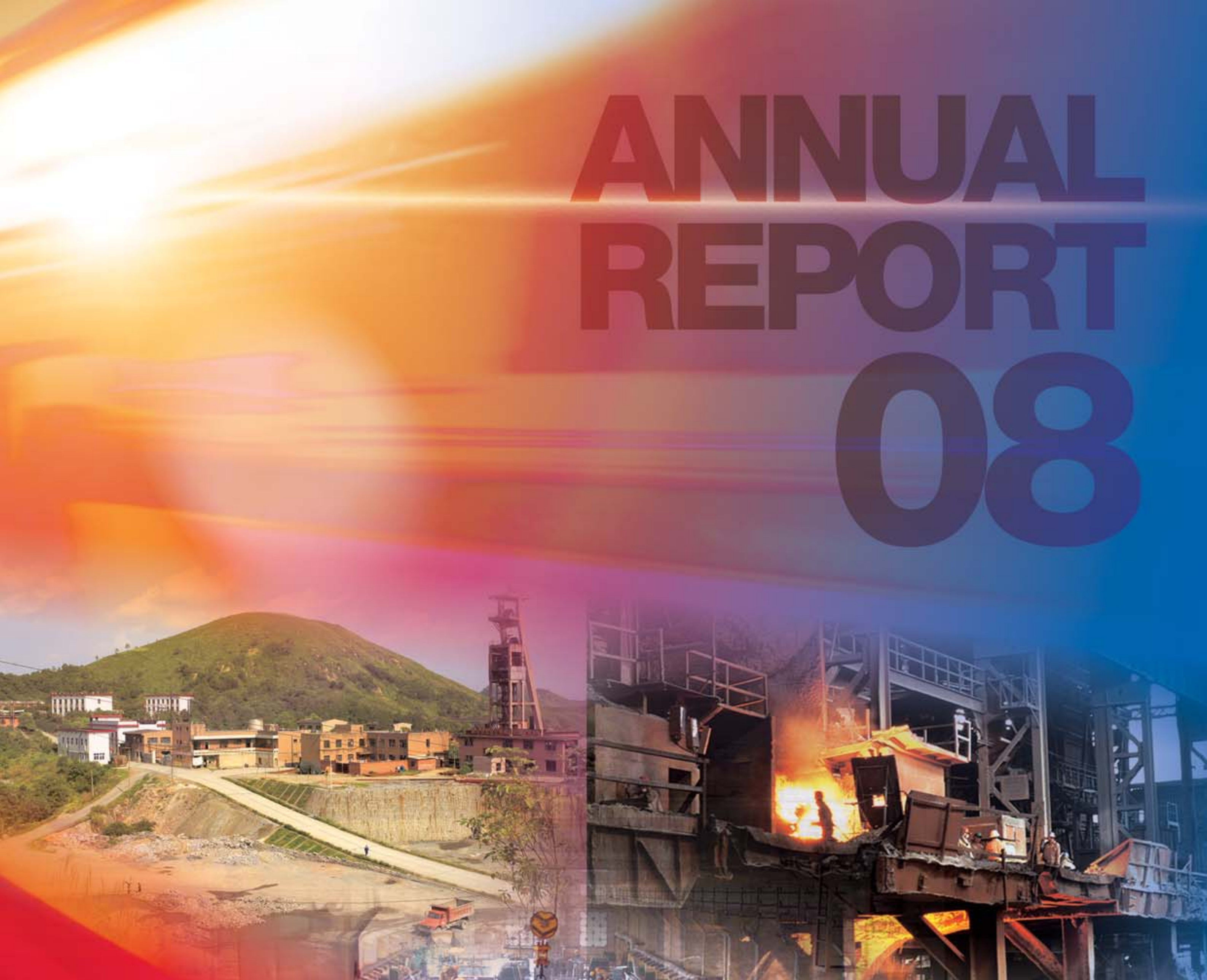

ANNUAL REPORT 08

湖南有色

Hunan Nonferrous Metals Corporation Limited

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

(Stock Code: 2626)

CONTENTS

SUMMARY FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT

	Year ended 31 December				
	2004	2005	2006	2007	**2008**
			(RMB'000)		
CONTINUING OPERATIONS					
REVENUE	7,308,974	9,291,232	17,765,129	21,493,689	**15,588,436**
Cost of sales	(6,171,089)	(7,779,944)	(15,152,177)	(19,412,091)	**(14,003,659)**
Gross profit	1,137,885	1,511,288	2,612,952	2,081,598	**1,584,777**
Other revenue and gains	385,662	52,688	186,560	358,132	**379,289**
Selling and distribution costs	(145,411)	(164,662)	(234,905)	(311,318)	**(356,567)**
Administrative expenses	(500,025)	(560,312)	(896,408)	(970,601)	**(1,282,889)**
Other operating expenses, net	(13,677)	(40,940)	(249,466)	(27,829)	**(407,118)**
Finance costs	(148,043)	(174,489)	(245,022)	(343,731)	**(441,226)**
Share of profits and losses of associates	29,390	47,660	(8,608)	(70,689)	**46**
PROFIT BEFORE TAX	745,781	671,233	1,165,103	715,562	**(523,688)**
Income tax expense	(95,961)	(133,978)	(290,461)	(239,362)	**(132,664)**
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	649,820	537,255	874,642	476,200	**(656,352)**
DISCONTINUED OPERATIONS					
Profit for the year from discontinuing operations	344	—	—	—	**—**
NET PROFIT FOR THE YEAR	650,164	537,255	874,642	476,200	**(656,352)**
Attributable to:					
Equity holders of the parent	555,210	426,013	451,409	314,896	**(739,517)**
Minority interests	94,954	111,242	423,233	161,304	**83,165**
	650,164	537,255	874,642	476,200	**(656,352)**

SUMMARY FINANCIAL INFORMATION

EXTRACTS FROM THE CONSOLIDATED BALANCE SHEET

	As at 31 December				
	2004	2005	2006	2007	**2008**
			(RMB'000)		
Total non-current assets	3,646,911	4,917,682	6,381,662	8,711,387	**9,641,265**
Total current assets	2,647,945	5,114,730	8,272,793	9,886,861	**8,638,875**
Total assets	6,294,856	10,032,412	14,654,455	18,598,248	**18,280,140**
Total current liabilities	3,549,567	5,234,844	7,175,389	7,476,243	**7,263,300**
Total non-current liabilities	874,585	1,591,694	1,708,978	3,083,589	**4,415,862**
Equity attributable to equity holders of the parent	1,421,726	1,940,768	4,225,395	5,764,286	**4,518,490**
Minority interests	448,978	1,265,106	1,544,693	2,274,130	**2,082,488**
Total equity	1,870,704	3,205,874	5,770,088	8,038,416	**6,600,978**

CORPORATE INFORMATION

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

PLACE OF BUSINESS IN HONG KONG

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

LEGAL REPRESENTATIVE

He Renchun

AUTHORISED REPRESENTATIVES

Liao Luhai
Lam Kai Yeung

COMPANY SECRETARY

Lam Kai Yeung

DEPARTMENT FOR CORPORATE INFORMATION AND INQUIRY

Finance and Securities Department

CORPORATE INFORMATION AND INQUIRY HOTLINE

(86) 731 5385556

H SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK EXCHANGE

The Stock Exchange of Hong Kong Limited

STOCK NAME

Hunan Nonferrous Metals Corporation Limited (HNC)

STOCK CODE

2626

PRINCIPAL BANKERS

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

AUDITORS

Hong Kong:
Ernst & Young

Mainland China:
Vocation International Certified Public Accountants Limited

LEGAL ADVISORS

As to Hong Kong law:
Charltons

As to PRC law:
Jia Yuan Law Firm

CORPORATE PROFILE

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

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

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

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

He Renchun (何仁春), aged 51, is the chairman of the Company and the chairman of HNG. He is a senior engineer.

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

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

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

Li Li (李立), aged 45, is an executive director and general manager of the Company ("Executive Director"). He is a senior administrator (高級政工師).

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

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

Liao Luhai (**廖魯海**), aged 38, is our Executive Director, deputy general manager and secretary of the board of directors of the Company. He is a senior economist.

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

Chen Zhixin (**陳志新**), aged 53, is our Executive Director, deputy general manager and financial controller. He is a senior accountant. He is a member of the Chinese Institute of Certified Public Accountants.

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

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Cao Xiuyun (曹修運), aged 47, is a non-executive director of the Company ("Non-executive Director"), our vice chairman and a director and the general manager of HNG. He is a senior engineer.

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

Wu Longyun (吳龍雲), aged 57, is our Non-executive Director. He is a senior administrator (高級政工師).

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

Zhang Yixian (張一憲), aged 54, has been our Non-executive Director, and a deputy general manager at HNG since December 2005. He is an economist.

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

Yu Jiang (于江), aged 32, is our Non-executive Director, and a deputy general manager at Shenzhen Bangxin. He is a certified public accountant. He resigned as our Non-executive Director since March 2009 due to job allocation.

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

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Zou Jian (鄒健), aged 38, has been our Non-executive Director since March 2009.

Mr. Zou is an economist. Mr. Zou graduated from the Department of World Economics of Fudan University in 1993. From July 1993 to March 2000, he worked for the business department of the Shenzhen branch of Bank of China (中國銀行深圳分行). From March 2000 to June 2005, he worked for the asset resources department of the Shenzhen office of China Oriental Assets Management Company (中國東方資產管理公司深圳辦事處). From July 2005 to date, he has been working for the trading services department and investment banking department of Bangxin Assets Management Co., Ltd (邦信資產管理有限公司).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Gu Desheng (古德生), aged 71, has been an independent non-executive director of the Company ("Independent Non-executive Director") since September 2005.

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

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

Chan Wai Dune (陳維端), aged 56, had been our Independent Non-executive Director since September 2005. He is the managing Director of CCIF CPA Limited. Upon the expiry of the term of his appointment, Mr. Chan has ceased to be our Independent Non-Executive director since March 2009.

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

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

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Wan Ten Lap (**溫天納**), aged 39, has been an Independent Non-executive Director since September 2005. He is an expert in finance and investment banking, serving as the Vice Chairman of CUAA Finance Association, a committee member of Hong Kong Securities Institute and the Managing Director of investment banking business of China Merchants Securities (HK) Limited. He used to serve as chair professor (講座教授) at School of Business of Renmin University of China (中國人民大學商學院) and the founding managing director of BOCOM International. He is a registered officer under the SFC and a member of the Hong Kong Securities Institute. Mr. Wan has been repeatedly appointed by Hong Kong Securities Institute as a working group member for the Ad Hoc Working Group in relation to the papers on the licensing examination for the securities and futures intermediaries on the basis of his substantial knowledge and expertise in financial markets and the corresponding practices in Hong Kong. Mr. Wan graduated from the London School of Economics and Political Science with a master's degree in international accounting and finance. He joined the corporate finance department of Standard Chartered Asia Limited in 1993, and then joined Creditanstalt Group as an associate director in 1996. Mr. Wan later joined Sun Hung Kai International Limited as a director in 1998. Mr. Wan specialized in corporate financing, mergers and acquisitions, restructurings and insolvencies before he assisted in the establishment of BOCOM International in 2004.

Chen Xiaohong (**陳曉紅**), aged 45, was an independent supervisor of the Company (the "Supervisor") from September 2005 until Ms. Chen resigned on 2 November 2007 and was appointed as an Independent Non-executive Director on 21 December 2007.

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

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

Kang Yi (**康義**), aged 69, has been an Independent Non-executive Director of the Company since March 2009.

Mr. Kang graduated from Central-South Institute of Mining and Metallurgy (中南礦冶學院) with a university diploma in nonferrous metals metallurgy in 1965. He is a professor of engineering. He served as director of Qingtongxia Aluminum Factory (青銅峽鋁廠), party secretary and director of the economy committee of Ningxia Autonomous Region, Minister of the Organization Department, member of the standing committee and vice secretary of the party committee of Ningxia Autonomous Region, vice party secretary and vice general manager of China Nonferrous Metals Industry Corporation (中國有色金屬工業總公司) and deputy commissioner and member of the party committee of the National Nonferrous Metals Industry Bureau (國家有色金屬工業局). He is currently the chairman of the China Nonferrous Metals Industry Association (中國有色金屬工業協會) and a member of CPPCC. He also serves as a member of the China Association for Science and Technology (中國科協), council member of the Nonferrous Metals Society of China (中國有色金屬學會) and independent non-executive director for listed companies including Aluminum Corporation of China Limited (中國鋁業股份有限公司) and Shan'xi Jinduicheng Molybdenum Company Limited (陝西金堆城鉬業股份公司).

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Choi Man Chau (蔡文洲), Michael, aged 51, has been an Independent Non-executive Director of the Company since March 2009.

Mr. Choi is a fellow member of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants. He is a Certified Public Accountant (practicing). Mr. Choi is also an independent non-executive director of Dynamic Energy Holdings Limited, Oriental Watch Holdings Limited and Nam Tai Electronic & Electrical Products Limited, which companies are listed on the main board of the Stock Exchange of Hong Kong Limited. Mr. Choi was an independent non-executive director of Hong Kong Energy Holdings Limited (formerly known as J.I.C. Technology Company Limited) from 11 May 2007 to 10 April 2008.

SUPERVISORS

Zeng Shaoxiong (曾少雄), aged 49, is presently a deputy general manager of HNG and the chairman of our supervisory standing committee ("Supervisory Standing Committee"). He is a senior engineer.

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

He Hongsen (賀洪森), aged 48, is one of our Supervisors and is a director of HNG.

Mr. He graduated from the Central Party School in December 1995. Prior to joining HNG, Mr. He served in various positions in the Hunan provincial government. Since August 2004, Mr. He has been a member of the Party Committee of HNG, secretary of the discipline inspection commission, the chairman of the labor union and a director of HNG. Currently he is a deputy general manager of HNG.

Liu Xiaochu (劉曉初), aged 63, is one of our Supervisors and a deputy chief executive of Zijin Mining Group Co. Ltd.

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

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Jin Liangshou (金良壽), aged 50, is one of our Supervisors and has been the manager of the financial resources department and deputy chief accountant of HNG since October 2004.

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

Qi Xiaocun (戚小村), aged 35, is one of our Supervisors and has been the manager of our Human Resources Department since February 2007. Mr. Qi succeeded Mr. He Liu as our Supervisor since March 2007. Currently he is a deputy secretary of the party committee of Zhuying Group(株硬集團).

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

Li Junli (李俊利), aged 31, is one of our Supervisors and has been a manager of our Finance and Securities Department since September 2005. She was promoted as the senior manager of our Finance and Securities Department since June 2006. She has been a secretary of the Board of ZhongWu GaoXin Materials Company Limited since 22 April 2008.

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

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Zhan Yijie (戰毅杰), aged 50, is one of our Supervisors. Due to job relocation, Mr. Zhan has ceased to be our Supervisor since March 2009.

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

Qi Yang (祁楊), aged 41, has been our Supervisor since March 2009.

Mr. Qi is a lawyer with post-graduate qualifications. Mr. Qi graduated from the Department of Economic Law of Zhongnan University of Finance, Politics and Law (中南財經政法大學) and has been assigned to work in the law committee and general office of the Hunan Provincial People's Political Consultative Committee, acting as deputy head. In March 1998, he worked for Xiangcai Securities Co., Ltd. (湘財証券有限責任公司) and served as general manager of its legal department and deputy general manager of the investment bank department. In September 2002, he served as general manager of Qinian Futures Company (祁年期貨公司). In March 2005, he set up Shanghai Goodwin Law Firm (上海格物律師事務所), acting as attorney-in-charge. From November 2006 to date, he has been working for HNG and served as officer and senior officer. He is currently the head of the legal department of the Company.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

INDEPENDENT SUPERVISORS

Mao Lihui (毛利輝), aged 51, is one of our Supervisors. Due to job relocation, he has ceased to be our Supervisor since March 2009.

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

Ou Wen (歐文), aged 41, has been our Supervisor since March 2009.

Mr. Ou majored in management in university. From June 2003 to August 2005, he served as deputy director of No.4 Office of the Provincial State-owned Major Enterprise Supervisory Committee(省屬國有重點企業監事會四辦事處副主任) delegated by the Hunan Provincial Government. From August 2005 to May 2007, he was deputy director of No.6 Office of the Provincial State-owned Major Enterprise Supervisory Committee (省屬國有重點企業監事會六辦事處副主任) delegated by the Hunan Provincial Government. From May 2007 to September 2008, he was deputy head of the Performance Evaluation Department (業考處) of the Provincial State-owned Assets Supervision and Administration Commission. From September 2008 to date, he has been serving as director of No.6 Office of the Provincial State-owned Key Enterprise Supervisory Committee (省屬國有重點企業監事會六辦事處主任) delegated by the Hunan Provincial Government.

Liu Dongrong (劉冬榮), aged 67, has been an independent Supervisor since September 2005.

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

The State Council of the PRC has granted Ms. Liu a special stipend based on her expertise in her field.

OTHER SENIOR MANAGEMENT

Zhou Xianlin (周獻林), aged 51. Mr. Zhou graduated from Changsha Nonferrous Metal Industrial School in July 1980 majoring in Mineral Sciences. In July 1986, Mr. Zhou graduated from the Corporate Management Department of Jiangxi Institute of Metallurgy. Mr. Zhou received a postgraduate degree in Business Management from the Chinese Academy of Social Sciences in 1998. From 1976 to 1978, Mr. Zhou taught at the Miluoyuchi Secondary School and School of Agricultural Sciences before working in the Descloizite Mine in Taolin. From December 1995 to June 2003, Mr. Zhou was the deputy mine officer of the Descloizite Mine in Taolin, deputy secretary of the party committee, chief deputy mine officer, secretary of the party discipline committee and secretary of the party committee (Sub-departmental Level). From June 2003 to December 2003, Mr. Zhou served as the secretary of the party committee of the Descloizite Mine in Taolin, mine co-officer and secretary of the discipline party committee. From September 2004 to July 2006, Mr. Zhou was the chief officer of the human resources department of Hunan Nonferrous Metals Holding Group Co., Ltd. and was a member of the party committee of the Hunan Nonferrous Metals Holding Group Co., Ltd. since August 2006. Mr. Zhou was appointed as the deputy general manager on 18 July 2007.

Hong Mingyang (洪明洋), aged 52, joined the workforce in August 1980 after tertiary education. Mr. Hong was a senior engineer, a senior economist and the deputy Chairman of China Tungsten Industry Association. Mr. Hong received honorable titles such as the Top Ten Outstanding Contribution Entrepreneurs of Chenzhou City (郴州市十大突出貢獻企業家) and Ten Best Ideological and Political Workers of Hunan Province (湖南省十佳思想政治工作者). From March 1978 to August 1980, Mr. Hong studied in Changsha Nonferrous Metals Industrial School. From August 1980 to August 1982, Mr. Hong studied in Central South Mineral Sciences and Metallurgy School. From August 1982 to July 1984, Mr. Hong served as the director and assistant engineer in Shizhu Yuan Multi-Metals Mine in Hunan. From July 1984 to February 2000, Mr. Hong served at Shizhu Yuan Multi-Metals Mine, his positions served include: Communist Young League Committee secretary, stope officer, officer and secretary of an ore processing plant, mine branch officer, deputy general manager of a developmental company, officer of the sales department and general manager of an import and export company. From February 2000 to May 2002, Mr. Hong was the deputy officer of Shizhu Yuan Nonferrous Metals Mine in Hunan, deputy general manager and financial controller of Hunan Shizhu Yuan Nonferrous Metals Co, Ltd. (during that period, Mr. Hong was engaged in the economic management professional course organized by the Central Party School). From May 2002 to November 2007, Mr. Hong served as the director and party committee secretary of Hunan Shizhu Yuan Nonferrous Metals Co, Ltd. Mr. Hong was appointed as the deputy manager on 21 December 2007.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Deng Yingjie (鄧英傑), aged 45. Mrs. Deng received a master degree from the Chinese department of Sichuan University in July 1988. Mrs. Deng was assigned to Hunan Technology Import & Export Corporation after graduation and was responsible for import and export trading and invitations for international tender and bidding business. In 1994, Mrs. Deng was assigned to Hunan Gold Fruit Industry Co., Ltd as the deputy general manager and in charge of the developmental department. In 1997, Mrs Deng served as the deputy general manager of Hunan Gold Fruit. Mrs. Deng was the legal representative and general manager after the acquisition of Hengyang Gas Co. Ltd and the establishment of Hengyang Natural Gas Co. Ltd from 2002 to 2006. Hunan Gold Fruit appointed Mrs. Deng as the general manager in August 2004. In October 2006, Mrs. Deng was assigned to Hunan Electronic Information Production Group as the deputy general manager; Mrs. Deng was responsible for managing the investment operation and corporation planning and development department of the Group. In 2006 and 2007, Mrs. Deng acted as the general manager of Hunan Gold Fruit Foreign Trade Co. Ltd. (湖南金果對外貿易有限公司). Mrs. Deng received the doctorate from Business School of Central and South University in December 2006. In November 2007, Mrs. Deng was assigned to Hunan Nonferrous Metals Corporation Limited and was appointed as the deputy general manager on 21 December 2007.

Sheng Zhongjie (盛忠傑), aged 47. He received his bachelor of engineering degree in mine selection of mineral engineering department (礦物工程系選礦專業) from Central South University of Technology (中南工業大學) in August 1982. He was a postgraduate student of mineral engineering mathematical model (礦物工程數學模型) in Changsha Research Institute of Mining and Metallurgy (長沙礦冶研究院) of the Ministry of Metallurgical Industry from August 1985 to June 1988 and received his master of engineering degree in June 1988.

From August 1982 to August 1985, Mr. Sheng Zhongjie worked for the tungsten mine in Yaogangxian, Hunan Province and was responsible for technology management, engineering project design and construction management. From June 1988 to October 1990, he worked for research projects of Changsha Research Institute of Mining and Metallurgy (長沙礦冶研究院) of the Ministry of Metallurgical Industry. From October 1990 to October 2004, he served in the planning department, the planning and technology department and the corporate reform and development department of China Nonferrous Metals Industry Company Limited (Changsha Branch) (中國有色金屬工業長沙公司) (now known as Hunan Nonferrous Metals Industry Company Limited (湖南有色金屬工業總公司)) and was responsible for the management of planning, investment, scientific research, technological reform, reorganization and system restructuring. He served as the deputy director of the planning and technology department in 1997 and served as director of the corporate reform and development department in 2001. From October 2004 to June 2006, he served as director of the scientific and technological industry department and the investment planning department of Hunan Nonferrous Metals Holding Group Co., Ltd. Since June 2006, he has been appointed as the deputy chief engineer and director of the investment planning department of Hunan Nonferrous Metals Group Corporation Limited. He was appointed as the deputy general manager on 26 February 2009.

Lam Kai Yeung (林繼陽), aged 40, has been the company secretary of the Company since joining the Group in July 2006. Mr. Lam is a Fellow of the Association of Chartered Certified Accountants and a Fellow of the Hong Kong Institute of Certified Public Accountants. Mr. Lam possesses financial and auditing experience exceeding 10 years.

CHAIRMAN'S STATEMENT

Dear Shareholders,

I hereby present the report of Hunan Nonferrous Metals Corporation Limited ("HNC" or the "Company") for the period from 1 January 2008 to 31 December 2008 and the report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2008. On behalf of the Board of Directors and all the employees of the Company, I would like to express our sincere gratitude to all our shareholders for your care of and support for the Group.

RESULTS AND DIVIDEND

In 2008, the turnover of the Group was RMB15,588 million, representing a decrease of 27.5% as compared to 2007. The loss attributable to equity holders of the parent was RMB740 million, decreased by 334.9% as compared to 2007. The basic loss per share of the Group was RMB20.16 cents. The Board of Directors does not recommend the payment of any dividend for the twelve months ended 31 December 2008 (2007: RMB0.034 per share).

BUSINESS REVIEW

The domestic and international economic environment experienced complicated and rapid changes in 2008. During the extraordinary year, the Group strived to overcome the difficulties and challenges of the financial crisis, snowstorm and other natural disasters, insufficient electrical power supply, change of export rebate policy, appreciation of Renminbi and the slump of product prices. However, currently the Group still face considerable operating pressure.

- During the reporting period of 2008, the Group achieved cemented carbides production of 7,301 tons, representing a decrease of 5.73% as compared with the same period last year; zinc production of 432,918 tons, representing a decrease of 3.37% as compared to 2007; antimony production of 25,870 tons, representing a decrease of 8.28% as compared with the same period last year; lead production of 90,865 tons, representing a decrease of 3.73% as compared with the same period last year.

- During the reporting period of 2008, the mining project for oxidized mines in Compass, Australia commenced trial production in September 2008 and has started the production of the first batch of 99.95% copper cathodes products with aggregate production of more than 900 tons.

- During the reporting period of 2008, the Group made further investment in the province and established Hunan Nonferrous Xitian Mining Co., Ltd.（湖南有色錫田礦業有限公司）, a joint venture with an exploration company, to explore the mixed mining resources of tin and tungsten of more than 55,000 tons in Xitian of Chaling. Drilling, trenching and outcrop exploration has commenced in the year.

- During the reporting period of 2008, the Group enhanced the cooperation with the banks and strengthened its capital position. The Group entered into strategic cooperation agreements with various banks for all-direction cooperation and secured a significant amount of syndicated Renminbi credit facilities. We have also successfully secured reductions of interest rates for several bank loans, with the greatest cut of 10%, which led to a further decrease of finance costs per unit.

- Major breakthroughs in technology innovation were made which cradled a number of corporations with high technology. In 2008, the Group has made over 40 patent applications and developed over 10 new products. Some of our subsidiaries were listed as "the Second Group of Advanced Technology Enterprises of Hunan".

- The Group has perfected its internal control system and further enhanced its corporate management. During the reporting period of 2008, we have completed audit reviews of 12 applications for proceeds from fund raising activity. We monitored the use of funds and promoted the institutionalization of corporate management and risk control within the Group.

- The safety and environment protection measures has been implemented and achieved remarkable results in energy saving and emission reduction. The Group tightened its safety standards and inspection and accelerated the technology modernisation by phasing out old equipment. The Group also strengthened its fundamental management. The results of energy saving and emission reduction was encouraging, laying a foundation for our energy saving and emission reduction targets of 2010.

- At the same time as rapid business development, the Group focused on the training of our staff and the fulfilment of our social responsibilities. We introduced high calibre personnel to enhance the management of the Group.

PRODUCT MARKET REVIEW

Due to the continuing impact of the global financial crisis, the nonferrous metal market saw a drastic adverse change from the first half to the second half of 2008. Serious declines in the demand for and the prices of nonferrous metals in the domestic and international markets directly weakened the overall profitability of the industry. Prices of the major products of the Group dropped towards the end of 2008 to the average level in 2005. It is expected that the prices will remain low in 2009.

(The following information was quoted from the website of Antaike: www.metalchina.com. The PRC prices of the commodities are inclusive of value added tax.)

Tungsten Market

The tungsten market has been declining since 2005 after it reached its historical peak in 50 years. The price of tungsten in domestic and international markets saw a drastic fall in late September 2008 due to weakening demand and intensifying financial crisis. In 2008, the price of tungsten concrete in China peaked at RMB98,000 - 100,000 per ton in April. In late December, the price plummeted to its lowest at RMB56,000 - 58,000 per ton in three years and nine months time. The average price of tungsten concrete was RMB81,000 - 83,000 per ton in China, representing a drop of 16% over 2007.

In 2008, the APT market of Europe was weak. The average price of APT in international market was US$247.18 - 251.6 per ton, the highest and lowest prices were US$255 - 257 per ton and US$210 - 230 per ton respectively. The average price of APT in China was RMB127,800 - 130,300 per ton, the highest and lowest prices were RMB150,000 - 155,000 per ton and RMB86,000-88,000 per ton respectively.

In 2008, the supply and price of tungsten in China was affected by snowstorm and suspension of mining activity for safety improvement. According to the statistics from the General Administration of Customs of China, the output of the tungsten concrete in the PRC amounted to 84,470 tons in 2008, representing a growth of 5.01% over 2007. The export of tungsten from the PRC amounted to 23,789.6 tons in 2008, representing a year-on-year drop of 8.89%. The import of tungsten to the PRC amounted to 5,917.6 tons, representing a year-on-year increase of 8.23% over 2007. The net export of tungsten decreased by 13.42% to 17,872 tons over the previous year. The total export was US$827,460,000, representing a year-on-year decrease of 10.66%. Current price of tungsten is RMB50,000 - 60,000 per ton due to a drop of tungsten export. It is expected that the price of tungsten will be lower than around RMB60,000 per ton in 2009.

Lead Market

2008 saw a sustainable general downturn of the base nonferrous metal market and so was the refined lead market. The spot price of lead quoted on London Metal Exchange ("LME") and the market quotation of refined lead in China fell significantly by 61% and 47% respectively.

The lead price on LME remained low for most of the time in 2008. After a strong rebound from January to March, the market saw a continual big fall. The average price of lead quoted on LME in March 2008 amounted to US$2,096 per ton, representing a decrease of 19% over the same period of the previous year. The average price of lead for the first and second half of the year were US$2,699 and US$1,582 per ton respectively. In 2008, the general trend of price of refined lead in China were in line with the price quoted on LME and was generally better than the foreign conditions. However, the price still fell in the second half of the year. The price tumbled below RMB10,000 per ton in November and remained at RMB8,500 - 9,500 per ton in December. The average price of the year dropped by 22.3% over 2007.

According to the data of International Lead and Zinc Study Group, global production of refined lead amounted to 8,540,000 tons in 2008, representing a year-on-year increase of 5.8%, which exceeded the demand by 19,000 tons. The annual output of refined lead of the PRC was 3,206,000 tons, representing a year-on-year increase of 16.28%. It is expected that the excess supply of refined lead will continue in 2009.

Zinc Market

The price of zinc in domestic and overseas markets continued to fall in 2008. The adjustment of price was mainly due to the oversupply. The global financial turmoil resulted from the US subprime mortgage crisis was another factor that drove down the price of zinc. The weakened global consumption further deteriorated and the supply of zinc began to fall in the second half of the year though the supply still exceeded demand.

The international zinc prices were on a downward track throughout 2008. The annual average price of three-month zinc futures was US$1,909 per ton as quoted on LME, representing a decrease of 41% as compared to the corresponding period last year. The annual average spot price of zinc was US$1,890 per ton as quoted on LME, representing a decrease of 41.7% as compared to the corresponding period last year. In general, zinc had the weakest performance among the six base metals. In 2008, the domestic zinc prices continued to fall after reaching its cost in October to as low as RMB9,000 per ton. The average annual domestic price of zinc in 2008 was RMB16,000 per ton, representing a decrease of 43% as compared to the corresponding period last year.

According to an International Lead and Zinc Research Team, the global production of refined zinc was 11,820,000 tons in 2008, representing an increase of 3.6% as compared with the corresponding period last year. The global supply exceeded demand by 170,000 tons. China's annual production of refined zinc was 3,913,000 tons, representing an increase of 4.5% as compared to the corresponding period last year. According to the statistics of the General Administration of Customs of China, the import volume of refined zinc of China amounted to 183,000 tons in 2008, representing an increase of 22.7% as compared to the corresponding period last year. During the same period, the export volume of refined zinc of China amounted to 71,000 tons, representing a decrease of 74.1% as compared to the corresponding period last year. The net export volume of refined zinc of China was 112,000 tons. It is expected that the excess global supply of refined zinc will continue in 2009.

CHAIRMAN'S STATEMENT

Antimony Market

Antimony market has been volatile during 2008. Despite the downturn of the global economy, average price of antimony managed to hit a new record of US$6,076 per ton. However, the economy downturn placed tremendous pressures on the market and caused the continuous decline in the price of antimony since the fourth quarter.

Global antimony prices remained high from January to October of 2008 as production of antimony in China was affected by the blizzard disaster in early 2008. The price of antimony began to fall significantly in late October due to the financial crisis, which fell to US$4,000 per ton from the highest price of US$6,575 - 6,700 per ton in 2008. The price of antimony in China was in line with the global price and declined to RMB23,000 - 25,000 per ton in the last quarter of 2008. According to the "Metal Bulletin", trading of antimony is low which attributes to the decreased demand from plastic product producers that use petrochemicals as raw materials. It is expected that the price of antimony will maintain at around RMB30,000 per ton or lower in 2009.

According to the data of China Nonferrous Metals Industry Association, output of refined antimony of China in 2008 was 183,600 tons, representing an increase of 20.11% when compared with last year. According to the statistics of General Administration of Customs of China, export volume of antimony products was 63,000 tons in 2008, representing an increase of 0.22% over the same period of the previous year. The import volume of antimony products was 21,300 tons, representing a decrease of 9.84% over the same period of the previous year.

BUSINESS PROSPECTS AND OUTLOOK

In 2009, the development of global economic is quite difficult. The Group will proactively deal with the crisis with confidence and sustain its scientific development. The Group will focus on the construction of a unified and intensified production chain on the basis of resources control with capital operation as an axis. The Group will also focus on the achievement of targets on production volume and standards through internally strengthening focal technological modification projects of our constituent units. External investment in progress projects will progress cautiously and orderly, striving to commence production and yield return as soon as possible but, at the same time, to ensure the effective control of the risk of investments.

- The Company will strengthen capital position and enhance debt structure, reduce capital cost, properly arrange funding of long-term investment projects.

- The Company will emphasize control of mineral resources and Leverage on focal projects to bring into the leading effect. In overseas, the Company will proactively manage the potential effect on the joint venture with Compass Resources Limited after it went into voluntary administration, and focus on the reengineering of manufacturing procedure of oxide mine and its output, standardisation and efficiency target. In China, the development of Xin Tian Ling mine tungsten resources and Chalin Xitian tin and tungsten mixed metal resources will be our major investment projects.

- The Company will further strengthen the management of projects, strengthen overseas' project supervision, further improve investment strategy and international operating skill. The Company will ensure the commencement of production of existing projects as soon as possible to generate revenue and form new points of growth and further enhance risk awareness to improve investment risk control and investment effectiveness.

- The Company will prepare the consolidation of mining business sectors. On the basis of the existing structure of upstream and downstream mining companies as the lead companies, the Company will consolidate the upstream and downstream mining companies and realize the synergy resulting from the sharing of mining resources, management skill and technologies.
- The Company will upgrade business structure by technology innovation. The Company will enhance value of the business by technology innovation, develop new business growth points, mitigate risks and weather the financial crisis.
- The Company will further reinforce the operation and coordination of energy-saving, emission reduction and environmental protection. The Company will facilitate a change of mode of development with emphasis on energy saving and emission reduction, proactive fulfillment of social responsibilities .
- The Company will promote the development of information platform of the Group and promote management innovation, scientific development of human resources and enhancement of construction of management team. The Company will also promote assessment of department and individual performance, enhance employees' quality, maximize staff's loyalty, establish harmonious and strong management and working teams. The Company will nurture corporate culture for the harmonious development of the Company.

With the joint efforts of our directors, senior management and employees, I deeply believe that the Group will continue to provide our clients with much better products and services and together weather the financial crisis.

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

He Renchun
Chairman

Changsha, PRC
26 April 2009

CORPORATE GOVERNANCE REPORT

The Company strives to maintain a high standard of corporate governance and to comply with the relevant regulations of China Securities Regulatory Commission and the Stock Exchange of Hong Kong Limited (the "SEHK") as well as the regulations of other relevant regulatory authorities. The Articles of Association, the terms of reference for the Audit Committee, the terms of reference for the Supervisory Committee and the Model Code for Securities Transactions by Directors and specific employees are the bases of reference. The Company has complied with all the code provisions of the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on the SEHK (the "Listing Rules") during the financial year ended 31 December 2008. The Company will continue to improve its corporate governance and enhance the transparency to shareholders.

OUR BOARD OF DIRECTORS

Our Board of Directors is responsible for the overall leadership and governance of the Company, and is collectively responsible for directing and supervising the affairs of the Company. Our Board of Directors consists of 13 Directors, four of whom are executive Directors including Mr. He Renchun, Mr. Li Li, Mr. Liao Luhai and Mr. Chen Zhixin; another four of whom are non-executive Directors including Mr. Cao Xiuyun, Mr. Wu Longyun, Mr. Zhang Yixian and Mr. Yu Jiang (resigned upon the expiry of his appointment and replaced by Mr. Zou Jian since 6 March 2009); the remaining five of whom are independent non-executive Directors including Mr. Chan Wai Dune (resigned upon the expiry of his appointment and replaced by Mr. Choi Man Chau since 6 March 2009), Mr. Gu Desheng, Mr. Wan Ten Lap, Ms. Chen Xiaohong and Mr. Kang Yi (appointed on 6 March 2009). Mr. He Renchun is the chairman. Our Directors are elected at Shareholders' Meetings for a term of three years.

Each Director on the Board will act in the interests of the shareholders, and use his best endeavors to perform the duties and obligations as a Director in accordance with all the applicable laws and regulations. Duties of the Board include: deciding on the Company's business plan and investment scheme, preparing the Company's profit distribution and loss recovery proposals, formulating the Company's capital operation proposals, and implementing resolutions approved at Shareholders' Meetings etc.

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

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

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

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

In 2008, the Company held eleven regular Board meetings, with an average attendance rate of 89%, in which Mr. He Renchun, Mr. Cao Xiuyun, Mr. Li Li, Mr. Liao Luhai, Mr. Wu Longyun, Mr. Zhang Yixian and Mr. Gu Desheng had an attendance rate of 100%. Mr. Chen Zhixi had an attendance rate of 91%. Mr. Yu Jiang had an attendance rate of 55%. Ms. Chen Xiaohong had an attendance rate of 91%. Mr. Wan Ten Lap had an attendance rate of 55%. Mr. Chan Wai Dune had an attendance rate of 73%. Those who failed to attend the meetings in person for various reasons voted by writing. Details of all the meetings are recorded by a designated officer, and all proposals approved in each meeting are passed as resolutions of the Board, which are recorded and filed in accordance with relevant laws and regulations. The principal activities of the Board in 2008 were as follows:

1. Resolution in relation to a general offer to acquire Abra Mining Limited in Australia;

2. Resolution in relation to the acquisition of the equity interest of King Island Scheelite Limited in Australia and cooperation with the said company to develop scheelite ore in King Island;

3. Resolution in relation to the transfer of 11.51% equity interests in ZhongWu GaoXin from Zigong Cemented Carbide Corporation, Ltd.;

4. Resolution in relation to issue corporate debentures of not more than RMB2 billion.

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

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

Appointments, re-election and removal

Pursuant to the Company's Articles of Association, each Director shall retire from office by rotation every 3 years. The specific term of a Director (including non-executive director) shall not be over three years. Directors who have retired from office may stand for re-election at the annual general meeting of the Company.

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

Capacities and responsibilities of the Directors

Our Company shall inform all of the Directors of their rights and responsibilities on a regular basis. All of the Directors can obtain a thorough understanding of the business operation, business activities and development of our Company at the Board of Directors' Meeting.

Model Code for Directors' Securities Transactions

The Company has adopted the "Model Code" which is no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. Based on specific enquiry with all the Directors of the Company, the Directors have confirmed that they have complied with the required standard as set out in the Model Code for Securities Transactions by Directors of the Company for the period from 1 January 2008 to 31 December 2008 (both days inclusive).

Availability and use of information

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

The Managing Power and the Committee under the Board of Directors

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

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

AUDIT COMMITTEE

An audit committee has been established by the Board. The audit committee's duties are mainly to review the Company's financial reports and internal control system, consider the appointment of independent auditors, provide recommendation to the Board, approve audit and audit-related services, and supervise the Company's internal financial reporting procedures and management policies. The committee consists of the Company's two independent non-executive Directors including Mr. Chan Wai Dune (resigned upon the expiry of his appointment and replaced by Mr. Choi Man Chau since 6 March 2009) and Mr. Wan Ten Lap, and one non-executive Director Mr. Zhang Yixian. Mr. Chan Wai Dune was the chairman of the committee. The audit committee meetings will be held at least twice a year. Two meetings were held in the reporting period with all committee members attending the meeting to review the Company's interim and annual results for the year 2008.

REMUNERATION COMMITTEE

A remuneration committee has been established by the Board. The duties of the remuneration committee include: to consider the Company's policy of remuneration and other benefits, to assess the performance of the Company's Directors and senior management and to make recommendations to the Board regarding such matters. The committee consists of one non-executive Director Mr. Wu Longyun and one executive Director Mr. Liao Luhai, three independent non-executive Directors Mr. Chan Wai Dune (resigned upon the expiry of his appointment and replaced by Mr. Choi Man Chau since 6 March 2009), Mr. Gu Desheng and Mr. Wan Ten Lap. Mr. Wu Longyun is the chairman of the remuneration committee. The remuneration committee reviews the structure of the Board, the number of Directors in the Board and the work of Directors regularly. For the avoidance of doubt, the Directors and their associates do not participate in decisions making relating to their own remuneration. One meeting was held by the committee during the reporting period. All members attended the meeting.

NOMINATION COMMITTEE

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

STRATEGY COMMITTEE

A strategy committee has also been established by the Board. The Committee consists of four executive Directors Mr. He Renchun, Mr. Li Li, Mr. Liao Luhai, Mr. Chen Zhixin, two non-executive Directors Mr. Cao Xiuyun, Mr. Yu Jiang (resigned upon the expiry of his appointment and replaced by Mr. Zou Jian since 6 March 2009) and two independent non-executive Directors Mr. Gu Desheng, Mr. Wan Ten Lap. Mr. He Renchun is the chairman of the strategy committee. One meeting was held by the committee during the reporting period. All members attended the meeting.

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

SUPERVISORY COMMITTEE

The Company's supervisory committee consists of nine Supervisors. Zeng Shaoxiong is the Chairman of the Supervisory Committee. Six of the Supervisors are elected by our shareholders in the Shareholder's Meetings, including two independent non-executive Supervisors and four Supervisors elected as shareholders' representatives. The other three Supervisors are elected by our employees as employee's representatives. Supervisors serve for a term of three years, after which they are subject to re-election. The Supervisory Committee is responsible for exercising supervision over the Board of Directors and its members and the senior management; and preventing them from abusing their power and authorities and jeopardizing the legal interests of the shareholders, the Company and its employees. Two meetings were held by the supervisory committee during the reporting period in 2008. During the meeting, the committee reviewed the financial condition and operation of the Company in accordance with the law and the due diligence of the senior management, and the committee carried out their work actively in accordance with its fiduciary duties. All Supervisors attended the meeting.

SHAREHOLDERS' MEETING AND INVESTOR RELATIONS

The Shareholders' Meeting provides a good opportunity for direct communications and the establishment of a sound relationship between the Board and the shareholders of the Company. Therefore, the Company attaches great importance to such meetings. During the reporting period in 2008, the Company convened two Shareholders' Meetings. The meetings mainly reviewed and passed the following issues:

1. In the annual general meeting held on 18 June 2008, to approve the audited consolidated financial statements of the Company for the year ended 31 December 2007; to approve the appointment of Vocation International Certified Public Account Co., Ltd and Ernst & Young as the domestic and international auditor of the Company for the year ended 31 December 2008, and to authorize the Board to fix their remuneration; to grant an unconditional and general mandate to allot, issue and deal with new domestic shares and foreign listed shares to the Board of Directors of the Company;

2. In the extraordinary general meeting held on 12 December 2008, to approve the proposal of issue of domestic corporate debentures.

The Chairman of the Board chaired such Shareholders' Meetings and explained matters concerning the procedures for voting. Chairmen of the audit committee, remuneration committee and nomination committee or another member of such committee if such chairman is absent from the annual general meeting answered any questions in the annual general meeting. Shareholders considered and voted on each resolution. Each Director had been notified of such meetings and some Directors attended the Shareholders' Meetings. 2008 Annual General Meeting was chaired by the General Manager since the Chairman was on a business trip.

The Finance and Securities Department is responsible for investor relations, which is responsible for matters concerning investor relations and has formulated the "Investor Relations Policy" to regulate the relationships with the investors. The Company's management maintains close communications with investors, analysts and the media by various means including individual interviews, meetings and investors' visits to the Company, thereby further increases investors' understanding of the Company. In addition, our Finance and Securities Department is also responsible for answering investors' enquiries and mail on a timely basis.

INTERNAL CONTROL AND CORPORATE MANAGEMENT

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

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

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

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

Our Company shall conduct a review on the effectiveness of the internal control system on an annual basis. Our Company shall conduct a review on the control of financial, operational and risk management activities. In May 2008, the Company appointed SHINEWING (HK) CPA Limited to review the internal control system of the Company periodically.

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

The Company regularly held managerial meetings chaired by the General Manager. These meetings were attended by the Chairman of the Board of Directors, the Senior Managerial Personnel, and the responsible members of all Departments at the Company Headquarters. Discussions and decisions on company operation and the implementation of investment projects and financial matters are conducted at the meetings. The managerial personnel, which include the managers of the related companies, subsidiary companies and joint ventures and responsible persons of the Departments at the Company Headquarters, shall host regular managerial meetings to assist in the cooperation, communication and supervision of the commencement and execution of all joint projects.

ACCOUNTABILITY AND AUDIT

Financial Report

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

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

All of our Directors acknowledged that they bear the responsibilities for the accuracy of the accounts prepared by our Company. As at 31 December 2008, none of the Directors has any knowledge on any or potential material issues or situations that may affect the continuous operation of the business. Our Directors prepare our accounts under the perpetual business principle.

The responsibilities of the external auditors are detailed in the Auditors' Report in the 2008 Financial Report of our Company.

Internal Audit

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

OVERVIEW

Loss before income tax amounted to RMB524 million for the year ended 31 December 2008 from profit before income tax of RMB716 million for the year ended 31 December 2007, representing a decrease of RMB1, 240 million, or 173.2%. The loss attributable to equity holders of the parent was RMB740 million, representing a decrease of RMB1,055 million, or 334.9% from RMB315 million for the year ended 31 December 2007.

The following is the comparison of the two years ended 31 December 2008 and 31 December 2007:

TURNOVER

Turnover decreased to RMB15,588 million for the year ended 31 December 2008, from RMB21,494 million for the year ended 31 December 2007, representing a decrease of RMB5,906 million, or 27.5%, primarily due to the respective decreases in turnover before sales tax and surcharge of RMB494 million or 19.6% for the nonferrous metals mine segment, decrease of RMB5,483 million or 40.2% for the nonferrous metals smelting segment , and increase of RMB59 million or 1.1% for the cemented carbides, tungsten, molybdenum, tantalum, niobium and their compounds segment.

Our gross profit decreased by 23.9% from RMB2,082 million for the year ended 31 December 2007 to RMB1,585 million for the year ended 31 December 2008. The gross profit margins in the respective years ended 31 December 2007 and 2008 were both 10%.

NONFERROUS METALS MINE SEGMENT

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

	2007		**2008**	
	Sales volume (ton)	Average selling price (RMB/ton)	**Sales volume (ton)**	**Average selling price (RMB/ton)**
Shizhuyuan				
Tungsten concentrates	2,305	84,195	**2,573**	**68,890**
Oxidized molybdenum	990	190,887	**1,064**	**162,412**
Huangshaping Branch				
Zinc concentrates	3,638	19,779	**2,073**	**8,056**
Lead concentrates	5,732	17,626	**3,952**	**14,489**
Hsikwangshan				
Antimony products	26,879	33,515	**25,602**	**31,437**
Zinc products	33,197	23,502	**25,850**	**13,592**

MANAGEMENT DISCUSSION AND ANALYSIS

Turnover before sales tax and surcharge of the nonferrous metals mine segment decreased by RMB494 million, or 19.6%, from RMB2,514 million for the year ended 31 December 2007 to RMB2,020 million for the year ended 31 December 2008. The decrease of turnover is primarily due to the decrease of average selling prices of the nonferrous metals mine products and the decrease of the sales volume of zinc concentrates, lead concentrates, antimony products and zinc products compared to 2007.

Gross profit from our nonferrous metals mine segment decreased by 29.0% from RMB456 million for the year ended 31 December 2007 to RMB324 million for the year ended 31 December 2008. Gross profit margin for the year ended 31 December 2008 decreased to 16% from 18% for the year ended 31 December 2007. The decrease in gross profit margin of this segment was attributable to the decrease in gross profit of tungsten concentrates and oxide molybdenum as well as zinc products.

NONFERROUS METALS SMELTING SEGMENT

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

	2007		**2008**	
	Sales volume (ton)	Average selling price (RMB/ton)	**Sales volume (ton)**	**Average selling price (RMB/ton)**
Zinc products	405,077	24,784	**409,913**	**13,634**
Lead products	104,801	18,764	**90,696**	**14,726**
Precious metal – indium	23	4,837,878	**31**	**2,919,398**
Precious metal – silver	281	3,090,528	**125**	**2,856,939**

Turnover before sales tax and surcharge of the nonferrous metals smelting segment decreased by RMB5,483 million, or 40.2%, from RMB13,632 million for the year ended 31 December 2007 to RMB8,149 million for the year ended 31 December 2008. The decrease in turnover is primarily due to the dramatic decline of average selling prices of the zinc products compared to 2007 and the decrease of average selling prices and sales volumes of lead products and silver products.

Gross profit from our nonferrous metals smelting segment, decreased by 49.6% from RMB888 million for the year ended 31 December 2007 to RMB448 million for the year ended 31 December 2008. Gross profit margin for the year ended 31 December 2008 decreased to 6% from 7% for the year ended 31 December 2007. The decrease is primarily due to the decreases in average selling prices of our zinc products and lead products.

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

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

	2007		**2008**	
	Sales volume (ton)	Average selling price (RMB/ton)	**Sales volume (ton)**	**Average selling price (RMB/ton)**
Cemented carbides	11,166	306,927	**10,648**	**319,610**
Tungsten and compounds	4,989	213,975	**8,817**	**169,991**
Molybdenum and compounds	748	508,417	**621**	**505,386**
Tantalum, niobium and their compounds	544	397,243	**501**	**455,594**

Turnover before sales tax and surcharge of the cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds segment increased by RMB59 million, or 1.1%, from RMB5,508 million for the year ended 31 December 2007 to RMB5,567 million for the year ended 31 December 2008. The increase of turnover is primarily due to the increase of sales volume of the tungsten and compounds.

Gross profit from the cemented carbides, and tungsten, molybdenum, tantalum, niobium and their compounds segment increased by 10.3% from RMB737 million for the year ended 31 December 2007 to RMB813 million for the year ended 31 December 2008. Gross profit margin for the year ended 31 December 2008 increased to 15% from 14% for the year ended 31 December 2007. The increase is primarily due to the substantial increase in average selling prices of the cemented carbides products.

OTHER INCOME AND GAINS

Other income and gains increased by RMB21 million, or 5.9% from RMB358 million for the year ended 31 December 2007 to RMB379 million for the year ended 31 December 2008. The increase was primarily due to the increase in governmental grant.

SELLING AND DISTRIBUTION COSTS

The selling and distribution costs increased by RMB46 million, or 14.8% from RMB311 million for the year ended 31 December 2007 to RMB357 million for the year ended 31 December 2008. The increase was primarily due to the increase of our labour costs and packing expenses.

MANAGEMENT DISCUSSION AND ANALYSIS

ADMINISTRATIVE EXPENSES

The administrative expenses increased by RMB312 million, or 32.1% from RMB971 million for the year ended 31 December 2007 to RMB1,283 million for the year ended 31 December 2008. The increase was primarily due to the increase in exchange losses by RMB269 million.

OTHER OPERATING EXPENSES, NET

Other operating expenses, net increased by RMB379 million, or 1,353.6% from RMB28 million for the year ended 31 December 2007 to RMB407 million for the year ended 31 December 2008. The main reasons for the increase in expenses were: 1) the provision for impairment of goodwill arising from the acquisition of Abra Mining for the period amounting to RMB212 million; 2) the provision for impairment of available-for-sale financial assets for the period amounting to RMB87 million; 3) the loss arising from the disposal of fixed assets by the Group for the period amounting to RMB35 million; 4) the provision for impairment of convertible notes of CMR amounting to RMB34 million.

FINANCE COSTS

The finance costs increased by RMB97 million, or 28.2% from RMB344 million for the year ended 31 December 2007 to RMB441 million for the year ended 31 December 2008. The increase was primarily due to the increase of bank loans.

INCOME TAX EXPENSES

The income tax expenses decreased by RMB106 million, or 44.4% from RMB239 million for the year ended 31 December 2007 to RMB133 million for the year ended 31 December 2008. The decrease was primarily due to the decrease of operating profit. Our effective tax rate decreased from 33.4% for the year ended 31 December 2007 to 25.3% for the year ended 31 December 2008, primarily due to the tax effect of the unrecognized tax losses and expenses not deductible for tax for the year ended 31 December 2008.

MINORITY INTERESTS

The minority interest decreased by RMB78 million, or 48.4% from RMB161 million for the year ended 31 December 2007 to RMB83 million for the year ended 31 December 2008, primarily due to the decrease in operating profit of the Group.

NET PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT

The net profit attributable to the equity holders of the parent decreased by RMB1,055 million, or 334.9% from RMB315 million for the year ended 31 December 2007 to loss of RMB740 million for the year ended 31 December 2008, and the net profit/(loss) margin decreased from 1.5% for the year ended 31 December 2007 to (4.7%) for the year ended 31 December 2008. The decrease was primarily due to the decrease in operating profit of the Group.

LIQUIDITY AND SOURCE OF FUNDS

For the year ended 31 December 2008, the short-term and the long-term loans were the main sources of funds. The funds of the Group were applied mainly to the operating activities, the capital expenditure and the repayment of the bank loans. For the year ended 31 December 2008, the cash and cash equivalents of the Group amounted to RMB3,233 million. The cash and cash equivalents were primarily denominated in Renminbi ("RMB") (The amounts denominated in RMB, Hong Kong dollar, Australian dollar, US dollar ("USD"), Euro and Japanese yen accounted for approximately 80.23%, 10.30%, 8.37%, 0.91%, 0.15% and 0.04% respectively).

For the year ended 31 December 2008, loans denominated in RMB, USD and Euro accounted for approximately 83.4%, 16.1% and 0.5% of the short-term and long-term bank loans and other borrowings.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2008, the proportion of purchase and sales from our major suppliers and major customers to our total purchase and sales are as follows:

Purchase

The total purchase from our largest supplier is 5.29% of our total purchase value

The total purchase from our five largest suppliers is 11.46% of our total purchase value

Sales

The total sales to our largest customer is 1.56% of our total sales value

The total sales to our five largest customers is 6.92% of our total sales value

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

MANAGEMENT DISCUSSION AND ANALYSIS

ASSET MORTGAGE OF THE GROUP

For the year ended 31 December 2008, the assets of the Group amounting to a net book value of RMB2,075 million have been pledged for securing certain bank loans, of which the net book value of buildings and mining constructions and plant, machinery and equipment amounted to RMB1,757 million and the net book value of prepaid rent amounted to RMB318 million. As of 31 December 2007, the assets of the Group amounting to a net book value of RMB1,413 million have been pledged for securing certain bank loans, of which the net book value of buildings and mining constructions and plant, machinery and equipment amounted to RMB1,159 million and the net book value of prepaid rent amounted to RMB254 million.

DEBT TO TOTAL ASSETS RATIO

As of 31 December 2008, the debt to total assets ratio of the Group increased from 34.6% in 2007 to 46.9% in 2008. The debt to total assets ratio is equivalent to total liabilities divided by total assets and multiplied by 100%. The debt to total assets ratio increased as the growth rate of total interest-bearing bank loans and borrowings was higher than that of total assets.

FLUCTUATION RISK IN FOREIGN EXCHANGE RATE

The Group primarily operates in China, with export to various countries in small quantities. Apart from the export sales transacted mainly in the US dollar, the sales income of the Group is denominated in RMB at present. The risk in foreign exchange of the Group primarily arises from the sales of products and the purchase of raw materials denominated in foreign currency. Currently, the Group has neither adopted any formal hedging policy nor executed any foreign exchange contract or derivative to hedge against our currency risk.

RISK IN COMMODITY PRICES

As the trading prices of nonferrous metals of the Group are calculated at the global and local prices which are subject to substantial fluctuation, the Group has to bear the risk in the fluctuation of commodity prices. The prices of nonferrous metals (as commodities) depend primarily on the market supply and demand in the long run. The Group has not taken the initiative to manage this risk, except the execution of commodity futures contracts on a limited basis.

RISK IN INTEREST RATE

The risk in the interest rate concerning the Group primarily relates to our short-term and long-term bank loans and other borrowings (amounting to RMB8,578 million as of 31 December 2008). The interest for the outstanding debts of the Group is calculated at fixed rate. Any rise in the current interest rate will increase the interest cost of our short-term loans upon extension. To date, the Group has neither executed any form of interest rate agreement or derivative to hedge against the fluctuation in interest rate.

CONTINGENT LIABILITIES

As of 31 December 2008, the Group has provided the following bank guarantee for the bank loans granted to various parties:

	2007 RMB'000	**2008** **RMB'000**
Related parties and third parties	89,003	**7,019**

HISTORICAL CAPITAL EXPENDITURE

The follow table sets out the capital expenditure of each segment of the Group and their proportions to the total capital expenditure of the Group for the year ended 31 December 2008.

	2008 **(RMB'000)**	Total (%)
Nonferrous metals mine	**1,402,212**	52.95%
Nonferrous metals smelting	**591,247**	22.33%
Cemented carbides, tungsten, molybdenum, tantalum, niobium and their compounds	**652,970**	24.66%
The Company and others	**1,555**	0.06%
Total	**2,647,984**	100%

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES

As of 31 December 2008, the Group had a total of 23,500 full-time employees, classified by functions and departments as follows:

Department	Employees	Of the total (%)
Management and administration	2,130	9.1%
Engineering and technical personnel	4,080	17.3%
Production personnel	14,030	59.7%
Repair and maintenance	1,830	7.8%
Inspection	850	3.6%
Sales	580	2.5%
Total	23,500	100.00%

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

REPORT OF THE DIRECTORS

The Directors are pleased to present their 2008 report and the audited financial statements of the Company for the year ended 31 December 2008.

GROUP REORGANISATION

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

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

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

PRINCIPAL ACTIVITIES

The principal activities of the Company are investment holding and mining, processing and sale of nonferrous metals. Details of the principal activities of the principal subsidiaries are set out in note 19 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2008 and the state of financial affairs of the Company and the Group on that date are set out in the financial statements on pages 54 to 62.

Due to serious loss recorded, the Board of Directors did not recommend any final dividend for 2008.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

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

Use of Proceeds

As of 31 December 2008, the Company used the proceeds in the amount of RMB2,636.52 million mainly for the purposes as follows:

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

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

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

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

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

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

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

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

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

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

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

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

- Between March and April 2008, the Company used the proceeds in the amount of RMB87.28 million for acquisition of 17.76% equity interest in Abra Mining Limited in Australia.

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

- In October 2008, the Company used the proceeds in the amount of RMB159.76 million for acquisition of 28.26% equity interest in Abra Mining Limited in Australia.

- In December 2008, the Company used the proceeds in the amount of RMB19.8 million for increasing the registered capital of HNC (Australia) Resources Holding PTY Ltd., a wholly-owned subsidiary of the Company.

REPORT OF THE DIRECTORS

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the Company's audited financial statements for the year ended 31 December 2008, if appropriate, is set out on pages 2 to 3. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the period are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the period are set out in note 35 to the financial statements.

PRE-EMPTIVE RIGHTS

For pre-emptive rights as permitted under certain circumstances under the Company's Articles of Association or the laws of the People's Republic of China, the Company is not obliged to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 36 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

Details of reserves available for distribution are set out in note 36 to the financial statements.

DIRECTORS' INTEREST

Directors and Supervisors

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

Executive Directors:

Mr. He Renchun	(appointed on 1 September 2005)
Mr. Li Li	(appointed on 1 September 2005)
Mr. Liao Luhai	(appointed on 1 September 2005)
Mr. Chen Zhixin	(appointed on 1 September 2005)

Non-Executive Directors:

Mr. Cao Xiuyun	(appointed on 1 September 2005)
Mr. Wu Longyun	(appointed on 1 September 2005)
Mr. Zhang Yixian	(appointed on 1 September 2005)
Mr. Yu Jiang	(appointed on 1 September 2005, and resigned upon the expiry of his appointment and replaced by Mr. Zou Jian since 6 March 2009)

Independent Non-Executive Directors:

Mr. Gu Desheng	(appointed on 1 September 2005)
Mr. Chan Wai Dune	(appointed on 1 September 2005, and resigned upon the expiry of his appointment and replaced by Mr. Choi Man Chau since 6 March 2009)
Mr. Wan Ten Lap	(appointed on 1 September 2005)
Ms. Chen Xiaohong	(appointed on 21 December 2007)

Supervisors:

Mr. Zeng Shaoxiong	(appointed on 1 September 2005)
Mr. He Hongsen	(appointed on 1 September 2005)
Mr. Liu Xiaochu	(appointed on 1 September 2005)
Mr. Jin Liangshou	(appointed on 1 September 2005)
Mr. Qi Xiaocun	(appointed on 19 March 2007)
Ms. Li Junli	(appointed on 1 September 2005)
Mr. Zhan Yijie	(appointed on 1 September 2005, and resigned upon the expiry of his appointment and replaced by Mr. Qi Yang since 6 March 2009)
Ms. Chen Xiaohong	(resigned on 2 November 2007)
Mr. Mao Lihui	(appointed on 21 December 2007, and resigned upon the expiry of his appointment and replaced by Mr. Ou Wen since 6 March 2009)
Ms. Liu Dongrong	(appointed on 1 September 2005)

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

Directors', Supervisors' and Senior management's biographies

Biographical details of the Directors and Supervisors of the Company and the senior management of the Group are set out on pages 6 to 16 of the annual report.

Directors' and Supervisors' service contracts

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

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

Directors', Supervisors' and senior management remuneration

The Directors' and Supervisors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's Board of Directors with reference to Directors' and Supervisors' duties, responsibilities and performance and the results of the Group. In compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules, the Company has established a remuneration committee to formulate compensation policies and to determine and manage the compensation of the Company's senior management. Details of the Directors' and Supervisors' remuneration are disclosed in note 8 to the financial statements.

Directors' and Supervisors' interests in contracts

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

Directors' and Supervisors' interests and short positions in shares

As at 31 December 2008, none of the Directors and Supervisors and their respective associates had any interests and short positions in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which would be required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or which would be required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Model Code for Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. Based on specific enquiries with all the Directors of the Company, the Directors confirmed that they have complied with the required standard as set out in the Model Code for the period ended 31 December 2008.

Corporate Governance

The Company is committed to improve its corporate governance and enhance the transparency to shareholders. In the opinion of the Board, for the financial year ended 31 December 2008, the Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 of the Listing Rules.

Directors' and Supervisors' rights to acquire shares or debentures

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

Stock Appreciation Rights Plan ("SARs")

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

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

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

The exercise price of the initial stock appreciation rights will closely track the higher of the closing price of the first day after the 30th trading days on the Stock Exchange and the 5-day average closing price after the 30th trading day. The exercise price calculated using the formula is HK$2.8 per share.

SUBSTANTIAL SHAREHOLDERS

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

Name	Number of shares held	Class of shares	Approximate percentage of all share capital (%)	Approximate percentage of H shares (%)
Hunan Nonferrous Metal Holdings Group Company Limited	1,947,074,266(L)	Domestic Share	53.08% (L)	
The Hamon Investment Group Pte Limited	81,922,000(L)	H Share		5.02 (L)

* Note:
(L) – long position,
(S) – short position

Save as disclosed above and so far as is known to the Directors, as at 31 December 2008, no other persons (other than the Directors, supervisors, chief executives or senior management of the Company, had an interest and/or short position in the shares or underlying shares (as the case may be) of the Company which would fall to be disclosed to the Company and the Stock Exchange under provisions of Division 2 and 3 of Part XV of the SFO, and to be recorded in the register required to be kept under Section 336 of the SFO, or is the substantial shareholders of the Company.

Connected transactions

The details of the connected transactions of the Group for the year ended 31 December 2008 is set out in note 42 to the financial report. The independent non-executive directors of the Company have reviewed the connected transactions and confirmed the said transactions in the annual report and the accounts of the Company.

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

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

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

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

Save as disclosed or announced, the disclosed related party transactions in Note 42 of the financial report were not discloseable connected transactions defined by Chapter 14A in the Listing Rules. Save for the connected transactions as disclosed, there were no contracts of significance between the Company or its subsidiaries and the controlling shareholder or any of its subsidiaries during 2008.

Non-competition Agreement

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

Sufficiency of public float

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

Directors' interests in a competing business

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

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

As the Board of Directors of the Company is independent from the Board of Directors of HNG and the above Directors do not control the Board of the Company, the Group is capable of conducting its businesses independently of, and at arm's length from, the business of HNG.

Management Contracts

There was no management and administrative contract relating to the business as a whole or any principal operations of the Company entered into by the Company or existing for the year ended 31 December 2008.

Closure of register for Annual General Meeting

The AGM of the Company will be held at 10:00 a.m. on 22 June 2009 at the conference room of the Hunan Bestride Hotel, No. 215 Labor Road West, Changsha City, Hunan, the PRC. The register of members of the Company will be closed from 22 May 2009 to 22 June 2009 (both days inclusive). In order to be eligible to attend and vote on the AGM of the Company, instruments of transfer accompanied by share certificates must be lodged with the Company's share registrar, no later than 4:30 p.m. on 21 May 2009.

Audit Committee

An audit committee has been established by the Board. The audit committee's duties are mainly to review the Company's financial reports and internal control system, consider the appointment of independent auditors, provide recommendation to the Board, approve audit and audit-related services, and supervise the Company's internal financial reporting procedures and management policies. The committee consists of the Company's two independent non-executive Directors including Mr. Chan Wai Dune and Mr. Wan Ten Lap, and one non-executive Director Mr. Zhang Yixian. Mr. Chan Wai Dune is the chairman of the committee. Mr. Chan Wai Dune has ceased to be our independent non-executive Director since March 2009 and was replaced by Mr. Choi Man Chau. The audit committee meetings will be held at least twice a year. 2 meetings were held in the reporting period with all committee members attending the meeting to review the Company's annual and interim results for the year 2008.

Modified Opinion from Auditors

Extracts of the modified opinion from the auditors' report are reproduced below:-

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

Without qualifying our opinion, we draw attention to note 45 to the financial statements which indicates a significant uncertainty regarding the Group's investments in the three joint venture projects in Australia totaling RMB527 million as at 31 December 2008, and the ongoing developments and the normal operations of the projects, and no provision against the carrying amount of the Group's above investments has been made in the financial statements for the year ended 31 December 2008.

AUDITORS

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

By order of the Board
He Renchun
Chairman

Changsha, PRC
26 April 2009

As at the date of this report, the Board of Directors of the Company comprises four executive Directors, namely, Mr. He Renchun, Mr. Li Li, Mr. Liao Luhai and Mr. Chen Zhixin, four non-executive Directors, namely, Mr. Cao Xiuyun, Mr. Wu Longyun, Mr. Zhang Yixian and Mr. Zou Jian and five independent non-executive Directors, namely, Mr. Gu Desheng, Mr. Kang Yi, Mr. Wan Ten Lap, Mr. Choi Man Chau and Ms. Chen Xiaohong.

REPORT OF THE SUPERVISORY COMMITTEE

Dear Shareholders,

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

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

I. MEETING CONVENED DURING THE REPORTING PERIOD

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

II. PRINCIPAL DUTIES OF THE SUPERVISORY COMMITTEE

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

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

During the reporting period in 2008, the Supervisory Committee mainly carried out the following work:

1. Inspection over Implementation of Resolutions of the General Meetings

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

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

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

3. Inspection over the Company's Daily Operating Activities

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

4. Inspection over the Company's Financial Condition

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

The Supervisory Committee is optimistic about the prospect of the Company. In 2009, the Supervisory Committee will continue to carry out its duties in strict compliance with the Articles of Association and the relevant laws and regulations and maintain the interests of shareholders.

Zeng Shaoxiong
Chairman of the Supervisory Committee

Changsha, PRC
26 April 2009

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Hunan Nonferrous Metals Corporation Limited (the "Company") and its subsidiaries (collectively the "Group") set out on pages 54 to 162, 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 financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

OPINION

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

Without qualifying our opinion, we draw attention to note 45 to the financial statements which indicates a significant uncertainty regarding the Group's investments in the three joint venture projects in Australia totaling RMB527 million as at 31 December 2008, and the ongoing developments and the normal operations of the projects, and no provision against the carrying aomunt of the Group's above investments has been made in the financial statements for the year ended 31 December 2008.

Ernst & Young
Certified Public Accountants

Hong Kong
26 April 2009

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
REVENUE	4,5	**15,588,436**	21,493,689
Cost of sales		**(14,003,659)**	(19,412,091)
Gross profit		**1,584,777**	2,081,598
Other income and gains	5	**379,289**	358,132
Selling and distribution costs		**(356,567)**	(311,318)
Administrative expenses		**(1,282,889)**	(970,601)
Other expenses, net	6	**(407,118)**	(27,829)
Finance costs	7	**(441,226)**	(343,731)
Share of profits and losses of associates	20	**46**	(70,689)
PROFIT/(LOSS) BEFORE TAX	6	**(523,688)**	715,562
Income tax expense	10	**(132,664)**	(239,362)
PROFIT/(LOSS) FOR THE YEAR		**(656,352)**	476,200
Attributable to:			
Equity holders of the parent	11	**(739,517)**	314,896
Minority interests		**83,165**	161,304
		(656,352)	476,200
PROPOSED FINAL DIVIDEND – Nil (2007: RMB0.034) PER ORDINARY SHARE	12	**—**	124,714
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**(20.16 cents)**	8.91 cents
Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**6,679,366**	5,308,740
Land lease prepayments	15	**949,104**	958,770
Intangible assets	16	**818,501**	855,541
Other assets	17	**669,901**	—
Goodwill	18	**79,547**	77,927
Interests in associates	20	**125,546**	164,972
Available-for-sale investments	21	**207,996**	1,188,841
Deferred tax assets	22	**111,304**	156,596
Total non-current assets		**9,641,265**	8,711,387
CURRENT ASSETS			
Inventories	23	**3,559,925**	4,198,518
Trade receivables	24	**602,795**	601,310
Bills receivable	25	**301,568**	725,423
Prepayments, deposits and other receivables	26	**853,278**	665,867
Tax recoverable		**24,644**	6,972
Pledged deposits	27	**63,478**	53,063
Cash and cash equivalents	27	**3,233,187**	3,635,708
Total current assets		**8,638,875**	9,886,861
CURRENT LIABILITIES			
Trade payables	28	**686,180**	847,519
Bills payable	29	**236,786**	209,780
Other payables and accruals	30	**1,263,307**	1,493,470
Interest-bearing bank and other borrowings	31	**4,945,372**	4,571,225
Tax payable		**67,351**	291,088
Dividend payable		**64,304**	63,161
Total current liabilities		**7,263,300**	7,476,243
NET CURRENT ASSETS		**1,375,575**	2,410,618
TOTAL ASSETS LESS CURRENT LIABILITIES		**11,016,840**	11,122,005

CONSOLIDATED BALANCE SHEET

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	31	**3,632,370**	1,856,935
Other liabilities	32	**409,550**	392,810
Payables for mining rights	33	**—**	304,277
Government grants	34	**174,242**	150,196
Deferred tax liabilities	22	**199,700**	379,371
Total non-current liabilities		**4,415,862**	3,083,589
NET ASSETS		**6,600,978**	8,038,416
EQUITY			
Equity attributable to equity holders of the parent			
Issued share capital	35	**3,668,058**	3,668,058
Reserves	36	**850,432**	1,971,514
Proposed final dividend	12	**—**	124,714
		4,518,490	5,764,286
Minority interests		**2,082,488**	2,274,130
TOTAL EQUITY		**6,600,978**	8,038,416

He Renchun
Director

Chen Zhixin
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

		Attributable to equity holders of the parent									
	Notes	Issued share capital	Capital reserve*	Statutory reserves*	Exchange fluctuation reserve*	Other reserves*	Retained profits*	Proposed final dividend	Total	Minority interests	Total equity
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007		3,420,678	42,299	116,584	(669)	157,541	400,024	88,938	4,225,395	1,544,693	5,770,088
Exchange realignment		—	—	—	163	—	—	—	163	(1,748)	(1,585)
Disposal of available-for-sale investments, net of deferred tax		—	—	—	—	(78,771)	—	—	(78,771)	—	(78,771)
Changes in fair value of available-for-sale investments, net of deferred tax		—	—	—	—	251,346	—	—	251,346	462,300	713,646
Net actuarial losses of defined benefit retirement schemes, net of deferred tax	22,32(i)	—	—	—	—	—	(6,492)	—	(6,492)	967	(5,525)
Total income and expense recognized directly in equity		—	—	—	163	172,575	(6,492)	—	166,246	461,519	627,765
Profit for the year		—	—	—	—	—	314,896	—	314,896	161,304	476,200
Total income and expense for the year		—	—	—	163	172,575	308,404	—	481,142	622,823	1,103,965
New shares issued, net of expenses		247,380	928,197	—	—	—	—	—	1,175,577	—	1,175,577
New shares issued by a subsidiary		—	(28,890)	—	—	—	—	—	(28,890)	201,329	172,439
Capital contribution from minority shareholders		—	—	—	—	—	—	—	—	87,078	87,078
Acquisitions of subsidiaries	37(a)	—	—	—	—	—	—	—	—	6,014	6,014
Disposal of a subsidiary	37(b)	—	—	—	—	—	—	—	—	(8,862)	(8,862)
Acquisition of minority interests		—	—	—	—	—	—	—	—	(47,708)	(47,708)
Dividend paid and payable to minority shareholders		—	—	—	—	—	—	—	—	(131,237)	(131,237)
Distribution of dividend		—	—	—	—	—	—	(88,938)	(88,938)	—	(88,938)
Transfer to reserves		—	—	(22,607)	—	—	22,607	—	—	—	—
Proposed final dividend	12	—	—	—	—	—	(124,714)	124,714	—	—	—
At 31 December 2007		3,668,058	941,606	93,977	(506)	330,116	606,321	124,714	5,764,286	2,274,130	8,038,416

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

		Attributable to equity holders of the parent									
	Notes	Issued share capital RMB'000	Capital reserve* RMB'000	Statutory reserves* RMB'000	Exchange fluctuation reserve* RMB'000	Other reserves* RMB'000	Retained profits* RMB'000	Proposed final dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 31 December 2007and 1 January 2008		3,668,058	941,606	93,977	(506)	330,116	606,321	124,714	5,764,286	2,274,130	8,038,416
Exchange realignment		–	–	–	(58,814)	–	–	–	(58,814)	141	(58,673)
Disposal of available-for-sale investments, net of deferred tax		–	–	–	–	(39,368)	–	–	(39,368)	(62,206)	(101,574)
Changes in fair value of available-for-sale investments, net of deferred tax		–	–	–	–	(323,173)	–	–	(323,173)	(338,751)	(661,924)
Net actuarial losses of defined benefit retirement schemes, net of deferred tax	22,32(i)	–	–	–	–	–	(39,922)	–	(39,922)	(4,639)	(44,561)
Total income and expense recognized directly in equity		–	–	–	(58,814)	(362,541)	(39,922)	–	(461,277)	(405,455)	(866,732)
Impairment of available-for-sale investments transferred to profit and loss	6	–	–	–	–	86,842	–	–	86,842	–	86,842
Loss for the year		–	–	–	–	–	(739,517)	–	(739,517)	83,165	(656,352)
Total income and expense for the year		–	–	–	(58,814)	(275,699)	(779,439)	–	(1,113,952)	(322,290)	(1,436,242)
Capital contribution from minority shareholders		–	–	–	–	–	–	–	–	104,660	104,660
Acquisitions of subsidiaries	37(a)	–	–	–	–	–	–	–	–	106,440	106,440
Disposal of a subsidiary	37(b)	–	–	–	–	–	–	–	–	(228)	(228)
Acquisition of minority interests		–	(10,113)	–	–	–	–	–	(10,113)	(11,360)	(21,473)
Dividend paid and payable to minority shareholders		–	–	–	–	–	–	–	–	(68,942)	(68,942)
Distribution of dividend		–	–	–	–	–	–	(124,714)	(124,714)	–	(124,714)
Others		–	2,983	–	–	–	–	–	2,983	78	3,061
At 31 December 2008		3,668,058	934,476	93,977	(59,320)	54,417	(173,118)	–	4,518,490	2,082,488	6,600,978

* These reserve accounts comprise the consolidated reserves of RMB850,432,000 (2007: RMB1,971,514,000) in the consolidated balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**(523,688)**	715,562
Adjustments for:			
Finance costs	7	**441,226**	343,731
Share of profits and losses of associates	20	**(46)**	70,689
Interest income	5	**(62,530)**	(72,647)
Dividend income	5	**(10,247)**	(11,222)
Losses/(gains) on disposal of items of property, plant and equipment	5,6	**34,588**	(12,022)
Gains on disposal of an associate	5	**(9,421)**	—
Gains on disposal of available-for-sale investments	5	**(82,178)**	(62,886)
Excess over the cost of a business combination	5	**—**	(995)
Gains on acquisition of minority interests	5	**—**	(8,951)
Losses/(gains) from disposal of a subsidiary	5,6	**84**	(2,197)
Net realized and unrealized gains on derivative financial instruments	5	**(61,994)**	(74,326)
Depreciation	6	**494,453**	428,573
Amortization of land lease prepayments	6	**19,732**	19,321
Amortization of intangible assets	6	**44,501**	55,036
Provision for impairment on trade and other receivables, net	6	**20,355**	1,436
Impairment of inventories	6	**132,796**	200,249
Provision for impairment on available-for-sale investments	6	**86,842**	—
Impairment of goodwill	6	**212,152**	—
Share appreciation rights	6	**(14,427)**	12,840
Cost of supplementary pension subsidies and early retirement benefits	6	**20,630**	20,224
Recognition of government grants	5	**(70,068)**	(23,865)
Exchange losses/(gains), net		**216,382**	—
Operating profit before working capital changes		**889,142**	1,598,550
Decrease in inventories		**646,183**	148,481
Decrease/(increase) in trade receivables		**47,799**	(82,619)
Decrease/(increase) in bills receivable		**428,024**	(342,968)
(Increase)/decrease in prepayments, deposits and other receivables		**(233,878)**	296,558
Decrease in trade payables		**(215,257)**	(152,893)
Increase in bills payable		**27,006**	22,201
Decrease in other payables and accruals		**(478,587)**	(91,460)
Movement of balances with associates		**—**	(20,000)
Cash generated from operations		**1,110,432**	1,375,850
Interest paid		**(439,589)**	(330,139)
Income tax paid		**(318,980)**	(261,951)
Net cash inflow from operating activities		**351,863**	783,760

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**62,530**	72,647
Dividend income		**10,247**	11,222
Additions to intangible assets		**(6,107)**	(7,796)
Additions to land lease prepayments		**(6,052)**	(7,366)
Purchases of items of property, plant and equipment		**(1,853,278)**	(1,674,496)
Additions to other assets		**(403,111)**	—
Proceeds from disposal of items of property, plant and equipment		**22,649**	7,017
Proceeds from disposal of available-for-sale investments		**85,279**	131,113
Proceeds from disposal of an associate		**20,948**	—
Proceeds from other financial instruments		**98,268**	—
Acquisitions of subsidiaries, net of cash acquired	37(a)	**(350,604)**	(322,306)
Disposal of a subsidiary, net of cash disposed	37(b)	**1,768**	15,952
Acquisition of minority interests		**(12,777)**	(59,200)
Acquisition of associates		**(9,000)**	—
Loan to an associate		**—**	20,000
Receipt of government grants	34	**94,112**	54,827
Purchases of available-for-sale investments		**(24,766)**	(8,020)
Payment for mining rights		**(150,000)**	(75,000)
Loan to a joint venture partner		**(67,098)**	—
Decrease/(increase) in pledged deposits		**(10,415)**	4,085
Decrease in non-pledged time deposits with original maturity over three months when acquired		**22,161**	72,490
Net cash outflow from investing activities		**(2,475,246)**	(1,764,831)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**7,992,407**	7,222,165
Repayment of bank loans		**(5,852,694)**	(5,705,676)
Proceeds from issue of shares		**—**	1,359,331
Share issue expenses		**—**	(11,315)
Dividends paid	36	**(124,714)**	(88,938)
Capital contributions by minority shareholders		**122,660**	87,078
Dividends paid to minority shareholders		**(71,221)**	(111,204)
Payment of share issue proceeds payable to the Social Security Fund		**(114,445)**	—
Net cash inflow from financing activities		**1,951,993**	2,751,441
NET INCREASE IN CASH AND CASH EQUIVALENTS		**(171,390)**	1,770,370
Cash and cash equivalents at beginning of year		**3,473,608**	1,704,501
Effect of foreign exchange rate changes, net		**(208,970)**	(1,263)
CASH AND CASH EQUIVALENTS AT END OF YEAR	27	**3,093,248**	**3,473,608**

BALANCE SHEET

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**142,107**	97,869
Land lease prepayments	15	**77,023**	76,605
Intangible assets	16	**39,229**	50,327
Other assets	17	**39,174**	—
Interests in subsidiaries	19	**3,863,718**	3,032,442
Interests in associates	20	**230,450**	78,557
Available-for-sale investments	21	**29,998**	114,496
Deferred tax assets	22	**14,168**	7,460
Total non-current assets		**4,435,867**	3,457,756
CURRENT ASSETS			
Inventories	23	**35,602**	26,421
Trade receivables	24	**46,487**	54,397
Bills receivable	25	**29,899**	222,614
Dividend receivable		**22,581**	31,722
Prepayments, deposits and other receivables	26	**111,860**	68,236
Cash and cash equivalents	27	**1,423,424**	2,285,637
Total current assets		**1,669,853**	2,689,027
CURRENT LIABILITIES			
Trade payables	28	**48,647**	49,416
Other payables and accruals	30	**164,756**	242,355
Interest-bearing bank and other borrowings	31	**712,298**	173,652
Tax payable		**13,459**	56,335
Total current liabilities		**939,160**	521,758
NET CURRENT ASSETS		**730,693**	2,167,269
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,166,560**	5,625,025

BALANCE SHEET

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	31	**1,243,293**	846,638
Other liabilities	32	**60,560**	68,004
Payables for mining rights	33	**—**	50,086
Government grants	34	**82**	82
Deferred tax liabilities	22	**—**	5,606
Total non-current liabilities		**1,303,935**	970,416
NET ASSETS		**3,862,625**	4,654,609
EQUITY			
Issued share capital	35	**3,668,058**	3,668,058
Reserves	36	**194,567**	861,837
Proposed final dividend	12,36	**—**	124,714
TOTAL EQUITY		**3,862,625**	4,654,609

He Renchun
Director

Chen Zhixin
Director

1. CORPORATE INFORMATION

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

Pursuant to the Reorganization, the Company acquired businesses assets and interests in the mining and smelting of nonferrous metal, in exchange for 2,091,260,000 ordinary shares of RMB1.00, each issued to HNG. In addition, other promoters injected cash into the Company in consideration of 92,500,000 ordinary shares of RMB1.00 cash.

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

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

In July 2007, the Company entered into a placing agreement in relation to the placing, on a fully underwritten basis, of an additional 247,380,000 overseas listed foreign invested shares of RMB1.00 in the share capital of the Company at a price of HK$4.93 per H share (equivalent to approximately RMB4.77 per share), and these H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited. In addition, 24,738,000 H shares converted from the Company's same number of domestic shares were disposed of in 2007 and the proceeds thereon were paid to the NSSF in 2008.

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

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

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group. All income, expenses and unrealized gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

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

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

The acquisition of subsidiaries by the Group has been accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of a business combination to the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

2.2 IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has adopted the following new interpretations and amendments to IFRSs during the year. Adoption of these new interpretations and amendments has had no significant effect on these financial statements. They did however give rise to additional disclosures.

IAS 39 and IFRS 7 Amendments	Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets
IFRIC 11	IFRS 2-Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 14	IAS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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

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

Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets

The amendments to IAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held to maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable. The amendments to IFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions

IFRIC 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group buys the instruments from another party, or the shareholders provide the equity instruments needed. IFRIC 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

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

IFRIC 12 Service Concession Arrangements

IFRIC 12 applies to service concession operators and explains how to account for obligation undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Group.

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

IFRIC 14 addresses how to assess the limit under IAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognized as an asset, including situations when a minimum funding requirement exists. The Group has amended its accounting policy accordingly. As the Group's defined benefit schemes have been in deficit and are not subject to any minimum funding requirements, the adoption of this interpretation has had no impact on the financial position or results of operations of the Group.

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

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

IFRS 1 and IAS 27 Amendments	Amendments to IFRS 1 First-time Adoption of IFRSs and IAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[1]
IFRS 2 Amendments	Amendments to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations[1]
IFRS 3 (Revised)	Business Combinations[2]
IFRS 8	Operating Segments[1]
IAS 1 (Revised)	Presentation of Financial Statements[1]
IAS 23 (Revised)	Borrowing Costs[1]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
IAS 32 and IAS 1 Amendments	Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation[1]
IAS 39 Amendment	Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items[2]
IFRIC 13	Customer Loyalty Programmes[3]
IFRIC 15	Agreements for the Construction of Real Estate[1]
IFRIC 16	Hedges of a Net Investment in a Foreign Operation[4]
IFRIC 17	Distribution of Non-cash Assets to Owners[2]
IFRIC 18	Transfer of Assets from Customers[5]

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

Apart from the above, in May 2008 the International Accounting Standards Board has also issued Improvements to IFRSs* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to IFRS 5 which is effective for the annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 October 2008
5 Effective for transfer of assets from customers received on or after 1 July 2009

* Improvements to IFRSs contains amendments to IFRS 5, IFRS 7, IAS 1, IAS 8, IAS 10, IAS 16, IAS 18, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41.

Amendments to IFRS 1 First-time Adoption of IFRSs and IAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

The IAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognized in the income statement in the separate financial statements. The amendment is applied prospectively only. The IFRS 1 Amendment allows a first-time adopter of IFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost of either fair value or the carrying amount under the previous accounting practice in the separate financial statements. The Group expects to adopt the IAS 27 Amendment from 1 January 2009. The amendments have no impact on the consolidated financial statements. As the Group is not a first-time adopter of IFRSs, the IFRS 1 Amendment is not applicable to the Group.

Amendments to IFRS 2 Share-based Payment – Vesting Conditions and Cancellations

The IFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, the amendments are unlikely to have any significant implications on its accounting for share-based payments.

IFRS 3 (Revised) Business Combinations

The revised standard introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results.

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

IFRS 8 Operating Segments

IFRS 8, which will replace IAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt IFRS 8 from 1 January 2009.

IAS 1 (Revised) Presentation of Financial Statements

IAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognized in profit or loss, together with all other items of recognized income and expense recognized directly in equity, either in one single statement, or in two linked statements. The Group expects to adopt IAS 1 (Revised) from 1 January 2009.

IAS 23 (Revised) Borrowing Costs

IAS 23 has been revised to require capitalization of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

IAS 27 (Revised) Consolidated and Separate Financial Statements

IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21 The Effects of Changes in Foreign Exchange Rate, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures.

The Group expects to adopt IFRS 3 (Revised) and IAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect future acquisitions, loss of control and transactions with minority interests.

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

Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation

The IAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfil a number of specified features. IAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the amendments are unlikely to have any financial impact on the Group.

Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

The amendment to IAS 39 addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. As the Group has not entered into any hedges, the amendment is unlikely to have any financial impact on the Group.

IFRIC 13 Customer Loyalty Programmes

IFRIC 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no customer loyalty award scheme, the interpretation is not applicable to the Group and therefore is unlikely to have any financial impact on the Group.

IFRIC 15 Agreements for the Construction of Real Estate

IFRIC 15 clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with IAS 11 Construction Contracts or an agreement for the sale of goods or services in accordance with IAS 18 Revenue. As the Group currently is not involved in any construction of real estate, the interpretation is unlikely to have any financial impact on the Group.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

IFRIC 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the interpretation is unlikely to have any financial impact on the Group.

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

IFRIC 17 Distribution of Non-cash Assets to Owners

IFRIC 17 standardizes practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The Group expects to apply the interpretation from 1 January 2010 prospectively. The Interpretation clarifies that (i) a dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognize the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to IAS 10 Events after the Balance Sheet Date and IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation is unlikely to have any material financial impact on the Group.

IFRIC 18 Transfer of Assets from Customers

IFRIC 18 applies to the accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. Agreements within the scope of this Interpretation are agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both. This interpretation also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment and the entity must then use the item of property, plant and equipment either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both. As the Group does not receive assets from customers for purposes such as those disclosed above, the interpretation is unlikely to have any financial impact on the Group.

In May 2008, the International Accounting Standards Board issued its first Improvements to IFRSs which sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2009. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Associates

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

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

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

Goodwill

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

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

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

Excess over the cost of business combinations

Any excess of the Group's interests in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries and associates, after reassessment, is recognized immediately in the consolidated income statement. The excess for associates is included in the Group's share of the associates' profits or losses in the period in which the investments are acquired.

Foreign currencies

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation

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

Depending on the nature of the item of property, plant and equipment, depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment over its estimated useful life, after taking into account its estimated residual value or it is calculated using the Units of Production ("UOP") basis to write off the cost of the asset proportionate to the extraction of the proven and probable mineral reserves. The estimated useful lives of property, plant and equipment are as follows:

	Estimated useful life	**Residual value**
Buildings and mining structures	Mine life for mine specific, 20 to 40 years for non-mine specific	Nil to 5%
Plant, machinery and equipment	5 to 15 years	3% to 5%

Included in property, plant and equipment are mining infrastructures located at the mining sites. Depreciation is provided to write off the cost of the mining infrastructures using the UOP method based on the proven and probable mineral reserves.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Land lease prepayments

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

Exploration and evaluation assets

Exploration and evaluation assets include topographical and geological surveys, exploratory drilling, sampling and trenching and activities in relation to commercial and technical feasibility studies, and expenditure incurred to secure further mineralization in existing ore bodies and to expand the capacity of a mine. Expenditure incurred prior to acquiring legal rights to explore an area is written off as incurred. Exploration and evaluation assets acquired in a business combination are initially recognized at fair value. They are subsequently stated at cost less accumulated impairment. When it can be reasonably ascertained that a mining property is capable of commercial production, exploration and evaluation costs are transferred to tangible or intangible assets according to the nature of the exploration and evaluation assets. If any project is abandoned during the evaluation stage, the total expenditure thereon will be written off.

Intangible assets (other than goodwill)

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

Mining rights

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

Technical know-how

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (other than goodwill) (Continued)

Research and development costs

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

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

Impairment of non-financial assets other than goodwill

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets

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

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

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Held-to-maturity investments

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

Available-for-sale investments

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

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

Fair value

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets

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

Assets carried at amortized cost

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

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

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

Assets carried at cost

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Available-for-sale investments

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

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

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

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

Financial guarantee contracts

Financial guarantee contracts in the scope of IAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognized initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognized at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the balance sheet date; and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 Revenue.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets and liabilities

Financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has not transferred substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

Financial liabilities

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labor and an appropriate proportion of manufacturing overheads. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

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

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

Provisions

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

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

Borrowing costs

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating leases

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

Income tax

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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

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

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

Government grants

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

Revenue recognition

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

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

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

(c) from the rendering of services, on the percentage of completion basis;

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits

(i) Pension obligations

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

In addition, the Group also pays supplementary pension subsidies to its employees after they reach the normal retirement age. As detailed in note 32 below, these supplementary pension payables are assessed using the projected unit credit valuation method; the costs of providing such subsidies are charged to the consolidated income statement, in accordance with the actuarial reports which contain full valuations of plans. These benefits are unfunded.

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

(ii) Termination benefits

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

(iii) Share appreciation rights

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

The cost of the SARs is measured initially at fair value at the grant date using a binomial model, taking into account the terms and conditions upon which the SARs were granted (note 32). The fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is remeasured at each balance sheet date up to and including the settlement date with changes in fair value recognized in the consolidated income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

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

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

(b) the party is an associate;

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

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

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

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

Dividends

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (Continued)

Judgments (Continued)

Impairment of assets

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

Exploration and evaluation expenditure

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgments in determining whether it is likely that future economic benefits will arise, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditures are capitalized, information becomes available suggesting that the recovery of capitalized expenditures are unlikely, the amount capitalized is written off in the income statement in the period when the new information becomes available.

Income tax

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (Continued)

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Mine reserves

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

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

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

Useful lives and impairment of property, plant and equipment

The Group's management determines the estimated useful lives of 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 and, for mining related property, plant and equipment, on estimated mine lives (see further discussion above on mine reserves). Management will increase the depreciation charge where useful lives are less than previously estimated lives, and will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

The impairment loss for property, plant and equipment is recognized for the amount by which the carrying amount exceeds its recoverable amount. The recoverable amount of the assets, or, where appropriate, the cash generating unit to which they belong, is the higher of its fair value less costs to sell and value in use. The fair value less costs to sell are based on the best information available to reflect the amount obtainable at the balance sheet date, from the disposal of the asset in an arm's length transaction between knowledgeable and willing parties, after deducting the costs of disposal. For the estimation of value in use, the Group's management estimates future cash flows from the cash generating units and chooses a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of property, plant and equipment at 31 December 2008 was RMB6,679,366,000 (2007: RMB5,308,740,000).

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Impairment of goodwill

The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. A change in the estimated future cash flows and/or the discount rate applied will result in an adjustment to the estimated impairment provision previously made. The carrying amount of goodwill at 31 December 2008 was RMB79,547,000 (2007: RMB77,927,000). More details are given in Note 18.

Impairment of non-financial assets (other than goodwill)

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

Impairment of available-for-sale investments

The Group classifies certain investments as available-for-sale and recognizes movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognized in the consolidated income statement. At 31 December 2008, impairment losses of RMB86,842,000 have been recognized for available-for-sale investments (2007: Nil). The carrying amount of available-for-sale investments at 31 December 2008 was RMB207,996,000 (2007: RMB1,188,841,000).

Impairment of receivables

The Group's policy for impairment of receivables is based on the evaluation of collectibility and the aging analysis of trade and other receivables and on judgment of management. A considerable amount of judgment is required in assessing the ultimate realization of these receivables, including the current creditworthiness and the past collection history of the customers. Management reassesses the collectability of receivables at each balance sheet date. The carrying amount of trade receivables at 31 December 2008 was RMB602,795,000 (2007: RMB601,310,000).

Impairment of inventories

Management reviews the condition of inventories of the Group at each balance sheet date and makes provision for obsolete and slow-moving inventory items identified that are no longer suitable for sale. Management estimates the net realizable value for these inventories based primarily on the latest invoice prices and current market conditions. Management reassesses the estimation at each balance sheet date. The carrying amount of inventories at 31 December 2008 was RMB3,559,925,000 (2007: RMB4,198,518,000).

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Deferred Tax Assets

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets at 31 December 2008 was approximately RMB111,304,000 (2007: RMB156,596,000).

Pension benefits

The cost of defined benefit pension plans and the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. All assumptions are reviewed at each reporting date. In determining the appropriate discount rate, management considers the interest rates of government securities which have terms to maturity approximating the terms of the related liabilities. The mortality rate is based on publicly available mortality tables for the specific country. The post employment benefits are not subject to future increase, and hence, no increase rate is assumed.

4. SEGMENT INFORMATION

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

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

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

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

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

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

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

4. SEGMENT INFORMATION (Continued)

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2008 and 2007.

Year ended 31 December 2008	Nonferrous metalmine site RMB'000	Nonferrous metal smelting RMB'000	Cemented carbides,and tungsten, molybdenum, tantalum, niobium and their compounds RMB'000	Corporate and others RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue:						
Sales to external customers	2,020,347	8,148,533	5,566,520	—	—	15,735,400
Inter-segment sales	435,358	580	8,969	—	(444,907)	—
Less: Sales tax and surcharges	(34,125)	(56,976)	(55,863)	—	—	(146,964)
Total	2,421,580	8,092,137	5,519,626	—	(444,907)	15,588,436
Segment results	(355,941)	218,070	397,649	(434,711)	—	(174,933)
Dividend income and gains on disposal of available-for-sale investments						92,425
Finance costs						(441,226)
Share of profits and losses of associates	—	—	84	(38)	—	46
Loss before tax						(523,688)
Income tax expense						(132,664)
Loss for the year						(656,352)
Assets and liabilities:						
Segment assets	5,600,248	4,968,544	5,899,735	1,342,123	—	17,810,650
Interests in associates	—	—	—	125,546	—	125,546
Unallocated assets						343,944
Total assets						18,280,140

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

Year ended 31 December 2008	Nonferrous metalmine site RMB'000	Nonferrous metal smelting RMB'000	Cemented carbides,and tungsten, molybdenum, tantalum, niobium and their compounds RMB'000	Corporate and others RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment liabilities	1,065,921	722,125	1,039,472	6,851	—	2,834,369
Unallocated liabilities						8,844,793
Total liabilities						11,679,162
Other segment information:						
Depreciation and amortization	150,524	135,186	272,032	944	—	558,686
Impairment of inventories	43,363	71,749	17,684	—	—	132,796
Write-back of provision for impairment on trade and other receivables, net	(245)	(11,791)	(1,158)	33,549	—	20,355
Provision for impairment on available-for-sale investments	—	—	—	86,842	—	86,842
Impairment of goodwill	212,152	—	—	—	—	212,152
Capital expenditure	1,402,212	591,247	652,970	1,555	—	2,647,984

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

Year ended 31 December 2007	Nonferrous metalmine site RMB'000	Nonferrous metal smelting RMB'000	Cemented carbides,and tungsten, molybdenum, tantalum, niobium and their compounds RMB'000	Corporate and others RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue:						
Sales to external customers	2,514,209	13,632,000	5,507,880	—	—	21,654,089
Inter-segment sales	673,662	1,137	6,031	—	(680,830)	—
Less: Sales tax and surcharges	(31,514)	(95,053)	(33,833)	—	—	(160,400)
Total	3,156,357	13,538,084	5,480,078	—	(680,830)	21,493,689
Segment results	146,074	608,064	353,615	(51,879)	—	1,055,874
Dividend income and gains on disposal of available-for-sale investments						74,108
Finance costs						(343,731)
Share of profits and losses of associates	—	122	(22,527)	(48,284)	—	(70,689)
Profit before tax						715,562
Income tax expense						(239,362)
Net profit for the year						476,200
Assets and liabilities:						
Segment assets	4,522,553	5,336,347	5,028,206	2,193,761	—	17,080,867
Interests in associates	—	11,528	74,983	78,461	—	164,972
Unallocated assets						1,352,409
Total assets						18,598,248

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

Year ended 31 December 2007	Nonferrous metalmine site RMB'000	Nonferrous metal smelting RMB'000	Cemented carbides,and tungsten, molybdenum, tantalum, niobium and their compounds RMB'000	Corporate and others RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment liabilities	1,330,473	1,021,976	987,057	121,707	—	3,461,213
Unallocated liabilities						7,098,619
Total liabilities						10,559,832
Other segment information:						
Depreciation and amortization	142,607	140,795	219,002	526	—	502,930
Impairment of inventories	25,224	176,369	(1,344)	—	—	200,249
Provision for impairment on trade and other receivables, net	(4,721)	10,561	(4,404)	—	—	1,436
Capital expenditure	758,386	486,482	457,548	2,769	—	1,705,185

4. SEGMENT INFORMATION (Continued)

(b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2008 and 2007.

Year ended 31 December 2008	**Mainland China RMB'000**	**Other Asian Countries RMB'000**	**Others RMB'000**	**Eliminations RMB'000**	**Consolidated RMB'000**
Segment revenue:					
Sales to external customers	13,491,627	1,152,795	1,090,978	—	15,735,400
Inter-segment sales	444,907	—	—	(444,907)	—
Less: Sales tax and surcharges	(146,964)	—	—	—	(146,964)
	13,789,570	1,152,795	1,090,978	(444,907)	15,588,436
As at 31 December 2008					
Other segment information:					
Segment assets	16,816,547	—	994,103	—	17,810,650
Interests in associates	125,546	—	—	—	125,546
Unallocated assets					343,944
					18,280,140
Capital expenditure	2,182,604	—	465,380	—	2,647,984

4. SEGMENT INFORMATION (Continued)

(b) Geographical segments (Continued)

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

5. REVENUE, OTHER INCOME AND GAINS

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

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

	Notes	2008 RMB'000	2007 RMB'000
Revenue:			
Sale of goods		**15,735,400**	21,654,089
Less: Sales tax and surcharges		**(146,964)**	(160,400)
		15,588,436	21,493,689
Other income and gains:			
Interest income		**62,530**	72,647
Dividend income		**10,247**	11,222
Profit from scrap sales		**7,451**	53,769
Gross rental income		**3,361**	2,945
Gains on disposal of available-for-sale investments		**82,178**	62,886
Gains on disposal of items of property, plant and equipment		**—**	12,022
Recognition of government grants	(i)	**70,068**	23,865
Rendering of service		**6,639**	8,345
Excess over the cost of a business combination	37(a)	**—**	995
Gains on disposal of a subsidiary	37(b)	**—**	2,197
Gains on disposal of an associate		**9,421**	—
Gains on acquisition of minority interests		**—**	8,951
Net realized and unrealized gains on derivative financial instruments		**61,994**	74,326
Compensation income		**58,111**	—
Others		**7,289**	23,962
		379,289	358,132

5. REVENUE, OTHER INCOME AND GAINS (Continued)

(i) The Group's government grants (note 34) are as follows:

	2008	2007
	RMB'000	RMB'000
Subsidies for payment of staff salaries and benefits	**7,130**	7,130
Subsidies for business development and recovery of accumulated losses	**56,127**	11,837
Subsidies to encourage export sales	**1,795**	1,010
Others	**5,016**	3,888
	70,068	23,865

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

6. PROFIT/(LOSS) BEFORE TAX

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

	Notes	2008 RMB'000	2007 RMB'000
Cost of inventories sold		**14,003,659**	19,412,091
Staff costs (including directors' and supervisors' remuneration as set out in note 8):			
Wages, salaries and bonuses		**1,002,456**	905,436
Share appreciation rights*	32(ii)	**(14,427)**	12,840
Contributions to defined contribution pension schemes	(a)	**170,054**	158,967
Cost of supplementary pension subsidies and early retirement benefits:	32(i)		
— current service costs*		**2,804**	2,881
— interest costs*		**17,826**	17,343
		20,630	20,224
Welfare and other expenses		**237,080**	245,367
		1,415,793	1,342,834
Auditors' remuneration*		**12,540**	11,801
Depreciation	14	**494,453**	428,573
Amortization of land lease prepayments	15	**19,732**	19,321
Amortization of intangible assets	16		
Mining rights		**38,286**	50,838
Technical know-how and others*		**6,215**	4,198
		44,501	55,036
Minimum lease payments under operating leases in respect of land:			
Lease of land from HNG	42(e)	**15,070**	14,930
Lease of land from other parties		**1,335**	4,726
		16,405	19,656

6. PROFIT/(LOSS) BEFORE TAX (Continued)

	Notes	2008 RMB'000	2007 RMB'000
Impairment of inventories		**132,796**	200,249
Exchange losses/(gains), net*		**238,013**	(30,533)
Research and development costs*		**96,565**	91,943
Donations*		**15,515**	7,565
Other expenses, net:			
Losses on disposal of items of property, plant and equipment		**34,588**	—
Provision for impairment on trade and other receivables, net		**20,355**	1,436
Provision for impairment on available-for-sale investments	21	**86,842**	—
Impairment of goodwill	18	**212,152**	—
Snowstorm/flood loss		**24,788**	7,131
Loss from sale of utilities		**1,180**	4,820
Rental of property, plant and equipment		**12,765**	12,592
Loss from disposal of a subsidiary	37(b)	**84**	—
Others		**14,364**	1,850
		407,118	27,829

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

Note:

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

7. FINANCE COSTS

The Group's finance costs are as follows:

	2008 RMB'000	2007 RMB'000
Interest on bank and other borrowings wholly repayable within five years	**489,834**	359,258
Interest on bank and other borrowings wholly repayable beyond five years	**18,169**	—
Less: Interest capitalized as construction in progress (note 14)	**(66,777)**	(15,527)
	441,226	343,731

The interest rates used to determine the amount of related borrowing costs for capitalization varied from 4.19% to 7.74% (2007: from 2.55% to 7.65%) per annum.

8. DIRECTORS' AND SUPERVISORS' REMUNERATION

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

	2008 RMB'000	2007 RMB'000
Fees	**463**	438
Salaries, allowances and benefits in kind	**2,154**	2,064
Performance-related bonuses*	**4,161**	4,670
Share appreciation rights	**(1,071)**	9,548
Pension scheme contributions	**264**	142
	5,971	16,862

* Certain executive directors of the Company are entitled to bonus payments which are determined based on the performance of the Group.

During the year, certain directors and supervisors were granted share appreciation rights, in respect of their services to the Group, under the share appreciation rights plan of the Company, further details of which are set out in note 32 to the financial statements. The expenses/(gains) arising from these SARs are included in the above directors' and supervisors' remuneration disclosures.

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

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

The names of the directors and supervisors of the Company and their remuneration for the year ended 31 December 2008 are as follows:

	Fees RMB'000	Salaries allowances and benefits in kind RMB'000	Performance -related bonuses RMB'000	Share appreciation rights RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:						
He Renchun	—	216	480	(185)	22	533
Li Li	—	173	384	(129)	22	450
Liao Luhai	—	173	384	(111)	22	468
Chen Zhixin	—	173	384	(111)	22	468
	—	735	1,632	(536)	88	1,919
Non-executive directors:						
Cao Xiuyun	—	216	480	(148)	22	570
Wu Longyun	—	173	384	(92)	22	487
Zhang Yixian	—	173	384	(92)	22	487
Yu Jiang	—	100	—	—	—	100
	—	662	1,248	(332)	66	1,644
Independent non-executive directors:						
Gu Desheng	100	—	—	—	—	100
Chan Wai Dune	—	—	—	—	—	—
Wan Ten Lap	213	—	—	—	—	213
Chen Xiaohong	100	—	—	—	—	100
	413	—	—	—	—	413
	413	1,397	2,880	(868)	154	3,976

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

	Fees RMB'000	Salaries allowances and benefits in kind RMB'000	Performance -related bonuses RMB'000	Share appreciation rights RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Supervisors:						
Zeng Shaoxiong	—	173	384	(111)	22	468
He Hongsen	—	173	384	(92)	22	487
Liu Xiaochu	—	—	50	—	—	50
Jin Liangshou	—	132	145	—	22	299
Li Junli	—	96	123	—	—	219
Qi Xiaocun	—	81	105	—	22	208
Zhan Yijie	—	102	90	—	22	214
	—	757	1,281	(203)	110	1,945
Independent supervisors:						
Liu Dongrong	50	—	—	—	—	50
	50	—	—	—	—	50
	50	757	1,281	(203)	110	1,995
	463	2,154	4,161	(1,071)	264	5,971

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

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

	Fees RMB'000	Salaries allowances and benefits in kind RMB'000	Performance -related bonuses RMB'000	Share appreciation rights RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:						
He Renchun	—	216	557	1,646	11	2,430
Li Li	—	173	445	1,152	11	1,781
Liao Luhai	—	173	445	988	11	1,617
Chen Zhixin	—	173	445	988	11	1,617
	—	735	1,892	4,774	44	7,445
Non-executive directors:						
Cao Xiuyun	—	216	557	1,317	11	2,101
Wu Longyun	—	173	445	823	11	1,452
Zhang Yixian	—	173	445	823	11	1,452
Yu Jiang	—	100	—	—	—	100
	—	662	1,447	2,963	33	5,105
Independent non-executive directors:						
Gu Desheng	100	—	—	—	—	100
Chan Wai Dune	—	—	—	—	—	—
Wan Ten Lap	238	—	—	—	—	238
Chen Xiaohong	50	—	—	—	—	50
	388	—	—	—	—	388
	388	1,397	3,339	7,737	77	12,938

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

	Fees RMB'000	Salaries allowances and benefits in kind RMB'000	Performance -related bonuses RMB'000	Share appreciation rights RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Supervisors:						
Zeng Shaoxiong	—	173	445	988	11	1,617
He Hongsen	—	173	445	823	11	1,452
Liu Xiaochu	—	—	50	—	—	50
Jin Liangshou	—	90	200	—	11	301
Li Junli	—	99	54	—	11	164
Qi Xiaocun	—	65	7	—	10	82
Zhan Yijie	—	67	130	—	11	208
	—	667	1,331	1,811	65	3,874
Independent supervisors:						
Mao Lihui	—	—	—	—	—	—
Liu Dongrong	50	—	—	—	—	50
	50	—	—	—	—	50
	50	667	1,331	1,811	65	3,924
	438	2,064	4,670	9,548	142	16,862

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

9. FIVE HIGHEST PAID EMPLOYEES' REMUNERATION

The five highest paid employees during the year included five directors (2007: five directors), details of whose remuneration are set out in note 8 above. Each of the five highest paid employee's remuneration fell within Nil to HK$ 1,000,000 (equivalent to Nil to RMB 882,000).

10. INCOME TAX EXPENSE

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

PRC corporate income tax ("CIT") has been provided at a rate of 25% (2007: 33%) on the taxable income as reported in the statutory accounts of the companies comprising the Group, which are prepared in accordance with the relevant PRC accounting standards (the "PRC GAAP"), as adjusted for income and expense items which are not assessable or deductible for income tax purposes, except for the following subsidiaries of the Company:

(i) Shenzhen Jinzhou Jinggong Scientific and Technological Company Limited is subject to a preferential CIT rate of 15% as it is qualified as a high technology enterprise.

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

(iii) Zhuzhou Smelter Group Co., Ltd. ("Zhuye Listco") is subject to a preferential CIT rate of 15% as it is qualified as a high technology enterprise.

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

	2008	2007
	RMB'000	RMB'000
PRC corporate income tax		
Current	**77,331**	312,618
Deferred (note 22)	**55,333**	(73,256)
Total tax charge for the year	**132,664**	239,362

10. INCOME TAX EXPENSE (Continued)

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

	The Group			
	2008		2007	
	RMB'000	**%**	RMB'000	%
Profit/(loss) before tax	**(523,688)**		715,562	
Tax at the PRC statutory corporate income tax rate	**(130,922)**	**25.0**	236,135	33.0
Differential tax rates on the assessable profits and losses of certain subsidiaries	**(17,324)**	**3.3**	(35,460)	(5.0)
Income tax benefit on locally purchased machinery	**(4,989)**	**1.0**	(6,876)	(1.0)
Losses/(profits) attributable to associates	**(11)**	**—**	23,327	3.3
Income not subject to tax	**(15,389)**	**2.9**	(7,102)	(1.0)
Tax losses not recognized	**236,345**	**(45.1)**	5,139	0.7
Effect on opening deferred income tax due to a decrease in income tax rates	**38,637**	**(7.4)**	17,016	2.4
Expenses not deductible for tax and others	**26,317**	**(5.0)**	7,183	1.0
Total tax charge for the year	**132,664**	**(25.3)**	239,362	33.4

The share of income tax attributable to associates amounting to RMB85,000 (2007: RMB903,000) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "New CIT Law"), which is effective from 1 January 2008. Under the New CIT Law, the corporate income tax rate applicable to domestic companies from 1 January 2008 decreased from 33% to 25%. This reduction in the income tax rate directly reduced the Group's effective tax rate prospectively from 2008.

11. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated loss attributable to equity holders of the parent for the year ended 31 December 2008 includes a loss of RMB643,058,000 (2007: profit of RMB219,304,000) which has been dealt with in the financial statements of the Company (note 36).

12. DIVIDEND

	2008	2007
	RMB'000	RMB'000
Proposed final dividend– Nil (2007: RMB0.034) per ordinary share	**—**	124,714

The directors do not recommend the payment of any dividend in respect of the year.

13. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on:

	2008	2007
	RMB'000	RMB'000
Earnings/(loss)		
Profit/(loss) for the year attributable to ordinary equity holders of the parent	**(739,517)**	314,896

	Number of shares	
	'000	**'000**
Shares		
Weighted average number of ordinary shares in issue during the year	**3,668,058**	3,533,863

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

NOTES TO FINANCIAL STATEMENTS

14. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings and mining structures RMB'000	Plant, machinery and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2008				
At 31 December 2007 and at 1 January 2008:				
Cost	2,630,470	4,412,865	1,321,191	8,364,526
Accumulated depreciation and impairment	(968,177)	(2,087,033)	(576)	(3,055,786)
Net carrying amount	1,662,293	2,325,832	1,320,615	5,308,740
At 1 January 2008, net of accumulated depreciation and impairment	1,662,293	2,325,832	1,320,615	5,308,740
Additions	236,802	285,190	1,377,155	1,899,147
Interest capitalized (note 7)	—	—	66,777	66,777
Acquisitions of subsidiaries (note 37(a))	21,141	42,045	737	63,923
Disposal of a subsidiary (note 37(b))	—	(105)	—	(105)
Disposals	(25,796)	(31,441)	—	(57,237)
Depreciation provided during the year (note 6)	(112,718)	(381,735)	—	(494,453)
Exchange realignment	26	114	(107,566)	(107,426)
Transfers	378,264	772,636	(1,150,900)	—
At 31 December 2008, net of accumulated depreciation and impairment	2,160,012	3,012,536	1,506,818	6,679,366
At 31 December 2008:				
Cost	3,242,548	5,462,244	1,507,394	10,212,186
Accumulated depreciation and impairment	(1,082,536)	(2,449,708)	(576)	(3,532,820)
Net carrying amount	2,160,012	3,012,536	1,506,818	6,679,366

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Group (Continued)

	Buildings and mining structures RMB'000	Plant, machinery and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2007				
At 1 January 2007:				
Cost	2,358,460	3,992,883	322,624	6,673,967
Accumulated depreciation and impairment	(815,913)	(1,809,878)	(576)	(2,626,367)
Net carrying amount	1,542,547	2,183,005	322,048	4,047,600
At 1 January 2007, net of accumulated depreciation and impairment	1,542,547	2,183,005	322,048	4,047,600
Additions	61,246	120,251	1,492,999	1,674,496
Interest capitalized (note 7)	—	—	15,527	15,527
Acquisitions of subsidiaries (note 37(a))	14,710	8,329	10,629	33,668
Disposal of a subsidiary (note 37(b))	(2,543)	(11,990)	(1,435)	(15,968)
Disposals	(4,205)	(13,805)	—	(18,010)
Depreciation provided during the year (note 6)	(120,555)	(308,018)	—	(428,573)
Transfers	171,093	348,060	(519,153)	—
At 31 December 2007, net of accumulated depreciation and impairment	1,662,293	2,325,832	1,320,615	5,308,740
At 31 December 2007:				
Cost	2,630,470	4,412,865	1,321,191	8,364,526
Accumulated depreciation and impairment	(968,177)	(2,087,033)	(576)	(3,055,786)
Net carrying amount	1,662,293	2,325,832	1,320,615	5,308,740

As at 31 December 2008, certain of the Group's buildings and mining structures and plant, machinery and equipment, which had an aggregate net book value of approximately RMB1,756,725,000 (2007: RMB1,158,709,000) were pledged to secure bank loans granted to the Group (note 31).

Included in property, plant and equipment of the Group are the Group's assets invested in Australian joint venture projects of RMB350,980,000 (2007: RMB407,554,000), further details of which are disclosed in note 45.

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Company

	Buildings and mining structures RMB'000	Plant, machinery and equipment RMB'000	Constructionin progress RMB'000	Total RMB'000
31 December 2008				
At 31 December 2007 and at 1 January 2008:				
Cost	126,344	109,115	21,863	257,322
Accumulated depreciation and impairment	(88,181)	(71,272)	—	(159,453)
Net carrying amount	38,163	37,843	21,863	97,869
At 1 January 2008, net of accumulated depreciation and impairment	38,163	37,843	21,863	97,869
Additions	22,407	30,554	11,257	64,218
Depreciation provided during the year	(6,897)	(10,042)	—	(16,939)
Disposals	—	(3,041)	—	(3,041)
Transfers	17,660	—	(17,660)	—
At 31 December 2008, net of accumulated depreciation and impairment	71,333	55,314	15,460	142,107
At 31 December 2008:				
Cost	166,411	136,227	15,460	318,098
Accumulated depreciation	(95,078)	(80,913)	—	(175,991)
Net carrying amount	71,333	55,314	15,460	142,107

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Company

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

15. LAND LEASE PREPAYMENTS

The Group

	2008 RMB'000	2007 RMB'000
Carrying amount at 1 January	**958,770**	885,628
Additions	**6,052**	7,366
Acquisitions of subsidiaries (note 37(a))	**4,014**	88,366
Disposal of a subsidiary (note 37(b))	**—**	(2,240)
Amortization during the year (note 6)	**(19,732)**	(19,321)
Disposals	**—**	(1,029)
Carrying amount at 31 December	**949,104**	958,770

The Company

	2008 RMB'000	2007 RMB'000
Carrying amount at 1 January	**76,605**	78,090
Additions	**2,023**	120
Amortization during the year	**(1,605)**	(1,605)
Carrying amount at 31 December	**77,023**	76,605

As at 31 December 2008, certain of the Group's bank loans were secured by certain of the Group's land lease prepayments, which had an aggregate net carrying amount of RMB318,080,000 (2007: RMB254,563,000) (note 31).

The leasehold land is held under a long term lease and is situated in China.

16. INTANGIBLE ASSETS

The Group

	Mining rights RMB'000	Technical know-how RMB'000	Others RMB'000	Total RMB'000
31 December 2008				
At 31 December 2007 and at 1 January 2008				
Cost	**929,088**	**36,866**	**20,047**	**986,001**
Accumulated amortization	**(108,792)**	**(10,914)**	**(10,754)**	**(130,460)**
Net carrying amount	**820,296**	**25,952**	**9,293**	**855,541**
At 1 January 2008, net of accumulated amortization	**820,296**	**25,952**	**9,293**	**855,541**
Additions	**179**	**5,928**	**—**	**6,107**
Acquisitions of subsidiaries (note 37(a))	**—**	**—**	**1,354**	**1,354**
Amortization provided during the year (note 6)	**(38,286)**	**(2,639)**	**(3,576)**	**(44,501)**
At 31 December 2008	**782,189**	**29,241**	**7,071**	**818,501**
At 31 December 2008:				
Cost	**929,267**	**42,794**	**22,085**	**994,146**
Accumulated amortization	**(147,078)**	**(13,553)**	**(15,014)**	**(175,645)**
Net carrying amount	**782,189**	**29,241**	**7,071**	**818,501**
31 December 2007				
At 1 January 2007				
Cost	617,553	29,140	24,295	670,988
Accumulated amortization	(60,048)	(7,381)	(11,827)	(79,256)
Net carrying amount	557,505	21,759	12,468	591,732
At 1 January 2007, net of accumulated amortization	557,505	21,759	12,468	591,732
Additions	61	7,735	—	7,796
Acquisitions of subsidiaries (note 37(a))	320,318	15	—	320,333
Disposal of a subsidiary (note 37(b))	(6,750)	(26)	(470)	(7,246)
Disposals	—	—	(2,038)	(2,038)
Amortization provided during the year (note 6)	(50,838)	(3,531)	(667)	(55,036)
At 31 December 2007	820,296	25,952	9,293	855,541
At 31 December 2007:				
Cost	929,088	36,866	20,047	986,001
Accumulated amortization	(108,792)	(10,914)	(10,754)	(130,460)
Net carrying amount	820,296	25,952	9,293	855,541

16. INTANGIBLE ASSETS (Continued)

The Company

	Mining rights RMB'000
31 December 2008:	
At 31 December 2007 and at 1 January 2008	
Cost	**100,171**
Accumulated amortization	**(49,844)**
Net carrying amount	**50,327**
At 1 January 2008, net of accumulated amortization	**50,327**
Amortization provided during the year	**(11,098)**
At 31 December 2008	**39,229**
At 31 December 2008	
Cost	**100,171**
Accumulated amortization	**(60,942)**
Net carrying amount	**39,229**

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

17. OTHER ASSETS

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Exploration and evaluation assets	**524,653**	—	**39,174**	—
Deferred expenditure*	**145,248**	—	**—**	—
Cost as at 31 December	**669,901**	—	**39,174**	—

* In order to obtain the mining rights in the future, the Group paid compensation to old mine owners in 2008 and capitalized in deferred expenditure.

Included in exploration and evaluation assets of the Group are the Group's assets invested in Australian joint venture projects of RMB127,317,000, further details of which are set out in note 45.

The movements in exploration and evaluation assets during the year ended 31 December 2008 and 2007 are as follows:

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cost as at 1 January	**—**	—	**—**	—
Additions	**257,862**	—	**39,174**	—
Acquisitions of subsidiaries (note 37(a))	**266,791**	—	**—**	—
Cost as at 31 December	**524,653**	—	**39,174**	—

18. GOODWILL

The Group

	Notes	2008 RMB'000	2007 RMB'000
At 1 January, net of accumulated impairment		**77,927**	56,546
Acquisitions of subsidiaries	37(a)	**213,772**	—
Acquisition of minority interests*		**—**	21,381
Impairment during the year	6	**(212,152)**	—
At 31 December		**79,547**	77,927
At 31 December			
Cost		**291,699**	77,927
Accumulated impairment		**(212,152)**	—
Net carrying amount		**79,547**	77,927

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

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the cash-generating units of the respective subsidiaries.

The recoverable amount of the cash-generating unit of Abra Mining Limited ("Abra") has been determined based on its fair value less disposal costs. The fair value of Abra's exploration tenements, which are its main assets, were determined based on the "Previous Exploration Expenditure" method whereby a prospectivity enhancement multiplier (PEM) factor is applied to the previous exploration expenditures incurred.

The recoverable amounts of the cash-generating units of other subsidiaries has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a two-year period approved by senior management. The discount rate applied to the cash flow projections is a real rate of 11%-12% and cash flow beyond the budget period is extrapolated using a growth rate of zero. Other key assumptions for the value in use calculations relate to the estimation of cash inflows or outflows which include budgeted sales and gross margin. This estimation is based on the CGU's past performance and management's expectations for market developments.

19. INTERESTS IN SUBSIDIARIES

The Company

	2008 RMB'000	2007 RMB'000
Unlisted investments, at cost	**3,550,809**	2,442,907
Due from subsidiaries	**525,061**	589,535
	4,075,870	3,032,442
Impairment #	**(212,152)**	—
	3,863,718	3,032,442

An impairment was recognized for certain investments with a carrying amount RMB3,550,809,000 (before deducting the impairment loss) (2007: RMB2,442,907,000). The recoverable amounts of the interests in Abra has been determined based on the fair value of Abra's net identifiable assets less disposal costs. The fair value of Abra's exploration tenements, which are its main assets, were determined based on the "Previous Exploration Expenditure" method (i.e. apply a PEM already defined in note 18 to the previous exploration incurred).

The amounts due from subsidiaries as at 31 December 2008 are unsecured, interest-free and have no fixed terms of repayment, except for the balances due from HNC (Australia) Resources Holding PTY Ltd. totaling RMB475,573,000 (AU$100,896,000). This balance is unsecured and payable by installments prior to year 2016. Other balances due from HNC (Australia) Resources Holding PTY Ltd. of RMB58,919,000 (AU$12,500,000), RMB198,622,000 (AU$42,139,000) and RMB218,032,000 (AU$46,257,000) bear interest at 5.67%, 0.9% above LIBOR and 1.3% above LIBOR per annum respectively.

The amounts due from subsidiaries as at 31 December 2007 are unsecured, interest-free and have no fixed terms of repayment, except for the balances due from HNC (Australia) Resources Holding PTY Ltd. totaling RMB568,248,000 (AU$88,739,000). This balance is unsecured and payable by installments prior to year 2016. Other balances due from HNC (Australia) Resources Holding PTY Ltd. of RMB80,045,000 (AU$12,500,000), RMB191,993,000 (AU$29,982,000) and RMB296,210,000 (AU$ 46,257,000) bear interest at 4.32%, 0.9% above LIBOR and 1.3% above LIBOR per annum respectively.

19. INTERESTS IN SUBSIDIARIES (Continued)

The Company (Continued)

Particulars of the principal subsidiaries as at 31 December 2008 are as follows:

Name	Notes	Place and date of incorporation/ establishment and operations	Paid-up/ registered capital (in thousands)	Percentage of equity interests attributable to the Company Direct %	Indirect %	Principal activities
Zhuzhou Cemented Carbides Group Corp., Ltd. ("Zhuying") (株州硬質合金集團有限公司)		PRC/Mainland China 15 November 1980	RMB745,761	99.28	—	Manufacture of hard alloys and refractory metal compounds
Zhuzhou Smelter Group Holding Co., Ltd. ("Zhuye Holding") (株州冶煉集團有限責任公司)		PRC/Mainland China 6 July 1992	RMB872,888	63.31	—	Investment holding
Hengyang Yuanjing Tungsten Co., Ltd. ("Yuanjing Tungsten") (衡陽遠景鎢業有限責任公司)	37(a)	PRC/Mainland China 23 January 2003	RMB25,840	98.33	—	Mining of nonferrous metals
Hsikwangshan Twinkling Star Antimony Co., Ltd. (錫礦山閃星銻業有限責任公司)		PRC/Mainland China 4 June 2001	RMB467,310	100	—	Mining and smelting of nonferrous metals
Hsikwangshan Twinkling Star Imp. & Exp. Company (湖南錫礦山閃星銻業進出口有限公司)		PRC/Mainland China 17 November 2006	RMB15,000	—	100	Import and export of nonferrous metals
Hunan Shizhuyuan Nonferrous Metals Co., Ltd. (湖南竹園有色金屬有限責任公司)		PRC/Mainland China 19 December 1981	RMB189,169	97.35	—	Mining of nonferrous metals
Hunan Bismuth Co., Ltd* (湖南鉍業有限責任公司)		PRC/Mainland China 18 June 2008	RMB150,000	—	49.65	Trading of bismuth and nonferrous metals

19. INTERESTS IN SUBSIDIARIES (Continued)

The Company (Continued)

Name	Notes	Place and date of incorporation/ establishment and operations	Paid-up/ registered capital (in thousands)	Percentage of equity interests attributable to the Company Direct %	Indirect %	Principal activities
Zhuzhou Smelter Group Co., Ltd ("Zhuye Listco")*/# (株州冶煉集團股份有限公司) (上海金火炬金屬有限公司)		PRC/Mainland China 20 December 1993.	RMB527,458	3.28	28.16	Smelting of zinc products and nonferrous metals
Shanghai Jinhuoju Metals Ltd.*/& (上海金火炬金屬有限公司)		PRC/Mainland China 14 April 1999	RMB1,500	—	31.44	Trading of metal ingots
Foshan City Nanhai JinhuojuMetals Ltd.*/& (佛山市南海金火炬金屬有限公司)		PRC/Mainland China 17 November 2000	RMB3,000	—	31.44	Trading of metal ingots
Chenzhou Huoju Kuangye Ltd.*/& (郴州火炬礦業有限責任公司)		PRC/Mainland China 16 April 2003	RMB2,000	—	31.44	Trading of metal ingots
Hunan Zhuye Torch Metals Importand Export Company Limited*/& (湖南株冶火炬金屬進出口有限公司)		PRC/Mainland China 2 July 2001	RMB80,000	—	31.44	Export and import of commercial products and technology
Torch Metals Limited*/& ("Hong Kong Torch") (火炬金屬有限公司)		Hong Kong 15 December 1992	HK$5,000	—	22.01	Trading of metal ingots
Torch Zinc Limited*/& (火炬鋅業有限公司)		Hong Kong16 April 2004	US$100	—	28.30	Trading of metal ingots
Zhuzhou Quanxin Industry Co., Ltd.("Zhuye Quanxin")* (株州全鑫實業有限責任公司)	18	PRC/Mainland China 24 December 1999	RMB64,600	—	63.31	Manufacture of metal ingots
Shanghai Zhuye Nonferrous Metals Co., Ltd.*/& (上海株冶有色金屬有限公司)		PRC/Mainland China 4 March 2004	RMB1,000	—	28.30	Trading of metal ingots

19. INTERESTS IN SUBSIDIARIES (Continued)

The Company (Continued)

Name	Notes	Place and date of incorporation/ establishment and operations	Paid-up/ registered capital (in thousands)	Percentage of equity interests attributable to the Company Direct %	Indirect %	Principal activities
Foshan City Nanhai ZhuyeNonferrous Metals Co., Ltd.*/& (佛山市南海株冶金屬有限公司)		PRC/Mainland China 4 March 2004	RMB1,000	—	28.30	Trading of metal ingots
ZCC Import and Export Company Limited ("ZCC Import and Export")* (株州硬質合金進出口公司)		PRC/Mainland China 29 October 1987	RMB30,000	—	99.24	Import and export of metal compounds
Shenzhen Jinzhou Jinggong Scientific and Technological Company Limited ("Shenzhen Jinzhou")* (深圳市金洲精工科技股份有限公司)		PRC/Mainland China 10 June 1986	RMB61,109	—	59.57	Manufacture of metal and alloy products
Chenzhou Diamond Tungsten ProductsCompany Limited("Chenzhou Diamond Tungsten")* (郴州鑽石鎢制品有限責任公司)		PRC/Mainland China 18 December 2001	RMB120,000	—	98.51	Manufacture of chemical products
Zhuzhou Diamond Cutting Tools Company Limited ("Zhuzhou Diamond")*/# (株州鑽石切削刀具股份有限公司)		PRC/Mainland China 7 June 2002	RMB250,000	—	44.38	Manufacture of metal and alloy products
Zhuzhou Changjiang Cemented Carbides Tools Company Limited ("Zhuzhou Changjiang")* (株州長江硬質合金工具有限公司)	37(a)	PRC/Mainland China 20 April 1992	RMB53,469	—	60.60	Manufacture of metal and alloy products

19. INTERESTS IN SUBSIDIARIES (Continued)

The Company (Continued)

Name	Notes	Place and date of incorporation/ establishment and operations	Paid-up/ registered capital (in thousands)	Percentage of equity interests attributable to the Company Direct %	Indirect %	Principal activities
Zigong Cemented Carbides Company Limited ("Ziying") (自貢硬質合金有限責任公司)		PRC/Mainland China 28 July 1998	RMB500,000	80	—	Manufacture of hard alloys and refractory metal compounds
Zigong Cemented Carbides Company Limited Guangzhou Sales Center* (自貢硬質合金廠廣州銷售中心)		PRC/Mainland China 3 July 1997	RMB2,000	—	80	Trading of hard alloys, tungsten, molybdenum products
Zigong Cemented Carbide Import and Export Company Limited* (自貢硬質合金進出口貿易有限責任公司)		PRC/Mainland China 22 September 2003	RMB3,000	—	78.40	Import and export of metal compounds
Zigong AsiaTech High-Tech Ltd. * (自貢亞西泰克高新技術有限責任公司)		PRC/Mainland China 11 September 2001	RMB6,600	—	43.64	Manufacturehard alloys equipments
Zigong Keruide New Materials Co., Ltd. ("Zigong Keruide")* (自貢科瑞德新材料有限責任公司)	37(a)	PRC/Mainland China 24 January 2003	RMB21,454	—	47.46	Manufacture and trading of hard alloy products
HNC (Australia) Resources Holding PTY Ltd. (湖南有色澳洲資有源有限公司)		Australia 28 March 2007	AU$41,200	100	—	Development of nonferrous metal resources
Chenzhou Wuling Ming Resource Perambulation Company Limited (郴州五岭礦產資源勘查有限責任公司)		PRC/Mainland China 25 May 2007	RMB16,000	70	—	Perambulation of nonferrous metal resources

19. INTERESTS IN SUBSIDIARIES (Continued)

The Company (Continued)

Name	Notes	Place and date of incorporation/ establishment and operations	Paid-up/ registered capital (in thousands)	Percentage of equity interests attributable to the Company Direct %	Indirect %	Principal activities
Hunan Nonferrous Nanling Resource Development Company Limited (湖南有色南岭資源開發有限公司)		PRC/Mainland China 9 November 2007	RMB100,000	52	—	Development of nonferrous metal resources
Hunan Nonferrous Xintianling Tungsten Co., Ltd(湖南有色新田岭鎢業有限公司)		PRC/Mainland China 10 January 2008	RMB500,000	100	—	Mining of nonferrous metals
Abra Mining Limited. (愛博礦業有限公司)	37(a)	Australia 27 July 2004	AU$32,949	74.28	—	Mineral exploration and project evaluation
Hunan Nonferrous Xitian Mining Co., Ltd (湖南有色錫田礦業有限公司)		PRC/Mainland China 2 February 2008	RMB30,000	70	—	Perambulation of nonferrous metal resources

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

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

& These companies are subsidiaries of Zhuye Listco.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year ended 31 December 2008 or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

20. INTERESTS IN ASSOCIATES

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Listed shares, at cost	**—**	—	**356,034**	213,141
Unlisted shares, at cost	**—**	—	**9,000**	—
Share of net assets of associates	**125,546**	164,972	**—**	—
Goodwill on acquisition	**45,328**	45,328	**—**	—
	170,874	210,300	**365,034**	213,141
Provision for impairment on interests in associates	**—**	—	**(134,584)**	(134,584)
Provision for impairment on goodwill	**(45,328)**	(45,328)	**—**	—
	125,546	164,972	**230,450**	78,557
Market value of listed shares	**—**	—	**296,820**	1,127,109

Particulars of the principal associates as at 31 December 2008 are as follows:

Name	Place and date of incorporation/ establishment and operations	Paid-up/ registered capital	Percentage of equity interests attributable to the Group		Principal activities
			Direct	Indirect	
		RMB'000	%	%	
ZhongWu GaoXin Materials Company Limited ("ZhongWu GaoXin") (中鎢高新材料股份有限公司)	PRC/Mainland China 18 March 1993	222,575	35.28	—	Manufacture, sale, import and export of hard alloy products
Gansu Jinda Mining Corporation Limited ("Gansu Jinda") (甘肅金大礦業有限公司)	PRC/Mainland China 10 July 2008	20,000	45	—	Purchasing of metal resources

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

20. INTERESTS IN ASSOCIATES (Continued)

The aggregate amounts of the assets, liabilities, revenue and profit/(loss) of the associates attributable to the Group are as follows:

	2008 RMB'000	2007 RMB'000
Total assets	176,522	458,593
Total liabilities	50,976	293,621
Net assets	125,546	164,972
Total revenue	466,946	720,480
Profit/(loss) attributable to equity holders of the parent	46	(70,689)

21. AVAILABLE-FOR-SALE INVESTMENTS

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Listed equity investments, at fair value	185,265	1,166,168	29,998	114,496
Unlisted equity investments, at cost	22,731	22,673	—	—
	207,996	1,188,841	29,998	114,496

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

During the year, the gross loss of the Group's available-for-sale investments recognized directly in equity amounted to RMB323,173,000 (2007: gain of RMB251,346,000) of which RMB86,842,000 (2007: Nil) was removed from equity and recognized in the consolidated income statement for the year.

The fair values of listed equity investments are based on quoted market prices. There has been a significant decline in the market value of the listed equity investments during the year. The directors consider that this a decline indicates that certain listed equity investments have been impaired and an impairment loss of RMB86,842,000 (2007: Nil) has been transferred from the available-for-sale investment revaluation reserve and recognized in the consolidated income statement for the year.

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

22. DEFERRED TAX

Deferred tax assets

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

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**156,596**	81,260	**7,460**	5,008
Acquisitions of subsidiaries (note 37(a))	**—**	28	**—**	—
Disposal of a subsidiary (note 37(b))	**—**	(69)	**—**	—
Recognition of net actuarial losses recognized in equity	**10,365**	1,684	**2,465**	113
Deferred tax (debited)/credited to the income statement during the year (note10)	**(55,657)**	73,693	**4,243**	2,339
At 31 December	**111,304**	156,596	**14,168**	7,460

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

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Asset impairment	**37,652**	85,729	**5,051**	2,339
Property, plant and equipment with higher tax base	**19,022**	35,052	**—**	—
Recognition of actuarial losses	**41,992**	27,490	**9,117**	5,121
Other temporary differences	**12,638**	8,325	**—**	—
	111,304	156,596	**14,168**	7,460

The Group has tax losses arising in Mainland China of RMB884,464,000 (2007: RMB27,343,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognized in respect of these losses as they have arisen in the Company and its subsidiaries have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilized.

22. DEFERRED TAX (Continued)

Deferred tax liabilities

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

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**379,371**	77,595	**5,606**	77,595
Acquisitions of subsidiaries (note 37(a))	**59,842**	101,299	**—**	—
Disposal of available-for-sale investments	**(10,764)**	(38,798)	**—**	(38,798)
Recognition of unrealized gains/(losses) on available-for-sale investments	**(228,425)**	238,838	**(5,606)**	(33,191)
Deferred tax (credited)/debited to the income statement during the year (note 10)	**(324)**	437	**—**	—
At 31 December	**199,700**	379,371	**—**	5,606

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

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Recognition of unrealized gains/(losses) on available-for-sale investments	**26,562**	265,750	**—**	5,606
Revaluation surplus	**169,857**	112,437	**—**	—
Other temporary differences	**3,281**	1,184	**—**	—
	199,700	379,371	**—**	5,606

23. INVENTORIES

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**972,106**	1,579,118	**14,264**	12,112
Work in progress	**1,281,797**	1,421,165	**138**	—
Finished goods	**1,448,593**	1,433,572	**35,470**	14,309
	3,702,496	4,433,855	**49,872**	26,421
Less: Impairment of inventories	**(142,571)**	(235,337)	**(14,270)**	—
	3,559,925	4,198,518	**35,602**	26,421

24. TRADE RECEIVABLES

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

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

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**587,207**	600,122	**45,614**	54,397
Over 1 year but within 2 years	**19,426**	7,736	**1,445**	—
Over 2 years but within 3 years	**6,397**	6,022	**—**	—
Over 3 years	**27,333**	22,623	**3,787**	5,313
	640,363	636,503	**50,846**	59,710
Less: Provision for impairment	**(37,568)**	(35,193)	**(4,359)**	(5,313)
	602,795	601,310	**46,487**	54,397

24. TRADE RECEIVABLES (Continued)

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

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**35,193**	48,222	**5,313**	5,822
Impairment losses reversed	**(2,001)**	(12,602)	**(954)**	(509)
Amount written off as uncollectible	**(777)**	(484)	**—**	—
Acquisitions of subsidiaries	**5,154**	78	**—**	—
Disposal of a subsidiary	**(1)**	(21)	**—**	—
At 31 December	**37,568**	35,193	**4,359**	5,313

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB37,568,000 (2007: RMB35,193,000). The individually impaired trade receivables relate to customers that were in financial difficulties and almost all of the receivables cannot be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

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

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither past due nor impaired	**554,410**	572,652	**43,989**	52,939
Less than 3 months past due	**19,453**	10,008	**—**	1,458
3 to 9 months past due	**19,560**	11,056	**1,625**	—
More than 9 months past due	**9,372**	7,594	**873**	—
	602,795	601,310	**46,487**	54,397

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

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

Trade receivables of the Group include trading balances due from associates of RMB64,015,000 as at 31 December 2008 (2007: RMB844,000). The balances due from associates are unsecured, interest-free and repayable in accordance with normal credit terms to those offered to the major customers of the Group.

25. BILLS RECEIVABLE

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 120 days	**140,376**	372,465	**800**	134,415
Over 121 days but within 1 year	**161,192**	352,958	**29,099**	88,199
	301,568	725,423	**29,899**	222,614

The bills receivable are non-interest-bearing.

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments to suppliers	**335,128**	407,029	**30,073**	55,124
Other receivables	**599,556**	318,019	**117,480**	14,691
	934,684	725,048	**147,553**	69,815
Less: Provision for impairment	**(81,406)**	(59,181)	**(35,693)**	(1,579)
	853,278	665,867	**111,860**	68,236

Included in the other receivables and prepayments to suppliers of the Group are receivables from HNG and its subsidiaries excluding the Group ("HNG Group") of RMB49,805,000 as at 31 December 2008 (31 December 2007: RMB63,217,000) which were unsecured, interest-free and repayable on demand.

Included in prepayments to suppliers of the Group are prepayments for the Australian joint venture project of RMB49,079,000, further details of which are set out in note 45.

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

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

27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**2,762,449**	1,784,180	**1,058,121**	886,646
Time deposits	**534,216**	1,904,591	**365,303**	1,398,991
	3,296,665	3,688,771	**1,423,424**	2,285,637
Less: Pledged cash and time deposits	**(63,478)**	(53,063)	**—**	—
Cash and cash equivalents in the balance sheets	**3,233,187**	3,635,708	**1,423,424**	2,285,637
Less: Non-pledged time deposits with original maturity over three months or more when acquired	**(139,939)**	(162,100)	**—**	(143,500)
Cash and cash equivalents in the cash flow statements	**3,093,248**	3,473,608	**1,423,424**	2,142,137

At the balance sheet date, the cash and bank balances and time deposits of the Group denominated in RMB amounted to RMB2,587,542,000 (2007: RMB1,895,010,000). The RMB is not freely convertible into other currencies; however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

As at 31 December 2008, the cash and bank balances and time deposits of the Group included HK$377,738,000 (2007: HK$1,321,327,000), US$4,994,000 (2007: US$10,271,000) and AU$57,377,000 (2007: AU$64,127,000) respectively.

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

28. TRADE PAYABLES

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

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**670,197**	826,997	**48,189**	49,033
Over 1 year but within 2 years	**3,437**	8,912	**346**	383
Over 2 years but within 3 years	**3,436**	6,034	**112**	—
Over 3 years	**9,110**	5,576	**—**	—
	686,180	847,519	**48,647**	49,416

The amounts due to HNG Group, totaling RMB48,392,000 (2007: RMB49,132,000), included in the Group's trade payables were unsecured, interest-free and repayable within trade credit periods.

29. BILLS PAYABLE

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

	The Group	
	2008	2007
	RMB'000	RMB'000
Within 120 days	**117,286**	90,000
Over 121 days but within 1 year	**119,500**	119,780
	236,786	209,780

Certain of the Group's cash and time deposits amounting to RMB53,035,000 (2007: RMB44,086,000) were pledged to banks for the issuance of bills payable.

30. OTHER PAYABLES AND ACCRUALS

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Advances from customers	**246,139**	464,318	**6,441**	20,477
Accrued taxes other than income tax	**128,933**	259,306	**20,957**	22,545
Accrued salaries, wages and benefits	**128,361**	115,200	**13,957**	14,547
Payables for mining rights - current portion	**358,553**	204,276	**95,921**	45,835
Accrued expenses and other payables	**401,321**	450,370	**27,480**	138,951
	1,263,307	1,493,470	**164,756**	242,355

Included in other payables and accruals of the Group are balances due to HNG Group of RMB386,814,000 (2007: RMB23,412,000).

Included in other payables and accruals of the Company are balances due to HNG Group of RMB3,744,000 (2007: RMB4,136,000).

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

Other payables are non-interest-bearing and have no fixed terms of repayment (except for payables for mining rights).

Included in other payables and accruals of the Group and the Company is the current portion of other payables of RMB358,553,000 (2007: RMB204,276,000) and RMB95,921,000 (2007: RMB45,835,000), respectively, in connection with the purchases of mining rights (note 33).

31. INTEREST-BEARING BANK AND OTHER BORROWINGS

The Group	2008 Effective interest rate (%)	2008 Maturity	2008 RMB'000	2007 Effective interest rate (%)	2007 Maturity	2007 RMB'000
Current:						
Bank loans – unsecured	**4.78-8.22**	**2009**	**1,934,032**	5.30-7.47	2008	1,799,454
Bank loans – secured	**5.05-8.37**	**2009**	**2,041,675**	5.51-8.02	2008	2,390,991
Bank loans – secured	**Libor+0.9**	**2009**	**246,046**	Libor+0.9	2008	—
Bank loans – secured	**Libor+1.3**	**2009**	**10,252**	Libor+1.3	2008	—
Entrusted loans	**6.85-7.47**	**2009**	**535,000**	6.12-6.48	2008	84,000
Other borrowing – unsecured	**7.47-8.50**	**2009**	**158,367**	5.83-8.50	2008	44,589
Other borrowing – secured	**7.47**	**2009**	**20,000**	6.00-6.43	2008	252,191
			4,945,372			4,571,225
Non-current:						
Bank loans – unsecured	**5.10-7.74**	**2010-2011**	**800,100**	6.03-6.48	2009-2011	201,144
Bank loans – secured	**4.42-7.74**	**2010-2018**	**1,597,997**	4.32-7.65	2009-2013	1,106,730
Bank loans – secured	**Libor+0.9**	**2009**	**—**	Libor+0.9	2009	182,615
Bank loans – secured	**Libor+1.3**	**2016**	**246,046**	Libor+1.3	2009-2016	277,575
Entrusted loans	**5.80**	**2013-2018**	**900,000**			—
Other borrowings – unsecured	**2.55-4.17**	**2012-2023**	**48,227**	2.55-2.88	2013-2023	48,871
Other borrowings – secured	**5.70**	**2010-2012**	**40,000**	5.70	2010-2012	40,000
			3,632,370			**1,856,935**
			8,577,742			**6,428,160**

31. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

The Company	2008			2007		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current:						
Bank loans – unsecured	**4.78-6.72**	**2009**	**420,000**	5.91-6.72	2008	170,000
Bank loans – secured	**5.67**	**2009**	**36,000**	6.71	2008	3,652
Bank loans – secured	**Libor+0.9**	**2009**	**246,046**	Libor+0.9	2008	—
Bank loans – secured	**Libor+1.3**	**2009**	**10,252**	Libor+1.3	2008	—
			712,298			173,652
Non-current:						
Bank loans – unsecured	**5.13-6.80**	**2011**	**550,100**	6.48	2009-2011	70,100
Bank loans – secured	**5.67-6.80**	**2018**	**447,147**	4.32	2009-2013	320,000
Bank loans – secured	**Libor+0.9**	**2009**	**—**	Libor+0.9	2009	182,615
Bank loans – secured	**Libor+1.3**	**2016**	**246,046**	Libor+1.3	2009-2016	273,923
			1,243,293			**846,638**
			1,955,591			**1,020,290**

31. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Analyzed into:				
Bank loans repayable:				
Within one year or on demand	**4,232,005**	4,190,445	**712,298**	173,652
In the second year	**703,338**	551,616	**363,338**	249,572
In the third to fifth years, inclusive	**1,617,045**	973,137	**556,195**	353,755
Beyond five years	**323,760**	243,311	**323,760**	243,311
	6,876,148	5,958,509	**1,955,591**	1,020,290
Entrusted loans repayable:				
Within one year	**535,000**	84,000	**—**	—
In the third to fifth years, inclusive	**450,000**	—	**—**	—
Beyond five years	**450,000**	—	**—**	—
	1,435,000	84,000	**—**	—
Other borrowings repayable:				
Within one year	**178,367**	296,780	**—**	—
In the second year	**40,740**	—	**—**	—
In the third to fifth years, inclusive	**—**	40,000	**—**	—
Beyond five years	**47,487**	48,871	**—**	—
	266,594	385,651	**—**	—
	8,577,742	6,428,160	**1,955,591**	1,020,290

Note:

As at 31 December 2008, certain of the Group's bank loans are secured by mortgages over certain of the Group's property, plant and equipment and land lease prepayments, which had an aggregate carrying value of approximately RMB2,074,805,000 (2007: RMB1,413,272,000);

The entrusted loans amounting to RMB1,350,000,000 were granted by HNG to the Group (31 December 2007: Nil) as at 31 December 2008.

As at 31 December 2008, HNG guaranteed certain of the Group's bank loans to the extent of RMB999,445,000 (2007: RMB597,575,000).

Other than certain of the bank loans in the aggregate amount of US$202,155,000 and EUR4,430,000 as at 31 December 2008 (31 December 2007: US$192,703,000 and EUR16,385,000), all of the Group's bank loans are denominated in RMB.

32. OTHER LIABILITIES

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Provisions for supplementary pension subsidies and early retirement benefits (note (i))	**442,821**	413,530	**63,310**	56,217
Share appreciation rights plan (note (ii))	**2,362**	16,789	**2,362**	16,789
Balance as at 31 December	**445,183**	430,319	**65,672**	73,006
Represented by:				
Current portion included in other payables and accruals	**35,633**	37,509	**5,112**	5,002
Long term liabilities	**409,550**	392,810	**60,560**	68,004
	445,183	430,319	**65,672**	73,006

Notes:

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

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

	The Group	
	2008	2007
	RMB'000	RMB'000
Defined benefit obligations at 1 January	**413,530**	416,809
Interest cost recognized in administrative expenses (note 6)	**17,826**	17,343
Current service cost recognized in administrative expenses (note 6)	**2,804**	2,881
Net actuarial loss recognized in equity	**54,926**	7,209
Amounts paid	**(46,265)**	(30,712)
Defined benefit obligations at 31 December	**442,821**	413,530

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

	2008	2007
	%	%
Discount rate:	**3.5**	4.5
Future salary increases:	**—**	—
Future pension increases:	**—**	—

32. OTHER LIABILITIES (Continued)

Notes: (Continued)

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

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

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

(ii) Share appreciation rights plan

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

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

32. OTHER LIABILITIES (Continued)

Notes: (Continued)

(ii) Share appreciation rights plan (Continued)

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

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

The gain arising from the SARs during the year is RMB14,427,000 (2007: expense of RMB12,840,000) and the carrying amount of the liability relating to the SARs as at 31 December 2008 is RMB2,362,000 (2007: RMB16,789,000). No SARs were exercised during the year ended 31 December 2008 and 2007.

The following table lists the inputs to the model used for the SAR plan as at 31 December 2008:

	The Group	
	2008	2007
Dividend yield (%)	**1**	1
Expected volatility (%)	**60**	50
Risk–free interest rate (%)	**1.19**	2.96
Expected life of option (years)	**5.5**	4.11
Weighted average share price (RMB)	**0.2916**	2.4177
Model used	**Binomial**	Binomial

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

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

33. PAYABLES FOR MINING RIGHTS

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Payables in connection with the purchases of mining rights	**358,553**	508,553	**95,921**	95,921
Less: Portion classified as current liabilities (note 30)	**(358,553)**	(204,276)	**(95,921)**	(45,835)
Long term liabilities	**—**	304,277	**—**	50,086

According to the arrangement entered into in 2005, the consideration for purchases of the mining rights are payable to the relevant government authorities over six years by annual installments commencing from September 2005. The payables are unsecured and non-interest-bearing.

In 2008, according to a resolution of the Hunan Government, the balance of the receivables for purchases of the mining rights was contributed to HNG by the government. Accordingly, the payables for mining rights were due to HNG at 31 December 2008, which were unsecured, non-interest-bearing and had no fixed terms of repayment.

34. GOVERNMENT GRANTS

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
At beginning of year	**150,196**	117,234	**82**	100
Received during the year	**94,112**	54,827	**8,390**	—
Acquisitions of subsidiaries (note 37(a))	**2**	2,000	**—**	—
Recognized as other income during the year (note 5)	**(70,068)**	(23,865)	**(8,390)**	(18)
At end of year	**174,242**	150,196	**82**	82

35. ISSUED SHARE CAPITAL

	2008 RMB'000	2007 RMB'000
Registered, issued and fully paid		
– Domestic shares of RMB1.00 each	**2,035,330**	2,035,330
– H shares of RMB1.00 each	**1,632,728**	1,632,728
	3,668,058	3,668,058

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

	Notes	Domestic shares of RMB1.00 each RMB'000	H Shares of RMB1.00 each RMB'000	Total RMB'000
At 1 January 2007		2,060,068	1,360,610	3,420,678
Issuance of new H shares upon placing	1	—	247,380	247,380
Domestic shares converted into H shares upon placing	1	(24,738)	24,738	—
At 31 December 2007 and 1 January 2008		2,035,330	1,632,728	3,668,058
At 31 December 2008		2,035,330	1,632,728	3,668,058

36. RESERVES

The Group

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

The Company

	Capital reserve RMB'000	Statutory reserve RMB'000	Other reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Proposed final dividend RMB'000	Total RMB'000
At 1 January 2007	(466,486)	116,584	157,541	172,001	88,938	68,578
New shares issued (note 1)	928,197	—	—	—	—	928,197
Profit for the year	—	—	—	219,304	—	219,304
Disposal of available-for-sale investments, net of deferred tax	—	—	(78,771)	—	—	(78,771)
Changes in fair value of available-for-sale investments, net of deferred tax	—	—	(61,953)	—	—	(61,953)
Net actuarial gains of defined benefit retirement schemes, net of deferred tax	—	—	—	134	—	134
Transfer to reserves (note (a))	—	(22,607)	—	22,607	—	—
Final dividend paid	—	—	—	—	(88,938)	(88,938)
Proposed final dividend	—	—	—	(124,714)	124,714	—
At 31 December 2007	461,711	93,977	16,817	289,332	124,714	986,551
Loss for the year	—	—	—	(643,058)	—	(643,058)
Changes in fair value of available-for-sale investments, net of deferred tax	—	—	(103,659)	—	—	(103,659)
Impairment of available-for-sale investments	—	—	86,842	—	—	86,842
Net actuarial gains of defined benefit retirement schemes, net of deferred tax	—	—	—	(7,395)	—	(7,395)
Final dividend paid	—	—	—	—	(124,714)	(124,714)
At 31 December 2008	461,711	93,977	—	(361,121)	—	194,567

36. RESERVES (Continued)

Notes:

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

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

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

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

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

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

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

37. ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES

(a) Acquisitions of subsidiaries

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

		2008		2007	
	Notes	Fair value recognized on acquisition RMB'000	Previous carrying amount RMB'000	Fair value recognized on acquisition RMB'000	Previous carrying amount RMB'000
Property, plant and equipment	14	63,923	53,479	33,668	33,668
Land lease prepayments	15	4,014	2,799	88,366	3,023
Intangible assets	16	1,354	1,354	320,333	481
Available-for-sale investments		178	178	4,500	4,500
Other assets	17	266,791	73,964	—	—
Deferred tax assets	22	—	—	28	28
Inventories		141,602	141,904	29,108	29,108
Trade receivables		47,554	47,554	1,644	1,644
Bills receivable		4,679	4,679	—	—
Prepayments, deposits and other receivables		22,767	22,816	12,073	12,073
Tax recoverable		171	171	—	—
Cash and cash equivalents		81,205	81,205	31,776	31,776
Trade payables		(54,239)	(54,239)	(920)	(920)
Other payables and accruals		(50,556)	(50,556)	(35,375)	(35,375)
Government grants	34	(2)	(2)	(2,000)	(2,000)
Dividend payable		(6,510)	(6,510)	—	—
Interest-bearing bank and other borrowings		(101,000)	(101,000)	—	—
Tax payable		(241)	(241)	(1,769)	(1,769)
Deferred tax liabilities	22	(59,842)	—	(101,299)	—
Minority interests		(106,440)	(68,023)	(6,014)	(939)
Fair value/carrying amount of the net assets at the dates of acquisition		255,408	149,532	374,119	75,298
Excess over the cost of a business combination recognized in the consolidated income statement	5	—		(995)	
Goodwill on acquisition	18	213,772		—	
		469,180		373,124	
Satisfied or represented by:					
Cash		431,809		354,082	
Interests in associates		37,371		—	
Bills receivable		—		19,042	
		469,180		373,124	

37. ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES (Continued)

(a) Acquisitions of subsidiaries (Continued)

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

	2008 RMB'000	2007 RMB'000
Cash and bank balances acquired	**81,205**	31,776
Less: Cash consideration	**(431,809)**	(354,082)
Net outflow of cash and cash equivalents in respect of the acquisitions of subsidiaries in the consolidated cash flow statement	**(350,604)**	(322,306)

Notes:

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

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

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

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

37. ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES (Continued)

(a) Acquisitions of subsidiaries (Continued)

Notes: (Continued)

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

Since the date of the acquisition, Zhuzhou Changjiang contributed a loss of RMB8,721,000 to the Group's loss attributable to equity holders of the parent and RMB221,236,000 to the Group's revenue for the year ended 31 December 2008.

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

Since the date of the acquisition, Zigong Keruide contributed a loss of RMB1,416,000 to the Group's loss attributable to equity holders of the parent and revenue of RMB86,639,000 for the year ended 31 December 2008.

Effective on 10 October 2008, the Company completed the acquisition of a 74.28% equity interest in Abra Mining Limited for a cash consideration of RMB410,105,000, a company incorporated in Australia and whose shares are listed on the Australian Securities Exchange Limited. The excess of the cost of acquisition of RMB212,152,000 over the acquired interests in the net fair value of the identifiable assets, liabilities and contingent liabilities assessed as at the date of acquisition is capitalized as goodwill in the Group's consolidated balance sheet. Abra Mining Limited is principally engaged in mineral exploration and project evaluation.

At the date of the acquisition, the fair value and carrying amount of exploration assets of Abra Mining Limited were RMB266,792,000 and RMB73,964,000 respectively; the fair value/carrying amount of cash, other assets, and liabilities were RMB55,470,000, RMB4,092,000 and RMB2,009,000 respectively.

Since the date of the acquisition, Abra Mining Limited contributed loss of RMB212,140,000 to the Group's loss attributable to equity holders of the parent and revenue of zero for the year ended 31 December 2008.

Had the aforesaid acquisition of Abra Mining Limited, Zhuzhou Changjiang and Zigong Keruide taken place at the beginning of year 2008, the revenue from operations of the Group and the Group's loss attributable to equity holders of the parent would have been RMB15,588,436,000 and RMB746,086,000 respectively for the year ended 31 December 2008.

37. ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES (Continued)

(b) Disposal of a subsidiary

	Notes	2008 RMB'000	2007 RMB'000
Property, plant and equipment	14	**105**	15,968
Land lease prepayments	15	**—**	2,240
Intangible assets	16	**—**	7,246
Deferred tax assets	22	**—**	69
Inventories		**1,215**	4,306
Bills receivable		**509**	—
Trade receivables		**274**	2,763
Prepayments, deposits and other receivables		**598**	1,689
Cash and cash equivalents		**1,335**	9,429
Trade payables		**(322)**	(4,549)
Other payables and accruals		**(298)**	(6,900)
Tax payable		**(1)**	(215)
Minority interests		**(228)**	(8,862)
Carrying value of the net assets at the dates of disposal		**3,187**	23,184
Gains/(losses) on disposal of a subsidiary	5,6	**(84)**	2,197
		3,103	25,381
Satisfied by:			
Cash		**3,103**	25,381

During the year ended 31 December 2008, the Group disposed of its 93.33% equity interest in Nanjing Diamond Cutting Tools Company Limited for a consideration of RMB3,103,000.

The net inflow of cash and cash equivalents in respect of the disposal is RMB1,768,000 (2007: RMB15,952,000).

38. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Except for certain transactions mentioned in note 37 to the financial statements, the Group had no major non-cash transactions during the years ended 31 December 2008 and 2007.

39. CONTINGENT LIABILITIES

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Guarantees given to banks in respect of bank loans granted to:				
Associates (note 42(d))	**—**	74,000	**—**	—
Third parties	**7,019**	15,003	**—**	—
	7,019	89,003	**—**	—

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

40. OPERATING LEASE ARRANGEMENTS

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

As at 31 December 2008, the Group had total future minimum lease payments under such non-cancellable operating leases falling due as follows:

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**23,822**	22,854	**8,197**	7,229
In the second to fifth years, inclusive	**90,321**	88,885	**16,394**	14,458
After five years	**166,231**	181,356	**—**	—
	280,374	293,095	**24,591**	21,687

41. COMMITMENTS

In addition to the operating lease commitments detailed in note 40 to the financial statements, the Group and the Company had the following capital commitments at the balance sheet date:

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Contracted, but not provided for:				
Property, plant and equipment	**434,254**	697,881	**259,243**	126,505
Authorized, but not contracted for:				
Property, plant and equipment	**1,160,060**	2,618,218	**321,871**	179,237

42. RELATED PARTY TRANSACTIONS

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

(a) Transactions with the HNG Group

Nature of transactions	2008 RMB'000	2007 RMB'000
Sales of raw materials and products	300,847	197,777
Sales of property, plant and equipment	115	456
Provision of electricity and water	3,244	3,484
Subcontracting income	4,126	6,631
Rental income	216	490
Purchases of raw materials and products	367,448	325,457
Transportation service fees	32,030	42,422
Repairs and maintenance fees	27,801	4,968
Construction service fees	33,876	56,336
Subcontracting fees	21,167	18,964
Rental fees	1,550	1,860
Property management service fees	7,059	7,869
Interests expense	38,119	—

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

42. RELATED PARTY TRANSACTIONS (Continued)

(b) Transactions with associates

Nature of transactions	2008 RMB'000	2007 RMB'000
Sales of raw materials and products	841,863	337,544
Sales of property, plant and equipment	3,445	—
Rental income	300	612
Dividend income	—	1,711
Provision of electricity and water	29,770	17,919
Other service income	—	932
Purchases of raw materials and products	1,269,977	1,420,306
Purchases of property, plant and equipment	21	7,188
Other service fees	5,034	—

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

(c) Guarantee granted by HNG to the Group (note 31)

Nature of transactions	2008 RMB'000	2007 RMB'000
Corporate guarantee	999,445	597,575

Guarantees granted by HNG for securing the Group's bank loans are disclosed in note 31 to the financial statements. These guarantees were provided free of charge.

(d) Guarantee granted for securing associates' bank loans (note 39)

Nature of transactions	2008 RMB'000	2007 RMB'000
Corporate guarantee	—	74,000

At 31 December 2007, the Group executed guarantees of RMB74,000,000 to banks for bank loans granted to its associates. These guarantees were provided free of charge and expired in 2008.

42. RELATED PARTY TRANSACTIONS (Continued)

(e) Lease of land use right from HNG

Nature of transactions	2008 RMB'000	2007 RMB'000
Lease of land use right	15,070	14,930

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

43. FINANCIAL INSTRUMENT BY CATEGORY

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

The Group

Financial assets	2008		
	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	—	207,996	207,996
Trade receivables	602,795	—	602,795
Bills receivable	301,568	—	301,568
Financial assets included in prepayments, deposits and other receivables	211,140	—	211,140
Pledged deposits	63,478	—	63,478
Cash and cash equivalents	3,233,187	—	3,233,187
	4,412,168	207,996	4,620,164

Financial liabilities	2008 Financial liabilities at amortized cost RMB'000
Trade payables	686,180
Bills payable	236,786
Financial liabilities included in other payables and accruals	724,239
Interest-bearing bank and other borrowings (note 31)	8,577,742
	10,224,947

43. FINANCIAL INSTRUMENT BY CATEGORY (Continued)

The Group

Financial assets

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

Financial liabilities

	2007 Financial liabilities at amortized cost RMB'000
Trade payables	847,519
Bills payable	209,780
Financial liabilities included in other payables and accruals	617,137
Interest-bearing bank and other borrowings (note 31)	6,428,160
Payables for mining rights	304,277
	8,406,873

43. FINANCIAL INSTRUMENT BY CATEGORY (Continued)

The Company

Financial assets	Loans and receivables RMB'000	2008 Available-for-sale financial assets RMB'000	Total RMB'000
Interests in subsidiaries (note 19)	525,061	—	525,061
Available-for-sale investments	—	29,998	29,998
Trade receivables	46,487	—	46,487
Bills receivable	29,899	—	29,899
Financial assets included in prepayments, deposits and other receivables	68,756	—	68,756
Cash and cash equivalents	1,423,424	—	1,423,424
	2,093,627	29,998	2,123,625

Financial liabilities	2008 Financial liabilities at amortized cost RMB'000
Trade payables	**48,647**
Financial liabilities included in other payables and accruals	**118,289**
Interest-bearing bank and other borrowings (note 31)	**1,955,591**
	2,122,527

43. FINANCIAL INSTRUMENT BY CATEGORY (Continued)

The Company

Financial assets

	2007		
	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Interests in subsidiaries (note 19)	589,535	—	589,535
Available-for-sale investments	—	114,496	114,496
Trade receivables	54,397	—	54,397
Bills receivable	222,614	—	222,614
Financial assets included in prepayments, deposits and other receivables	26,345	—	26,345
Cash and cash equivalents	2,285,637	—	2,285,637
	3,178,528	114,496	3,293,024

Financial liabilities

	2007
	Financial liabilities at amortized cost RMB'000
Trade payables	49,416
Financial liabilities included in other payables and accruals	174,601
Interest-bearing bank and other borrowings (note 31)	1,020,290
Payables for mining rights	50,086
	1,294,393

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

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

Interest rate risk

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

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

The Group

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity RMB'000
2008	**100**	**(25,005)**	**(23,091)**
	(100)	**25,005**	**23,091**
2007	100	(13,618)	(11,640)
	(100)	13,618	11,640

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk

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

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

The Group

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity RMB'000
2008			
If RMB strengthens against US$	**5**	**60,145**	**55,986**
If RMB weakens against US$	**(5)**	**(60,145)**	**(55,986)**
If RMB strengthens against HK$	**5**	**(16,659)**	**(16,655)**
If RMB weakens against HK$	**(5)**	**16,659**	**16,655**
If RMB strengthens against AU$	**5**	**(33,041)**	**(54,493)**
If RMB weakens against AU$	**(5)**	**33,041**	**54,493**
2007			
If RMB strengthens against US$	5	69,201	53,801
If RMB weakens against US$	(5)	(69,201)	(53,801)
If RMB strengthens against HK$	5	(61,670)	(61,605)
If RMB weakens against HK$	(5)	61,670	61,605
If RMB strengthens against AU$	5	(28,177)	(40,126)
If RMB weakens against AU$	(5)	28,177	40,126

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

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

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, pledged deposits, available-for-sale investments, amounts due from associates, other receivables and certain derivative instruments, arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments. The Group is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in note 39 to the financial statements.

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

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and other receivables are disclosed in note 24 and note 26 to the financial statements.

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

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk

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

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

The Group

2008	**Within one year or on demand RMB'000**	**In the second year RMB'000**	**In the third to fifth years, inclusive RMB'000**	**Beyond five years RMB'000**	**Total RMB'000**
Interest-bearing bank and other borrowings	**4,945,372**	**744,078**	**2,067,045**	**821,247**	**8,577,742**
Trade and bills payables	**922,966**	**—**	**—**	**—**	**922,966**
Other payables	**724,239**	**—**	**—**	**—**	**724,239**
	6,592,577	**744,078**	**2,067,045**	**821,247**	**10,224,947**

The Group

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

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

The Company

2008	Within one year or on demand RMB'000	In the second year RMB'000	In the third to fifth years, inclusive RMB'000	Beyond five years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	712,298	363,338	556,195	323,760	1,955,591
Trade and bills payables	48,647	—	—	—	48,647
Other payables	118,289	—	—	—	118,289
	879,234	363,338	556,195	323,760	2,122,527

The Company

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

Commodity price risk

The Group is exposed to commodity price risk through fluctuations of the prices of zinc, lead, silver, tungsten, antimony and other commodities sold by the Group. The Group does not actively manage this risk, except to a limited extent through commodity futures contracts, representing approximately 9% of annual production during the year.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as available-for-sale investments (note 21) as at 31 December 2008. The Group's listed investments are listed on the Shenzhen, Shanghai and Australia stock exchanges and are valued at quoted market prices at the balance sheet date.

The market equity indices for the following stock exchanges, at the close of business of the nearest trading day in the year to the balance sheet date, and their respective highest and lowest points during the year were as follows:

	31 December 2008	**High/low 2008**	31 December 2007	High/low 2007
Shanghai – A share index	**1,912**	**5,771/1,793**	5,521	6,395/2,744
Shenzhen – A share index	**5,820**	**16,600/4,800**	15,209	16,290/5,720
Australia – ASX200 index	**3,722**	**6,353/3,353**	6,340	6,829/5,572

The following table demonstrates the sensitivity to every 10% change in the fair values of the equity investments, with all other variables held constant, based on their carrying amounts at the balance sheet date. For the purpose of this analysis, for the available-for-sale equity investments the impact is deemed to be on the available-for-sale investment revaluation reserve and no account is given for factors such as impairment which may have impact on the consolidated income statement.

	2008		2007	
	Carrying amount of equity investments RMB '000	**Increase/ decrease in equity RMB '000**	Carrying amount of equity investments RMB '000	Increase/ decrease in equity RMB '000
Investments listed in:				
Shanghai – Available-for-sale	**107,854**	**9,168**	148,300	11,123
Shenzhen – Available-for-sale	**47,414**	**3,556**	903,371	76,770
Australia – Available-for-sale	**29,997**	**733**	114,497	8,587

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objective, policies or processes for managing capital during the years ended 31 December 2008 and 31 December 2007.

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

The Group

	2008 **RMB'000**	2007 RMB'000
Interest-bearing bank and other borrowings	**8,577,742**	6,428,160
Trade payables	**686,180**	847,519
Bills payable	**236,786**	209,780
Other payables	**1,263,307**	1,493,470
Payables for mining rights	**—**	304,277
Less: Cash and cash equivalents	**(3,233,187)**	(3,635,708)
Net debt	**7,530,828**	5,647,498
Equity attributable to equity holders of the parent	**4,518,490**	5,764,286
Capital and net debt	**12,049,318**	11,411,784
Gearing ratio	**63%**	49%

45. AUSTRALIAN JOINT VENTURE PROJECTS

In 2007, the Group and Compass Resources Limited ("CMR", the shares of which are listed on the Australian Stock Exchange), formed three unincorporated joint ventures namely, the base metals oxide joint venture, base metals sulfide joint venture and regional exploration joint venture for the development of base metals oxide and sulfide resources of CMR's tenements located in Australia. Each of the Group and CMR has a share of 50% interest in the three joint ventures. The base metals oxide joint venture is under trial production and the operator of the joint venture is in process of rectifying production design issues identified to date in order to achieve required performance standards. The base metals sulfide joint venture has basically completed the exploration stage and feasibility study of the related production plant construction is now underway. The regional exploration joint venture is established for the purpose of identifying new areas within CMR's tenements for the exploration of mineral resources, and such new area exploration activities have been tentatively stopped since the end of 2008 due to the relevant market downturn.

As at 31 December 2008, the Group's assets invested in the above-mentioned joint ventures are as follows:

	Notes	**2008** **RMB '000**	2007 RMB '000
Property, plant and equipment	14	**350,980**	407,554
Exploration and evaluation assets	17	**127,317**	—
Prepayments	26	**49,079**	—
		527,376	407,554

Since July 2008, CMR has failed to meet its commitment to fund its share of the operating expenditure of the joint ventures. Furthermore, the shares of CMR listed in Australia have been suspended from trading since January 2009 and CMR has entered into voluntary receivership since February 2009. The above events have caused significant doubts over the progress of the developments and operations of, and hence, the Group's investments in, the joint venture projects.

Given the above developments in CMR, the directors of the Company have been considering and taking various measures with an objective of ensuring resumption of normal operation of the joint venture projects. However, at the date of approval of these financial statements, the final outcome of the various measures under consideration is uncertain which has therefore resulted in significant uncertainty over the recoverable amounts of the Group's investments in the above joint venture projects totaling RMB527,376,000 as at 31 December 2008. In this connection, the directors of the Company cannot determine with reasonable certainty that the projects might be proceeded as originally planed. However, the directors of the Company are of the view that the carrying amount of the investments in the projects shall be recoverable if the various measures under consideration are accepted, adopted and implemented as planned. Accordingly, no provision against the carrying amount of the Group's investments in the three joint venture projects has been made in the financial statements of the Group for the year ended 31 December 2008.

46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on 26 April 2009.