefits

(i) Pension obligations

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

(ii) Housing benefits

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

(iii) Early retirement benefits

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

(iv) Cash-settled share-based compensation scheme

The Group operates a cash-settled share appreciation rights plan. The related cost of services received from the employees and the liability to pay for such services are measured at fair value and recognised over the vesting period as the employees render services. Fair value is established at the grant date, re-measured at each reporting date with any changes in fair value recognised in profit or loss for the period and derecognised until the liability is settled.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the rights granted, excluding the impact of any non-market vesting conditions. Non-market conditions are included in the assumptions about the number of rights that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of rights that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to liability.

2 Summary of significant accounting policies *(continued)*

2.17 Provisions

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

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

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

2.18 Revenue recognition

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

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

(a) Sales of goods

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

(b) Interest income

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

2 Summary of significant accounting policies *(continued)*

2.19 Government grants

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

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

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

2.20 Dividend/profit distribution

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

2.21 Related parties

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

2.22 Operating leases

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

2 Summary of significant accounting policies *(continued)*

2.23 Exploration and evaluation expenditure

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

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

2.24 Contingent liability

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

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

2.25 Share-based payment transaction

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

(All amounts in RMB thousands unless otherwise stated)

3 Financial risk management

(i) Financial risk factors

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

(a) Credit risk

The carrying amounts of deposits and receivables included in the consolidated balance sheets represent the Group's maximum exposure to credit risk in relation to its financial assets. The directors are of the opinion that adequate provision for uncollectible accounts receivable and other receivables has been made in the years ended 31 December 2007 and 2008 after considering the Group's historical experience in collection of accounts receivable and other receivables.

(b) Liquidity risk

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

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

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2007				
Long-term payables	2,138	879	599	1,291
Trade payables *(Note 23)*	74,934	–	–	–
Other payables and accruals	98,973	–	–	–
At 31 December 2008				
Long-term payables	**1,117**	**267**	**495**	**1,128**
Trade payables *(Note 23)*	**69,713**	**–**	**–**	**–**
Other payables and accruals	**69,154**	**–**	**–**	**–**

3 Financial risk management *(continued)*

(i) Financial risk factors *(continued)*

(c) Concentration risk

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

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

(ii) Capital risk management

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

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity', as shown in the consolidated balance sheet, plus net debt. The gearing ratios at 31 December 2007 and 2008 were zero.

(iii) Fair value estimate

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

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

4 Critical accounting estimates and assumptions

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

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

(a) Carrying value of non-current assets

The Group tests whether property, plant and equipment, land use rights and mining rights have been impaired due to events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount, in accordance with accounting policies stated in Note 2.8 to the financial statements.

As at 31 December 2008, there was no impairment for property, plant and equipment, land use rights and mining rights. The recoverable amounts of different cash generating units to which the property, plant and equipment, land use rights and mining rights belong, have been determined based on value-in-use calculations using cash flow projections, based on financial budgets approved by senior management covering a five-year period and management's assumptions and estimates including forecast of selling price of nickel and copper, discount rates and inflation rate. Cash flows beyond the five-year period are assumed to be equal to the cash flow of year 2013 for cash generating units. The discount rates used in cash flow projections varied with different cash generating units.

(b) Useful lives of property, plant and equipment

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

(c) Mineral reserves

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

4 Critical accounting estimates and assumptions *(continued)*

(c) Mineral reserves *(continued)*

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

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

(d) PRC corporate income tax

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

(e) Estimated write-downs of inventories to net realisable value

The Company writes down inventories to net realisable value based on an assessment of the realisability of inventories. The assessment of write-downs requires the management's judgement and estimate. Where the expectation is different from the original estimate, such difference will impact the carrying values of inventories and write-downs of inventories in the period in which such estimates have been changed.

5 Segment information

(a) Business segments

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

(b) Geographical segments

As all of the turnover and operating results of the Group for the year ended 31 December 2007 and 2008 is derived in the PRC, an analysis of the turnover and operating results of the Group by business and geographical location is not presented.

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

(All amounts in RMB thousands unless otherwise stated)

6 Property, plant and equipment

	The Group						
	Buildings	Machinery and equipment	Electronic equipment and others	Motor vehicles	Mining structures	Construction in progress	Total
At 1 January 2007							
Cost	256,826	165,508	4,754	21,098	13,184	234,923	696,293
Accumulated depreciation	(117,579)	(91,060)	(1,591)	(10,633)	(3,571)	–	(224,434)
Impairment	(3,831)	–	–	–	–	–	(3,831)
Net book amount	135,416	74,448	3,163	10,465	9,613	234,923	468,028
Year ended 31 December 2007							
Opening net book amount	135,416	74,448	3,163	10,465	9,613	234,923	468,028
Additions	239	6,299	1,561	3,141	–	195,184	206,424
Transfer from construction in progress	50,082	59,423	1,913	1,710	7,243	(120,371)	–
Disposals *(Note 35(b))*	(2,182)	(1,113)	(75)	(292)	–	–	(3,662)
Disposal of subsidiary	–	(106)	(185)	(3,351)	–	(82,797)	(86,439)
Depreciation *(Note 26)*	(11,281)	(12,679)	(699)	(1,710)	(1,280)	–	(27,649)
Closing net book amount	172,274	126,272	5,678	9,963	15,576	226,939	556,702
At 31 December 2007							
Cost	297,729	227,109	7,814	19,719	20,427	226,939	799,737
Accumulated depreciation	(125,455)	(100,837)	(2,136)	(9,756)	(4,851)	–	(243,035)
Net book amount	172,274	126,272	5,678	9,963	15,576	226,939	556,702
Year ended 31 December 2008							
Opening net book amount	**172,274**	**126,272**	**5,678**	**9,963**	**15,576**	**226,939**	**556,702**
Additions	**30**	**7,989**	**1,135**	**8,325**	**–**	**347,494**	**364,973**
Transfer from construction in progress	**11,260**	**17,677**	**650**	**–**	**–**	**(29,587)**	**–**
Other transfer out *(Note (a))*	**–**	**–**	**–**	**–**	**–**	**(14,696)**	**(14,696)**
Disposals *(Note 35(b))*	**(1,606)**	**(2,390)**	**(31)**	**(63)**	**–**	**–**	**(4,090)**
Depreciation *(Note 26)*	**(12,081)**	**(15,826)**	**(1,165)**	**(2,120)**	**(1,320)**	**–**	**(32,512)**
Closing net book amount	**169,877**	**133,722**	**6,267**	**16,105**	**14,256**	**530,150**	**870,377**
At 31 December 2008							
Cost	**303,378**	**238,689**	**9,152**	**26,947**	**20,427**	**530,150**	**1,128,743**
Accumulated depreciation	**(133,501)**	**(104,967)**	**(2,885)**	**(10,842)**	**(6,171)**	**–**	**(258,366)**
Net book amount	**169,877**	**133,722**	**6,267**	**16,105**	**14,256**	**530,150**	**870,377**

(All amounts in RMB thousands unless otherwise stated)

6 Property, plant and equipment *(continued)*

Notes:

(a) Some exploration projects were proved not to be viable and related expenditures which had been capitalised as construction in progress were transferred out in 2008, among which RMB7,480,000 was off-set with corresponding amount of deferred income related to those projects financially supported by the government and the remaining amount of RMB7,216,000 was charged to the income statement.

(b) Operating lease rentals amounting to RMB1,635,930 (2007: RMB1,635,930) relating to the lease of property are included in the consolidated income statement.

(c) Depreciation of property, plant and equipment has been charged to cost of sales, distribution costs and administrative expenses as follows:

	Year ended 31 December	
	2008	2007
Cost of sales	**28,756**	24,433
Distribution costs	**184**	156
Administrative expenses	**3,572**	3,060
	32,512	27,649

(All amounts in RMB thousands unless otherwise stated)

6 Property, plant and equipment *(continued)*

	The Company						
	Buildings	Machinery and equipment	Electronic equipment and others	Motor vehicles	Mining structures	Construction in progress	Total
At 1 January 2007							
Cost	256,826	165,465	4,636	20,414	13,185	158,695	619,221
Accumulated depreciation	(117,579)	(91,059)	(1,584)	(10,588)	(3,572)	–	(224,382)
Impairment	(3,831)	–	–	–	–	–	(3,831)
Net book amount	135,416	74,406	3,052	9,826	9,613	158,695	391,008
Year ended 31 December 2007							
Opening net book amount	135,416	74,406	3,052	9,826	9,613	158,695	391,008
Additions	239	6,233	1,486	2,091	–	186,899	196,948
Transfer from construction in progress	50,082	59,423	1,907	–	7,243	(118,655)	–
Disposals	(2,182)	(1,113)	(75)	(292)	–	–	(3,662)
Depreciation	(11,281)	(12,677)	(692)	(1,662)	(1,280)	–	(27,592)
Closing net book amount	172,274	126,272	5,678	9,963	15,576	226,939	556,702
At 31 December 2007							
Cost	297,729	227,109	7,814	19,719	20,427	226,939	799,737
Accumulated depreciation	(125,455)	(100,837)	(2,136)	(9,756)	(4,851)	–	(243,035)
Net book amount	172,274	126,272	5,678	9,963	15,576	226,939	556,702
Year ended 31 December 2008							
Opening net book amount	**172,274**	**126,272**	**5,678**	**9,963**	**15,576**	**226,939**	**556,702**
Additions	**30**	**7,989**	**1,135**	**8,325**	**–**	**339,494**	**356,973**
Transfer from construction in progress	**11,260**	**17,677**	**650**	**–**	**–**	**(29,587)**	**–**
Other transfer out	**–**	**–**	**–**	**–**	**–**	**(14,696)**	**(14,696)**
Disposals	**(1,606)**	**(2,390)**	**(31)**	**(63)**	**–**	**–**	**(4,090)**
Depreciation	**(12,081)**	**(15,826)**	**(1,165)**	**(2,120)**	**(1,320)**	**–**	**(32,512)**
Closing net book amount	**169,877**	**133,722**	**6,267**	**16,105**	**14,256**	**522,150**	**862,377**
At 31 December 2008							
Cost	**303,378**	**238,689**	**9,152**	**26,947**	**20,427**	**522,150**	**1,120,743**
Accumulated depreciation	**(133,501)**	**(104,967)**	**(2,885)**	**(10,842)**	**(6,171)**	**–**	**(258,366)**
Net book amount	**169,877**	**133,722**	**6,267**	**16,105**	**14,256**	**522,150**	**862,377**

(All amounts in RMB thousands unless otherwise stated)

7 Mining rights

The Group and the Company

At 1 January 2007	
Cost	297,332
Accumulated amortisation	(13,215)
Net book amount	284,117
Year ended 31 December 2007	
Opening net book amount	284,117
Addition	297,021
Termination of Mining Rights Transfer Agreement signed with Xinjiang Non-ferrous	(278,335)
Amortisation charge	(9,907)
Closing net book amount	292,896
At 31 December 2007	
Cost	297,021
Accumulated amortisation	(4,125)
Net book amount	292,896
Year ended 31 December 2008	
Opening net book amount	**292,896**
Amortisation charge	**(9,900)**
Closing net book amount	**282,996**
At 31 December 2008	
Cost	**297,021**
Accumulated amortisation	**(14,025)**
Net book amount	**282,996**

7 Mining rights *(continued)*

The mining rights of Kalatongke Mine were transferred from Xinjiang Non-ferrous at a cash consideration of RMB297,332,000 pursuant to the mining rights transfer agreement on 3 September 2005 (the "Mining Rights Transfer Agreement"). The consideration was to be paid by the Company in annual instalments of approximately RMB9,911,000 each year over the course of 30 years ending 2035. The difference between the value of the mining rights and the discounted net present value of the long-term payable of RMB175,633,000 is recorded as contribution from Holding Company in equity (Note 18(b)).

On 25 October 2006, the Ministry of Finance of the PRC (the "MOF") and the Ministry of Land and Resource of the PRC (the "MLR") jointly promulgated a new circular on Strengthening Reform of the System for Obtaining Mineral Exploration Rights and Mining Rights for Value (the "Circular"). Pursuant to the Circular, a holder of state-invested mining rights which have been allocated to such holder without any payment of consideration to the State in the past should pay a consideration determined by the MLR. This Circular does not have any grandfather exemption. Since the mining right held by the Company was originally obtained by Xinjiang Non-ferrous from MLR via capital injection, the Circular applies to the mining rights held by the Company.

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

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

(All amounts in RMB thousands unless otherwise stated)

8 Land use rights

The Group

At 1 January 2007	
Cost	79,072
Accumulated amortisation	(1,077)
Net book amount	77,995
Year ended 31 December 2007	
Opening net book amount	77,995
Additions	12,405
Amortisation charge	(1,646)
Deduction related to disposal of a subsidiary	(10,841)
Closing net book amount	77,913
At 31 December 2007	
Cost	80,636
Accumulated amortisation	(2,723)
Net book amount	77,913
Year ended 31 December 2008	
Opening net book amount	**77,913**
Amortisation charge	**(1,646)**
Closing net book amount	**76,267**
At 31 December 2008	
Cost	**80,636**
Accumulated amortisation	**(4,369)**
Net book amount	**76,267**

(All amounts in RMB thousands unless otherwise stated)

8 Land use rights *(continued)*

The Company

At 1 January 2007	
Cost	79,072
Accumulated amortisation	(1,077)
Net book amount	77,995
Year ended 31 December 2007	
Opening net book amount	77,995
Additions	1,564
Amortisation charge	(1,646)
Closing net book amount	77,913
At 31 December 2007	
Cost	80,636
Accumulated amortisation	(2,723)
Net book amount	77,913
Year ended 31 December 2008	
Opening net book amount	**77,913**
Amortisation charge	**(1,646)**
Closing net book amount	**76,267**
At 31 December 2008	
Cost	**80,636**
Accumulated amortisation	**(4,369)**
Net book amount	**76,267**

(All amounts in RMB thousands unless otherwise stated)

9 Investment in a joint-venture

The Group

	2008	2007
At 1 January		
Investment in a joint-venture	**145,327**	–
Share of loss	**(658)**	–
At 31 December	**144,669**	–

The Group acquired 50% equity interest in a joint-venture, Hami Hexin Mining Company Limited ("Hexin Mining") from Xinjiang Non-ferrous, the holding company of the Company, on 20 August 2008. Hexin Mining was engaged in the development of mining resources, production, purchase and sales of mineral products.

The Group's share of the result of its joint-venture and its assets (including goodwill) and liabilities is as follows:

Company Name	Place of establishment and kind of legal entity	Assets	Liabilities	Revenue	Loss	% Interest held
Hexin Mining	the PRC, limited liability company	145,534	207	–	(658)	50

The Company

As at 31 December 2008, the investment in Hexin Mining was stated at cost of RMB145,327,000 at the Company's balance sheet.

10 Other non-current asset

The Group and the Company

	As at 31 December 2008	2007
Prepayment to investment	**271,125**	–

(All amounts in RMB thousands unless otherwise stated)

10 Other non-current asset *(continued)*

On 23 November 2008, the Company entered into equity transfer agreements with Alexis Investments Limited ("Alexis"), Xinjiang Kangshun Mineral Project Development Co., Ltd., Hami Yatian Trading Co., Ltd., Hami Jin Hai Xin Mining Development Co., Ltd., Shanghai Lei Shi Investments Management Co., Ltd. and Beijing Jing Shi Li Mai Biology Technology Co., Ltd. ("other minority shareholders of Yakesi"), to acquire 100% equity interest of Xinjiang Yakesi Resources Development Co., Ltd. ("Yakesi") for a cash consideration of RMB467,250,000.

On 23 November 2008, the Company entered into an equity transfer agreement with Alexis to acquire 25% of equity interest of Hami Jubao Resource Development Co., Ltd. ("Jubao") for a cash consideration of RMB75,000,000. Yakesi holds 75% equity interest of Jubao.

The total consideration for the above equity interest acquisitions is RMB542,250,000.

Yakesi is the holder of certain mining rights of the Huangshandong nickel-copper mine, the Huangshan nickel-copper mine and the Xiangshan nickel-copper mine. Jubao is the holder of certain mining rights of the Huangshandong nickel-copper mine. The principal business of Yakesi and Jubao is the exploration of copper and nickel mines, ore processing, and manufacturing and sale of copper and nickel products.

According to the equity transfer agreements, the Company has prepaid 50% of consideration of RMB271,125,000 to Alexis and other minority shareholders of Yakesi in November 2008, and the remaining 50% of consideration of RMB271,125,000 will be paid by the Company in 2009 (Note 16(a) and Note 39(a)).

11 Investment in a subsidiary – Company

The Company

	As at 31 December	
	2008	2007
Unlisted investment, at cost	**10,200**	–

The particulars of the subsidiary are as follows:

Company Name	Place of establishment and kind of legal entity	Registered and fully paid-up capital	Principal activities and place of operation	Interest held
Xinjiang Mengxi Mining Company Limited ("Mengxi Mining")	the PRC, limited liability company	15,918	Production and sales of nickel concentrate, the PRC	51%

The subsidiary was established on 12 June 2008 and has not commenced its operations as at 31 December 2008.

Mengxi Mining was set up with paid-in capital of RMB15,918,400. The Company subscribed for 51% of the paid-in capital of Mengxi Mining at a consideration of RMB10,200,000.

(All amounts in RMB thousands unless otherwise stated)

12 Deferred income tax

The Group and the Company

The movements of deferred tax assets during 2008 are as follows:

	Deferred income	Provision	Depreciation	Total
At 1 January 2008	–	–	–	–
Credited to the income statement	4,085	557	737	5,379
At 31 December 2008	4,085	557	737	5,379

Deferred tax assets

	As at 31 December	
	2008	2007
– Deferred tax assets to be recovered after more than 12 months	5,379	–
– Deferred tax assets to be recovered within 12 months	–	–
	5,379	–

13 Inventories

The Group and the Company

	As at 31 December	
	2008	2007
Cost:		
Raw materials	52,663	25,872
Work-in-progress	45,589	64,536
Semi-finished goods	87,354	153,723
Finished goods	28,423	30,801
	214,029	274,932
Provision:		
Raw materials	(543)	(543)
Work-in-progress	(20,194)	–
Semi-finished goods	(27,129)	–
Finished goods	(5,870)	–
	(53,736)	(543)
Inventory, net	160,293	274,389

(All amounts in RMB thousands unless otherwise stated)

13 Inventories *(continued)*

The cost of inventories recognized as expense and included in "cost of sales" amounted to approximately RMB856,580,000 and RMB721,705,000 for the year ended 31 December 2008 and 2007 respectively.

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

14 Trade and bills receivables

The Group and the Company

	As at 31 December	
	2008	2007
Trade receivables *(Note (a))*	**4,810**	3,844
Bills receivables	**2,000**	1,225
Less: provision for impairment of receivables	**(2,511)**	(2,397)
	4,299	2,672

The fair values of trade and bills receivables equal to the book values.

Notes:

(a) Trade receivables are analysed as follows:

	As at 31 December	
	2008	2007
Trade receivables		
– Fellow subsidiaries	**575**	919
– Other state-owned enterprises	**85**	601
– Third parties	**4,150**	2,324
Trade receivables, gross	**4,810**	3,844

Ageing analysis of the gross trade receivables at the respective balance sheet date are as follows:

	As at 31 December	
	2008	2007
0 – 90 days	**1,941**	1,374
181 – 365 days	**440**	–
Over 365 days	**2,429**	2,470
	4,810	3,844

(All amounts in RMB thousands unless otherwise stated)

14 Trade and bills receivables *(continued)*

Notes: (continued)

(b) The credit period of trade receivables are generally from 1 to 3 months. Trade receivables with ageing over 365 days were provided the provision for impairment of receivables of RMB2,395,000 and RMB2,328,000 as at 31 December 2008 and 2007 respectively.

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

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

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

	2008	2007
At 1 January	**2,397**	3,459
Provision for receivables impairment	**158**	–
Reversal of receivables impairment	**(44)**	(1,062)
At 31 December	**2,511**	2,397

15 Other receivables, prepayments and other current assets

The Group and the Company

	As at 31 December	
	2008	2007
Other receivables		
– Other state-owned enterprises	**18,147**	151
– Amount due from Yakesi *(Note (a))*	**50,000**	–
– Third parties	**4,594**	2,214
Less: Impairment provision	**(1,155)**	(1,155)
	71,586	1,210
Advances to suppliers *(Note (b))*	**43,081**	9,244
	114,667	10,454

(All amounts in RMB thousands unless otherwise stated)

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

Notes:

(a) Amount due from Yakesi

According to the contract signed by the Company and Yakesi on 12 November 2008, the Company provided a loan with amount of RMB50,000,000 to Yakesi. The loan is secured by the mining rights permit of Ore Body No. 30, Huangshan nickel-copper mine owned by Yakesi. The amount due from Yakesi will be repaid by Yakesi on 31 December 2009.

(b) Advances to suppliers are analysed as follows:

The Group and the Company

	As at 31 December	
	2008	2007
Advances to suppliers		
– Fellow subsidiaries	**58**	132
– Other state-owned enterprises	**39,647**	357
– Third parties	**3,376**	8,755
	43,081	9,244

(c) Other than amount due from Yakesi, other receivables and advances to suppliers are unsecured, interest free and have no fixed repayment term.

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

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

(All amounts in RMB thousands unless otherwise stated)

16 Cash and bank balances

The Group

	As at 31 December	
	2008	2007
Cash on hand	**7**	5
Current deposits with banks	**3,176,886**	4,096,098
Restricted cash at bank *(Note (a))*	**271,125**	–
	3,448,018	4,096,103

The Company

	As at 31 December	
	2008	2007
Cash on hand	**7**	5
Current deposits with banks	**3,164,867**	4,096,098
Restricted cash at bank *(Note (a))*	**271,125**	–
	3,435,999	4,096,103

Current deposits with banks can be analysed below:

The Group

	As at 31 December	
	2008	2007
Denominated in:		
– RMB	**3,448,011**	3,655,920
– HK$	**–**	440,178
	3,448,011	4,096,098

(All amounts in RMB thousands unless otherwise stated)

16 Cash and bank balances *(continued)*

The Company

	As at 31 December	
	2008	2007
Denominated in:		
– RMB	**3,435,992**	3,655,920
– HK$	**–**	440,178
	3,435,992	4,096,098

Notes:

(a) Restricted cash at bank represents the cash at bank account under co-management of the Company and Alexis, which is set up for the purpose of acquiring 100% equity interest of Yakesi and 25% of equity interest of Jubao. Deposits with this restricted bank account represent unpaid consideration for the acquisition of Yakesi and Jubao. Neither of the Company nor Alexis is allowed to withdraw the deposits from the restricted bank account individually during the period from 24 November 2008 to 28 February 2009 (Note 10 and Note 39(a)).

(b) The bank deposits bear interests at rates based on bank deposit rates as agreed with banks for each of the year ended 31 December 2007 and 2008. For the year ended 31 December 2007 and year ended 31 December 2008, the weighted average effective interest rate range on deposits was 0.72% to 3.33% and 0.36% to 3.71% per annum respectively.

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

17 Share capital and Capital reserve

The Group and the Company

	Number of ordinary shares	Share capital *(Note (b))*	Capital reserve *(Note (c))*	Total
At 1 January 2007	380,000,000	380,000	90,750	470,750
Increase in number of shares due to share split *(Note (a))*	1,140,000,000	–	–	–
Issue of new shares due to initial public offering *(Note (a))*	690,000,000	172,500	4,172,414	4,344,914
Share issue expenses	–	–	(185,837)	(185,837)
Transfer from other reserves *(Note 18(a))*	–	–	(21,838)	(21,838)
At 31 December 2007 and 31 December 2008	2,210,000,000	552,500	4,055,489	4,607,989

Notes:

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

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

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

(b) The Company's share capital as at 31 December 2007 and 2008 is as follows:

	As at 31 December 2007 and 2008		
	Number of shares *'000*	% of issued capital	Nominal value *RMB'000*
Registered, issued and fully paid			
Domestic shares of RMB0.25 each	1,451,000	65.66%	362,750
H shares of RMB0.25 each	759,000	34.34%	189,750
	2,210,000	100.00%	552,500

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

(c) Capital reserve represents the difference between par value of share issued and the fair value of net assets/considerations received by the Company.

(All amounts in RMB thousands unless otherwise stated)

18 Other reserves

The Group and the Company

	IPO expenses Note (a)	Contribution from Holding Company Note (b)	Statutory reserve Note (c)	Safety fund reserve Note (d)	Total
At 1 January 2007	(11,993)	175,663	49,787	–	213,457
Professional fees incurred	(9,845)	–	–	–	(9,845)
Transferred to capital reserve	21,838	–	–	–	21,838
Termination of Mining Rights Transfer Agreement signed with Xinjiang Non-ferrous	–	(140,270)	–	–	(140,270)
Transferred from retained earnings	–	–	67,896	–	67,896
At 31 December 2007	–	35,393	117,683	–	153,076
At 1 January 2008	**–**	**35,393**	**117,683**	**–**	**153,076**
Transferred from retained earnings	**–**	**–**	**29,092**	**–**	**29,092**
Appropriation to safety fund reserve	**–**	**–**	**–**	**2,655**	**2,655**
Utilisation of safety fund reserve	**–**	**–**	**–**	**(2,655)**	**(2,655)**
At 31 December 2008	**–**	**35,393**	**146,775**	**–**	**182,168**

Notes:

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

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

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

(d) Pursuant to certain regulations issued by the State Administration of Work Safety, the Company is required to set aside an amount to a safety fund at RMB8 per ton of raw ore mined and at 4% of sales of vitriol.

(All amounts in RMB thousands unless otherwise stated)

19 Retained earnings

The Group

	2008	2007
At 1 January	**329,895**	464,481
Profit for the year	**297,648**	827,269
Profit distribution	**–**	(13,045)
Dividends	**(176,800)**	(880,914)
Appropriation to statutory reserve *(Note 18)*	**(29,092)**	(67,896)
At 31 December	**421,651**	329,895
Representing:		
Proposed final dividend	**198,900**	176,800
Retained earnings – Others	**222,751**	153,095
At 31 December	**421,651**	329,895

The Company

	2008	2007
At 1 January	**329,895**	466,241
Profit for the year	**298,303**	825,509
Profit distribution	**–**	(13,045)
Dividends	**(176,800)**	(880,914)
Appropriation to statutory reserve *(Note 18)*	**(29,092)**	(67,896)
At 31 December	**422,306**	329,895
Representing:		
Proposed final dividend	**198,900**	176,800
Retained earnings – Others	**223,406**	153,095
At 31 December	**422,306**	329,895

(All amounts in RMB thousands unless otherwise stated)

20 Long-term payables

The Group and the Company

	As at 31 December	
	2008	2007
Early retirement benefit obligation	**2,339**	3,791
Less: Amounts due within one year	**(978)**	(1,824)
	1,361	1,967

Note:

	2008	2007
At 1 January	**3,791**	6,066
Interest cost *(Note 30)*	**405**	300
Payment during the year	**(1,857)**	(2,575)
At 31 December	**2,339**	3,791

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

21 Provision for close down, restoration and environmental costs

The Group and the Company

	2008	2007
At 1 January	**4,354**	4,092
Unwinding of discount *(Note 30)*	**170**	262
At 31 December	**4,524**	4,354

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

(All amounts in RMB thousands unless otherwise stated)

22 Deferred income

The movements of deferred income during the year ended 31 December 2007 and 2008 are as follows:

The Group

	2008	2007
At 1 January	**20,386**	13,360
Additions	**3,500**	17,522
Deduction related to disposal of a subsidiary	**–**	(10,489)
Transfer to income statement	**(23)**	(7)
Other transfer out *(Note 6)*	**(7,480)**	–
At 31 December	**16,383**	20,386

The Company

	2008	2007
At 1 January	**20,386**	13,360
Additions	**3,500**	7,033
Transfer to income statement	**(23)**	(7)
Other transfer out *(Note 6)*	**(7,480)**	–
At 31 December	**16,383**	20,386

Deferred income as at 31 December 2007 and 31 December 2008 represents government grants received in respect of mining and exploration construction projects which would be recognised as income after the completion of the projects on a straight-line basis over the expected lives of the related assets. The Company has fulfilled all the conditions for the entitlement of such grants. In 2008, an exploration project which received government grants was completed, and the project did not prove viable, therefore deferred income related to the project was off-set with the costs of the project.

(All amounts in RMB thousands unless otherwise stated)

23 Trade payables

The Group and the Company

Trade payables are analysed as follows:

	As at 31 December	
	2008	2007
Trade payables		
– Fellow subsidiaries	**6,958**	10,462
– Other state-owned enterprises	**8,027**	10,109
– Third parties	**54,728**	54,363
	69,713	74,934

As at 31 December 2008 and 31 December 2007, the ageing analysis of trade payables are as follows:

	As at 31 December	
	2008	2007
0 – 90 days	**51,815**	60,760
91 – 180 days	**8,775**	2,500
181 – 365 days	**5,281**	7,489
Over 365 days	**3,842**	4,185
	69,713	74,934

(All amounts in RMB thousands unless otherwise stated)

24 Other payables and accruals

The Group

	As at 31 December	
	2008	2007
Other payables *(Note (a))*	**12,735**	17,675
Customer deposits and receipts in advance	**5,429**	12,368
Salary and welfare payables	**50,990**	68,930
Other levies	**519**	3,756
Accrued taxes other than income tax *(Note (b))*	**11,058**	14,072
	80,731	116,801

The Company

	As at 31 December	
	2008	2007
Other payables *(Note (a))*	**12,735**	17,675
Customer deposits and receipts in advance	**5,429**	12,368
Salary and welfare payables	**50,990**	68,930
Other levies	**519**	3,756
Accrued taxes other than income tax *(Note (b))*	**11,047**	14,072
	80,720	116,801

Notes:

(a) Other payables are analysed as follows:

The Group and the Company

	As at 31 December	
	2008	2007
Other payables		
– Fellow subsidiaries	**–**	597
– Third parties	**12,735**	17,078
	12,735	17,675

The carrying amounts of other payables approximate to their fair values.

(All amounts in RMB thousands unless otherwise stated)

24 Other payables and accruals *(continued)*

Notes: (continued)

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

The Group

	As at 31 December	
	2008	2007
Value added tax	**527**	3,538
City construction tax	**865**	4,060
Individual income tax	**2,297**	2,281
Stamp duty	**680**	2,879
Resource compensation fee	**4,641**	–
Others	**2,048**	1,314
	11,058	14,072

The Company

	As at 31 December	
	2008	2007
Value added tax	**527**	3,538
City construction tax	**865**	4,060
Individual income tax	**2,297**	2,281
Stamp duty	**670**	2,879
Resource compensation fee	**4,641**	–
Others	**2,047**	1,314
	11,047	14,072

25 Revenue

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

Revenue recognised during the year ended 31 December 2007 and 2008 are analysed as follows:

	Year ended 31 December	
	2008	2007
Nickel cathode	**852,658**	1,267,716
Copper cathode	**221,335**	199,873
Copper concentrate	**62,286**	67,889
Others	**40,384**	45,685
	1,176,663	1,581,163

(All amounts in RMB thousands unless otherwise stated)

26 Expenses by nature

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

	Year ended 31 December	
	2008	2007
Depreciation *(Note 6)*	**32,512**	27,649
Amortisation	**11,630**	11,555
Provision for/(Reversal of) impairment of inventories	**53,193**	(3,913)
Provision for/(Reversal of) impairment of trade receivables	**114**	(922)
Reversal of impairment of other receivables	**–**	(119)
Staff costs *(Note 27)*	**160,381**	190,990
Changes in inventories of finished goods and work-in-progress	**30,628**	(41,250)
Raw materials and consumables used	**486,779**	479,762
Power and fuel consumed	**80,304**	66,219
Subcontracting expenses	**30,298**	26,108
Other manufacturing overheads	**10,403**	8,595
Transportation expenses	**4,897**	6,146
Sales tax levies	**6,734**	12,016
Auditor's remuneration	**2,080**	1,880
Resource compensation fees	**24,954**	7,046
Other taxes	**1,530**	3,958
Others	**42,705**	28,405
Total cost of sales, distribution costs and administrative expenses	**979,142**	824,125

27 Employee benefit expense

	Year ended 31 December	
	2008	2007
Wages and salaries	**105,601**	137,461
Housing benefits *(Note (a))*	**7,515**	5,843
Contributions to pension plans *(Note (b))*	**15,081**	11,670
Welfare and other expenses	**32,184**	36,016
	160,381	190,990

Notes:

(a) These represent the Group's contributions to government-sponsored housing funds at a rate of 10% of the employees' basic salary for the year ended 31 December 2007 and 2008.

(b) These represent the Group's contributions to the defined contribution pension plans organised by the relevant municipal and provincial governments at a rate of 20% of the employees' basic salary for the year ended 31 December 2007 and 2008.

(All amounts in RMB thousands unless otherwise stated)

28 Other income

	Year ended 31 December	
	2008	2007
Subsidy income	**–**	161

29 Other (losses)/gains-net

	Year ended 31 December	
	2008	2007
Gains on disposal of a subsidiary	**–**	3,301
Scrap sales	**2,176**	3,234
Losses on disposal of property, plant and equipment	**(4,035)**	(3,551)
Donations *(Note)*	**(29,000)**	(372)
Gains on disposal of financial assets at fair value through profit or loss	**972**	–
Others	**501**	1,538
	(29,386)	4,150

Note:

Donations amounting to RMB29,000,000 were made to the local finance department, and social non-profit organizations to support local development and social welfare as well as the earthquake relief programme of the state.

(All amounts in RMB thousands unless otherwise stated)

30 Finance income – net

	Year ended 31 December	
	2008	2007
Subscription interest income *(Note (a))*	**–**	141,151
Finance income		
– Interest income on short-term bank deposits	**126,501**	31,852
Finance costs		
– Net foreign exchange loss *(Note (b))*	**(1,088)**	(96,932)
– Bank borrowings	**–**	(479)
– Unwinding of discount	**(575)**	(5,466)
– Others	**–**	(5,131)
	(1,663)	(108,008)
	124,838	64,995

Notes:

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

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

(All amounts in RMB thousands unless otherwise stated)

31 Income tax expense

	Year ended 31 December	
	2008	2007
Current income tax	**43**	238
Deferred income tax *(Note 12)*	**(5,379)**	–
	(5,336)	238

Effective from 1 January 2008, the Company shall determine and pay the corporate income tax in accordance with the Corporate Income Tax Law of the PRC ("the new CIT Law") as approved by the National Congress on 16 March 2007. Under the new CIT Law the corporate income tax applicable to the Company should be 25% since 2008.

The provision for PRC current income tax is calculated based on the statutory income tax rate of 33% and 25% of the assessable income of each of the companies of the Group determined in accordance with the relevant PRC income tax rules and regulations for the year ended 31 December 2007 and 2008 respectively.

The Company, except for its Shanghai branch, is exempted from enterprise income tax from 2007 to 2010 pursuant to the approval obtained from the Xinjiang Uygur Autonomous Region Government. This detailed procedure of tax exemption was subject to be reviewed annually.

The tax on profit for the year ended 31 December 2007 and 2008 mainly represents the tax for the Company's Shanghai branch. The exemption of corporate income tax in 2008 was agreed with local tax authority. The directors of the Company believe that the Company will get the approval for income tax exemption from 2009 to 2010.

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

	Year ended 31 December	
	2008	2007
Profit before tax	**292,315**	826,344
Tax recalculated at statutory income tax of 25% (2007: 33%)	**73,079**	272,694
Effect of tax exemptions	**(78,442)**	(272,562)
Expense not deductible for tax purpose	**27**	106
Income tax expense	**(5,336)**	238

(All amounts in RMB thousands unless otherwise stated)

32 Emoluments for directors, supervisors and five highest paid individuals

(a) Directors' and supervisors' emoluments

The aggregate amounts of emoluments payable to directors and supervisors of the Company during the year ended 31 December 2007 and 2008 are as follows:

	Year ended 31 December	
	2008	2007
Fees	**250**	255
Basic salaries, allowances and other benefits	**2,028**	1,601
Contributions to retirement benefit schemes	**60**	50
Discretionary bonus	**–**	840
	2,338	2,746

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

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

(All amounts in RMB thousands unless otherwise stated)

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

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

The remuneration of each of the directors and supervisors for the year ended 31 December 2008 is set out below:

	Fees	Basic salaries, allowances and other benefits	Pension fund	Discretionary bonus	Total
Directors					
Mr. Yuan Ze	–	400	–	–	400
Mr. Shi Wenfeng	–	406	12	–	418
Mr. Zhang Guohua	–	406	12	–	418
Mr. Liu Jun	–	326	12	–	338
Mr. Ng Yuk Keung	100	–	–	–	100
Mr. Chen Jianguo	50	–	–	–	50
Mr. Sun Baosheng	50	–	–	–	50
Supervisors					
Mr. Jiang Mingshun	–	293	12	–	305
Mr. Sun Baohui	–	197	12	–	209
Ms. Chen Yuping	25	–	–	–	25
Mr. Hu Zhijiang	25	–	–	–	25
	250	2,028	60	–	2,338

(All amounts in RMB thousands unless otherwise stated)

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2007 and 2008 are as follows:

	Year ended 31 December	
	2008	2007
Directors	**3**	3
Non-director individuals	**2**	2
	5	5

The details of emoluments paid to the five highest individuals who were directors of the Company during the year ended 31 December 2007 and 2008 have been included in Note 32(a) above. Details of emoluments paid to the remaining non-director individuals are as follows:

	Year ended 31 December	
	2008	2007
Basic salaries, allowances and other benefits	**1,046**	935
Contributions to retirement benefit schemes	**24**	22
Discretionary bonus	**–**	180
	1,070	1,137

During the year ended 31 December 2007 and 2008, the emoluments paid to each of the highest paid non-director individuals did not exceed HK$1,000,000 (equivalent to RMB880,000).

(C) During the year ended 31 December 2007 and 2008, no directors, supervisors of the Company or the five highest paid individuals of the Group waived any emoluments and no emoluments were paid by the Group to any of the directors and supervisors of the Company or the five highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

33 Earnings per share

	Year ended 31 December	
	2008	2007
Profit attributable to equity holders of the Company *(RMB'000)*	**297,648**	827,269
Adjusted weighted average number of shares in issue *(thousand)*	**2,210,000**	1,661,781
Basic and diluted earnings per share *(RMB)*	**0.135**	0.498

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

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

34 Dividends

	Year ended 31 December	
	2008	2007
Special dividend paid	**–**	480,914
Proposed final dividend	**198,900**	176,800
	198,900	657,714

At the extraordinary general meetings of the Company held on 11 May 2007 and 13 September 2007, it was resolved that the Company's promoters at the time of the incorporation of the Company (the "Promoters") should be entitled to all of the cumulative distributable profits of the Company as at 30 June 2007 (the "Special Dividend"). Pursuant to a resolution passed at the meeting of the Board of Directors held on 19 November 2007, it was resolved to declare and pay the special dividend of RMB1.2656 per share, amounting to a total of approximately RMB480,914,000 based on the original number of shares prior to the share split (Note 17), to the Company's Promoters. The special dividend was fully paid to the Company's Promoters in December 2007.

According to the minutes of the Annual General Meeting held on 29 May 2008, the final dividend of RMB0.08 per ordinary share paid was based on the number of shares as at 31 December 2007, amounting to a total dividend of RMB176,800,000.

At the meeting of Board of Directors held on 8 April 2009, the directors proposed a final dividend of RMB0.09 per ordinary share, amounting to a total dividend of approximately RMB198,900,000 for the year ended 31 December 2008, which is subject to the approval by the Company's shareholders in the Annual General Meeting to be held on 11 June 2009. This proposed dividend is not reflected as a dividend payable in the financial statements for the year ended 31 December 2008.

(All amounts in RMB thousands unless otherwise stated)

35 Notes to consolidated cash flow statement

(a) Cash generated from operations

	Year ended 31 December	
	2008	2007
Profit for the year	**297,651**	826,106
Adjustments for:		
Income tax expense	**(5,336)**	238
Depreciation of property, plant and equipment	**32,512**	27,649
Amortisation of mining rights	**9,900**	9,907
Amortisation of land use rights	**1,646**	1,646
Amortisation of other intangible assets	**84**	2
Losses on disposal of property, plant and equipment	**4,035**	3,551
Provision for/(Reversal of) impairment for receivables	**114**	(1,041)
Provision for/(Reversal of) impairment for inventories	**53,193**	(3,913)
Profit on disposal of equity interest in a subsidiary	**–**	(3,301)
Net foreign exchange loss	**1,088**	96,932
Subscription interest income	**–**	(141,151)
Interest income	**(126,501)**	(31,852)
Interest expense	**575**	11,076
Gains from disposal of financial assets at fair value through profit or loss	**(972)**	–
Share of loss of a joint-venture	**658**	–
Others	**7,193**	–
Cash generated from operations before working capital changes	**275,840**	795,849
Changes in working capital:		
Decrease/(Increase) in inventories	**60,903**	(140,212)
Increase in trade and bills receivables	**(1,741)**	(651)
Increase in other receivables, prepayments and other current assets	**(106,898)**	(35,925)
(Decrease)/Increase in trade and other payables	**(45,758)**	107,658
Cash generated from operations	**182,346**	726,719

(All amounts in RMB thousands unless otherwise stated)

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

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

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

	Year ended 31 December	
	2008	2007
Net book amount	**4,090**	3,662
Losses on disposal of property, plant and equipment	**(4,035)**	(3,551)
Proceeds from sale of property, plant and equipment	**55**	111

(c) Cash and cash equivalent

	As at 31 December	
	2008	2007
Cash and cash equivalent	**3,448,018**	4,096,103
Less: restricted cash at bank *(Note 16(a))*	**(271,125)**	–
Cash and cash equivalent	**3,176,893**	4,096,103

36 Contingencies

(a) Environmental contingencies

Historically, the Group has not incurred any significant expenditure for environmental remediation. Further, except as disclosed in Note 21, the Group is presently not involved in any environmental remediation and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislations, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, may move further towards the adoption of more stringent environmental standards.

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

(b) Insurance

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

(All amounts in RMB thousands unless otherwise stated)

37 Commitments

(a) Capital commitments

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

The Group

	As at 31 December	
	2008	2007
Contracted but not provided for:		
– Buildings	**118,824**	85,686
– Machinery and equipment	**64,982**	36,624
	183,806	122,310
Authorised but not contracted for:		
– Buildings	**118,407**	446,799
– Machinery and equipment	**609,964**	680,515
	728,371	1,127,314
	912,177	1,249,624

The Company

	As at 31 December	
	2008	2007
Contracted but not provided for:		
– Buildings	**118,824**	85,686
– Machinery and equipment	**64,982**	36,624
	183,806	122,310
Authorised but not contracted for:		
– Buildings	**98,127**	446,799
– Machinery and equipment	**609,964**	680,515
	708,091	1,127,314
	891,897	1,249,624

(All amounts in RMB thousands unless otherwise stated)

37 Commitments *(continued)*

(b) Operating lease commitments

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

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

The Group and the Company

	As at 31 December	
	2008	2007
No later than 1 year	**1,636**	1,636
Later than 1 year and no later than 5 years	**–**	1,636
	1,636	3,272

(c) Investment commitment

As at 31 December 2008, the Company has an investment commitment with amount of RMB271,125,000 for the acquisition of Yakesi and Jubao (Note 10 and Note 39(a)).

Pursuant to the resolution of Board of Directors' Meeting held on 8 April 2009, the Company will increase the investment at Yakesi and Jubao amounting to RMB350,000,000 and increase the investment at Hexin Mining amounting to RMB100,000,000 respectively in 2009.

38 Related-party transactions

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

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

38 Related-party transactions *(continued)*

During the year ended 31 December 2007 and 2008, the Group's management are of the view that the following companies are related parties of the Group:

Name of related parties	Relationship with the Group
Xinjiang Non-ferrous	Holding Company
Xinjiang Lithia Factory	Fellow subsidiary
Xinjiang A'xi Gold Mine	Fellow subsidiary
Xinjiang Haoxin Lithia Developing Company Limited	Fellow subsidiary
Xinjiang Non-ferrous Metallurgy Transportation Co., Ltd.	Fellow subsidiary
Xinjiang Non-ferrous Metal Dibian Trade Company	Fellow subsidiary
China Non-ferrous Metal Import and Export Company of Xinjiang	Fellow subsidiary
Metallurgical Design Institute of Non-ferrous Metals of Urumqi	Fellow subsidiary
Xinjiang Non-ferrous Metallurgy Manufacture Factory	Fellow subsidiary
Xinjiang Non-ferrous Industry Group Precious Metal Co., Ltd.	Fellow subsidiary
Xinjiang Non-ferrous Metal Industrial Materials (Group) Co., Ltd.	Fellow subsidiary
Fukang Non-ferrous Development Co., Ltd.	Fellow subsidiary
Xinjiang Non-ferrous Metal Industry (Group) Fuyun Xingtong Service Co., Ltd.	Fellow subsidiary
Xinjiang Jinhui Real Estate Development Co., Ltd.	Fellow subsidiary
Urumqi Mingyuan Property Management Co., Ltd.	Fellow subsidiary
Yinlong Aluminum-plastics Compound Tube Company of Xinjiang	Fellow subsidiary
Xinjiang Sangong Power Co., Ltd.	Fellow subsidiary
Fuyun Hengsheng Beryllium Industry Co., Ltd.	Fellow subsidiary
Beijing Baodi Xindi Kemao Co., Ltd.	Fellow subsidiary
Xinjiang Non-ferrous Gold Construction Company	Fellow subsidiary
Xinjiang Non-ferrous Metal Industry (Group) Quanxin Construction Co., Ltd.	Fellow subsidiary
Hami Hexin Mining Company Limited	Joint-venture

(All amounts in RMB thousands unless otherwise stated)

38 Related-party transactions *(continued)*

(a) Deposits and interest income

	As at 31 December	
	2008	2007
Deposits placed with state-owned banks	**3,436,011**	4,096,098

	Year ended 31 December	
	2008	2007
Interest income from state-owned banks	**126,501**	31,852

(b) During the year ended 31 December 2007 and 2008, the Group had the following material transactions with related parties:

Transactions with the Holding Company

	Year ended 31 December	
	2008	2007
Nature of transactions		
Rental expense of building paid/payable	**1,636**	1,636
Interest expense paid/payable	**–**	4,904
Profit distribution	**–**	13,045
Dividend paid	**70,816**	553,022
Transfer 50% equity interest of Hexin Mining	**95,097**	–
	167,549	572,607

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

(All amounts in RMB thousands unless otherwise stated)

38 Related-party transactions *(continued)*

(b) During the year ended 31 December 2007 and 2008, the Group had the following material transactions with related parties: *(continued)*

Transactions with companies controlled by the Holding Company

Name of related parties	Nature of transactions	Year ended 31 December 2008	2007
– Xinjiang Non-ferrous Metallurgy Manufacture Factory	Purchase of equipment and fittings	–	1,921
	Provision of manufacturing services	–	1,475
	Provision of transportation services	–	7
– Xinjiang Non-ferrous Industry Group Precious Metal Co., Ltd.	Purchase of equipment and fittings	507	872
– Xinjiang Non-ferrous Metal industry (Group) Quanxin Construction Co., Ltd.	Purchase of equipment and fittings	3,914	–
	Provision of construction services	101,219	–
– Xinjiang Non-ferrous Metal Dibian Trade Company	Purchase of raw materials	–	855
– Xinjiang Non-ferrous Metal Industrial Materials (Group) Co., Ltd.	Purchase of raw materials	–	153
– Fukang Non-ferrous Development Co., Ltd.	Purchase of raw materials and consumables	1,695	2,255
	Purchase of coal	1,010	4,417
	Provision of manufacturing services	–	15
	Provision of transportation services	4,518	7,416
	Provision of heating	9	28
– Xinjiang Non-ferrous Gold Construction Company	Provision of construction services	–	63,514
– Xinjiang Non-ferrous Metallurgy Transportation Company Co., Ltd.	Provision of transportation services	281	–
– Xinjiang Non-ferrous Metal Industry (Group) Fuyun Xingtong Service Co., Ltd.	Provision of transportation services	–	955
	Provision of comprehensive supporting services	2,761	2,321
	Provision of other services	1,422	1,178
– Metallurgical Design Institute of Non-ferrous Metals of Urumqi	Provision of mining structure design services	848	144
– Beijing Baodi Xindi Kemao Co., Ltd.	Provision of storage services	499	336
		118,683	87,862

(All amounts in RMB thousands unless otherwise stated)

38 Related-party transactions *(continued)*

(b) During the year ended 31 December 2007 and 2008, the Group had the following material transactions with related parties: *(continued)*

Transactions with companies controlled by the Holding Company (continued)

		Year ended 31 December	
Name of related parties	**Nature of transactions**	**2008**	**2007**
– Fuyun Hengsheng Beryllium Industry Co., Ltd.	Sale of copper cathode	**4,835**	4,281
	Sale of industrial sulphuric acid	**459**	258
– Beijing Baodi Xindi Kemao Co., Ltd.	Sale of nickel cathode	**–**	1,487
– China Non-ferrous Metal Import and Export Company of Xinjiang	Sale of copper cathode	**–**	439
– Fukang Non-ferrous Development Co., Ltd.	Sale of industrial sulphuric acid	**2**	–
		5,296	6,465

Transactions with other state-owned enterprises

	Year ended 31 December	
	2008	2007
Nature of transactions		
Purchase of materials	**337,388**	439,673
Purchase of electricity	**50,395**	41,560
Exploration service received	**7,823**	4,873
Sales of materials	**1,800**	1,580

(All amounts in RMB thousands unless otherwise stated)

38 Related-party transactions *(continued)*

(c) Balances due from or due to related parties

	As at 31 December	
	2008	2007
Trade receivables from fellow subsidiaries		
– Xinjiang Non-ferrous Industry Group Precious Metal Co., Ltd.	**38**	38
– Fuyun Hengsheng Beryllium Industry Co., Ltd.	**537**	881
	575	919
Trade receivables from other state-owned enterprises	**85**	601
	660	1,520
Other receivables from other state-owned enterprises	**18,147**	151
Advances to fellow subsidiaries		
– Xinjiang Non-ferrous Metallurgy Manufacture Factory	**–**	106
– Xinjiang Non-ferrous Gold Construction Company	**–**	26
– Xinjiang Non-ferrous Metal Industry (Group) Quanxin Construction Co., Ltd.	**58**	–
	58	132
Advances to other state-owned enterprises	**39,647**	357
	39,705	489

(All amounts in RMB thousands unless otherwise stated)

38 Related-party transactions *(continued)*

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

	As at 31 December	
	2008	2007
Trade payables to fellow subsidiaries		
– Xinjiang Non-ferrous Metallurgy Manufacture Factory	**–**	187
– Metallurgical Design Institute of Non-ferrous Metals of Urumqi	**–**	112
– Fukang Non-ferrous Development Co., Ltd.	**725**	885
– Xinjiang Non-ferrous Gold Construction Company	**–**	8,230
– Xinjiang Non-ferrous Metal Industry (Group) Fuyun Xingtong Service Co., Ltd.	**518**	1,048
– Xinjiang Non-ferrous Metal Industry (Group) Quanxin Construction Co., Ltd.	**5,267**	–
– Xinjiang Non-ferrous Metallurgy Transportation Company Co., Ltd.	**55**	–
– Xinjiang Non-ferrous Industry Group Precious Metal Co., Ltd.	**393**	–
	6,958	10,462
Trade payables to other state-owned enterprises	**8,027**	10,109
	14,985	20,571
Other payables to fellow subsidiaries		
– Xinjiang Non-ferrous Gold Construction Company	**–**	100
– Xinjiang Non-ferrous Metal Industry (Group) Fuyun Xingtong Service Co., Ltd.	**–**	472
– Fuyun Hengsheng Beryllium Industry Co., Ltd.	**–**	25
	–	597
Long-term payables to Holding Company		
– Current	**978**	1,824
– Non-current	**1,361**	1,967
	2,339	3,791

(All amounts in RMB thousands unless otherwise stated)

38 Related-party transactions *(continued)*

(d) Key management compensation

	Year ended 31 December	
	2008	2007
Salaries and other short-term employee benefits	**3,235**	2,822
Pension fund	**84**	82
	3,319	2,904

39 Events after balance sheet date

(a) Business combination – Acquisition of Yakesi and Jubao

On 11 February 2009, the Office of Foreign Trade and Economic Cooperation of Xinjiang Uygur Autonomous Region approved the equity transfer agreements signed by the Company with Alexis and other minority shareholders of Yakesi (Note 10).

On 14 January 2009, the Bureau of Foreign Trade and Economic of Hami Region approved the equity transfer agreement signed by the Company with Alexis (Note 10).

On 5 February 2009, the Company entered into an equity transfer agreement with Jubao to transfer 1% of equity interest of Yakesi to Jubao. On the same date, the Company entered into an equity transfer agreement with Yakesi to acquire 50% of equity interest of Jubao from Yakesi. These equity transfer agreements have been approved by the Office of Foreign Trade and Economic Cooperation of Xinjiang Uygur Autonomous Region on 12 February 2009 and 18 February 2009 respectively.

The acquisition of Yakesi and Jubao, a group of companies engaged in the exploitation of copper and nickel mines, ore processing, manufacturing and sale of copper and nickel products was completed on 18 February 2009. After the acquisition, the Company eventually held 100% of equity interest of Yakesi and Jubao.

Details of total purchase consideration are as follows:

Purchase consideration	
– Cash paid	542,250
– Direct cost relating to the acquisition	282
Total purchase consideration	542,532

(All amounts in RMB thousands unless otherwise stated)

39 Events after balance sheet date *(continued)*

(a) Business combination – Acquisition of Yakesi and Jubao *(continued)*

The Company paid the remaining 50% of total consideration for the acquisition of Yakesi and Jubao by cash amounted to RMB271,125,000 in February 2009.

The carrying amount of the assets and liabilities of Yakesi and Jubao aggregately arising from the acquisition, are as follows:

	Carrying amount
	Unaudited
Non-current assets	297,844
Current assets	131,048
Current liabilities	(183,081)
Net assets acquired	245,811

As at date of this report, the management has not finalized the identification of the fair value of the net assets acquired due to the valuation of the certain tangible and intangible assets acquired including mining rights, land use rights and construction in progress has not been completed. The fair value of net assets acquired and goodwill arising from the acquisition are impracticable.

(b) Proposed acquisition of Xinjiang Zhongxin Mining Company Limited ("Zhongxin Mining")

Pursuant to five respective resolutions of the board of meeting on 8 April 2009, the Company will reach respective equity transfer agreements with Xinjiang Investment and Development (Group) Company Limited, No. 13 Agriculture Construction Division of Xinjiang Production and Construction Military Unit State-owned Assets Operation Co., Ltd., Shaanxi Honghao Industry Co., Ltd., Hami City Huilong Mining Industry Co., Ltd. and Hami City Jinhua Mining Co. Ltd. to acquire an aggregate of 95% of equity interest of Zhongxin Mining. The equity transfer agreements are subject to the approval by the Company's shareholders in the Annual General Meeting to be held on 11 June 2009. The proposed aggregate consideration of the acquisitions amounts to RMB55,100,000.

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