IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser and obtain independent professional advice.

Xinjiang Xinxin Mining Industry Co., Ltd.*

新 疆 新 鑫 礦 業 股 份 有 限 公 司

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

GLOBAL OFFERING

Number of Offer Shares under the Global Offering:	**600,000,000 H Shares (subject to the Over-allotment Option)**
Number of International Placing Shares:	**540,000,000 H Shares (subject to adjustment and the Over-allotment Option)**
Number of Public Offer Shares:	**60,000,000 H Shares (subject to adjustment)**
Maximum Offer Price:	**not more than HK$6.50 per H Share and expected to be not less than HK$4.80 per H Share (payable in full on application in Hong Kong dollars, subject to refund on final pricing, plus brokerage fee of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%)**
Nominal Value:	**RMB0.25 each**
Stock Code:	**3833**

Sole Global Coordinator, Sole Bookrunner, Sole Sponsor and Sole Lead Manager

BOC INTERNATIONAL

A copy of this prospectus, having attached thereto the documents specified in "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix X to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator, on behalf of the Underwriters, and us on the Price Determination Date. The Price Determination Date is expected to be on or around Thursday, 4 October 2007 and, in any event, not later than 5:00 p.m. on 10 October 2007. The Offer Price will be not more than HK$6.50 per H Share and is currently expected to be not less than HK$4.80 per H Share unless otherwise announced. Applicants for Public Offer Shares are required to pay, on application, the maximum offer price of HK$6.50 for each H Share together with a brokerage fee of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005% subject to refund if the Offer Price as finally determined should be lower than HK$6.50 per H Share.

The Sole Global Coordinator, on behalf of the Underwriters, may, with our consent, reduce the number of Public Offer Shares and/or the indicative offer price range below that stated in this prospectus (which is HK$4.80 to HK$6.50 per H Share) at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, an announcement of the reduction in the number of Public Offer Shares and/or the indicative offer price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. If applications for Public Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offering, then even if the number of Public Offer Shares and/or the indicative offer price range is so reduced, such applications cannot be subsequently withdrawn. If, for any reason, the Offer Price is not agreed among us and the Sole Global Coordinator, on behalf of the Underwriters, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for the Public Offer Shares."

We are incorporated, and our business is located, in the PRC. Potential investors should be aware of the differences in legal, economic, and financial systems between mainland China and Hong Kong and that there are different risk factors relating to making an investment in PRC-incorporated companies. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of our Shares. Such differences and risk factors are set out in the sections headed "Risk Factors" and "Appendix VII — Summary of Principal PRC and Hong Kong Legal and Regulatory Provisions" and "Appendix VIII — Summary of Articles of Association" in this prospectus.

The obligations of the Hong Kong Underwriters under the Underwriting Agreement to subscribe for, and to procure applicants for the subscription for, the Public Offer Shares, are subject to termination by the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the day that trading in the Offer Shares commences on the Stock Exchange. Such grounds are set out in the section headed "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for termination" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of U.S. persons, except that the Offer Shares may be offered, sold or delivered outside the United States in compliance with Regulation S.

* *for identification purpose only*

27 September 2007

We will issue an announcement in Hong Kong to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) if there is any change to the following expected timetable of the Hong Kong Public Offering.

	2007[1]
Application lists open[2]	11:45 a.m. on Wednesday, 3 October
Latest time to complete electronic applications under **White Form eIPO** service through the designated website **www.eipo.com.hk**[4]	11.30 a.m. on Wednesday, 3 October
Latest time to complete payment of **White Form eIPO** applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Wednesday, 3 October
Latest time to lodge **white** and **yellow** Application Forms	12:00 noon on Wednesday, 3 October
Latest time to give **electronic application instructions** to HKSCC[3]	12:00 noon on Wednesday, 3 October
Application lists close[2]	12:00 noon on Wednesday, 3 October
Expected Price Determination Date[5]	Thursday, 4 October

Announcement of

- the Offer Price;
- the level of applications in the Hong Kong Public Offering;
- the level of indications of interest in the International Placing; and
- the basis of allotment of the Public Offer Shares

to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on or before	Thursday, 11 October
Results of allocation in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels (see paragraph headed "Publication of Results" in the section headed "How to Apply for the Public Offer Shares") from	Thursday, 11 October
A full announcement of the Hong Kong Public Offering containing the aforesaid announcement and the results of allocation will be published on our Company's website at **www.xjxxky.com.cn** and the website of the Stock Exchange at **www.hkex.com.hk**	Thursday, 11 October
Dispatch/collection of refund cheques on or before[6]	Thursday, 11 October
Dispatch/collection of H Share certificates on or before[6]	Thursday, 11 October
Dealings in H Shares on the Stock Exchange expected to commence on	Friday, 12 October

Notes:

(1) All times refer to Hong Kong local time, except as otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus.

(2) If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 3 October 2007, the application lists will not open and close on that day. Further information is set out in the paragraph headed "Effect of Bad Weather on the Opening of the Application Lists" in the section headed "How to Apply for the Public Offer Shares" in this prospectus.

(3) Applicants who apply by giving **electronic application instructions** to HKSCC should refer to the section headed "How to Apply for the Public Offer Shares — Applying by Giving **Electronic Application Instructions** to HKSCC" in this prospectus.

(4) You will not be permitted to submit your application through the designated website at **www.eipo.com.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(5) The Price Determination Date is expected to be on or around Thursday, 4 October 2007 and in any event not later than 5:00 p.m. on Wednesday, 10 October 2007. If, for any reason, we and the Sole Global Coordinator (on behalf of the Underwriters) are unable to reach an agreement on the Offer Price, the Hong Kong Public Offering and the International Placing will not become unconditional and will lapse immediately.

(6) Refund cheques will be issued in respect of wholly or partially unsuccessful applications and also in respect of successful applications in the event that the Offer Price is less than the price per H Share payable on application. Applicants for 1,000,000 (refer to application form) Public Offer Shares or more and who have indicated in their Application Forms that they wish to collect refund cheques and H Share certificates (as relevant) personally from the Share Registrar may collect refund cheques (where applicable) and H Share certificate(s) (where applicable) from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, 11 October 2007 or any other date notified by us in the newspapers as the date of dispatch of H Share certificates/refund cheques. Individual applicants who opt for personal collection must not authorise any other person to make their collection on their behalf. Applicants being corporations which opt for personal collection must attend by their authorised representatives, each bearing a letter of authorisation from such corporation stamped with the corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. Uncollected H Share certificates and refund cheques will be dispatched by ordinary post at the applicants' own risk to the addresses specified in the relevant Application Forms promptly thereafter. Further information is set out in the section headed "How to Apply for the Public Offer Shares — Applying by Using a **White** or **Yellow** Application Form." Part of the Hong Kong identity card number/passport number of an applicant, or, if the applicants are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third-party for refund purposes. The banker may require verification of an applicant's Hong Kong identity card number/passport number before encashment of the refund cheque. Inaccurate completion of an applicant's Hong Kong identity card number/passport number may lead to delay in the encashment of or may invalidate the refund cheque.

H Share certificates will only become valid certificates of title if the Hong Kong Public Offering has become unconditional and the Underwriting Agreement not having been terminated in accordance with its terms, which is expected to be 8:00 a.m. on Friday, 12 October 2007. Investors who trade H Shares on the basis of publicly available allocation details prior to receipt of H Share certificates or prior to the H Share certificates becoming valid certificates of title do so entirely at their own risk.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus and the Application Forms must not be relied on by you as having been authorised by us, our Directors, the Sole Global Coordinator, the Sole Sponsor, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering.

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This summary aims to give you an overview of the information contained in this prospectus. Because this is a summary, it does not contain all the information that may be important to you. You should read the entire document before you decide to invest in our H Shares. There are risks associated with any investment. Some of the particular risks associated with investing in our H Shares are set out in the section headed "Risk Factors". You should read such section carefully before you decide to invest in our H Shares.

OVERVIEW

We are a mining company based in Xinjiang, the PRC. We are principally engaged in the mining, ore processing, smelting and refining of nickel, copper and other non-ferrous metals, which include cobalt and precious metals such as gold, silver, platinum and palladium.

Our major product is nickel cathode. According to China Non-ferrous Metals Industry Association (中國有色金屬工業協會), we were, in 2006, the second largest integrated producer of nickel cathode in the PRC in terms of production volume, accounting for approximately 3.2% of the country's total production. China Non-ferrous Metals Association is a non-profit independent body registered with the State Council, comprising more than 700 members nationwide involved in the non-ferrous metals industry. In 2006, we sold approximately 3,304 tonnes of nickel cathode. As of 31 March 2007, we possessed approximately 247,408 tonnes of nickel resources in the PRC, of which approximately 163,800 tonnes were nickel reserves. Our other products include copper cathode, copper concentrate, raw copper, cobalt products, gold, silver, platinum and palladium derived from our production.

The following table illustrates our sales volume and turnover of nickel cathode and copper products and our turnover of other products for the three years ended 31 December 2006 and the three months ended 31 March 2007:

	For the year ended 31 December									For the three months ended 31 March					
	2004			2005			2006			2006(1)			2007		
	Sales volume	Turnover		Sales volume	Turnover		Sales volume	Turnover		Sales volume	Turnover		Sales volume	Turnover	
	(tonnes)	*(RMB million)*	*(% of turnover)*	*(tonnes)*	*(RMB million)*	*(% of turnover)*	*(tonnes)*	*(RMB million)*	*(% of turnover)*	*(tonnes)*	*(RMB million)*	*(% of turnover)*	*(tonnes)*	*(RMB million)*	*(% of turnover)*
Nickel cathode	2,710.2	313.0	71.2	3,328.4	407.0	74.7	3,303.5	604.7	69.6	799.5	94.3	58.4	943.3	281.0	86.1
Copper products															
Copper cathode	3,007.8	68.5	15.6	3,143.6	93.9	17.2	3,107.8	161.9	18.6	870.8	34.4	21.3	709.3	33.9	10.4
Raw copper	780.5	17.5	4.0	1,211.1	29.8	5.5	602.1	33.8	3.9	–	–	–	–	–	–
Copper concentrate	3,882.7	16.1	3.6	188.5	1.4	0.3	5,102.8	48.4	5.6	3,634.7	29.7	18.4	–	–	–
Other products(2)	–	24.6	5.6	–	12.6	2.3	–	20.3	2.3	–	3.1	1.9	–	11.4	3.5
Total(3)		439.7	100.0		544.7	100.0		869.1	100.0		161.5	100.0		326.3	100.0

Notes:

(1) Three months results ended 31 March 2006 were unaudited.

(2) Other products include cobalt products, precious metals such as gold, silver, platinum and palladium and by-products derived from our production. The sales volume of other products is not provided as different products are measured in different units.

(3) The total sales volume is not provided as different products are measured in different units.

Our Company undertakes (i) to cease selling copper concentrate upon expected completion of the technical development project of our Fukang Refinery in 2009 and (ii) that the percentage of sales of copper concentrate prior to such completion will not exceed 10% of the total annual sales of our Company. Our Company will make appropriate disclosure in respect of its compliance with such undertakings in the annual reports after Listing.

The following table sets out information about our mine and exploration zones, which are located adjacent to each other.

Number of operating mine	1
Number of deposits discovered	11
Number of mining rights	1
Number of exploration rights	4
Nickel reserves estimate as of 31 March 2007	163,800 tonnes
Nickel net resources estimate as of 31 March 2007	83,508 tonnes
Copper reserves estimate as of 31 March 2007	258,000 tonnes
Copper net resources estimate as of 31 March 2007	161,337 tonnes
Expected mine life (years)	30

We have four exploration permits covering an aggregate area of 159.91 square kilometres, and one mining permit valid for 30 years covering an aggregate area of 7.887 square kilometres in Fuyun County, Xinjiang. Our current mining permit is valid for a term of 30 years until 27 July 2037. Our PRC legal advisers have advised that our mining permit is granted at the maximum validity period for a mining permit according to relevant PRC laws and regulations.

Set out below are the particulars of our mining rights:

Mine	Location	Interest held by our Company	Mining permit no.	Mining area *(sq. km)*	Validity period of the mining rights	Mining method
Kalatongke Mine	Fuyun County, Xinjiang	100%	1000000720060	7.887	From 27 July 2007 to 27 July 2037	Underground

Please also see the SRK Report (Appendix V-40) for further details of our mining rights.

Pursuant to PRC laws and regulations, the holder of an exploration permit has a preferential right to obtain the related mining permit after successful discovery of ore resources. Application for mining rights is conditional upon the submission of a geological report containing reserves and resources information, a resources utilisation proposal and an environmental impact assessment report.

In respect of our mining rights, we have an operating mine in Kalatongke, Xinjiang, namely the Kalatongke Mine. Our facilities in the Kalatongke Mine include a concentrator and a smelter. Our refining plant, namely the Fukang Refinery, is situated in Fukang, Xinjiang.

We conduct our underground mining, ore processing and smelting operations at the Kalatongke Mine. Products from our operations at the Kalatongke Mine include nickel matte and copper products such as copper concentrate and raw copper. The nickel matte produced at our Kalatongke Mine is delivered to our Fukang Refinery for refining into nickel cathode and other products such as copper cathode.

The table below sets out the capacity of mining operation at the Kalatongke Mine from 2004 to 2006 and the projected capacity of mining operation at the Kalatongke Mine from 2007 to 2009.

Mining *(tonnes per day)*	**2004** *(actual)*	**2005** *(actual)*	**2006** *(actual)*	**2007** *(forecast)*	**2008** *(forecast)*	**2009** *(forecast)*
Mining volume	1,000	1,000	1,000	1,000	1,000	3,400
Mining capacity(1)	1,000	1,000	1,000	1,000	1,000	3,400
Utilisation rate	100%	100%	100%	100%	100%	100%

Note:

(1) Mining capacity at the end of the relevant year under normal operating conditions

Our production facilities comprise an ore processing plant and a smelting plant located at the Kalatongke Mine, and a refining plant located at the Fukang Refinery.

The table below sets out the ore processing and smelting capacity of the Kalatongke Mine from 2004 to 2006 and the projected ore processing and smelting capacity of the Kalatongke Mine from 2007 to 2009.

Ore processing *(tonnes per day)*	**2004** *(actual)*	**2005** *(actual)*	**2006** *(actual)*	**2007** *(forecast)*	**2008** *(forecast)*	**2009** *(forecast)*
Ore processing volume	1,000	1,000	1,000	1,000	1,000	3,000
Ore processing capacity(1)	1,000	1,000	1,000	1,000	1,000	3,000
Utilisation rate	100%	100%	100%	100%	100%	100%

Note:

(1) Designed ore processing capacity at the end of the relevant year under normal operating conditions

Smelting *(tonnes per year)*	**2004** *(actual)*	**2005** *(actual)*	**2006** *(actual)*	**2007** *(forecast)*	**2008** *(forecast)*	**2009** *(forecast)*
Smelting volume[1]	2,644	3,471	3,693	3,677	3,879	5,373
Smelting capacity[1][2]	3,000	3,000	3,600	3,600	3,600	7,000
Utilisation rate	88%	116%	103%	102%	108%	77%

Notes:

(1) Volume and capacity figures refer to contained nickel metal in tonnes

(2) Designed smelting capacity at the end of the relevant year under normal operating conditions

The table below sets out the refining capacity of our Fukang Refinery from 2004 to 2006 and the projected refining capacity of our Fukang Refinery from 2007 to 2009.

Refining *(tonnes per year)*	**2004** *(actual)*	**2005** *(actual)*	**2006** *(actual)*	**2007** *(forecast)*	**2008** *(forecast)*	**2009** *(forecast)*
Refining volume	2,659[2]	3,260[2]	3,365[2]	5,000	8,568[2]	10,010
Refining capacity[1]	2,040	3,000	3,000	5,000	8,000	13,000
Utilisation rate	130%	109%	112%	100%	107%	77%

Notes:

(1) Designed refining capacity at the end of the relevant year under normal operating conditions

(2) The refining volume exceeded the designed capacity through improvement in electricity flow

Also see SRK Report (Appendix V-8) for our actual mining, ore processing, smelting, and refining capacities for 2004, 2005, and 2006, as well as forecast capacities for the years 2007, 2008, and 2009, respectively.

We do not carry out geological surveying work ourselves. Such work is performed by Independent Third Parties such as the No. 4 Geological Brigade (新疆地質四大隊) of the Xinjiang Bureau of Geology and Mineral Resources (新疆地礦局) which has a geological surveying and exploration team. We engage third party exploration professionals with requisite qualifications to carry out exploration work. Our Directors believe that the above outsourcing arrangements lower our operational costs by eliminating the need to constantly maintain an in-house team of exploration professionals while exploration work is carried out only periodically when we make new discoveries of geological anomalies. Although exploration is not among our Company's principal activities, we determine the exact locations of exploration, decide exploration methods, and assess further exploration plans in any given exploration location.

We obtained four exploration permits at no cost through a change in registration to our Company's name at the time of our establishment. Before the Reorganisation, Xinjiang Non-ferrous was the holder of these permits and had successively obtained them from the Xinjiang government at no acquisition cost. These exploration permits cover four parcels of adjacent land with an aggregate exploration area of 159.91 square kilometers, the particulars of which are as follows:

Exploration project	Location	Interest held by our Company	Exploration permit no.		Exploration area		Validity period of the exploration right		Exploration method
			Past[1]	Current	Past	Current	Past	Current	
					(sq.km)				
Xinjiang Fuyun County Kalatongke Mine Area G21, G22	Fuyun County, Altay Prefecture, Xinjiang	100%	6500000620686[2]	6500000733871	23.55	23.55	From 25 April 2006 to 1 August 2007	From 13 September 2007 to 13 September 2008	Anomaly verification
Xinjiang Fuyun County Kalatongke Mine Yesenkela District peripheral general exploration	Fuyun County, Altay Prefecture, Xinjiang	100%	6500000621085	6500000732318	39.67	39.67	From 25 April 2006 to 25 April 2007	From 21 June 2007 to 21 June 2008	In-depth exploration and peripheral general exploration
Xinjiang Fuyun County Kalatongke Mine relay resources exploration	Fuyun County, Altay Prefecture, Xinjiang	100%	6500000621084[3]	6500000724071	65.98	66.07	From 19 May 2006 to 19 May 2007	From 26 July 2007 to 26 July 2008	In-depth exploration
Xinjiang Fuyun County Akedala Ore Body No. 39	Fuyun County, Altay Prefecture, Xinjiang	100%	6500000620549	6500000634472	30.62	30.62	From 25 April 2006 to 11 November 2006	From 9 March 2007 to 9 March 2008	Gravity and magnetic anomaly verification

Notes:

(1) All past exploration permits were held in the name of our Company. Previously, they were held by Xinjiang Non-ferrous Kalatongke Mine.

(2) The exploration permit numbered 6500000620686 expired on 1 August 2007. Our Company applied for renewal of the said exploration permit and MLR issued a letter of receipt on 10 July 2007. The exploration unit, an Independent Third Party, has ceased all exploration activities since 1 August 2007. The validity period of such permit was more than one year because it also covered the period during which our Company was applying for the renewal of such exploration permit. Our Company has obtained a renewed exploration permit on 13 September 2007.

(3) The exploration permit numbered 6500000621084 expired on 19 May 2007. Our Company applied for renewal of the exploration permit and MLR issued a letter of receipt on 16 May 2007 and the exploration unit, an Independent Third Party, had ceased all exploration activities since 19 May 2007. Our Company obtained a renewed exploration permit on 26 July 2007.

Please also see the SRK Report (Appendix V-39) for further details of our exploration permits.

We have located and discovered 11 deposits, six of which are confirmed to have economically viable mineral resources according to the SRK Report. We have been carrying out mining operation at Deposit Y1 since 1989 and we expect to commence the mining process at Deposit Y2 in 2009. As at 31 March 2007, Deposit Y1 and Deposit Y2 reported the following reserves and net resources (i.e. total resources minus total reserves):

	Nickel				Copper			
	Reserves (in super high grade ore) *(tonnes)*	Reserves (in other grades of ore) *(tonnes)*	Net resources *(tonnes)*	Total resources *(tonnes)*	Reserves (in super high grade ore) *(tonnes)*	Reserves (in other grades of ore) *(tonnes)*	Net resources *(tonnes)*	Total resources *(tonnes)*
Already in Mining Operation								
Deposit Y1	9,239	85,876	7,285	102,400	11,924	127,965	14,198	154,087
Not Yet in Mining Operation								
Deposit Y2 west	38,220	3,833	16,755	58,808	53,060	6,431	28,459	87,950
Deposit Y2 east	–	26,733	27,367	54,100	–	58,607	55,693	114,300

Source: SRK Report (Appendix V-5 and V-6)

The above table includes reserves contained in approximately 1.75 million tonnes of ore classified as "super high grade" in Deposit Y1 and Deposit Y2 west which has a nickel or copper content greater than or equal to 3%. Such ore does not require ore processing and can be fed directly to our smelter, thus by-passing the ore processing process and thereby reducing operating costs. This provides a significant cost advantage to our Company.

Based on the current reserves of 23,978,260 tonnes and a small percentage of existing certified mineral resources of 40,879,700 tonnes, and at a mining rate of one million tonnes per annum, SRK has assessed that the Kalatongke Mine has the potential for a mine life of approximately 30 years commencing from 31 March 2007. Please see the section headed "Resource and Reserve — Executive Summary" as set out in Appendix V — Independent Technical Review Report (Appendix V-5 and V-6).

We are currently operating at the Deposit Y1 of the Kalatongke Mine. The following table illustrates the resource estimate of Deposit Y1 as of 31 March 2007:

Ore Quality	Category	Ore *('000 tonnes)*	Nickel *(tonnes)*	Copper *(tonnes)*	Nickel *(%)*	Copper *(%)*
Super high grade	B (111b)	265	9,525	12,293	3.59	4.64
High grade	B (111b)	4,099	41,622	64,173	1.02	1.57
Low grade	C (331)	4,967	20,845	31,708	0.42	0.64
Low grade	C (332)	3,290	14,424	19,159	0.44	0.58
Sub-economic grade	D (333)	4,779	15,984	23,193	0.33	0.49
Sub-economic (oxidised)	D (332)	488	0	3,561	0.00	0.75
Total	B+C+D	17,888	102,400	154,087	0.57	0.86

Source: Company and SRK Report (Appendix V-27)

Of the nickel resources and copper resources in the above table, approximately 95,115 tonnes and approximately 139,889 tonnes were nickel reserves and copper reserves, respectively.

We expect to commence the mining process at Deposit Y2 in 2009. The following table illustrates the resource estimate of Deposit Y2 west as of 31 March 2007.

Ore Quality	**Category**	**Ore** *('000 tonnes)*	**Nickel** *(tonnes)*	**Copper** *(tonnes)*	**Nickel** *(%)*	**Copper** *(%)*
Super high grade	332(C)	1,450	39,402	54,701	2.72	3.77
Super high grade	333(D)	160	3,941	6,899	2.46	4.31
High grade	332(C)	320	2,724	4,634	0.85	1.45
High grade	333(D)	420	3,268	5,934	0.78	1.41
Low grade	332(C)	330	1,218	1,996	0.37	0.60
Low grade	333(D)	1,970	6,799	11,407	0.35	0.58
Low grade	334(D)	720	1,456	2,379	0.20	0.33
Total	C+D	5,370	58,808	87,950	1.10	1.64

Source: Company and SRK Report (Appendix V-31)

Of the nickel resources and copper resources in the above table, approximately 41,921 tonnes and approximately 59,460 tonnes were nickel reserves and copper reserves, respectively.

The following table illustrates the resource estimate of Deposit Y2 east as of 31 March 2007:

Category	**Ore** *('000 tonnes)*	**Nickel** *(tonnes)*	**Copper** *(tonnes)*	**Nickel** *(%)*	**Copper** *(%)*
332(C)	5,300	27,300	60,600	0.52	1.14
333(D)	4,610	22,500	46,100	0.49	1.00
334(D)	1,352	4,300	7,600	0.32	0.56
Total	11,262	54,100	114,300	0.48	1.01

Source: Company and SRK Report (Appendix V-31)

Of the nickel resources and copper resources in the above table, approximately 26,733 tonnes and approximately 58,607 tonnes were nickel reserves and copper reserves, respectively.

We have been carrying out preliminary implemental exploration in other deposits. The following table illustrates the resource estimates for Deposit Y3, Deposit Y7 and Deposit Y9 as of 31 March 2007:

Deposit	Category	Ore ('000 tonnes)	Nickel (tonnes)	Copper (tonnes)	Nickel (%)	Copper (%)
Y3	333 (D)	5,610	28,680	53,370	0.51	0.95
Y7	D	270	1,700	5,400	0.63	2.00
Y9	D	480	1,700	4,200	0.35	0.88
Total		6,360	32,080	62,970		

Note: The known resources at Deposit Y6 are insignificant, and hence are not stated in the above table.

Please also see the SRK Report (Appendix V-35 and V-38) for further details of resource estimates for Deposits Y3, Y7 and Y9.

Our reserves are greater than our net resources, because a relatively large portion of our resources have been classified as reserves. As of 31 March 2007, there were approximately 40,879,700 tonnes of estimated ores in the deposits at the Kalatongke Mine.

Our end-customers use our products for a wide range of industrial and consumer applications. For example, nickel is mainly used for the manufacturing of stainless steel. Other uses of nickel include the production of alloys, electro-plating, aerospace and military applications and coinage. Copper is mainly used in the building and construction industry, transportation, production of wires and cables, electrical and electronic products. Precious metals, such as gold, silver and platinum, are used for industrial purposes and in art and jewelry. We sell all of our products in the PRC through our sales team in Xinjiang and the Shanghai Branch.

We have commissioned SRK to undertake an independent technical review and assessment of the mine, concentrator, smelter and refinery operated by us and our mineral assets. Details of the findings, reporting standard and scope of work conducted by SRK are set out in Appendix V — Independent Technical Review Report.

COMPETITIVE STRENGTHS

We believe that we have the following competitive strengths:

- We have abundant natural nickel resources at the Kalatongke Mine
- In 2006, we were the second largest integrated producer of nickel cathode in the PRC
- We are located in Xinjiang, which is endowed with nickel resources, and are well positioned to capture opportunities in the growing nickel market
- We have an integrated nickel production chain
- We benefit from current government industrial policies of the PRC which favour the development of enterprises engaging in the production of non-ferrous metals such as nickel and copper and policies encouraging the development of the central-western part of the PRC
- We have effective cost control which enables us to price our products competitively and flexibly while maintaining the quality of our products at national standards
- We have effective quality control, production safety and environmental protection systems
- Our operating sites are well connected with existing transportation network in Xinjiang and other parts of the PRC
- Our senior management possesses extensive experience in the non-ferrous metals industry in the PRC

BUSINESS STRATEGIES

Our primary business objective is to become one of the most resource-rich, efficient and profitable nickel-oriented and diversified metal mining companies in the PRC. We intend to implement the following business strategies to achieve our business objective:

- We intend to expand our operations to other parts of Xinjiang and neighbouring central Asian countries
- We intend to enhance our strategic control of mineral resources by way of increasing our nickel reserves through further exploration and acquisition of exploration and/or mining rights
- We will continue to increase our production capacity and enhance efficiency of our mining and processing operations through technical improvement projects for our Kalatongke Mine and Fukang Refinery
- We will continue to focus on our small to medium-sized customers while at the same time expand our sales of nickel to larger customers with our expanding production scale
- We intend to continue to improve the quality of our products

SUMMARY OF FINANCIAL INFORMATION

Results of operations

The following table sets forth the Group's income statements in RMB which are extracted from the Accountants' Report set out in Appendix I to this prospectus for the three years ended 31 December 2006 and each of the three months ended 31 March 2006 and 2007:

	Year ended 31 December			Three months ended 31 March	
	2004	**2005**	**2006**	**2006**	**2007**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)* (unaudited)	*(RMB'000)*
Turnover	439,669	544,741	869,068	161,526	326,346
Cost of sales	(226,387)	(270,664)	(348,419)	(67,661)	(122,301)
Gross profit	213,282	274,077	520,649	93,865	204,045
Selling and marketing expenses	(3,633)	(3,368)	(7,494)	(3,246)	(1,218)
Administrative expenses	(37,308)	(71,653)	(65,496)	(11,773)	(14,403)
Other income	3,058	3,037	5,208	1,189	3,531
Other (losses)/gains — net	(1,041)	(2,387)	51	338	362
Operating profit	174,358	199,706	452,918	80,373	192,317
Finance costs	(4,243)	(5,644)	(10,122)	(2,510)	(2,733)
Profit before income tax	170,115	194,062	442,796	77,863	189,584
Income tax expense	(57,520)	(366)	(119)	–	–
Profit for the year/period	112,595	193,696	442,677	77,863	189,584
Attributable to:					
Equity holders of the Company	112,728	193,696	444,004	77,943	190,141
Minority interests	(133)	–	(1,327)	(80)	(557)
	112,595	193,696	442,677	77,863	189,584
Earnings per share for profit attributable to the equity holders of the Company during the year/period *(RMB)*[(1)]					
— basic and diluted	0.157	0.220	0.318	0.065	0.125
Profit distribution to Holding Company	88,472[(2)]	207,575[(2)]	13,045	–	–
Dividend	–	–	400,000	–	–

Notes:

(1) The basic earnings per share for each of the years ended 31 December 2004, 2005 and 2006 and for each of the three months ended 31 March 2006 (unaudited) and 2007 were computed by dividing the profits attributable to the equity holders of the Company by the weighted average numbers of shares in issue during the Relevant Periods and has been adjusted for the share split effective on the date of this prospectus. There were no dilutive potential ordinary shares during the relevant period and, therefore, diluted earnings per share are not presented.

(2) In line with the normal practice of state-owned enterprises, Xinjiang Non-ferrous, a state-owned enterprise, directly instructed its then wholly-owned subsidiaries, including Xinjiang Non-ferrous Kalatongke Mine and Xinjiang Non-ferrous Fukang Plant, to distribute their profits to itself, amounting to RMB88.5 million and RMB207.6 million in 2004 and 2005, respectively. The profit distributions were made and settled by way of cash.

PROFIT ESTIMATE FOR THE SIX MONTHS ENDED 30 JUNE 2007

Estimated consolidated profit attributable to the equity holders of our Company .... not less than RMB466 million (about HK$480 million)

We have prepared our estimated consolidated profit attributable to equity holders of our Company for the six months ended 30 June 2007 based on the audited accounts of our Company for the three months ended 31 March 2007 and the unaudited results based on management accounts for the three months ended 30 June 2007. The principal accounting policies adopted by the Directors in preparing the profit estimate are consistent, in all material aspects, with those summarised in the Accountants' Report as set out in Appendix I of this prospectus. The basis on which we prepared our profit estimate are set out in Appendix III to this prospectus. As the deadline for publishing the interim results announcement in respect of the six months ended 30 June 2007 falls on a date (i.e. 30 September 2007) before the Dealing Date of which is expected to be on Friday, 12 October 2007, the Company is not required to issue an interim report for the aforesaid period pursuant to Practice Note 10 of the Listing Rules. Nevertheless, the Company will issue an announcement for its audited interim results for the six months ended 30 June 2007 which announcement is currently expected to be published in November 2007.

OFFER STATISTICS

	Based on an Offer Price of HK$4.80	Based on an Offer Price of HK$6.50
Market capitalisation of our Shares(1)	HK$10,176 million	HK$13,780 million
Unaudited pro forma adjusted net tangible asset value per Share(2)	HK$1.73	HK$2.21

Notes:

(1) The calculation of our market capitalisation is based on 2,120,000,000 Shares in issue following completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

(2) The unaudited pro forma adjusted net tangible asset value per Share is based on 2,120,000,000 Shares in issue assuming the Global Offering have been completed on 31 March 2007 and indicative Offer Prices per H Share of HK$4.80 and HK$6.50, assuming that the Over-allotment Option is not exercised.

DIVIDEND POLICY

Our Board may propose the payment of dividends, if any, with respect to our Shares on a per Share basis. Any dividend for a financial year shall be subject to shareholders' approval. Under the Company Law and our Articles of Association, all of our shareholders have equal rights to dividends and distributions. The declaration of dividends is subject to the discretion of our Board, which we expect will take into account the following factors when considering the payment of dividends:

- our financial results;
- our shareholders' interests;
- general business conditions and strategies;
- our capital requirements;
- contractual restrictions on the payment of dividends by us to our shareholders or by our subsidiaries to us;
- taxation considerations;
- possible effects on our creditworthiness;
- statutory and regulatory restrictions; and
- any other factors our Board may deem relevant.

For holders of our H Shares, cash dividend payments, if any, will be proposed by our Board in Renminbi and paid in Hong Kong dollars. Our Directors are of the view that we will have sufficient Hong Kong dollars to pay any cash dividend payments as they become due. For holders of our Domestic Shares, cash dividends payments, if any, will be declared by our Board and paid in Renminbi.

In addition to cash, dividends may be distributed in the form of Shares. Any distribution of Shares, however, must be approved by a special resolution of the shareholders. For holders of our Domestic Shares, dividends in the form of Shares will be distributed in the form of additional Domestic Shares.

In accordance with the applicable requirements of the Company Law and our Articles of Association, we may only distribute dividends after:

- recovery of accumulated losses, if any;
- allocations to statutory surplus reserves of 10% of our after-tax income, as determined according to the PRC accounting rules and regulations; and
- allocations to a discretionary surplus reserve fund as approved by our shareholders in a shareholders' meeting.

Pursuant to our Articles of Association, when the accumulated allocations to statutory surplus reserves reach 50% of our registered capital, we will no longer be required to make allowances for allocation to such statutory funds.

Upon Listing, under the PRC law, dividends may be paid only out of distributable profits, which are our retained earnings as determined in accordance with PRC GAAP or HKFRS, whichever is lower, less allocations to the statutory and discretionary surplus reserve funds. We will not ordinarily pay any dividends in a year for which we do not have any distributable profits.

We cannot assure you that any dividends will be paid. You should consider the assumptions underlying our estimate contained in “Profit Estimate” set out in Appendix III to this prospectus and the risk factors contained in the section headed “Risk Factors — We may be unable to pay any dividends on our Shares and the actual amount of the Special Dividend to be distributed to our Promoters could be greater than the estimated amount disclosed in this prospectus”.

As at 31 December 2006, the audited distributable profits of our Company were approximately RMB465 million (determined in accordance with the HKFRS). Pursuant to a special resolution passed on 22 March 2007, we declared out of the distributable reserve as at 31 December 2006 a dividend in the amount of RMB400 million (in relation to our distributable profits for the period from 1 September 2005 to 31 December 2006) which was paid to our Promoters (the “First Dividend”). The First Dividend was fully paid by 3 April 2007 and was financed by our Company’s internal cash resources. No governmental approval was required in relation to the declaration and payment of the First Dividend to our Promoters. The First Dividend was paid to our Promoters to provide returns on their respective investments. The amount of the First Dividend was determined taking into account our financial performance, business prospects, immediate anticipated capital requirements, shareholders’ needs and the amount of distributable profits available at the relevant time. In addition, we paid a cash amount of RMB13,045,000 to Xinjiang Non-ferrous as profit distribution (the “Profit Distribution”). The amount of RMB13,045,000 represented the value of net assets (contributed by Xinjiang Non-ferrous at the time of establishing our Company on 1 September 2005) that was in excess of the net assets value approved by the SASAC of Xinjiang. The Profit Distribution was approved by our Directors on 7 March 2007 and subsequently approved by our Promoters on 22 March 2007. After the distribution of the First Dividend and the Profit Distribution, the balance of the distributable profits of our Company as at 31 December 2006 was approximately RMB52 million (the “Distributable Profits Balance”).

At the extraordinary general meetings held on 11 May 2007 and 13 September 2007, we resolved to distribute to our Promoters all the cumulative distributable profits of our Company as at 30 June 2007 (the “Special Dividend”). We intend such Special Dividend to be declared and paid after our Listing.

The distributable profits for the period from 1 January 2007 to 30 June 2007 will be determined based on the distributable profits of our Company as reflected in the audited financial statements prepared in accordance with the PRC GAAP or HKFRS, whichever is lower, after making allocations for the required statutory and discretionary surplus reserve funds. In this connection, we have engaged PricewaterhouseCoopers to perform a special audit (the “Special Audit”) of our accounts for the period from 1 January 2007 to 30 June 2007.

We estimate that the Special Dividend will be approximately RMB471 million, being the sum of the Distributable Profits Balance of RMB52 million and the distributable profits of our Company for the period from 1 January 2007 to 30 June 2007 of approximately RMB419 million which is calculated based on the Profit Estimate for the six months ended 30 June 2007 and after making 10% allocations for the statutory reserves. We will only declare and pay the Special Dividend after completion of the Special Audit, which is currently expected to be completed by November 2007, following which we will publish an audited interim results announcement and the actual amount of the Special Dividend. The Special Dividend will be declared to provide returns to our Promoters on their investment after taking into account our capital needs. The actual amount of the Special

Dividend to be distributed to our Promoters depends on the results of the Special Audit and could be greater than the estimated amount disclosed in this prospectus. For further information, see the section headed "Risk Factors — We may be unable to pay any dividends on our Shares and the actual amount of the Special Dividend to be distributed to our Promoters could be greater than the estimated amount disclosed in this prospectus".

Although the Special Dividend will only be paid after Listing, our Directors consider the cash resources prior to the Dealing Date to be sufficient to cover the full payment of the Special Dividend. We have sufficient cash surplus to finance our operations from internally generated cashflow and to maintain a satisfactory financial position derived from the steady growth of our business. As at 30 June 2007, our Company's total unaudited balance of cash and cash equivalents (including cash and bank balances) were approximately RMB475 million, after the payment of the First Dividend of RMB400 million. In addition, our Directors estimate that our consolidated profit attributable to our shareholders for the six months ended 30 June 2007 will not be less than RMB466 million. In light of the above, our Directors are of the view that we have, and will have, sufficient funds to make payment of the Special Dividend, and we will continue to have sufficient working capital upon the full payment of the Special Dividend without using any of the net proceeds from the Global Offering. Our Directors further confirm that the payment of the Special Dividend will not adversely affect our financial position taken as a whole, having regard to our strong operating cash flow and the expected timing of the payment.

The audited interim results announcement in relation to the Special Audit will contain, inter alia, a statement of the balance of the distributable profits of our Company as at 31 December 2006, the distributable profits of our Company from 1 January 2007 to 30 June 2007, the amount of Special Dividend, and the total balance of cash and cash balances as at the closest practicable date at the time of the audited interim results announcement.

Investors in the Global Offering should note that they will not be entitled to the Special Dividend and therefore any distributable profits for the year ending 31 December 2007 available for distribution to the shareholders of our Company after the Global Offering will exclude the amount of the Special Dividend to be paid to our Promoters.

Under our current policy, we intend (subject to the arrangements for the Special Dividend described above as applicable to the year ending 31 December 2007) to distribute not less than 25% of our consolidated net profits attributable to shareholders of our Company in each financial year. In respect of the year 2007, we expect that dividend will be distributed only in respect of the period commencing 1 July 2007 and ending 31 December 2007. The actual amount distributed will be subject to the applicable requirements of the Company Law and our Articles of Association in relation to distribution of dividends and will depend upon our earnings and financial condition, operating requirements and capital requirements, amount of available distributable profits and approval of our shareholders. You should not view the extent of the Special Dividend as an indication of the amount of dividends that we may declare or pay in the future.

USE OF PROCEEDS

The net proceeds of the Global Offering after deducting underwriting fees and expenses payable by our Company in relation to the Global Offering, assuming an Offer Price of HK$5.65 per H Shares (being the mid-point of the proposed range of the Offer Price between HK$4.80 and HK$6.50) and the Over-allotment Option is not exercised at all, are estimated to be approximately HK$3,224.2 million (or HK$3,717.4 million if the Over-allotment Option is exercised in full).

To effect our future plans (details of which are more particularly set out in the paragraph headed "Future plans" in this section), we currently intend to apply the net proceeds as follows (based on the mid-point of the aforesaid proposed Offer Price range and assuming the Over-allotment Option is not exercised at all):

(1) up to approximately 63.2% or approximately RMB1,977.1 million (equivalent to approximately HK$2,038.3 million) of the net proceeds will be used in relation to the acquisition of mining rights in mines with sizeable proved mineral reserves (that are supported by completed feasibility studies and the reported reserves or resources have been approved by the MLR or its local branch) and/or the acquisition of exploration rights in areas with more apparent substantial mineral resources (that are supported by completed feasibility studies and the reported reserves or resources have been approved by the MLR or its local branch) and/or the acquisition of equity interest in the holders of such mining rights and exploration rights;

(2) up to approximately 4.8% or approximately RMB150.0 million (equivalent to approximately HK$154.6 million) of the net proceeds will be used in relation to the further exploration of areas in which we currently have mining rights and exploration rights as well as exploration in areas mentioned in (1) above;

(3) up to approximately 9.6% or approximately RMB300.0 million (equivalent to approximately HK$309.3 million) of the net proceeds will be used in relation to the expansion of the mining and ore processing of our Kalatongke Mine;

(4) up to approximately 4.8% or approximately RMB150.0 million (equivalent to approximately HK$154.6 million) of the net proceeds will be used in relation to the expansion of the refining capacity of our Fukang Refinery;

(5) up to approximately 7.6% or approximately RMB237.6 million (equivalent to approximately HK$244.9 million) of the net proceeds will be used to pay the remaining balance of the consideration (representing approximately 80% of the total consideration) for the transfer of mining rights of the Kalatongke Mine payable to the Xinjiang LRD under the New Mining Rights Transfer Agreement; and

(6) the balance for the working capital of our Company.

Further information in respect of (3) and (4) is set out in the section headed "Financial Information – Historical and Planned Capital Expenditure".

In the event that the Offer Price per Share is not finally determined to be HK$5.65 (which is the mid-point of the proposed Offer Price range of HK$4.80 to HK$6.50 per H Share), the amount of net proceeds applied for the acquisition of mining rights and/or exploration rights and/or equity interest in the holders of such mining rights and exploration rights as set out above will be increased or decreased, as the case may be.

In the event that the Over-allotment Option is exercised in full, the additional net proceeds of approximately HK$443.9 million will be applied by us for the acquisition of mining rights and/or exploration rights and/or equity interest in the holders of such mining rights and exploration rights. The remaining balance of approximately HK$49.3 million will be used as our general working capital. To the extent that the net proceeds of the Global Offering are not immediately required for the above purposes, the Directors intend that such proceeds, to the extent permitted by the relevant PRC laws and regulations, will be placed on short-term deposits with financial institutions in the PRC.

RISK FACTORS

There are certain risks that you should evaluate in connection with an investment in our H Shares. These risks can be categorised into risks relating to us and our industry, risks relating to conducting our operations in the PRC, risks relating to the Global Offering and risks relating to statements made in this prospectus. For further information, please see the section headed "Risk Factors".

Risks relating to us and our industry

- Our business and results of operations are susceptible to economic cyclicality and volatility in commodity prices
- Our major capital expenditure projects may not be completed within the expected time frame and budget, or at all, and may not achieve the intended economic results
- We may not be able to obtain sufficient funding for our capital expenditure and other funding requirements, which could limit our ability to develop our businesses
- There may be a substantial increase in the overall supply of nickel products due to the extraction of nickel from lateritic ore which may affect our results of operations
- There are uncertainties associated with our plan to acquire additional exploration and mining rights
- Amortisation expenses related to our mining rights may adversely affect our results of operations
- Certain of our operations are energy-intensive and we may face increased prices and/or insufficient supply of utilities such as electricity and coke
- We face risks and uncertainties associated with our mining projects
- We face risks and uncertainties associated with our exploration projects
- We may be unable to renew our mining permit and exploration permits
- We may be unable to pass the annual verification of our mining permit and exploration permits
- We are subject to various operational risks and may lack sufficient insurance coverage
- We face increasing competition from domestic and foreign competitors

- We are dependent on certain major customers
- We do not have building ownership certificates or land use rights certificates for some of the properties that we own
- We operate in a market environment that requires tightened regulatory enforcement
- Changes in environmental laws and regulations or their interpretation or implementation, or unanticipated environmental effects from our operations could require us to incur additional costs
- Our future performance depends on our ability to retain key personnel
- Our tax benefits, including preferential enterprise income tax rates, may be reduced or eliminated and the impact of the new PRC Enterprise Income Tax Law on our financial condition and results of operations is uncertain
- We may be unable to pay any dividends on our Shares and the actual amount of the Special Dividend to be distributed to our Promoters could be greater than the estimated amount disclosed in this prospectus
- Share price of our H Shares may be affected as a result of a disposal by NSSF of its shareholding in our Company
- Our operations may be adversely affected by the extremities of climate, and any political and social instability in Xinjiang

Risks relating to conducting our operations in the PRC

- The political, social and economic conditions in the PRC may affect our business
- Changes in the PRC laws, regulations and policies could adversely affect our business operations
- Changes in the foreign exchange regulations in the PRC may adversely affect our results of operations and the distribution of dividends
- The outbreak of any severe communicable disease in the PRC, if uncontrolled, could adversely affect our results of operations
- Interpretation of the PRC laws and regulations involves uncertainties
- Holders of our H Shares may not be able to enforce their rights
- Holders of our H Shares may be subject to PRC taxation

Risks relating to the Global Offering

- There has been no prior public market for our H Shares and our H Shares may not be traded actively in the market, and its transaction price may be volatile

- Potential conversion of Domestic Shares into H Shares may result in an increase of the number of H Shares available in the market and may affect the price of the H Shares

Risks relating to statements made in this prospectus

- We cannot guarantee the accuracy of government official facts and statistics with respect to the PRC, the PRC economy and the PRC non-ferrous metals industry contained in this prospectus

- Estimated consolidated profit attributable to the shareholders of our Company for the six months ended 30 June 2007 may not give any indication of our full year financial results for 2007

- You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles or other media, including, in particular, any projections, valuations, and other forward-looking statements

In this prospectus, unless the context otherwise requires, the following terms shall have the following meanings set out below:

"Application Form(s)"	**white** application form(s), **yellow** application form(s) or **green** application form(s), individually or collectively, as the context may require
"Articles of Association"	our articles of association, as currently adopted, a summary of which is contained in Appendix VIII to this prospectus
"Ashele Copper"	Xinjiang Ashele Copper Industry Company Limited* (新疆阿舍勒銅業股份有限公司), a joint stock company established in the PRC on 13 August 1999 with limited liability, which is held as to 51% by Zijin Mining, 29% by Xinjiang Non-ferrous, 13% by Xinjiang Geological Mineral Exploration and Development Bureau (新疆地質礦產勘查開發局), 5% by Xinjiang Non-ferrous Import and Export and 2% by Xinjiang Baodi Mineral Industry Co. Ltd.* (新疆寶地礦業有限責任公司)
"associate"	has the meaning ascribed to it under the Listing Rules
"Board of Directors" or "Board"	our board of Directors
"BOCI Asia"	BOCI Asia Limited, a licensed corporation under the SFO for Type 1 regulated activity (dealing in securities) and Type 6 regulated activity (advising on corporate finance)
"CAGR"	compound annual growth rate
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Broker Participant"	a person admitted to participate in CCASS as a broker participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant, who may be an individual or joint individuals or a corporation
"CCASS Participant"	a CCASS Broker Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"Chief Executive"	has the meaning ascribed to it under the Listing Rules

"Circular"	Circular on Strengthening Reform of the System for Obtaining Mineral Exploration Rights and Mining Rights for Value (關於深化探礦權採礦權有償取得制度改革有關問題的通知) jointly promulgated by the MOF and the MLR on 25 October 2006
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company", "our Company", "we" or "us"	Xinjiang Xinxin Mining Industry Co., Ltd.* (新疆新鑫礦業股份有限公司), a joint stock limited company incorporated in the PRC with limited liability on 1 September 2005, which is held as to 62.78% by Xinjiang Non-ferrous, 18.61% by Shanghai Yilian, 13.03% by Zhongjin Investment, 3.72% by Xiamen Zijin, 1.45% by Xinjiang Xinying and 0.41% by Shaanxi Honghao, and in respect of any period prior to the incorporation of our Company, the businesses which its predecessors were engaged in and which were subsequently assumed by it pursuant to the Reorganisation
"Company Law"	the Company Law of the PRC (中華人民共和國公司法), as enacted by the Standing Committee of the Eighth National People's Congress on 29 December 1993 and effective on 1 July 1994, as amended, supplemented or otherwise modified from time to time
"Comprehensive Services Agreement"	the Comprehensive Services Agreement entered into between Fuyun Xingtong and us on 17 September 2007
"connected person"	has the meaning ascribed to it under the Listing Rules
"Controlling Shareholder"	has the meaning ascribed to it under the Listing Rules
"Covenanting Shareholders"	Xinjiang Non-Ferrous, Shanghai Yilian and Zhongjin Investment
"CRU"	CRU Group, an independent business analysis and consultancy group focused on the mining, metals, power, cables, fertilizer and chemical sectors
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)
"Dealing Date"	the day that the dealing in our H Shares first commences on the Stock Exchange
"deposit"	earth material of any type, either consolidated or unconsolidated, that has accumulated by some natural process or agent

"Deposit Y1"	the main deposit at Kalatongke Mine, which has reserves
"Deposit Y2"	the deposit adjacent to Deposit Y1, which also has reserves, and which is divided into Deposit Y2 east and Deposit Y2 west
"Director(s)"	one or all of our director(s)
"Domestic Shares"	ordinary shares in our capital, with a nominal value of RMB0.25 each, which are subscribed for and credited as fully paid up in Renminbi
"Fukang Branch"	Xinjiang Xinxin Mining Industry Co., Ltd. Fukang Refinery* (新疆新鑫礦業股份有限公司阜康冶煉廠), a branch of our Company established in the PRC on 8 September 2005
"Fukang Refinery"	the refinery located in Fukang, Xinjiang where Fukang Branch carries out its business activities
"Fuyun Xingtong"	Xinjiang Non-ferrous Fuyun Xingtong Service Company Limited* (新疆有色金屬工業(集團)富蘊興銅服務有限公司), a limited liability company established in the PRC on 1 December 2003 and a wholly-owned subsidiary of Xinjiang Non-ferrous
"Global Offering"	the Hong Kong Public Offering and the International Placing
"H Shares"	overseas listed foreign shares in our ordinary share capital with a nominal value of RMB0.25 each, to be subscribed for and traded in HK dollars and listed on the Stock Exchange
"Hami Hexin"	Hami Hexin Mining Company Limited* (哈密和鑫礦業 有限公司), a limited liability company established in the PRC on 26 October 2006, which is held as to 50% by each of Xinjiang Non-ferrous and Qinghai Western Rare Metals Company Limited* (青海西部稀貴金屬有限公司), Hami Hexin is an Independent Third Party
"HK$" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRS"	Hong Kong Financial Reporting Standards, which includes Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and their interpretations issued by the Hong Kong Institute of Certified Public Accountants
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC

"Hong Kong Public Offering"	our offering of initially 60,000,000 H Shares for subscription by the public in Hong Kong (subject to adjustment as described in the section headed "Structure of the Global Offering") for cash at the Offer Price and on and subject to the terms and conditions described in this prospectus and the Application Forms
"Hong Kong Underwriters"	the underwriters of the Hong Kong Public Offering listed in the section headed "Underwriting — Underwriters — Hong Kong Underwriters"
"Independent Third Party"	any party which is not connected with any of the Promoters, Directors, Supervisors, Chief Executives, Substantial Shareholders of our Company or any of its subsidiaries or any of their respective associates and Independent Third Parties shall be construed accordingly
"International Placing	our offering of an aggregate of 540,000,000 H Shares outside the United States (including such offering to professional investors in Hong Kong, other than retail investors in Hong Kong) in compliance with Regulation S, subject to the Over-allotment Option
"International Placing Shares"	our H Shares offered pursuant to the International Placing
"International Underwriters"	the underwriters in the International Placing
"Kalatongke Branch"	Xinjiang Xinxin Mining Industry Co., Ltd. Kalatongke Nickel and Copper Mine* (新疆新鑫礦業股份有限公司喀拉通克銅鎳礦), a branch of our Company established in the PRC on 1 September 2005
"Kalatongke Mine"	the mine located in Fuyun County, Xinjiang where Kalatongke Branch carries out its business activities
"Latest Practicable Date"	20 September 2007, the latest practicable date for ascertaining certain information in the prospectus prior to its publication
"Listing"	listing of the H Shares on the main board of the Stock Exchange
"Listing Committee"	the Listing Committee of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange (as amended, supplemented or otherwise modified from time to time)
"LME"	the London Metal Exchange, an international non-ferrous metals exchange
"Macau"	the Macau Special Administrative Region of the PRC

"Mandatory Provisions"	the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (到境外上市公司章程必備條款), for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas, promulgated by the former State Council Securities Committee and other PRC Government departments on 27 August 1994, as amended, supplemented or otherwise modified from time to time
"Mining Rights Transfer Agreement"	the mining rights transfer agreement entered into between Xinjiang Non-ferrous and our Company dated 3 September 2005
"Ministry of Finance" or "MOF"	the Ministry of Finance of the PRC (中國財政部)
"MLR"	the Ministry of Land and Resources of the PRC (中國國土資源部)
"MOFCOM"	the Ministry of Commerce of the PRC (中國商務部)
"Mutual Supply Agreement"	the Mutual Supply Agreement entered into between Xinjiang Non-ferrous and us on 17 September 2007
"National People's Congress"	the National People's Congress (全國人民代表大會), the highest legislative body of the PRC
"NDRC"	the National Development and Reform Commission of the PRC (中國國家發展和改革委員會)
"New Agreement"	the agreement entered into between Xinjiang Non-ferrous and our Company in relation to the termination of the Mining Rights Transfer Agreement dated as of 25 July 2007
"New Mining Rights Transfer Agreement"	the agreement entered into between Xinjiang LRD and our Company in respect of the mining rights of the Kalatongke Mine dated 25 July 2007
"Non-competition Agreement"	the Non-competition Agreement entered into between Xinjiang Non-ferrous and our Company on 17 September 2007
"NSSF"	the National Council for Social Security Fund of the PRC (中國全國社會保障基金理事會)
"Offer Price"	the final price per H Share in HK dollar (exclusive of the brokerage fee, SFC transaction levy and Stock Exchange trading fee) at which the H Shares are to be subscribed for and issued pursuant to the Hong Kong Public Offering, to be determined in the manner further described in the section headed "Structure of the Global Offering — Pricing of the Global Offering."

"Offer Shares"	the Public Offer Shares and the International Placing Shares collectively with, where relevant, any additional H Shares issued pursuant to the exercise of the Over-allotment Option
"Over-allotment Option"	the option to be granted by us to the International Underwriters exercisable by the Sole Global Coordinator on behalf of the International Underwriters pursuant to the Underwriting Agreement, at any time from the date of the Underwriting Agreement until 30 days from the last day for the lodging of applications under the Hong Kong Public Offering, to require our Company to allot and issue up to an additional 90,000,000 H Shares representing approximately 15% of the initial number of the H Shares, at the Offer Price, solely to cover over-allocations in the International Placing, if any, details of which are described in the section headed "Structure of the Global Offering" in this prospectus
"PBOC"	People's Bank of China (中國人民銀行), the central bank of the PRC
"PBOC Rate"	the exchange rate for foreign exchange transactions set daily by PBOC based on the previous day's China interbank foreign exchange market rate and with reference to current exchange rates on the world financial markets
"People's Congress"	the legislative apparatus of the PRC, including the National People's Congress and all the local people's congresses (including provincial, municipal and other regional or local people's congresses) as the context may require, or any of them (人民代表大會)
"PRC" or "China"	the People's Republic of China excluding, for the purpose of this prospectus only and except where the context may otherwise require, Hong Kong, Macau and Taiwan
"PRC GAAP"	the accounting rules, regulations and generally accepted practice in the PRC
"PRC Government"	the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and organs thereof or, as the context requires, any of them
"Price Determination Date"	the date, expected to be on or around 4 October 2007 but no later than 10 October 2007, on which the Offer Price is determined for the purpose of the Global Offering
"Promoter(s)"	one or all of our promoters at the time of our incorporation, being Xinjiang Non-ferrous, Shanghai Yilian, Zhongjin Investment, Xiamen Zijin, Xinjiang Xinying and Shaanxi Honghao

"Property Lease Agreement"	the Property Lease Agreement entered into between Xinjiang Non-ferrous and us on 22 June 2007
"Public Offer Shares"	our H Shares offered pursuant to the Hong Kong Public Offering
"Regulation S"	Regulation S under the Securities Act
"Reorganisation"	the reorganisation of the assets and liabilities of Xinjiang Non-ferrous pursuant to which our Company was incorporated on 1 September 2005 including the transfer of certain assets and interests to our Company subsequent to our incorporation in preparation for the Global Offering, which is more particularly described in the section headed "Reorganisation and Corporate Structure" and the section headed "Statutory and General Information — Further Information about the Company — The Reorganisation" in Appendix IX to this prospectus
"Reorganisation Agreement"	has the meaning ascribed to it in the section headed "Connected Transactions — Exempted Connected Transactions — Reorganisation Agreement"
"RMB" or "Renminbi"	Renminbi yuan, the lawful currency of the PRC
"SAEP"	the PRC State Administration of Environmental Protection (中國國家環境保護局)
"SAFE"	the PRC State Administration of Foreign Exchange (中國國家外匯管理局)
"SASAC"	the State-owned Assets Supervision and Administration Commission of the State Council (中國國務院國有資產監督管理委員會)
"Securities Act"	the U.S. Securities Act of 1933, as amended
"SETC"	the former PRC State Economic and Trade Commission (中國國家經濟貿易委員會), the function of which has been taken over by MOFCOM, NDRC and SASAC upon the implementation of the PRC Government reorganisation plan in 2003
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

"Shaanxi Honghao"	Shaanxi Honghao Industry Co., Ltd.* (陝西鴻浩實業有限公司), a limited liability company established in the PRC on 9 June 2004 which is held as to 70% by Zuo Yufen, an Independent Third Party and 30% by Zhang Haosen, an Independent Third Party. Shaanxi Honghao is one of the Promoters
"Shanghai Branch"	Xinjiang Xinxin Mining Industry Co., Ltd. Shanghai Sales Branch* (新疆新鑫礦業股份有限公司上海銷售分公司), a branch of our Company established in the PRC on 26 October 2005
"Shanghai Yilian"	Shanghai Yilian Kuangneng Co. Ltd.* (上海怡聯礦能實業有限公司), a limited liability company established in the PRC on 11 May 2005 which is wholly beneficially owned by Zhou Chuanyou, one of our non-executive Directors. Shanghai Yilian is one of the Promoters
"Share Registrar"	Computershare Hong Kong Investor Services Limited
"Shares"	our ordinary shares with a nominal value of RMB0.25 each, comprising both our Domestic Shares and our H Shares
"Sole Bookrunner"	BOCI Asia
"Sole Global Coordinator"	BOCI Asia
"Sole Lead Manager"	BOCI Asia
"Sole Sponsor"	BOCI Asia
"Special Regulations"	the Special Regulations of the State Council on the Overseas Offer and Listing of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外募集股份及上市的特別規定), promulgated by the State Council on 4 August 1994, as amended, supplemented or otherwise modified from time to time
"SRK"	SRK Consulting, an independent technical consultant of mineral assets
"SRK Report"	the report by SRK as set out in Appendix V to this prospectus
"State Council"	the State Council of the PRC (中國國務院)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiaries"	has the meaning ascribed thereto in section 2 of the Companies Ordinance
"Substantial Shareholder"	has the meaning ascribed to it under the Listing Rules

"Supervisor(s)"	one or all of our supervisor(s)
"Track Record Period"	our financial years ended 31 December 2004, 2005 and 2006 and the three months ended 31 March 2007
"Trademark Licence Agreement"	the Trademark Licence Agreement dated 10 July 2006 entered into between Xinjiang Non-ferrous and us
"Underwriters"	the Hong Kong Underwriters and the International Underwriters
"Underwriting Agreement"	the underwriting agreement dated 25 September 2007 relating to the Global Offering entered into among our Company, Xinjiang Non-ferrous, the Sole Global Coordinator and the Underwriters
"United States" or "U.S."	the United States of America
"US$" or "U.S. dollars"	United States dollars, the lawful currency of the United States of America
"Western Rare Metals"	Qinghai Western Rare Metals Company Limited* (青海西部稀貴金屬有限公司), one of the shareholders of Hami Hexin, holding a 50% interest
"White Form eIPO"	the application for Public Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website at **www.eipo.com.hk** of White Form eIPO
"White Form eIPO Service Provider"	the White Form eIPO service provider designated by our Company, as specified on the designated website at **www.eipo.com.hk**
"Xiamen Zijin"	Xiamen Zijin High-tech Co., Ltd.* (廈門紫金科技有限公司), a limited liability company established in the PRC on 9 March 2001 which is wholly-owned by Zijin Mining. Xiamen Zijin is one of the Promoters
"Xinhao"	Shaanxi Xinhao Trade and Industry Co., Ltd* (陝西鑫浩工貿有限責任公司), a limited liability company established in the PRC on 11 April 1999, which is held by Xi Chang'an as to 68.75% and Wang Geling as to 31.25%. Xinhao is one of our major customers and principally engaged in sales and distribution of non-ferrous and other metal products, including but not limited to, nickel cathode, copper cathode and cobalt cathode, in China. Xinhao is also an Independent Third Party and previously an associate of Shaanxi Honghao, one of our Promoters and a connected person (as defined under the Listing Rules) of the Company

"Xinjiang"	Xinjiang Uygur Autonomous Region (新疆維吾爾自治區) of the PRC
"Xinjiang Industry Co."	Xinjiang Non-ferrous Industry Co.* (新疆有色金屬工業公司), a limited liability company established in the PRC on 1 January 1955 and a wholly-owned subsidiary of Xinjiang Non-ferrous
"Xinjiang LRD"	the Land and Resources Department of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區國土資源廳)
"Xinjiang Non-ferrous"	Xinjiang Non-ferrous Metal Industry (Group) Ltd.* (新疆有色金屬工業（集團）有限責任公司), a wholly state-owned enterprise with limited liability and established in the PRC on 15 March 2002, which is wholly-owned by Xinjiang SASAC, being one of our Promoters and the controlling shareholder of our Company
"Xinjiang Non-ferrous Fukang Plant"	Xinjiang Non-ferrous Industry Co. Fukang Refinery* (新疆有色金屬工業公司阜康冶煉廠) (the predecessor of Fukang Branch) established in the PRC in January 1994 and a wholly-owned subsidiary of Xinjiang Non-ferrous before the Reorganisation
"Xinjiang Non-ferrous Group"	Xinjiang Non-ferrous and any or all of its subsidiaries, excluding our Company
"Xinjiang Non-ferrous Import and Export"	China Non-ferrous Metals Import and Export Company of Xinjiang* (中國有色金屬進出口新疆公司), a limited liability company established in the PRC on 17 September 1984, which is a wholly-owned subsidiary of Xinjiang Non-ferrous
"Xinjiang Non-ferrous Kalatongke Mine"	Xinjiang Non-ferrous Industry Co. Kalatongke Mine (新疆有色金屬工業公司喀拉通克銅鎳礦)* (the predecessor of Kalatongke Branch), established in the PRC in October 1988 and a wholly-owned subsidiary of Xinjiang Non-ferrous before the Reorganisation
"Xinjiang SASAC"	the State-owned Asset Supervision and Administration Commission of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區國有資產監督管理委員會)
"Xinjiang Xinying"	Xinjiang Xinying New Material Co. Ltd.* (新疆信盈新型材料有限公司), a limited liability company established in the PRC on 14 May 2004 which is held as to 90% by Zhu Fangying, an Independent Third Party and 10% by Jiang Jinlan, an Independent Third Party. Xinjiang Xinying is one of the Promoters

"Zhongjin Investment"	Zhongjin Investment (Group) Ltd.* (中金投資(集團)有限公司), a limited liability company established in the PRC on 26 November 1997 which is 98.83% beneficially owned by Zhou Chuanyou. Zhongjin Investment is one of the Promoters
"Zhongxin Mining"	Xinjiang Zhongxin Mining Company Limited* (新疆眾鑫礦業有限責任公司), a limited liability company established in Xinjiang, the PRC on 24 January 2006, which is currently held as to 57% by Xinjiang Investment and Development (Group) Company Limited* (新疆投資發展(集團)有限責任公司), 17% by Xinjiang Production and Construction Regiment Agricultural Construction Division No. 13 State Assets Operating Company Limited* (新疆生產建設兵團農業建設第十三師國有資產經營有限公司), 9% by Shaanxi Honghao, 6% by Hami Huilong Mining Company Limited* (哈密市匯隆礦業有限責任公司), 6% by Hami Jinhua Mineral Resources Development Company Limited* (哈密市錦華礦產資源開發有限責任公司) and 5% by Xinjiang Aokai Mining Development Company Limited* (新疆奧凱礦業發展有限公司). Zhongxin Mining was previously our subsidiary in which we held a 57% equity interest. We transferred our 57% interest in Zhongxin Mining to an Independent Third Party and Zhongxin Mining ceased to be our subsidiary upon the registration of the transfer with the local industry and commence authority on 25 May 2007
"Zijin Mining"	Zijin Mining Group Co. Ltd.* (紫金礦業集團股份有限公司), a limited liability company incorporated in the PRC on 6 September 2000 which holds 100% interest in Xiamen Zijin and is a company listed on the Stock Exchange. Xiamen Zijin is one of the Promoters

Unless otherwise specified, statements contained in this prospectus assume no exercise of the Over-allotment Option. Please see the section headed "Underwriting".

Unless otherwise specified, translations of HK$ into US$, RMB into HK$ and HK$ into RMB in this prospectus are based on the rates set out below:

HK$1.00	:	RMB0.97
HK$7.80	:	US$1.00

Unless expressly stated or the context otherwise requires, all data in this prospectus is as at the date of this prospectus.

Certain numerical figures included in this prospectus have been rounded. Any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding.

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

"anomaly"	gravity anomaly and magnetic anomaly
"concentrate"	the product of a concentrator, which contain higher concentration of the minerals suitable for smelting, e.g. nickel and copper concentrate
"fill mining method"	a mining method of extracting successive horizontal slices from the orebody and subsequently backfilling the void (usually with sand) to form the next working floor
"flotation"	a selection method to recover minerals by using reagents to create a froth that collects target minerals
"GB/T19001-2000 — Quality Management System"	international quality management system specification or national recommended standards for quality management; also known as "GB/T19001-2000: Quality Management System — Standard and Application Manual"
"GB/T24001-1996 — Environment Management System"	international environment management system specification or national recommended standards for environment management; also known as "GB/T24001-1996: Environment Management System — Standard and Application Manual"
"GB/T28001-2001 — Occupational Health and Safety System"	international occupational health and safety management system specification or national recommended standards for occupational health and safety; also known as "OHSAS18001:1999 or GB/T28001-2001: Occupational Health and Safety System — Standard and Application Manual"
"ISO 14001:2004 Environmental Management System"	the second set of management system standards launched by ISO with regard to environment management which forms the basis to develop and implement environment management system, it specifies common requirements for an environmental management system of an organisation from perspectives of government bodies, the society as well as purchasers, so as to effectively prevent and control pollution and improve utilisation efficiency of resources and energy
"geological exploration"	activity to prove the location, volume and quality of an orebody or post-surveying exploration of a mine with proved industrial value
"grade"	the percentage of content of useful elements or their components in the ores

"gravity anomaly"	the difference between the value of observed gravity (after reducing to the zero level of the geoidal) at a point on the Earth's surface and the theoretical value of gravity at that measurement point.
"high grade ore"	ore with mineralisation of 1% or more but less than 3% of nickel or copper
"indicated resource(s)"	the part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed
"JORC"	the Australasian Joint Ore Reserves Committee, which is sponsored by the Australian mining industry and its professional organisations
"JORC Code"	the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves prepared by the JORC, Australian Institute of Geoscientists and Minerals Council of Australia in September 1999 and revised in December 2004, a widely used and internationally recognised code setting out the minimum standards, recommendations and guidelines for public reporting of exploration results, mineral resources and ore reserves
"Kwh"	kilowatt hour
"low grade ore"	ore with mineralisation of 0.38% or more but less than 1% of nickel or copper
"lateritic ore"	a type of ore that has been exposed to weathering (or alteration) through very long term exposure to rainfall and high temperatures. Nickel contained in laterite ores is closely bonded to other minerals and cannot be liberated and recovered through crushing, milling and flotation processes
"magnetic anomaly"	the existence of a difference between the theoretical and actual strength of magnetic field measured at a certain location

"measured resource(s)"	the part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity
"mining rights"	the licensed right to mine mineral resources and obtain mineral products in areas where mining activities are legal
"net resources"	as total reserves form part of total resources, net resources is the difference between total resources and total reserves (i.e. net resources = total resources - total reserves)
"non-ferrous metals"	metals other than the ferrous metals such as iron, manganese and chromium
"ore body"	a continuous, well-defined mass of material with sufficient ore content to ensure economic feasibility of extraction
"ore processing"	the process through which physical or chemical properties, such as density (or "specific gravity"), surface reactivity, magnetism and color, are utilised to separate the useful components of ores from useless stones, and concentrate or purify them by means of flotation, magnetic selection, electric selection, physical selection, chemical selection, reselection, and combined methods
"ores"	mineral substances which can be extracted and processed with economic feasibility
"probable reserve(s)"	the part of a mineral resource known with sufficient confidence to be categorised as an indicated resource, and which can be mined, inclusive of dilution, from which valuable or useful minerals can be recovered economically
"pyrogenic process"	a type of metallurgical process through which valuable metals are extracted from ores through a series of physical and chemical reactions under high temperature generated from fuel combustion, electrolytic reaction or chemical reaction
"reserve(s)" or "mineral reserve(s)" or "ore reserve(s)"	the economically mineable part of a measured and/or indicated resource, including diluting materials and allowances for losses which may occur when the material is mined

"resource(s)" or "mineral resource(s)"	concentration or occurrence of material of intrinsic economic interest upon or inside the Earth's crust in such form, quality and quantity that there are reasonable prospectus for eventual economic extraction. Resources, or mineral resources, are sub-divided, in order of increasing geological confidence, into "inferred," "indicated," and "measured" categories
"rock body"	a continuous, well-defined mass of rock without indication of the economic feasibility of its extraction
"stope"	an underground excavation which is planned or from which ore has been removed in a series of steps (usually applied to highly inclined or vertical vein mining)
"sub-economic grade (oxidised)"	ore with mineralisation of less than 0.3% of nickel
"sulphide ore"	a type of ore formed normally as a result of ancient volcanic activity and rich in sulphur. Sulphide ores may contain nickel, copper, zinc or many other metallic minerals, either alone or more often in some combination of two or more. They have not been exposed to weathering or alteration. Their molecular structure allows metallic minerals to be easily recovered by crushing, milling and flotation
"super high grade ore"	ore with mineralisation of 3% or more of nickel or copper
"tonne(s)"	metric tonne(s)
"ultra-fine nickel powder"	nickel powder with diverse industrial applications, especially as an ingredient in alloying solvents
"VALMIN Code"	the Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports prepared and adopted by the VALMIN Committee, a joint committee of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Mineral Industry Consultants Association, in February 1995 and revised in November 1997 and April 2005. The VALMIN Code incorporates the JORC Code, sets standards for the preparation and commissioning of independent assessment and/or valuation reports on mineral and petroleum assets or mineral and petroleum securities, and applies to all relevant reports under the Australian Corporations Law, including submissions to the Australian Stock Exchange and the Australian Securities and Investments Commission
"wet process"	a type of metallurgical process where valuable metals are extracted from ores through chemical reactions of the substances in acid or other solvent

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our Company's business strategies and plan of operations;
- our Company's capital expenditure plans;
- the investment amount and nature of, and potential for, future development of our Company's business;
- our Company's operations and business prospects;
- our Company's dividend policy;
- projects under construction or planning;
- the regulatory environment of our Company's industry in general; and
- future development of the industry in which our Company operates.

The words "anticipate", "believe", "could", "estimate" (other than in the context of profit estimate set out in Appendix III of this prospectus), "expect", "intend", "may", "plan", "seek", "will", "would" and similar expressions, as they relate to our Company, are intended to identify a number of these forward-looking statements. Those statements include, among other things, the discussion of our Company's growth strategy and expectations concerning its future operations, liquidity and capital resources. Purchasers of the Shares are cautioned that reliance on any forward-looking statements involves risks and uncertainties and that, although the Directors believe the assumptions on which the forward looking statements are based are reasonable, any or all of those assumptions could prove to be incorrect and as a result, the forward-looking statements based on those assumptions could also be incorrect. The uncertainties in this regard include, but are not limited to, those identified in the "Risk factors" section, many of which are not within our Company's control. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations by the Company that its plans or objectives will be achieved, and investors should not place undue reliance on such forward-looking statements. Our Company does not undertake any obligation to update publicly or release any revisions of any forward-looking statements, whether as a result of new information, future events or otherwise.

Subject to the requirements of the Listing Rules, our Company does not intend to publicly update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way our Company expects, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

You should carefully consider these risks, together with all of the other information in this prospectus, including the financial statements and related notes, before you decide to purchase any of our H Shares. Our business could be materially and adversely affected by any of these risks. The trading price of our H Shares could decline due to any of these risks and you may lose all or part of your investment.

RISKS RELATING TO US AND OUR INDUSTRY

Our business and results of operations are susceptible to economic cyclicality and volatility in commodity prices

We price our non-ferrous metal products, such as nickel and copper with reference to international and domestic market prices and changes in global demand and supply of such products. Fluctuations of global and domestic prices and demand for our products are beyond our control. Price volatility of major non-ferrous metals is closely related to the global economy, the economic cycle in the PRC and the fluctuation of global currency markets. As the pricing of our primary products correlates with global and domestic commodity prices, any significant decrease in commodity prices for non-ferrous metals could cause a material adverse impact on our results of operations.

Our major capital expenditure projects may not be completed within the expected time frame and budget, or at all, and may not achieve the intended economic results

Our planned expansion, cost reduction and technical improvement projects could be delayed or adversely affected by numerous factors, including failure to obtain necessary regulatory approvals, technical difficulties and lack of manpower or other resource constraints. In addition, the cost of these projects may exceed our planned investment budget. As a consequence of project delays, cost overruns, changes in market circumstances or other factors, the intended economic benefits from these capital expenditure projects may not materialise, which could adversely affect our financial condition and results of operations.

We may not be able to obtain sufficient funding for our capital expenditure and other funding requirements, which could limit our ability to develop our businesses

We expect to have a high level of capital expenditure in the foreseeable future to fund our ongoing operations and future growth. We need sufficient internal sources of liquidity or access to additional financing from external sources. Our ability to obtain external financing in the future and the related financing cost is subject to a variety of uncertainties, including:

- obtaining PRC Government approvals necessary to raise financing in the domestic or international markets;
- our future results of operations, financial condition and cash flows;
- the condition of the global and domestic financial markets; and
- changes in the monetary policy of the PRC Government with respect to bank interest rates and lending practices.

If adequate funding is not available, our ability to develop our business could be adversely affected.

There may be a substantial increase in the overall supply of nickel products due to the extraction of nickel from lateritic ore which may affect our results of operations

We extract nickel primarily from sulphide ore. With the natural exhaustion of existing mines, there may not be enough nickel extracted from sulphide ore to meet rising global demand for nickel. Certain nickel producers in Canada, Australia and Papua New Guinea have turned their attention to nickel which is extracted from lateritic ore. Nickel extracted from lateritic ore has the same market price as nickel extracted from sulphide ore. In the past, investment confidence in the extraction of nickel from lateritic ore, which is generally found to be more abundant than in nickel sulphide ore, has been undermined by extraction and processing difficulties. However, it is anticipated that the extraction of nickel from lateritic ore may become prolific as a result of advancement in extraction and processing technologies. We do not have, nor do we intend to acquire, the technical capability to extract nickel from lateritic ore, since we only possess sulphide ore. To our knowledge, no nickel producer in the PRC has commenced extracting nickel from lateritic ore. If there is a substantial increase in the overall supply of nickel products due to the extraction of nickel from lateritic ore, the price of our nickel products may decrease and our business, financial condition and results of operations could be adversely affected as a result.

There are uncertainties associated with our plan to acquire additional exploration and mining rights

We intend to acquire additional exploration and mining rights in other parts of Xinjiang and the neighbouring countries in Central Asia . However, we may encounter intense competition during the expansion process and we may fail to select or value targets appropriately. This may result in our inability to complete such expansion plan at reasonable cost or at all. Even if the expansion plan is successful, we may have to allocate additional capital and human resources to implement the integration of the acquired business to ours. We cannot assure you that such integration will be completed within a reasonable period of time or at all or that it will generate the expected economic benefits. Further, the expansion into other parts of Xinjiang involves substantial time, cost and market uncertainties. In the event that we encounter problems or delays in penetrating into such markets and at the same time we lose our competitive edge over our competitors, our results of operations and business prospects could be adversely affected. We have not yet identified any specific target for acquisition of additional exploration and mining rights.

Amortisation expenses related to our mining rights may adversely affect our results of operations

We amortised our mining rights over the shorter period of the rights on a straight-line basis or the useful lives of the mines in accordance with the production plans and reserves of the mines on the unit-of-production method. We intend to review the amount of reserves for our mines on an annual basis. Any material decrease to the amount of reserves for our mines may cause an impairment on the carrying value of our mining rights, which would adversely affect our results of operations.

Certain of our operations are energy-intensive and we may face increased prices and/or insufficient supply of utilities such as electricity and coke

We consume a substantial amount of electricity in our mining, ore processing, smelting and refining operations. We use the wet process in our refining operation to produce nickel cathode, and this procedure requires a continuous supply of a large amount of electricity. As our production capabilities increase and our business grows, our requirements for electricity will also grow. Any disruption in electricity supply could lead to production shutdowns and the obsolescence of work in progress, as well as increased costs related to recommencement of operations. Average electricity prices increased from RMB0.31/kWhr in 2004 to RMB0.34/kWhr in 2005, and to RMB0.39/kWhr in 2006. They fell slightly to RMB0.38/kWhr for the first three months in 2007. We have also experienced electricity power cut planned by the utility provider for the purpose of maintenance.

Besides electricity, we require coke for the production of heat, deoxidation and recovery of metals in our smelting operation. Any macroeconomic control measures implemented by the PRC Government which cause coke's price to fluctuate will impact on our cost of production. This in turn could adversely affect our results of operations.

We face risks and uncertainties associated with our mining projects

Mining is a relatively high risk industry. The grade, shape, size and wall rock of each orebody are different. Therefore, it is possible that our mining engineering plans will not achieve our target results to the fullest extent and satisfy all our mining needs. In addition, mining activities may cause damages to the orebody and wall rock due to complicated geological structures of the mine. The roof of a stope may cave in if the crustal stress balance is disrupted by mining activities and this may cause accidents and adversely affect our mining operations. In the event that our mining projects are disrupted, our financial condition and results of operations could be adversely affected.

In determining the feasibility of developing and operating our mines, we use estimates of reserves and such estimates may be inaccurate. Our reserve estimates for non-ferrous metals are prepared in accordance with the Chinese system, which is the national standard set by the PRC Government. Due to limited extent of exploration and the diversity and complexity of the geological structures of our mine, our estimates may differ significantly from the actual mine reserves in terms of tonnage, quality and feasibility. Any one or a combination of the above could have a material adverse effect on our business, financial condition and results of operations. For further information of our mineral resources, please see Appendix V — Independent Technical Review Report.

Our underground mining operations face uncertainties in reserve estimates and production volume. We intend to increase the production volume of the Kalatongke Mine significantly from 2009. The production increase will largely be based on the results of our in-depth exploration and mining. The actual production volume may significantly be less than our estimation. Any one or a combination of the above factors may adversely affect our production or expansion plans.

We face risks and uncertainties associated with our exploration projects

New and potential mineral resources is crucial to our business. To maintain nickel production into the future beyond the life of our current reserves or to increase production materially through mining new deposits, we might need to increase our mineral resources through exploration which involves geological study. We engage third party professionals who possess the requisite qualifications to carry out the exploration work. Exploration work involves a high degree of risk and incurs substantial costs and expenses and it may not be successful. The long-term success of our business depends on the cost and success of exploration operations. During the Track Record Period, we incurred a total expenditure of approximately RMB14.5 million in relation to our exploration projects, of which approximately RMB13.9 million was capitalised and approximately RMB0.6 million was written off. Such accounting treatment follows the requirements stipulated in HKFRS 6 which allows us to determine a policy specifying which expenditures are to be recognised as exploration and evaluation assets, and to apply the policy consistently.

The risks associated with exploration include the identification of potential mineralisation based on analysis of geological data, the technological challenges of exploration and development, the obtaining of necessary governmental permits and the construction of mining and processing facilities at any site chosen for mining. A decline in the market price of nickel may render our ore reserves containing relatively lower grades of nickel mineralisation uneconomic. There is no assurance that any exploration will result in the discovery of resources or reserves or in any new commercially profitable mining operation. Further, in case we cannot locate any resources or reserves which are economically viable for mining and extraction before the exhaustion of our current reserves, we may have to increase our procurement of raw materials from external sources for the continuing production of nickel and other products, which may represent higher production costs and hence may adversely affect our results of operation.

We may be unable to renew our mining permit and exploration permits

Under the Mineral Resources Law of the People's Republic of China, all mineral resources in the PRC are owned by the State. Our current mining permit is valid for 30 years commencing from 27 July 2007 and expiring on 27 July 2037, which was granted at its maximum validity period for a mining permit according to the relevant PRC laws and regulations. Typically, the duration for which mining rights are granted cannot exceed the projected number of years of service of a mine. Our four exploration permits have terms commencing from September 2007, June 2007, July 2007 and March 2007, respectively, and expiring in September 2008, June 2008, July 2008 and March 2008, respectively. For further information on the renewal of our exploration permits, see "Business — Exploration — Exploration permits and renewal".

To apply for a renewal of our mining and exploration permits, we have to submit all the required materials and complete the necessary legal procedures as required by the relevant authorities and the laws and regulations. For further information, see "Regulations — The validity, renewal and annual verification of the mining permits and exploration permits". There is no assurance that we will be able to renew our mining and exploration permits upon expiry and our mining and exploration operations and our business may be adversely affected.

We may be unable to pass the annual verification of our mining permit and exploration permits

Our mining permit and exploration permits are subject to verification on an annual basis. In the annual verification, the relevant authorities will consider whether our mining or exploration activities in the past year are in compliance with the relevant laws and regulations. For more information, please see the section headed "Regulations". If we are unable to meet the relevant requirements or found in breach of any laws or regulations, and therefore unable to pass the annual verification, we will be penalised according to the relevant laws and regulations or given a deadline within which we have to meet these requirements. Failure to meet the requirements within the specified time period could result in the revocation of our mining permit or exploration permits. We cannot assure you that we will be able to pass the annual verification of our mining and exploration permits. Should these permits be suspended or revoked or we fail to pass the annual verification, our operation and financial performance will be adversely affected.

We are subject to various operational risks and may lack sufficient insurance coverage

We face various operational risks in connection with our businesses, including:

- production interruptions caused by operational errors, electricity outages, raw materials shortages, the failure of equipment and other risks;
- operating limitations imposed by environmental or other regulatory requirements;
- social, political and labour unrest;
- environmental or industrial accidents;
- catastrophic events such as fires, earthquakes, explosions, floods, collapse of mine or other natural disasters; and
- risks related to the complicated geological structure of our mine and geological disasters that occur during the mining process.

We may lack adequate insurance coverage on the above operational risks or at all. In addition, consistent with industry practice in the PRC, we do not maintain business interruption insurance or third party liability insurance against claims for property damage, personal injury and environmental liabilities. The occurrence of any of these events may result in the interruption of our operations and subject us to significant losses or liabilities. The costs of compliance with applicable rules and regulations were approximately RMB8.1 million, RMB8.0 million, and RMB7.3 million in 2004, 2005, and 2006, respectively. The expected annual cost going forward is in the range of RMB7.0 million to RMB8.5 million per annum. For more information, see the section headed "Business — Insurance".

Although we have safety measures in place at all major stages of our operations, industrial accidents may still occur. We have had one casualty in respect of our own employee and three casualties in respect of third party contractors in our mining operation during the Track Record Period. For further information, see the section headed "Business — Environmental, occupational health and safety — Occupational health and safety"). There can be no assurance that our insurance coverage could be sufficient in case of such major accident. In the event that we incur substantial losses or liabilities and our insurance is unavailable or inadequate to cover such losses or liabilities, our business, financial condition and results of operations could be adversely affected.

We face increasing competition from domestic and foreign competitors

We face increasing competition from both domestic and international non-ferrous metals producers. Our major competitors are large PRC-based non-ferrous metals producers. Some of our domestic competitors may have certain advantages over us, including greater financial and technical resources and metal reserves, greater economies of scale, better name recognition and more established relationships in certain markets. A significant increase in competition may force us to lower our prices, lead to a decrease in our sales and ultimately may have a material adverse impact on our business, financial position and results of operations.

The PRC's entry into the World Trade Organisation may result in increased foreign competition in the PRC, including an increased number of alliances between foreign companies and our domestic competitors, and revisions to laws and regulations originally designed to protect domestic enterprises. Such increased foreign competition could adversely affect our financial condition and results of operations.

We are dependent on certain major customers

For each of the three years ended 31 December 2006 and the three months ended 31 March 2007, our largest customer, Xinhao, which is an Independent Third Party, accounted for approximately 42.7%, 39.9%, 42.3% and 32.9%, respectively of our turnover. Xinhao is a trading company established in the PRC and is mainly engaged in the procurement and sale of non-ferrous metal products. During the period from 1 September 2005 (the date of incorporation of our Company) to 6 June 2006, Xinhao was a related party of Shaanxi Honghao (one of our Promoters and a connected person of our Company, as defined under the Listing Rules). Therefore, Xinhao was a connected person of our Company by virtue of the fact that the controlling shareholder of Xinhao was related to the controlling shareholder of Shaanxi Honghao, as husband and wife. On 6 June 2006, the controlling shareholder of Xinhao transferred all his equity interests in Xinhao, being 68.75% interest in the registered capital of Xinhao, to an Independent Third Party, Xi Chang'an (the "Mr. Xi") at a consideration of RMB550,000 and thereafter Xinhao ceased to be a connected party of our Company. The Directors confirm that Mr. Xi has not had any past or present relationship with the directors, supervisors, promoters, substantial shareholders or the senior management of our Company or our subsidiaries, or their respective associates.

We sell our nickel cathode, copper cathode and cobalt products to Xinhao. Xinhao was our largest customer during the Track Record Period and we expect that it will continue to account for a relatively large percentage of our turnover in the foreseeable future. We have not entered into any long term sale and purchase contract with Xinhao for more than one year and there is no assurance that it will continue to source non-ferrous metal products from us. In the event that Xinhao experiences unfavourable business conditions or terminates its business relationship with us and should we fail to identify new customers, there may be a material adverse impact on our profitability, results of operations and financial condition.

We do not have building ownership certificates or land use rights certificates for some of the properties that we own

As of the Latest Practicable Date, we held in the PRC 189 properties with an aggregate gross floor area of approximately 95,600 square metres, and 17 parcels of land with an aggregate site area of approximately 2.2 million square metres. We do not have building ownership certificates for four public housing units in Shanghai with an aggregate gross floor area of approximately 177.48 square metres for residential purpose, representing approximately 0.19% of the aggregate gross floor area of properties purchased and occupied by us. As advised by our PRC legal advisers, the transfer of these properties is governed by certain rules promulgated by the Shanghai Housing and Land Resources Bureau in 1995, which specify that the purchaser of such property must be a staff with Shanghai residency or a public housing tenant with Shanghai residency status. Notwithstanding the purchase price of the property has been paid in full, our Company is unable to meet the residency requirements and obtain the relevant building ownership certificates. Among the 185 properties for which we possess the relevant building ownership certificates, four units in Xinjiang with a total gross floor area of approximately 415.91 square metres for residential purpose, representing approximately 0.44% of the aggregate gross floor area of properties occupied by us are without land use rights certificates. As advised by our PRC legal advisers, our Company is unable to obtain any land use rights certificate as the local land bureau is yet to commence the issue of land use rights certificate in that area. We will apply for the land use rights certificate once the local land bureau commences the issue of land use rights certificate. As a result of the above, we may be required to relocate our employees to other residential premises and incur relocation costs. For further details of these properties, please see the section headed "Business — Land and Buildings — Property interests".

We operate in a market environment that requires tightened regulatory enforcement

We operate in a market environment that requires tightened regulatory enforcement in each industry segment, from mining, ore processing, smelting, refining to trading. We are aware that certain small-sized, unqualified companies do not necessarily abide by relevant PRC laws and regulations. These companies may carry out mining, ore processing, smelting and refining at lower costs, using outdated technology, wasting raw materials and violating environmental regulations. Their products are generally of a lower quality, but are able to obtain certain market share with their low prices. Despite measures adopted by the PRC Government to ban illegal mining, smelting, refining and trading of non-ferrous metals, illegal activities and unfair market conditions have not been eliminated completely, creating an adverse impact on our business. As such, regulatory enforcement in the industry may be tightened and we may need to incur additional expenses in order to comply with such regulatory requirements. This will in turn affect our financial performance as our business costs will increase.

Changes in environmental laws and regulations or their interpretation or implementation, or unanticipated environmental effects from our operations could require us to incur additional costs

Our operations are subject to extensive PRC environmental laws and regulations, both at the national and local levels, relating to air and water quality, waste management, public health and safety. To comply with these environmental laws and regulations, we incur significant costs associated with our production facilities, production process, the installation of pollution control equipment and the closure of mine. For instance, tailings are produced as a waste product at our Kalatongke Mine and is stored in a tailings storage area. The residual sulphide minerals that are present in the tailings may in time lead to the generation of acid and release of metals, which could give rise to environmental risks in the long term. The Environmental Protection Bureau of Xinjiang has approved a tailings impoundment closure plan with a budget of approximately RMB4.69 million, as estimated by a third-party independent technical adviser. This amount of money will be spent on the closure of the tailings dam when its service life comes to an end in 2008. We have made provision of approximately RMB4.16 million as of 31 March 2007 which represents the present value of the estimated future closure costs. We did not incur any closure cost during the Track Record Period. According to the SRK Report, in the event that the tailings are net acid generating or have a high potential for metal release, the closure costs could be higher, depending on cover configuration and target performance. Tailings would be deemed to be “net acid generating” if they have a sufficiently high sulphur mineral content such that the sulphur minerals could naturally oxidise to generate acid in excess of the neutralising minerals present. The tailings have a sulphur content of up to 18%, and it is considered by SRK that there is a possibility that the tailings will be net acid generating. Should this materialise and cause environmental pollution, we may be fined or penalised according to relevant environmental protection laws and regulations. In relation to our tailings dam, we did not receive any penalty, complaint, or incur any liability during the Track Record Period. For further details, see “Appendix V — Independent Technical Review Report”. We are also subject to pollutant discharge fees for the discharge or emission of various substances. We must undergo stringent inspections by the relevant PRC environmental authorities and maintain various licences and environmental permits. SRK has identified a number of other issues and concerns regarding tailings storage area, sampling and quality assurance/quality control programs, exploration approach for Deposit Y9, the back-fill method adopted by our Company and water treatment that may present operational or regulatory compliance risks to our Company. For further details, see the section headed “Business — Environmental, Occupational Health and Safety” and the section headed “Appendix V — Independent Technical Review Report”.

We cannot assure you that any environmental laws or regulations adopted in the future will not materially increase our operating and other expenses. We plan to spend approximately RMB78.1 million, RMB200.3 million, and RMB32.5 million, on mining and ore processing, smelting, and refining operations, respectively, during the three years ending 31 December 2009. These monies are geared for the purchase of production equipment and the construction of production facilities which are environment-friendly and which we believe will enhance the health and safety of our employees. Our costs to comply with environmental laws and regulations may increase significantly if the PRC Government adopts stricter environmental requirements such as tightening pollutant discharge limits, increasing pollutant discharge fees, imposing new fees, introducing more extensive pollution control requirements, introducing more stringent licensing mechanisms and increasing the number of regulated substances. The future imposition of stricter environmental legislation could have a material adverse effect on our financial condition and results of operations.

Moreover, we cannot assure you that we will be able to comply with all environmental laws and regulations that are adopted or amended in the future. Failure to comply with, or any change or difference in the interpretation or enforcement policy of such laws and regulations, or the occurrence of any unanticipated environmental effects from our operations, may subject us to punitive governmental measures, including forced suspension of operations, which may have a material adverse effect on our financial condition and results of operations.

Our future performance depends on our ability to retain key personnel

Our success to date has been largely due to the contributions and service of our key management and, in particular, our executive Directors and senior management team including Yuan Ze, Shi Wenfeng, Zhang Guohua, Liu Jun, Feng Chaoyu, Wu Tao, He Hongfeng, Zhang Junjie and Lam Cheuk Fai. We have an experienced, stable and well-educated management team with extensive expertise in the non-ferrous metals industry in the PRC. Mr. Yuan Ze, our chairman and one of our executive Directors, has been working for the Company and its predecessor since 1998 and possesses extensive experience in the non-ferrous metals industry in the PRC. Mr. Shi Wenfeng, one of our executive Directors, has been working for the Company and its predecessor since 1989 specialising in refining operations. Mr. Zhang Guohua, one of our executive Directors, has been working for the Company and its predecessor since 1984 and is experienced in mining operations. They are well supported by a capable senior management team in the day-to-day management and operations of our Company.

Our executive Directors have been instrumental in the growth and expansion of our Company and are responsible for formulating our Company's business growth and corporate development and strategies. They are also responsible for identifying overall business opportunities, recruiting new and capable staff and motivating our employees to achieve our corporate goals. Our executive Directors are well supported by an able team of senior management in the day-to-day operation of our Company. For a complete list and details of our executive Directors and senior management, see the section headed "Directors, Supervisors, senior management and employees". The loss of any of these key management personnel without timely and suitable replacements and our inability to attract and retain qualified and experienced personnel could have an unfavorable impact on our operations and financial performance.

Our tax benefits, including preferential enterprise income tax rates, may be reduced or eliminated and the impact of the new PRC Enterprise Income Tax Law on our financial condition and results of operations is uncertain

Rather than paying enterprise income tax at the generally applicable rate of 33% in the PRC, we are entitled to a preferential income tax treatment, including full exemption from enterprise income tax for the years 2005 and 2006. Our Company (except our Shanghai Branch) has, subject to annual review, further obtained an exemption of enterprise income tax from 2007 to 2010 pursuant to preferential tax treatment for enterprises in autonomous regions. Our PRC legal advisers have advised that the original approval authority is responsible to review our annual tax exemption. We will be subject to higher tax rates if we fail to pass the annual review of tax exemption or when the preferential tax treatment currently enjoyed by our Company expires. We cannot assure you that we will receive additional preferential income tax treatment or that anticipated preferential income tax treatment will be received. If we cease to enjoy such preferential income tax treatment, our financial condition and results of operations would be adversely affected.

Pursuant to the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) promulgated on 16 March 2007 and which will become effective on 1 January 2008, a uniform enterprise income tax of 25% is applicable to both the domestic and the foreign investment enterprises in the PRC. The government of an autonomous region in the PRC with ethnic minorities may decide any reduction or exemption of the local portion of the enterprise income tax to be paid by enterprise within the said autonomous region. Based on the regulation promulgated by the State Council, for those enterprises that are enjoying fixed tax holidays, such tax holidays may continue until their expiry. Our PRC legal advisers have confirmed that the new uniform enterprise income tax would be applicable to our Company but our Company is entitled to enjoy the tax exemption from 2007 to 2010 and the new PRC Enterprise Income Tax Law will not adversely affect the tax exemption already granted for the years 2005 and 2006. However, there is no assurance as to when the implementation rules of the PRC Enterprise Income Tax Law will be promulgated and how such implementation rules will affect our Company, including the possibility of a higher tax authority being responsible for reviewing our tax exemption annually. Should we fail to pass our annual review of tax exemption, we may be subject to a maximum of 25% enterprise income tax rate. If such implementation rules and/or other changes become effective, our Company's effective tax rate in the PRC may increase and the profits available for distribution to our shareholders may decrease.

We may be unable to pay any dividends on our Shares and the actual amount of the Special Dividend to be distributed to our Promoters could be greater than the estimated amount disclosed in this prospectus

Under PRC law and our Articles of Association, dividends may be paid only out of distributable profits. Distributable profits means after-tax profits as determined under PRC GAAP or HKFRS, whichever is lower, less any recovery of accumulated losses and allocations to statutory funds that our Company is required to make. Any distributable profits that are not distributed in a given year are retained and will be available for distribution in subsequent years. However, our Company will not ordinarily pay any dividends in a year in which our Company does not have any distributable profits.

The calculation of distributable profits for our Company under PRC GAAP differs in certain respects from the calculation under HKFRS. As a result, our Company may not be able to pay any dividends in a given year if our Company does not have distributable profits as determined under PRC GAAP, even if it has profits for that year as determined under HKFRS. During the Track Record Period, we declared a total dividend of approximately RMB400 million which was paid to our

Promoters. We intend to declare a total dividend of approximately RMB471 million out of the balance of the distributable profits and the distributable profits for the period from 1 January 2007 to 30 June 2007 (the "Special Dividend") after the Listing to our Promoters from internally generated funds. We cannot assure you that the total amount of Special Dividend actually to be distributed to our Promoters, which depends on the results of the special audit of our accounts to be conducted for the period from 1 January 2007 to 30 June 2007, will not be greater than the estimated amount of RMB471 million. As a result, our financial condition may be adversely affected. We will publish an audited interim results announcement and the actual amount of the Special Dividend. Holders of our H Shares will not be entitled to the Special Dividend and therefore any distributable profits for the year ending 31 December 2007 available for distribution to the shareholders after the Global Offering will exclude the amount of the Special Dividend to be paid to our Promoters. Holders of our H Shares should not view the extent of the Special Dividend as an indication of the amount of dividends that we may declare or pay in the future. For further information, see the section headed "Dividend Policy".

We cannot assure you that we will declare dividends at all in the future. Future dividends, if any, will be declared at the discretion of the Board and subject to the shareholders' approval at general meeting and will depend upon our future results of operations, capital requirements, general financial condition, legal and contractual restrictions and other factors the Board may deem relevant.

Share price of our H Shares may be affected as a result of a disposal by NSSF of its shareholding in our Company

The Company Law provides that in relation to public share offering of a company, the shares of that company which are issued prior to the offering shall not be transferred within one year from the date of the Listing. However based on the Provisional Procedures for the Reduction of State Owned Shareholdings and the Raising of Social Security Funds (關於減持國有股籌集社會保障資金管理暫行辦法) issued by the State Council, our PRC legal advisers have advised that any Shares transferred to NSSF before the Listing will not be subject to such transfer restriction and may be sold by NSSF at any time after Listing. Upon Listing (assuming the Over-allotment Option is not exercised at all), NSSF will hold approximately 2.83% of our issued share capital. Any subsequent transfer or disposal by NSSF will result in an increase of the number of H Shares available in the market and may affect the share price of our H Shares.

Our operations may be adversely affected by the extremities of climate, and any political and social instability in Xinjiang

All of our production premises and facilities are located in Xinjiang which is in the northwestern part of China. The difference in daily temperature and the extreme climate conditions during summer and winter may have an adverse impact on our operations. Although the original designs and construction of our Kalatongke Mine and Fukang Refinery have taken into account the extreme climate of Xinjiang, in case of prolonged adverse climate, our operations may still be adversely affected.

The population of Xinjiang consists of different ethical groups. Although there was no major political unrest due to conflict among different ethical groups or terrorist attack in Xinjiang during the Track Record Period, we cannot assure you that our operations would not be adversely affected should such conflict or attack occur. Our performance could be adversely affected as a result of any material adverse change in the political and social conditions in Xinjiang.

RISKS RELATING TO CONDUCTING OUR OPERATIONS IN THE PRC

The political, social and economic conditions in the PRC may affect our business

Between 1978 and 2006, China's GDP grew at a rapid rate. We cannot assure you, however, that such growth will be sustained in the future. The PRC economy differs from the operation of economies of most developed countries in many respects, including structure, government involvement, level of development, economic growth rate, control of foreign exchange, allocation of resources and balance of payment position. For the past two decades, the PRC Government has implemented economic reform measures emphasising utilisation of market forces in the development of the PRC economy. Although we believe these reforms will have a positive effect on the PRC's overall and long-term development, we cannot predict whether changes in PRC economic, political and social condition will not have any adverse effect on our current or future business, financial position or results of operations. Moreover, even if new policies may benefit non-ferrous metals companies in the long term, we cannot assure you that we will be able to successfully adjust to such policies. If the PRC's economic growth slows down or if the Chinese economy experiences a recession, the growth of or demand for non-ferrous metals and related products may be reduced or become minimal and our business, financial condition and results of operations will be adversely affected.

Demand for our products and our business, financial condition and results of operations may be adversely affected by:

- political instability or changes in social conditions of the PRC;
- changes in laws and regulations or the interpretation of laws and regulations;
- measures which may be introduced to control inflation or deflation;
- changes in the rate or method of taxation;
- imposition of additional restrictions on currency conversion and remittances abroad;
- reduction in tariff protection and other import restrictions;
- increases in usage fees and royalty payments associated with mineral resources; and
- fluctuations in foreign exchange rate.

These factors are affected by a number of variables which are beyond our control.

Changes in the PRC laws, regulations and policies could adversely affect our business operations

Our operations, like those of other PRC non-ferrous metals companies, are subject to regulations imposed by the PRC Government. These regulations affect many aspects of our operations, including the pricing of our main products, export quotas, export duty reimbursement, energy expense, industry-specific taxes and fees, business qualifications, capital investment and environmental and safety standards. As a result, we may face significant constraints on our ability to implement our business strategies, to develop or expand our business operations or to maximise our profitability. Our business may also be adversely affected by future changes in policies of the

PRC Government applicable to our industry. Any policy reforms promulgated by the PRC Government in respect of non-ferrous metals resources may also have an impact on our future operations. Besides factors arising from the nickel industry itself, the macroeconomic control measures implemented by the PRC Government may have an impact on the demand and supply of nickel.

The MOF and the State Administration of Taxation of the PRC issued a new notice on 5 July 2007 to increase the resource tax rates of non-ferrous metal ore. Pursuant to the new notice, which has been effective since 1 August 2007, resource tax for our mine has increased by RMB4.2 per tonne of ore. Based on our estimated annual mining capacity of 300,000 tonnes in 2007 (assuming 1,000 tonnes per day for 300 days), the maximum net increase of resource tax that would have been paid due to the increase of resource tax rate, amounts to RMB1.26 million. Even though the Directors consider that such increase does not have any significant impact to our financials, any material increase in resource-related taxes or any policy reforms promulgated by the PRC Government in relation to non-ferrous metal may have an adverse impact on our financial condition and results of operations.

Changes in the foreign exchange regulations in the PRC may adversely affect our results of operations and the distribution of dividends

We currently receive most of our revenue in Renminbi and none of our income nor expenses are denominated in U.S. dollars. Conversion of Renminbi is strictly regulated by the PRC Government. Current foreign exchange regulations have significantly reduced the government's foreign exchange control on routine transactions under current accounts, including trade and service related to foreign exchange transactions and payment of dividends. Under the existing foreign exchange regulations in the PRC, following completion of the Global Offering, we will be able to pay dividends in foreign currencies, without prior approval from SAFE, by complying with certain procedural requirements. However, there can be no assurance that the above foreign exchange policies regarding payment of dividends in foreign currencies will continue indefinitely in the future.

The value of Renminbi may fluctuate due to a number of factors. Since 1994, the conversion of Renminbi into foreign currencies in the PRC, including HK and U.S. dollars, has been based on exchange rates published by the PBOC, which are set daily based on the previous day's interbank foreign exchange market rates in the PRC and current exchange rates on the world financial markets. Since 1994, the official exchange rate for the conversion of Renminbi into U.S. dollars has generally been stable. However, as at 21 July 2005, the Renminbi was no longer pegged to the U.S. dollars but instead to a basket of currencies. This change in policy resulted in the appreciation of Renminbi against the U.S. dollars and HK dollars by approximately 7.17% as of 16 May 2007. Since our income and profits are denominated in Renminbi, the revocation of the linked exchange rate between Renminbi and U.S. dollars will increase the uncertainty of the exchange rate of Renminbi, which would adversely affect the value of, and dividends, if any, payable on, our H Shares in foreign currency terms. We cannot assure you that any change in the PRC Government's currency policies or any adverse change in market conditions would not lead to appreciation or depreciation of the Renminbi. As we do not conduct any hedging activities, any fluctuation in exchange rates or any shortage of foreign currency may have an adverse impact on our ability to pay dividends, our operating costs and financial condition.

The outbreak of any severe communicable disease in the PRC, if uncontrolled, could adversely affect our results of operations

The outbreak of any severe communicable disease in the PRC, if uncontrolled, could have an adverse effect on the overall business sentiments and environment in the PRC, which in turn may have an adverse impact on domestic consumption and, possibly, the overall GDP growth of the PRC. As our revenue is currently derived from our PRC operations, any contraction or slowdown in the growth of domestic consumption and possible slowdown in the GDP growth of the PRC will adversely affect our financial condition, results of operations and future growth. In addition, if any of our employees is affected by any severe communicable disease, it could adversely affect or disrupt our production at the relevant plants and adversely affect our results of operations as we may be required to close our facilities to prevent the spread of the disease. The spread of any severe communicable disease in the PRC may also affect the operations of our customers and suppliers, which may have an adverse effect on our business, financial condition and results of operations.

Interpretation of the PRC laws and regulations involves uncertainties

Our Company is incorporated under the laws of the PRC. As our business is mainly conducted in the PRC, our operations are governed principally by the PRC laws and regulations. The PRC legal system is based on written statutes, and prior court decisions can be used only as a reference. Since 1979, the PRC Government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade, with a view to developing a comprehensive system of commercial law, including laws relating to property ownership and development. However, due to the fact that these laws and regulations have not been fully developed, and because of the limited volume of published cases and the non-binding nature of prior court decisions, interpretation of the PRC laws and regulations will involve a degree of uncertainty. As such, the administration of PRC laws and regulations may be subject to a certain degree of discretion by the authorities. Depending on the government agency or how an application or case is presented to an agency, we may receive less favorable interpretations of laws and regulations than our competitors. In addition, any litigation in the PRC may be protracted and result in substantial costs and diversion of resources and management attention.

Holders of our H Shares may not be able to enforce their rights

As a PRC company offering and listing its H Shares outside the PRC, we are subject to the Special Regulations and the Mandatory Provisions, both of which are different from the requirements of the Companies Ordinance. So far as we are aware, the PRC court has not published any case report that involves a request by a holder of H shares of a PRC company to exercise his or her rights under its constitutional document, the Company Law or any regulations of the PRC or Hong Kong applicable to PRC joint stock companies with limited liability.

Our Articles of Association provide that most disputes between holders of our H Shares and us, our Directors, Supervisors, officers or holders of Domestic Shares arising out of our Articles of Association or the Company Law and related regulations concerning our affairs, such as the transfer of our H Shares, are to be resolved through arbitration. An arrangement between Hong Kong and the PRC for the reciprocal enforcement of arbitral awards became effective in the PRC on February 1, 2000. This arrangement was made in accordance with the spirit of the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958. Under the arrangement, awards that are made by the PRC arbitral authorities can be enforced in Hong Kong, and awards made by Hong Kong arbitral authorities can be enforced in the PRC. So far as we are aware, however, no action has been brought in the PRC by any H share holder to enforce an arbitral award made by the arbitral authorities of the PRC or Hong Kong, and there are uncertainties as to the outcome of any action brought in the PRC to enforce such arbitral awards. Although the recently published Arrangements between the Mainland and Hong Kong Special Administrative Region in Relation to the Recognition and Enforcement of Court Decisions of Civil and Commercial Cases in Which the Parties Agreed on Jurisdiction (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排) was designed to provide clarity on the enforceability of decisions by PRC courts in Hong Kong and Hong Kong courts in the PRC, so far as we are aware, uncertainties remain as to the outcome and effectiveness of such arrangements.

Holders of our H Shares may be subject to PRC taxation

Under current PRC tax laws, regulations and rulings, dividends paid to holders of our H Shares outside the PRC are exempt from PRC income tax. In addition, gains realised by holders of our H Shares upon the sale or other disposition of our H Shares are currently exempt from PRC income tax. However, the new PRC Enterprise Income Tax Law, which will become effective on 1 January 2008, provides that an income tax rate of 20% will be applicable to dividends payable to non-PRC enterprise shareholder which are derived from sources within the PRC, unless there is a tax treaty applicable between the PRC and the relevant jurisdiction in which such non-PRC enterprise shareholder resides, whereby the relevant tax liability may be reduced or exempted. Although the new Enterprise Income Tax Law also provides that such income tax may be reduced or exempted, there can be no assurance that the dividends paid to any of our non-PRC enterprise shareholder will benefit from such reduction or exemption. For further information, see Appendix VI — Taxation.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our H Shares and our H Shares may not be traded actively in the market, and its transaction price may be volatile

Prior to the Global Offering, there has been no public market for our Shares, including our H Shares. The initial issue price range to the public for our H Shares was the result of negotiations among us and the Sole Global Coordinator on behalf of the Underwriters, and the Offer Price may differ significantly from the market price for our H Shares following the Global Offering. We have applied to list and deal in our H Shares on the Stock Exchange. A listing on the Stock Exchange, however, does not guarantee that an active trading market for our H Shares will develop, or if it does develop, will be sustained following the Global Offering, or that the market price of our H Shares will not decline following the Global Offering. In addition, there can be no assurance that the Global Offering will result in the development of an active and liquid public trading market for our H Shares. Furthermore, the price and trading volumes of our H Shares may be volatile. Factors such as variations in our revenues, earnings and cash flows or any other developments may affect the volume and price at which our H Shares will trade.

Potential conversion of Domestic Shares into H Shares may result in an increase of the number of H Shares available in the market and may affect the price of the H Shares

Subject to the approval by the securities regulatory authority of the State Council (at present the CSRC), the holders of Domestic Shares may transfer their shares to overseas investors and such shares may be listed or traded, on an overseas stock exchange. Any listing or trading of the transferred shares on an overseas stock exchange shall comply with the regulatory procedures, rules and requirements of such overseas stock exchange. The listing and trading of the transferred shares shall not be required to be resolved at separate class meetings of our Company. However, the Company Law provides that in relation to the public offering of a company, the shares of that company which are issued prior to the public offering shall not be transferred within one year from the date of the Listing of those shares. Therefore, potential conversion of a substantial amount of Domestic Shares into H Shares after one year of the Global Offering could further increase the supply of our H Shares in the market and could negatively impact the market price of our H Shares.

RISKS RELATING TO STATEMENTS MADE IN THIS PROSPECTUS

We cannot guarantee the accuracy of government official facts and statistics with respect to the PRC, the PRC economy and the PRC non-ferrous metals industry contained in this prospectus

Facts and statistics in this prospectus relating to the PRC, the PRC economy and the PRC non-ferrous metals industry have been derived from various government official sources generally believed to be reliable. However, we cannot guarantee the quality or reliability of such facts and statistics materials. They have not been prepared or independently verified by us, the Sole Global Coordinator, Underwriters or any of their or our respective affiliates or advisers. Therefore, we make no representation as to the accuracy of the facts and statistics contained in such government official sources which may not be consistent with other information compiled within or outside the PRC. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the government official facts and statistics in the section headed "Industry Overview" in this prospectus with respect to the PRC, the PRC economy and the PRC non-ferrous metals industry may be inaccurate or may not be comparable to statistics produced for other economies and should not be unduly relied upon. Further, there can be no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.

Estimated consolidated profit attributable to the shareholders of our Company for the six months ended 30 June 2007 may not give any indication of our full year financial results for 2007

It should be noted that our operations, and consequently our net profits, are affected by a number of factors including, among other things, price volatility of our products and raw materials, economic growth in the PRC and globally, changes in the PRC Government control and policies, product mix and cost of electricity and coke. These factors could vary materially between the conditions in the first half of 2007 and the second half of 2007.

Due to the factors described above, many of which are beyond our control, our estimated consolidated profit attributable to the shareholders of our Company for the six months ended 30 June 2007 may not necessarily give any indication of, and should not be interpreted as a guidance of, our full year financial results for 2007.

You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles or other media, including, in particular, any projections, valuations, and other forward-looking statements

Prior to the publication of this prospectus, there has been press articles or other media coverage regarding us and the Global Offering, including those in the Hong Kong Economic Times on 11 September 2007 and the Hong Kong Economic Journal in 12 September 2007. We wish to emphasise to prospective investors that we do not accept any responsibility for the accuracy or completeness of such press articles or other media and that such press articles or other media were not prepared or approved by us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations, other forward-looking statements about us or information about our corporate investors, or of any assumptions underlying such projections, valuations, other forward looking statements or information about our corporate investors, referred to by such press articles or other media. To the extent that any such statements are inconsistent with, or conflict with, the information contained in this prospectus, we disclaim them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information.

MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 and Rule 19A.15 of the Listing Rules, an issuer must have sufficient management presence in Hong Kong and in normal circumstances, at least two of the issuer's executive Directors must be ordinarily resident in Hong Kong.

Our headquarter is located in Urumqi, Xinjiang and all of our four executive Directors are PRC citizens and are not ordinarily residents in Hong Kong. We do not and, in the foreseeable future, will not have a sufficient management presence in Hong Kong for the purposes of satisfying the requirement under Rule 8.12 and Rule 19A.15 of the Listing Rules. Therefore, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirement under Rule 8.12 and Rule 19A.15 of the Listing Rules and the following arrangements have been made for maintaining regular and effective communication with the Stock Exchange:

(i) We have appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Stock Exchange and ensure that we comply with the Listing Rules at all times. The two authorised representatives are Mr. Zhang Guohua (張國華), an executive Director, and Mr. Lam Cheuk Fai (林灼輝), one of our joint company secretaries and our qualified accountant. Mr. Lam Cheuk Fai is an ordinarily resident in Hong Kong. Our alternate authorised representative is Mr. Ng Yuk Keung (吳育強) (who is one of our independent non-executive Directors and an ordinary resident of Hong Kong). Each of the authorised representatives and the alternate authorised representative hold valid travel documents such that they will be available to meet with the Stock Exchange within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and email, and are authorised to communicate on our behalf with the Stock Exchange.

(ii) All authorised representatives have means of contacting our Directors promptly at all times as and when the Stock Exchange wishes to contact our Directors on any matters. To enhance communication between the Stock Exchange, the authorised representatives and our Directors, we have implemented a policy whereby (a) each Director will have to provide his mobile phone numbers, residential phone numbers, office phone numbers, facsimile numbers and electronic mail addresses to the authorised representatives; (b) in the event that a Director expects to travel and be out of office, he will have to provide the phone number of the place of his accommodation to the authorised representatives; and (c) all Directors will provide their mobile phone numbers, residential phone numbers, office phone numbers, facsimile numbers and electronic mail addresses to the Stock Exchange.

(iii) We have appointed BOCI Asia as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. BOCI Asia will have access at all times to our authorised representatives, our Directors and our other senior management, and will act as our principal channel of communication with the Stock Exchange when our authorised representatives are not available.

(iv) Meetings between the Stock Exchange and our Directors could be arranged through our authorised representatives or the compliance adviser, or directly with our Directors within a reasonable time frame. We will inform the Stock Exchange promptly in respect of any change in our authorised representatives and compliance adviser.

JOINT COMPANY SECRETARIES

Pursuant to Rule 8.17 of the Listing Rules, the secretary of our Company must be a person who is ordinarily resident in Hong Kong, and who has the requisite knowledge and experience to discharge the functions of a company secretary and is either (i) a member of the Hong Kong Institute of Chartered Secretaries, a solicitor or barrister or a professional accountant, or (ii) an individual who, by virtue of his academic or professional qualifications or relevant experience, is in the opinion of the Stock Exchange capable of discharging those functions. Rule 19A.16 of the Listing Rules provides that the secretary of a PRC issuer, such as our Company, need not be an ordinarily resident in Hong Kong, provided that such person can meet the other requirements of Rule 8.17 of the Listing Rules.

Our Company has appointed Mr. Zhang Junjie (張俊杰) as one of the joint company secretaries who does not possess full qualification as required under the Listing Rules and Mr. Lam Cheuk Fai (林灼輝) as another joint company secretary who is able to fully comply with the requirements set out under Rule 8.17 of the Listing Rules. Although we believe that Mr. Zhang Junjie (by virtue of his knowledge and experience in handling corporate administrative matters and internal controls management) should be capable of discharging his function as the company secretary of our Company, on the basis that Mr. Zhang Junjie does not possess the formal qualifications as are normally required under the Listing Rules, our Company has applied to the Stock Exchange for, and the Stock Exchange has granted a waiver from strict compliance with the requirements as set out in Rules 8.17 and to 19A.16 of the Listing Rules in relation to Mr. Zhang Junjie being appointed as a joint company secretary. The waiver was granted for a period of three years from the Dealing Date.

Mr. Lam Cheuk Fai, as the other joint company secretary, has been retained by our Company to work closely with, and to provide assistance to Mr. Zhang Junjie as to enable him to acquire the relevant experience as required under Rule 8.17(3) of the Listing Rules and to duly discharge the functions of a company secretary. Upon the expiry of the three-year period, we will assess the then qualifications and experience of Mr. Zhang Junjie in order to determine whether any on-going assistance is required and whether the requirements as stipulated in Rules 8.17 and 19A.16 of the Listing Rules would then be satisfied.

CONNECTED TRANSACTIONS

We have entered into certain transactions, which would constitute non-exempted continuing connected transactions of our Company under the Listing Rules after the Listing. We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the announcement and independent shareholders' approval requirements set out in Chapter 14A of the Listing Rules for such non-exempted continuing connected transactions. Further details of such waivers are set out in the section headed "Connected Transactions" in this prospectus.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus contains particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules of Hong Kong (as amended) and the Listing Rules for the purpose of giving information to the public with regard to us. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable inquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this prospectus misleading.

CSRC APPROVAL

The CSRC issued an approval letter on 29 August 2007 for the Global Offering and the submission of the application to list our H Shares on the Stock Exchange. In granting such approval, the CSRC accepts no responsibility for our financial soundness, nor for the accuracy of any of the statements made or opinions expressed in this prospectus or in the Application Forms.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering.

The Listing is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis under the terms of the Underwriting Agreement, subject to us and the Sole Global Coordinator (on behalf of the Underwriters) agreeing on the Offer Price on the Price Determination Date. The International Placing is managed by the Sole Global Coordinator. An Underwriting Agreement relating to the International Placing is expected to be entered into on or about Tuesday, 25 September 2007, subject to us and the Sole Global Coordinator (on behalf of the Underwriters) agreeing on the Offer Price on the Price Determination Date.

If, for whatever reason, we and the Sole Global Coordinator (on behalf of the Underwriters) do not agree on the Offer Price on Price Determination Date, the Global Offering will not become unconditional and will lapse immediately. Further information about the Underwriters and the underwriting arrangements, see the section headed "Underwriting."

RESTRICTIONS ON OFFER AND SALE OF H SHARES

Each person acquiring the Public Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of the Public Offer Shares to, confirm that he is aware of the restrictions on offers of the H Shares described in this prospectus.

No action has been taken to permit an offering of the H Shares or the distribution of this prospectus or any of the Application Forms in any jurisdiction other than Hong Kong. Accordingly, none of this prospectus and the Application Forms may be used for the purpose of, and none of this prospectus and the Application Forms constitutes, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The H Shares are being offered solely on the basis of the information contained and representations made in this prospectus. No person is authorised in connection with the Global Offering to give any information or to make any representation not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied on as having being authorised by us or our Directors, or the Sole Global Coordinator, the Underwriters or their respective directors, or any other person or party involved in the Global Offering.

United States

The H Shares have not been and will not be registered under United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder (the "Securities Act") and may not be offered, sold, pledged or otherwise transferred within the United States. The H Shares may be offered or sold outside of the United States in offshore transactions in accordance with Regulation S. Until 40 days after the later of the commencement of the Global Offering and the completion of the distribution of the H Shares, an offer or sale of the H Shares within the United States (whether or not as a part of the Global Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an exemption from, or in a transaction not subject to, such requirements of the Securities Act.

The H Shares have not been approved or disapproved by the U.S. Securities and Exchange Commission, any state securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Global Offering or the accuracy of this prospectus relating to the Hong Kong Public Offering or the International Placing. Any representation to the contrary is a criminal offence in the United States.

United Kingdom

The Offer Shares may not be offered or sold other than in compliance with all applicable provisions of the United Kingdom Financial Services and Markets Act 2000 (the "FSMA") with respect to anything done in relation to the Offer Shares in, from or otherwise involving the United Kingdom. Each Underwriter may only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Offer Shares in circumstances in which Section 21(1) of the FSMA does not apply to our Company.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each Underwriter may not, with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date"), make an offer of Offer Shares to the public in that Relevant Member State other than (1) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities; (2) to any legal entity which has two or more of (a) an average of at least 250 employees during the last financial year; (b) a total balance sheet of more than €43,000,000; and (c) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; (3) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Sole Global Coordinator; or (4) in any other circumstances falling within Article 3(2) of the Prospectus Directive; Provided that no such offer of Offer Shares shall require our Company or any Underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Offer Shares to the public" in relation to any Offer Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Offer Shares to be offered so as to enable an investor to decide to purchase or subscribe the Offer Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Germany

Offers and sales in Germany of the Offer Shares, which are not listed on a German stock exchange, are subject to the restrictions contained in the German Securities Prospectus Act *(Wertpapierprospektgesetz)* of 22 June 2005, as amended (the "GSPA"), and any other laws and regulations applicable in the Federal Republic of Germany governing the issue, offering and sale of securities.

This prospectus has not been filed or deposited with, or approved by, the Federal Financial Supervisory Authority *(Bundesanstalt fuer Finanzdienstleistungsaufsicht — BaFin)* in Germany.

The Offer Shares may not be offered or sold publicly in Germany other than in compliance with the GSPA, the German Securities Sales Prospectus Act *(Wertpapier-Verkaufsprospektgesetz)*, the German Investment Act *(Investmentgesetz)*, respectively, and any other laws and regulations applicable in the Federal Republic of Germany governing the issue, the offering and the sale of securities. Pursuant to section 3 of the GSPA, the obligation to issue a prospectus does not apply to the offering of securities (1) to persons who are qualified investors *(qualifizierte Anleger)*; or (2) to not more than 100 non-qualified investors in each country of the European Economic Area; or (3) to investors who may, in respect of each individual offer, acquire securities in a minimum amount of €50,000 per investor; or (4) to the extent the securities have a minimum denomination of €50,000; or (5) to the extent the purchase price for all offered securities is less than €100,000, provided that this limit shall be determined over a period of twelve months.

Prospective German investors in the Offer Shares are urged to seek independent tax advice and to consult their professional advisors as to the legal and tax consequences that may arise from the application of the German Investment Tax Act *(Investmentsteuergesetz)* to the Offer Shares and none of our Company or our Directors or the Sole Global Coordinator or the Underwriters or any of their directors or any other persons or parties involved in the Global Offering accept any responsibility in respect of the German tax position of the Offer Shares.

France

This prospectus has not been prepared in the context of a public offering of securities in France within the meaning of Article L.411-1 of the French Code *monétaire et financier* (the "CFM") and has therefore not been submitted to the *Autorité des marches financiers* (the "AMF") for prior approval or otherwise.

Accordingly, the Offer Shares have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France and neither this prospectus nor any other offering material relating to the Offer Shares has been distributed or caused to be distributed or will be distributed or caused to be distributed to the public in France, except to qualified investors *(investisseurs qualifiés)* and/or to a restricted circle of investors *(cercle restreint d'investisseurs)*, provided that such investors are acting for their own account and/or to persons providing portfolio management financial services for the account of third parties *(personnes fournissant le service* *d'investissement de gestion de portefeuille pour compte de tiers)*, all as defined and in accordance with Article L.411-2, D.411-1, D.411-2, D.734-1, D.744-1, D.754-1 and D.764-1 of the CFM, and in each case, acting for their own account, within the meaning of, and in compliance with Articles D.411-1, D.411-2, D.734-1, D.744-1, D.754-1 and D.764-1 of the CFM and undertaking not to offer, market or distribute, sell or resell or otherwise retransfer, directly or indirectly to the public in France, any Offer Share purchased as a result, other than, if relevant, in compliance with Articles L.411-1, L.411-2, L.412-1 and L.621-8 to L.621-8-3 of the CFM, and/or to persons providing portfolio management financial services for the account of third parties *(personnes fournissant le service d'investissement de gestion de portefeuille pour compte de tiers)* in France.

The Offer Shares may only be offered or sold, directly or indirectly, to the public in France in accordance with applicable laws relating to public offerings (which are in particular embodied in Article L.411-1, L.411-2, L.412-1 and L.621-8 to L.621-8-3 of the CFM).

Italy

This Global Offering has not been registered with the Italian securities market regulator the Commissione Nazionale per la Societa è la Borsa ("CONSOB") pursuant to the Italian securities legislation and, accordingly, the Offer Shares may not be directly or indirectly offered, sold or delivered and no copies of this prospectus or any other document relating to the Offer Shares may be distributed in the Republic of Italy, and that sales of the Offer Shares in the Republic of Italy shall only be negotiated (1) with professional investors *(operatori qualificati)*, as defined by Article 100 of Legislative Decree no. 58 of 24 February 1998 and the implementing CONSOB regulations; or (2) in circumstances which are exempted from the rules of solicitation of investments pursuant to Article 100 of Legislative Decree no. 58 of 24 February 1998 and Article 33(1) of CONSOB Regulation no. 11971 of 14 May 1999, as amended from time to time.

Accordingly, and only in relation to the cases under (1) and (2) above, in which the private placement of the Offer Shares is admitted, the Offer Shares may not be offered, sold or delivered and neither this prospectus nor any other material relating to the Offer Shares may be distributed or made available in the Republic of Italy unless such offer, sale or delivery of the Offer Shares or distribution or availability of copies of this prospectus or any other material relating to the Offer Shares in the Republic of Italy is (a) made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with relevant provisions of Italian laws and regulations; and (b) in compliance with any other applicable requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

Insofar as the requirements above are based on laws which are superseded at any time pursuant to the implementation of the Directive 2003/71/EC (the Prospectus Directive), such requirements shall be deemed to be automatically replaced by the applicable requirements under the said Directive as implemented in Italy.

Kingdom of Netherlands (excluding Aruba and Netherlands Antilles)

The prospectus has not been approved by the Netherlands Authority for the Financial Markets *(Autoriteit Financiële Markten)* (the "AFM"), or by a supervisory authority in another member state of the European Economic Area and notified to the AFM, pursuant to the Financial Supervision Act *(Wet op het financieel toezicht)* (the "FSA").

Accordingly, the Offer Shares may not be offered in the Netherlands, except (1) to qualifying investors *(gekwalificeerde beleggers)* as defined in the FSA and the regulations promulgated thereunder, (2) to less than 100 persons, not being qualifying investors, (3) at a consideration of at least EUR 50,000 per investor, or (4) in any circumstances which do not require an approved prospectus pursuant to the FSA.

Switzerland

This prospectus does not constitute a public offering prospectus as that term is understood pursuant to Article 652a of the Swiss Code of Obligations (the "CO"). We have not applied for a listing of the Offer Shares on the SWX Swiss Exchange and consequently, the information presented in this prospectus does not necessarily comply with the information standards set out in the relevant listing rules.

The Offer Shares may not be publicly offered or sold in Switzerland. The Offer Shares may be offered or sold only to a selected number of individual investors in Switzerland, under circumstances which will not result in the offer of the Offer Shares being a public offering within the meaning of Article 652a CO.

Japan

The Offer Shares have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948) (as amended) (the "FIEL") and disclosure under the FIEL has not been made with respect to the Offer Shares. Accordingly our Offer Shares may not be offered or sold, directly or indirectly, in Japan or to, or for the account of, any resident of Japan, or to others for re-offering or re-sale, directly or indirectly in Japan or to, or for the benefit of, any resident of Japan, except pursuant to any exemption from the registration requirements of the FIEL and otherwise in compliance with the FIEL and other applicable provisions of Japanese law and regulations. As used in this paragraph, "resident of Japan" means any person residing in Japan including any corporation or other entity organised under the laws of Japan.

Australia

This prospectus is not a disclosure document under Chapter 6D of the Corporations Act 2001 (Cth) (the "ACA"), has not been lodged with the Australian Securities and Investments Commission and does not purport to include the information required of a disclosure document under Chapter 6D of the ACA. Accordingly, (1) the offer of the Offer Shares under this prospectus may only be made to persons to whom it is lawful to offer those shares without disclosure to investors under Chapter 6D of the ACA under one or more exemptions set out in Section 708 of the ACA; (2) this prospectus may only be made available in Australia to persons as set forth in clause (1) above; and (3) a notice must be sent to the offeree stating in substance that by accepting this offer, the offeree represents that the offeree is such a person as set forth in clause (1) above, and, unless permitted under the ACA, agrees not to sell or offer for sale within Australia any Offer Shares sold to the offeree within 12 months after their transfer to the offeree under this prospectus.

Singapore

This prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of our Offer Shares may not be circulated or distributed, nor may our Offer Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (1) to an institutional investor or other person specified under Section 274 of the Securities and Futures Act (Act 42 of 2001) of Singapore (the "SFA"), (2) to a relevant person pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions, specified in Section 275 of the SFA, or (3) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where our H Shares are subscribed or purchased under either or both of Sections 275 and 276 of the SFA, they shall not be sold by the subscriber or purchaser for 6 months after such subscription or purchase other than to (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA.

Where our H Shares are subscribed or purchased under Section 275 by a relevant person which is (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired our H Shares under Section 275 except (i) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions, specified in Section 275 of the SFA; or (ii) where no consideration is given for the transfer; or (iii) where the transfer is by operation of law.

United Arab Emirates

This Prospectus does not constitute a public offer of securities in the United Arab Emirates ("UAE"). Neither the Offer Shares offered hereby nor this prospectus have been or will be registered with, or licensed or approved by, the UAE Central Bank, the Emirates Securities and Commodities Authority, the Dubai Financial Services Authority or any other regulatory authority in the UAE. This prospectus is not intended to be a public offer, and is offered to a limited number of sophisticated investors on a private placement basis. The Offer Shares offered hereby may not be offered or sold directly or indirectly to the public in the UAE.

PRC

This prospectus may not be circulated or distributed in the PRC and the Offer Shares may not be offered or sold directly or indirectly to any resident of the PRC, or offered or sold to any person for re-offering or re-sale directly or indirectly to any resident of the PRC except pursuant to applicable laws and regulations of the PRC.

APPLICATION FOR LISTING OF OUR H SHARES ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, our Offer Shares to be issued pursuant to the Global Offering (including any additional H Shares which may be issued pursuant to the exercise of the Over-allotment Option) and certain Domestic Shares transferred or to be transferred to NSSF by the Xinjiang Non-ferrous, details of which are set forth in the section headed "Share Capital – Disposal of State-owned Shares." Dealings in the H Shares on the Stock Exchange are expected to commence on Friday, 12 October 2007. Save as disclosed in this prospectus, no part of our share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

HONG KONG H SHARE REGISTER AND STAMP DUTY

All H Shares sold pursuant to applications made in the Hong Kong Public Offering and pursuant to the International Placing will be registered on our H Share register of members to be maintained in Hong Kong. Our principal register of members will be maintained by us at our current registered office in the PRC.

Dealings in our H Shares registered in our H Share register will be subject to Hong Kong stamp duty. Please refer to the section headed "Taxation — Stamp Duty — Hong Kong Stamp Duty" in Appendix VI to this prospectus.

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, our H Shares and we comply with the stock admission requirements of HKSCC, our H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Dealing Date or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling our H Shares to be admitted into CCASS.

PROFESSIONAL TAX ADVICE RECOMMENDED

Applicants for the Public Offer Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of and dealing in our H Shares or exercising rights attached to them under the laws of the place of their operations, domicile, residence, citizenship or incorporation. It is emphasised that none of us, the Sole Global Coordinator, the Sole Sponsor, the Underwriters, any of our and their respective directors and advisers or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposition of or dealing in our H Shares or the exercise by any person of rights attached to our H Shares.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

We have instructed Computershare Hong Kong Investor Services Limited, the Share Registrar, and Computershare Hong Kong Investor Services Limited has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless and until the holder delivers a signed form to the Share Registrar in respect of those H Shares bearing statements to the effect that the holder:

1. agrees with us and each of our shareholders, and we agree with each shareholder, to observe and comply with the Company Law, the Special Regulations and our Articles of Association;

2. agrees with us, each of our shareholders, Directors, Supervisors, president, general manager, deputy managers and other senior administrative officers, and we acting for ourselves and each of our Directors, Supervisors, managers and officers agree with each shareholder, to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award, which shall be final and conclusive;

3. agrees with us and each of our shareholders that H Shares are freely transferable by the holders thereof; and

4. authorises us to enter into a contract on his or her behalf with each of our Directors, Supervisors and officers whereby such Directors, Supervisors and officers undertake to observe and comply with their obligations to shareholders as stipulated in our Articles of Association.

Persons applying for or purchasing H Shares under the Global Offering are deemed, by their making an application or purchase, to have represented that they are not associates (as such term is defined in the Listing Rules) of any of the Directors, existing shareholders of our Company or a nominee of any of the foregoing.

OVER-ALLOTMENT AND STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the newly issued securities in the secondary market during a specified period of time to minimise and, if possible, prevent a decline in the market price of the securities below their initial offering price. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the initial offering price.

In connection with the Global Offering, BOCI Asia as stabilizing manager, or its affiliates or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or maintaining the market price of our H Shares at a level higher than that which might otherwise prevail for a limited period commencing from the Dealing Date. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. However, there is no obligation on BOCI Asia, its affiliates or any person acting for it to do this. Such stabilization, if commenced, will be conducted at the absolute discretion of BOCI Asia, its affiliates or any person acting for it and may be discontinued at any time, and must be brought to an end after a limited period (as described below). The number of our H Shares that may be over-allocated will not be greater than the number of H Shares which may be issued and sold upon exercise of the Over-allotment Option, being 90,000,000 H Shares, which is approximately 15% of our H Shares initially available under the Global Offering.

BOCI Asia, its affiliates or any person acting for it, may take all or any of the following stabilizing actions in Hong Kong during the stabilizing period:

(i) purchase, or agree to purchase, any of our H Shares or offer or attempt to do so for the sole purpose of preventing or minimising any reduction in the market price of our H Shares;

(ii) in connection with any action described in paragraph (i) above;

(A) (1) over-allocate our H Shares; or

(2) sell or agree to sell our H Shares so as to establish a short position in them,

for the sole purpose of preventing or minimising any reduction in the market price of our H Shares;

(B) exercise the Over-allotment Option and purchase or subscribe for or agree to purchase or subscribe for our H Shares in order to close out any position established under paragraph (ii) (A) above;

(C) sell or agree to sell any of our H Shares acquired by them in the course of the stabilizing action referred to in paragraph (i) above in order to liquidate any position that has been established by such action; or

(D) offer or attempt to do anything as described in paragraphs (ii)(A)(2), (ii)(B) or (ii)(C) above.

BOCI Asia, its affiliates or any person acting for it may, in connection with the stabilizing action, maintain a long position in our H Shares and there is no certainty as to the extent to which and the time period for which it will maintain such a position. Investors should be warned of the possible impact of any liquidation of the long position by BOCI Asia, its affiliates or any person acting for it, which may lead to a decline in the market price of our H Shares.

Stabilization cannot be used to support the price of our H Shares for longer than the stabilizing period, which begins on the day on which trading of our H Shares commences on the Stock Exchange and ends on the earlier of the 30th day after the last day for lodging of applications under the Hong Kong Public Offering or the commencement of trading of our H Shares. The stabilizing period is expected to expire on 2 November 2007. After this date, no further stabilizing action may be taken and demand for our H Shares and therefore the market price for our H Shares could fall.

Any stabilizing action taken by BOCI Asia, or any person acting for it, may not necessarily result in the market price of our H Shares staying at or above the Offer Price either during or after the stabilizing period. Stabilizing bids or market purchases effected in the course of the stabilization action may be made at any price at or below the Offer Price and can therefore be done at a price below the price the investor has paid in acquiring our H Shares.

We will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within 7 days of the expiration of the stabilizing period.

PROCEDURE FOR APPLICATION FOR PUBLIC OFFER SHARES

The procedure for applying for Public Offer Shares is set forth in the section headed "How to Apply for the Public Offer Shares" and on the relevant Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set forth in the section headed "Structure of the Global Offering" in this prospectus.

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations of certain Renminbi amounts into HK dollars or U.S. dollars at specified rates. You should not construe these translations as representations that the Renminbi amounts could actually be converted into any HK dollar amounts or U.S. dollar amounts at the rates indicated or at all. Unless we indicate otherwise, the translations of Renminbi into HK dollars or U.S. dollars have been made at the rates of RMB0.97 to HK$1.0 and HK$7.80 to US$1.0 respectively.

ROUNDING

Certain monetary amounts included in this prospectus have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

TRANSLATION OF CHINESE NAMES

If there is any inconsistency between the Chinese names of the PRC individuals and entities mentioned in this prospectus and their English translations, the Chinese names shall prevail.

DIRECTORS

Name	Address	Nationality
Executive Directors		
Yuan Ze (袁澤)	Unit 7-2-402 No. 15 You Hao Road Mingyuan Urumqi Xinjiang the PRC	Chinese
Shi Wenfeng (史文峰)	Unit 1-3-501 No. 4 You Hao North Road Urumqi Xinjiang the PRC	Chinese
Zhang Guohua (張國華)	Unit 39-2-402 No. 4 You Hao North Road Urumqi Xinjiang the PRC	Chinese
Liu Jun (劉俊)	8th Floor, No. 405 Kalatongke Copper and Nickel Mine Keketouhai Town, Eighth District Fuyun County Xinjiang the PRC	Chinese
Non-executive Directors		
Zhou Chuanyou (周傳有)	Unit 201, No. 18, Lane 618 Hongjing Road Minhang District Shanghai the PRC	Chinese
Niu Xuetao (牛學濤)	Unit 101, No. 18, Lane 618 Hongjing Road Minhang District Shanghai the PRC	Chinese

Name	Address	Nationality
Independent non-executive Directors		
Chen Jianguo (陳建國)	Unit 18-2-601 No. 15, Beijing North Road Urumqi Xinjiang the PRC	Chinese
Sun Baosheng (孫寶生)	Unit 11-1-402 No. 3 Kalamayi West Road Urumqi Xinjiang the PRC	Chinese
Ng Yuk Keung (吳育強)	31E, Block 6 Castello Shatin New Territories Hong Kong	Chinese
Supervisors		
Jiang Mingshun (姜明順)	Unit 33-3-201 No. 4, You Hao North Road Urumqi Xinjiang the PRC	Chinese
Chen Jiahong (陳家洪)	Unit 15-2-202 East Second District Hongshiyue Small District Urumqi Xinjiang the PRC	Chinese
Sun Baohui (孫寶輝)	Unit 8-3-306, Anning Road Kalatongke Copper and Nickel Mine Fuyun County Xinjiang the PRC	Chinese

Name	Address	Nationality
Independent Supervisors		
Chen Yuping (陳玉萍)	Unit 22-1-501 No. 134 Xi Bei Road Sha District Urumqi Xinjiang the PRC	Chinese
Hu Zhijiang (胡志江)	Unit 13-1-1902 No. 16, Mingde Road Urumqi Xinjiang the PRC	Chinese

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Global Coordinator, Sole Bookrunner, Sole Sponsor and Sole Lead Manager	BOCI Asia Limited 26/F, Bank of China Tower 1 Garden Road Central Hong Kong
Auditors and reporting accountants	PricewaterhouseCoopers Certified Public Accountants 22/F, Prince's Building Central Hong Kong
Legal advisers to our Company	*as to Hong Kong law:* Huen Wong & Co. *in association with Fried, Frank, Harris, Shriver & Jacobson LLP* 9/F Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong *as to PRC law:* Beijing Grandfield Law Firm 18/F, Tower C International Investment Building 6-9 Fuchengmen North Street Xicheng District Beijing the PRC 100034
Legal advisers to the Sole Global Coordinator, the Sole Sponsor and the Underwriters	*as to Hong Kong law:* Sidley Austin 39/F, Two International Finance Centre 8 Finance Street Central Hong Kong *as to PRC law:* Commerce & Finance Law Offices 6/F, NCI Tower A12 Jianguomenwai Avenue Beijing the PRC 100022

Property valuer	Sallmanns (Far East) Limited 22/F, Siu On Centre 188 Lockhart Road Wanchai Hong Kong
Independent technical consultant	SRK Consulting Level 6 44 Market Street Sydney NSW 2000 Australia
Receiving bankers	Bank of China (Hong Kong) Limited 1 Garden Road Central Hong Kong
	The Bank of East Asia, Limited 10 Des Voeux Road Central Hong Kong

CORPORATE INFORMATION

Registered office in the PRC	Youse Building No. 4 You Hao North Road Urumqi Xinjiang the PRC 830000
Principal place of business in the PRC	Youse Building No. 4 You Hao North Road Urumqi Xinjiang the PRC 830000
Place of business in Hong Kong	9/F Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong
Joint company secretaries	Zhang Junjie (張俊杰) Unit 32-1-401 No. 4 You Hao North Road Urumqi Xinjiang the PRC Lam Cheuk Fai (林灼輝), *FCCA, FCPA* Flat 5B, Hoi Tien Mansion Taikoo Shing Hong Kong
Qualified accountant	Lam Cheuk Fai (林灼輝), *FCCA, FCPA* Flat 5B, Hoi Tien Mansion Taikoo Shing Hong Kong
Authorised representatives	Zhang Guohua (張國華) Unit 39-2-402 No. 4 You Hao North Road Urumqi Xinjiang the PRC Lam Cheuk Fai (林灼輝) Flat 5B, Hoi Tien Mansion Taikoo Shing Hong Kong

Alternate authorised representative	Ng Yuk Keung (吳育強) 31E, Block 6 Castello Shatin New Territories Hong Kong
Compliance adviser	BOCI Asia Limited
Board audit committee	Chen Jianguo (陳建國) *(Chairman)* Zhou Chuanyou (周傳有) Ng Yuk Keung (吳育強)
Board remuneration and review committee	Shi Wenfeng (史文峰) *(Chairman)* Niu Xuetao (牛學濤) Ng Yuk Keung (吳育強) Chen Jianguo (陳建國) Sun Baosheng (孫寶生)
Strategy planning committee	Yuan Ze (袁澤) *(Chairman)* Zhou Chuanyou (周傳有) Shi Wenfeng (史文峰) Zhang Guohua (張國華) Sun Baosheng (孫寶生)
Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Company's website	**www.xjxxky.com.cn**
Principal banker	Bank of Communications Co., Ltd. (Urumqi Branch) You Hao Road Sub-branch No. 9 Kelamayi Eastern Road Urumqi Xinjiang

This section was compiled in June and updated in September 2007 by CRU, an international metals and mining consulting firm. It contains certain information which is derived from official government publications. Some of the estimates quoted by CRU are publicly released by the US Geological Survey (USGS), a US government organisation which provides impartial scientific information. None of the reports/sources citied in this section is commissioned by us. While reasonable care was exercised by CRU in compiling and reproducing official government information, it has not been independently verified by us or any of our affiliates or advisors, nor by the Sole Global Coordinator, the Underwriters or any of their affiliates or advisors. This information may not be consistent with other information complied within or outside the PRC.

SECTION 1: THE SUPPLY OF NICKEL

Introduction

Nickel is a silvery white metal with a relatively high melting point of 1,455˚C. The valuable properties of nickel are its hardness and resistance to oxidation. It is used principally as an alloying agent in the production of stainless steel and in superalloys and a variety of nickel-copper alloys. It is also used as a plating material on steel and plastics. Stainless steels are used widely in environments where corrosion resistance, cleanliness and ease of fabrication are important. Thus they are used in the food and drinks industries, in medical applications, in household goods such as kitchen equipment, and in transportation and architectural applications. Superalloys and copper-nickel alloys are used in industrial applications where resistance to corrosion and to heat are vital.

Nickel typically occurs in combination with other metals, normally with copper or with cobalt. There are two broad categories of nickel ore, sulphide and laterite. Sulphide ores have historically provided the majority of primary nickel production, but these resources are being depleted faster than new sulphide resources are being discovered. Laterite resources have for many years been exploited for the production of ferro-nickel (an alloy of iron and nickel) but there is now a need to exploit laterite resources for the production of pure nickel. The technology for this process is still not fully proven on a commercial basis. Delays and rising capital costs associated with new laterite nickel projects have resulted in a shortage of primary nickel in the past two years, which has caused stocks to be depleted and the nickel price to rise to unprecedented levels.

The current high price of nickel is now encouraging mining companies to bring new mines into production, and is also stimulating efforts to reduce the consumption of nickel, and to substitute alternative materials for nickel-containing alloys.

1. Nickel resources and production

1.1 Ore types

Nickel ores fall into two generic types: sulphide and laterite ores. Nickel is currently recovered from both types of ore. Sulphide ores account for approximately 55% of production from nickel mines worldwide, and laterite ores for approximately 45%. The geological and mineralogical characteristics of the two types of ore are very different, and consequently they are exploited by different methods of mineral processing and metallurgical treatment.

Sulphide ores occur in numerous locations. The major sulphide nickel mines are now located in Canada, Australia, Russia, South Africa, Zimbabwe and Botswana. Ore compositions can vary substantially from one deposit to another, and processing flowsheets can therefore also vary. However, in principle these ores are treated by flotation, smelting and refining.

By-products or co-products, such as copper, cobalt and platinum group metals, can be very substantial contributors to the economic value of sulphide deposits.

Lateritic nickel ores consist of a variety of tropical and sub-tropical soil profiles enriched in iron, nickel and cobalt, developed over peridotite bedrock. Major laterite deposits are located in Cuba, the Dominican Republic, Guatemala, Brazil, Australia, the Philippines, Indonesia, New Caledonia, Russia, China, Serbia and Macedonia.

Laterite ores are commonly exploited through a smelting process to produce ferro-nickel, a product containing 25-35% nickel that is used in the production of stainless steel. Laterite ores are also processed by leaching methods, to produce refined nickel (a product containing 99.8% nickel). The latter process is a more recent development, and is still the subject of further research. It allows valuable by-products (notably cobalt) to be recovered from laterite ores.

Sulphide deposits have historically supplied the majority of nickel production because they are easier to exploit and process. The balance of production has gradually moved more in favour of laterite deposits in the past 10 years, but the majority of production today is still accounted for by sulphide deposits. However, the future of the nickel industry will be increasingly dependent on the exploitation of laterite deposits.

1.2 Reserves and resources

Mineral resources are defined as orebodies whose size and mineral content has been proven with a reasonable degree of certainty. However, they may not be currently economic to mine. Mineral reserves are defined as resources which have been the subject of technical and economic studies which demonstrate that they can be mined and processed profitably.

World nickel reserves are estimated by the US Geological Survey to contain 62 million tonnes of nickel, equivalent to c. 43 years of production at current rates of mine output. Reserves and resources are commonly measured in tonnes of contained nickel. Contained nickel is defined as the amount of recoverable nickel contained in reserves or resources.

Nickel reserves are geographically quite concentrated. Australia, Russia and Cuba account for 55% of reserves, and the top eight countries account for 88% of total reserves. Australia has the largest reserves of nickel. Both sulphide and laterite ores are found in that country.

Table 1.1: Nickel ore reserves and resources

Country	Reserves *(million tonnes, Ni content)*	*(%)*	Resources *(million tonnes, Ni content)*	*(%)*
Australia	22.0	35.4	27.0	18.9
Russia	6.6	10.6	9.2	6.4
Cuba	5.6	9.0	23.0	16.1
Canada	4.9	7.9	15.0	10.5
Brazil	4.5	7.2	8.3	5.8
New Caledonia	4.4	7.1	12.0	8.4
South Africa	3.7	6.0	12.0	8.4
Indonesia	3.2	5.1	13.0	9.1
China	**1.1**	**1.8**	**7.6**	**5.3**
Philippines	0.9	1.5	5.2	3.6
Colombia	0.8	1.3	1.1	0.8
Dominican Republic	0.7	1.2	1.0	0.7
Venezuela	0.6	0.9	0.6	0.4
Botswana	0.5	0.8	0.9	0.6
Greece	0.5	0.8	0.9	0.6
Zimbabwe	0.0	0.0	0.3	0.2
Other countries	2.1	3.4	5.9	4.1
World total	62.1		143.0	

Source: USGS (Date: January 2007)

World nickel resources (which include reserves) are more than twice as large as reserves, at c. 143 million tonnes of contained nickel (i.e. nickel contained in resources). Resources are slightly more widely dispersed, but the top three countries still account for 45% of the world total, and the top eight account for 84%.

1.3 Nickel mine production

The major deposits of nickel are found in the following locations:

- Canada (principally in the Sudbury region of Ontario)

- Russia, around Norilsk in the far north of Siberia

- Some semi-tropical regions of Latin America: Cuba, Dominican Republic, Colombia, Venezuela and Northern Brazil

- Southern Africa: Botswana, Zimbabwe and South Africa

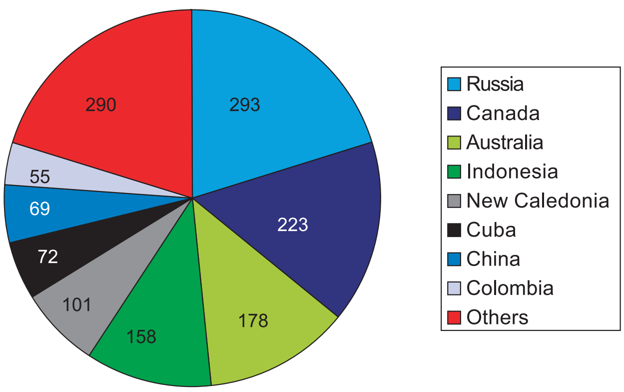
- Indonesia, the Philippines and New Caledonia
- Australia (in Western Australia and Queensland)
- China

The distribution of nickel mine production in 2005 is illustrated in the chart below. Russia, Canada and Australia accounted for 48% of world production in 2006, and the top eight countries accounted for 80% of mine production.

Chart 1

Russia, Canada, Australia and Indonesia account for more than half of world nickel mine production

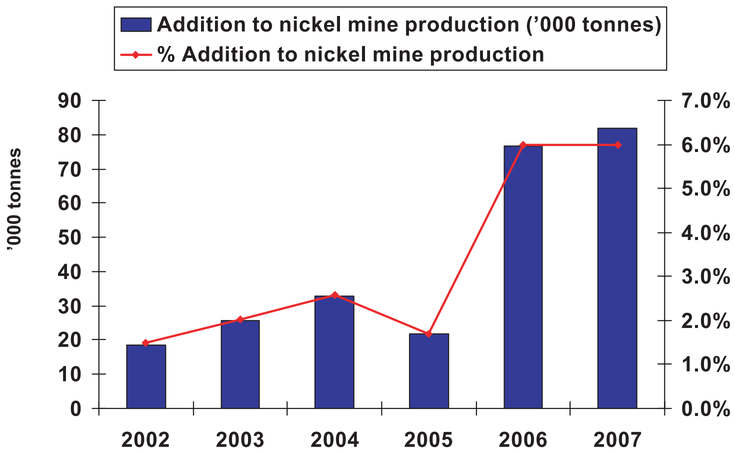
Nickel content of world mine production, 2006: 1.44 million tonnes



Data: CRU

Chart 2

Global nickel mine production: slow growth in 2002-5, but faster growth since 2006 in response to higher prices



Data: CRU

Global nickel mine production grew slowly in 2002-5 as a result of a period of depressed prices. It started to increase at a faster rate in 2006, and further increases are expected in 2007 and beyond, as some major new nickel mine projects start to come on stream. The majority of new mine production will be based on laterite orebodies, and will use leaching technologies, which are still not fully proven in normal operating conditions.

Table 1.2: Nickel mine production, 2000-06 ('000 tonnes, nickel content)

	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**CAGR 2000-06**
Europe								
Russia	262.4	264.5	258.2	283.9	281.9	285.2	292.6	1.8%
Rest of Europe	25.2	26.3	28.6	24.6	38.8	47.5	56.1	14.3%
Total	287.6	290.8	286.8	308.5	320.7	332.7	348.7	3.3%
Africa	71.0	67.9	69.9	77.4	72.3	75.3	77.2	1.4%
Asia								
China	**53.0**	**51.5**	**54.6**	**60.6**	**63.0**	**59.8**	**69.1**	**4.5%**
Indonesia	100.8	102.1	121.6	143.9	142.7	143.0	158.0	7.8%
Philippines	19.1	23.1	24.0	23.0	17.0	28.7	69.5	24.0%
Total	172.9	176.7	200.2	227.5	222.7	231.5	296.5	9.4%
America								
Canada	181.4	183.5	179.5	153.4	178.8	192.1	223.4	3.5%
Other America	168.0	183.5	199.2	210.1	211.9	218.4	214.1	4.1%
Total	349.4	366.9	378.6	363.5	390.7	410.5	437.5	3.8%
Oceania								
Australia	179.8	209.4	206.8	185.8	182.2	189.3	177.6	-0.2%
New Caledonia	117.9	118.0	105.8	111.2	118.3	111.6	100.8	-2.6%
Total	297.7	327.4	312.6	297.0	300.5	301.0	278.4	-1.1%
World total	1,179	1,230	1,248	1,274	1,307	1,351	1,438	3.4%

Data: International Nickel Study Group, CRU

Since 2000, world mine production has grown at 3.4% per year from 1.18 million tonnes of contained nickel to 1.44 million tonnes (see Table 1.2). Until 2006, there was only a modest increase in nickel mine production, in response to the price boom which started in 2004. The production response to the current boom in 2007 is now intense, but is largely concentrated on new projects which are still at the financing or development stage.

In 2006, nickel mine production growth accelerated to 5.7%, despite disruptions to supply caused by labour disputes. These reduced production by an estimated 50,000 tonnes of nickel content from planned levels. In the early months of 2007 the rate of increase in nickel mine production accelerated again to c. 10.9%, year-on-year, as producers did everything possible to meet demand, and profit from the very high nickel price.

1.4 Refined nickel production

Refined nickel production takes place at smelting and refining facilities. These are not in every case integrated with nickel mines. Many mines sell an intermediate product such as ore, concentrate or matte, which is then processed to ferronickel or refined nickel at a separate facility. The location of finished nickel production can therefore be different from the location of mine production. Thus Japan's entire production of nickel is based on imported raw materials. China's increase in finished nickel production in 2005-6 was based to a large extent on imported ore and concentrates.

Finished nickel production (in the form of ferro-nickel or refined nickel of 99.8% nickel content or more) has grown by 3.6% per year in the period 2000-06, from 1.1 million tonnes to 1.36 million tonnes (see Table 1.3). China's production of finished nickel has grown at a compound annual rate of 17.4% in 2000-06, which is the fastest rate of growth in any country or region.

Table 1.3: World refined nickel production, 2000-06 ('000 tonnes)

	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**CAGR 2000-06**
Europe								
Russia	245.0	253.9	243.2	268.3	265.0	268.1	275.1	1.9%
Rest of Europe	178.3	191.6	195.8	190.1	208.4	215.9	228.4	4.2%
Total	423.3	445.5	439.0	458.5	473.4	483.9	503.4	2.9%
Africa	45.7	51.0	50.1	32.3	54.0	48.8	53.5	2.7%
Asia								
China	**53.0**	**52.0**	**56.9**	**64.1**	**75.2**	**97.6**	**138.5**	**17.4%**
Japan	158.2	154.7	155.9	164.2	168.2	169.2	149.7	-0.9%
Total	221.3	217.0	221.8	236.6	251.3	274.1	302.7	5.4%
America								
Canada	134.2	140.0	146.2	128.2	154.7	139.3	163.3	3.3%
Other America	118.8	133.2	145.6	156.9	161.5	168.2	168.4	6.0%
Total	253.0	273.3	291.7	285.1	316.2	307.5	331.7	4.6%
Oceania								
Australia	111.7	128.8	132.3	128.1	122.6	119.7	116.6	0.7%
New Caledonia	43.9	45.9	48.6	50.8	43.0	46.7	49.4	2.0%
Total	155.6	174.7	181.0	178.9	165.6	166.3	166.0	1.1%
World total	1,099.0	1,161.4	1,183.6	1,191.3	1,260.5	1,280.6	1,357.4	3.6%

Data: International Nickel Study Group, CRU

1.5 Integration and concentration among nickel producers

There is a high degree of vertical integration in the nickel industry because of the diversity of production processes employed to treat ores of different types. Producers of ferro-nickel process ores directly to a finished product, and are therefore naturally integrated, except in a few cases where ore is sold to an independent smelter.

Laterite mines whose ores are processed to pure nickel generally do not normally produce an intermediate product which can be shipped and sold to a separate refinery. These mines are therefore typically integrated. Producers of low grade laterite ore in the Philippines and Indonesia, however, are not integrated, and export ore to China and other countries.

Sulphide mines have traditionally been integrated with smelting and refining facilities. However, they produce a concentrate which can be shipped for smelting and refining at non-integrated facilities. Sulphide smelters also produce a matte which can be shipped for refining elsewhere. There is therefore an increasing amount of trade in concentrates and matte between non-integrated operations. Sulphide mines are therefore partly integrated and partly non-integrated.

However, the overall level of integration in the nickel industry is likely to be stable or slightly increasing.

Historically, capacity in the nickel industry has been very concentrated in the hands of a few producers. In the years immediately after World War II, one Canadian company accounted for about 90% of the Western world's nickel production. A Russian nickel company was the second largest producer at that time, but its production rate was unknown outside the USSR.

Table 1.4: Concentration of production of finished nickel products

	2000	**2005**	**2007**
Top 5 producers	57.3	41.7	63.6
Top 10 producers	78.6	74.3	76.8

Data: CRU

There was steady fragmentation of the industry from the mid-1970s to the year 2005, as new producers entered the market. By the year 2005, the top five producers controlled only 41.7% of global production. However, in the past two years there has been substantial consolidation in the industry. The top five producers now account for almost 64% of total production of finished nickel products, but the share accounted for by the top ten producers has remained more stable since 2000.

2. Product forms and pricing

Nickel is produced in a variety of forms and specifications, depending on the production process and the end-use. Nickel products are often classified into Class I and Class II nickel. Class I is normally 99.6% pure or better and includes electrolytic cathodes, granules and powder, briquettes, pellets and other forms such as crowns and rounds. Nickel cathodes are cut into small squares for use in melting applications.

Class II includes various grades of ferronickel and nickel oxide which can be used in stainless steel production, where their iron content is also of value.

The most widely traded forms are cathodes (which may be uncut, or cut into small squares), briquettes and pellets. These product forms are traded under the London Metal Exchange (LME) nickel contract. The LME contract is a futures contract and is used principally for the pricing and hedging of nickel, but physical deliveries can also be made into and out of LME registered warehouses. The LME nickel price is accepted worldwide as the market price of nickel, and is used in most countries as the pricing basis for the sale of nickel by producers to consumers.

In China, nickel is traded on a cash basis only on the Shanghai Metal Exchange. The Shanghai nickel price follows the LME cash nickel price closely, and normally stands at a small premium to the LME price.

There are distinct markets for various forms of nickel products. Producers do not compete in every market. The largest market is in the stainless steel industry, and virtually all producers compete in the markets for melting grades of nickel used in the production of stainless steel. There are fewer suppliers of plating grades of nickel, and very few suppliers of high specification nickel powders.

SECTION 2: CONSUMPTION AND SUPPLY-DEMAND BALANCE FOR NICKEL

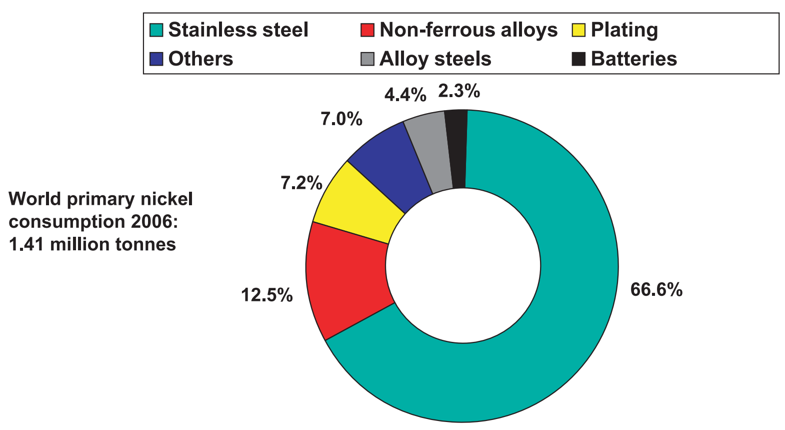
1. Primary nickel consumption

1.1 End-use demand

Nickel is used almost exclusively as an alloying element which imparts corrosion resistance to steel and non-ferrous alloys. It is also used as an alloying element in rechargeable battery alloys, and as a plating element, to provide a protective coating to other metals. The immediate consumers of nickel are therefore other metal industries, which buy it as an input into their own metal products.

Chart 3

First end-use breakdown of primary nickel, 2006: stainless steel accounts for two-thirds of the global market



Data: CRU

The first end-use breakdown of nickel consumption, shown above, is dominated by stainless steel, with 67%. Non-ferrous alloys take 12.5%, followed by plating and alloys steels. Battery usage is smaller but potentially fast-growing. Other applications include various foundry alloys and foundry products.

Table 2.1 shows the global consumption of primary nickel in all end-uses since 2000.

Table 2.1: World demand for primary nickel, 2000-2006 ('000 tonnes)

	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**GAGR 2000-06**
Stainless steel	688	687	760	819	826	796	941	5.4%
Other end-uses:								
Alloy Steels	54	54	55	56	57	60	62	2.4%
Non-Ferrous Alloys	165	149	135	141	155	163	177	1.2%
Plating	97	97	102	99	100	105	101	0.6%
Batteries	36	30	27	24	26	30	32	-1.9%
Other inc. Foundry	81	92	82	90	98	102	99	3.4%
Total, Non-Stainless	433	421	401	410	436	459	471	1.4%
Total Primary Nickel Consumption	1,121	1,108	1,161	1,230	1,262	1,256	1,412	3.9%
% change	–	-1.2	4.8	5.9	2.6	-0.5	12.4	

Data: CRU

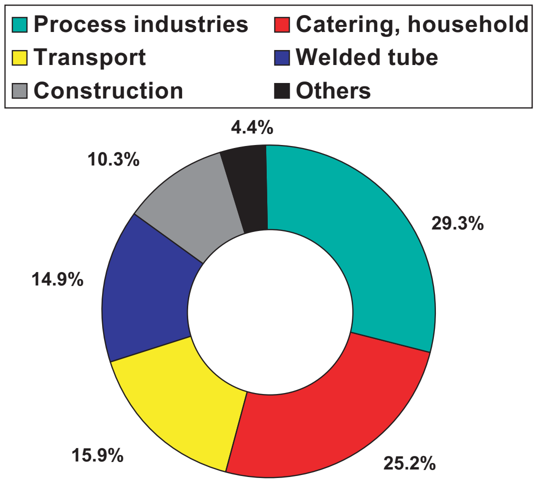
Demand for nickel in non-stainless applications has grown much more slowly than stainless demand. There are numerous niche applications for nickel-containing steels (other than stainless steels) and non-ferrous alloys, but none carries the promise of explosive growth that is now being seen in the stainless sector. Slower growth in these end-uses brings the average growth rate in world demand for primary nickel down to 3.9% in the period 2000-06.

The main factors affecting the demand for nickel are:

- Economic developments affecting final demand for goods containing stainless steel: the end-use sectors for stainless flat-rolled sheet products are shown in the following chart.

Chart 4

Process industries represent the largest end-use sector for stainless steel flat rolled products



Data: CRU

- The move towards the use of different grades of stainless steel, which may contain less nickel than the traditional grades, or even no nickel at all.

- Comparative prices of competing metal products. The major competing materials for high-nickel stainless steel are aluminium sheet, other alloy steels.

- Investment in new stainless steel production capacity. The principal investments in new stainless capacity in the recent past and in next five years are in China.

1.2 Nickel demand, 2000-2006

Nickel is an essential ingredient in some but not all types of stainless steel. There are three broad categories of stainless steel:

- The 400 series contains no nickel

- The 300 series contains 8-10% nickel

- The 200 series contains 3-5% nickel

The types of stainless steel that contain nickel are called austenitic stainless steel. Nickel demand in the stainless industry is governed by the rate of growth in austenitic stainless steel production and by the balance between the production of austenitic and other types of stainless steel.

Table 2.2: World production of stainless steel, and nickel content in stainless steel, 2000-2006 ('000 tonnes)

	2000	2001	2002	2003	2004	2005	2006	CAGR 2000-06
Stainless steel production								
USA	2,357	1,965	2,348	2,335	2,382	2,231	2,498	1.0%
Europe	7,962	7,771	8,151	8,484	8,795	8,304	9,318	2.7%
Japan	3,781	3,816	3,785	4,063	4,144	3,933	4,022	1.0%
China	**533**	**795**	**915**	**1,777**	**2,350**	**3,572**	**5,100**	**45.7%**
Other Asia	3,698	3,588	3,934	4,748	5,476	5,558	6,034	8.5%
Other World	998	1,026	1,128	1,373	1,432	1,212	1,484	6.8%
World	19,329	18,961	20,261	22,780	24,579	24,811	28,456	6.7%
Nickel content in stainless steel								
Primary nickel + stainless scrap	1,294	1,281	1,392	1,545	1,605	1,566	1,845	6.1%

Data: CRU International

Table 2.2 shows that stainless steel production (of all types) has grown at 6.7% worldwide since 2000. This has been driven by massive growth in China and rapid growth in other Asian countries. Growth in the mature economies has been much more sedate. The global consumption of nickel in all forms (primary nickel and scrap) in stainless steel in the same period grew at 6.1% per year.

Stainless steel producers use scrap as well as primary raw materials, and typically prefer to use scrap since this contains valuable chrome and iron units, and is generally a cheaper means of acquiring the necessary raw materials. Primary nickel purchased for stainless steel production is therefore the balancing item that is bought to add to scrap supplies.

The supply of scrap tends to rise over time, as increasing volumes of products containing stainless steel reach the end of their useful lives. Between 1998 and 2006 supplies of scrap used in the production of stainless steel grew by c. 54%. In the next five years they are likely to continue to grow.

However, stainless steel production is also growing. As a result, the ratio of scrap to primary nickel used in stainless steel production has been stable and is likely to remain so. The scrap ratio varies from year to year, but overall the average figure is c. 49%.

The consumption of nickel in stainless steel in 2000-06 is shown in Table 2.3. World growth of 5.4% in nickel consumption over this period was driven very largely by China and the developing world. US consumption is small, reflecting the small production of stainless steel in that country. Europe remains a major centre of stainless steel production, but the Chinese stainless industry has been growing extremely rapidly, from a small base in 2000.

In 2000-06 China achieved the fastest compound annual rate of growth in the world in stainless steel production (45.7%), and also the fastest compound annual rate of growth in stainless steel consumption (42.7%). China has been the largest national consumer of stainless steel since 2006, and also the largest national producer of stainless steel since 2006.

Table 2.3: World primary nickel consumption in stainless steel, 2000-2006 ('000 tonnes contained nickel)

	2000	2001	2002	2003	2004	2005	2006	CAGR 2000-06
USA	60	46	59	59	58	53	56	-1.2%
Europe	279	288	316	318	308	287	317	2.2%
Japan	119	121	126	130	127	115	128	1.2%
China	**22**	**30**	**35**	**60**	**71**	**105**	**183**	**42.7%**
Other Asia	156	148	163	181	191	180	187	3.0%
Other World	52	53	62	72	71	56	70	5.1%
World	688	687	760	819	826	796	941	5.4%

Data: CRU International

The major conclusions from data on nickel consumption since 2000 therefore are:

- The predominant driving force is demand from stainless steel production
- China is the major driving force behind the growth in world stainless steel production
- Additional scrap supplies are not likely to threaten the growth in demand for primary nickel in stainless steel.

In future, nickel consumption may grow at a slower rate if there is a slowdown in the Chinese stainless steel sector, or if the use of alternative materials increases.

2. Supply-demand balance to 2007

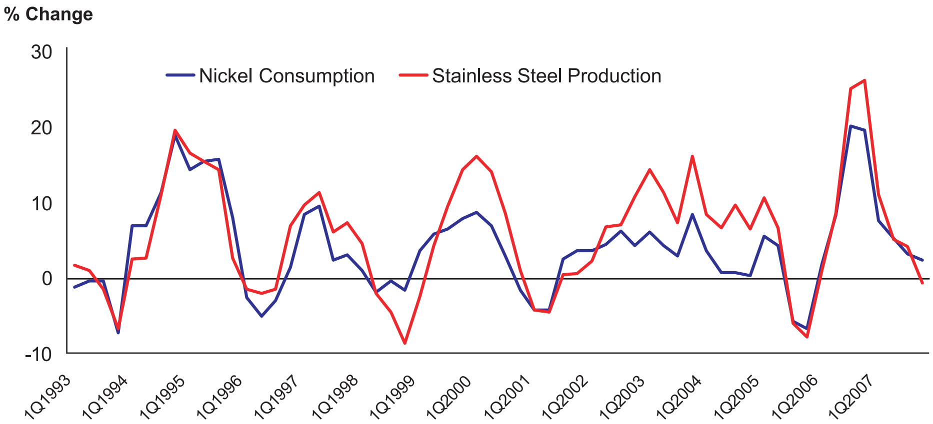
2.1 Future drivers of nickel demand

Future stainless steel production will be the key to demand for primary nickel. Production capacity in the stainless steel industry worldwide is expected to rise by 3.4 million tonnes, or 13% in 2007, and further large expansions are under way for the future. 68% of the world's new capacity in 2007 will be located in China.

The ultimate determinant of nickel demand is the final demand for stainless steel in finished products. This has been strongly cyclical in the past 14 years at least, as shown in the chart below. The upward cycle that started in 2006 has been very strong, and started from a depressed base in 2005. However, the year-on-year growth rates are slowing down in the first half of 2007, which suggests that a surplus of stainless steel capacity may emerge in the near future. This would lead to slower growth in demand for primary nickel.

Chart 5

World growth in stainless production and primary nickel consumption, year-on-year % change



Data: CRU

Substitution by other materials, in response to the high price of stainless steel, is a slow process but when substitution does occur, it is likely to be long-lasting or even permanent. The share of the world market taken by high-nickel grades of stainless steel has fallen from 71% in 2001 to 67% in 2006. In the same period, the share taken by the low-nickel grades has increased from 4% to 10%. This trend is likely to continue. Several major companies are increasing their output of low-nickel or non-nickel grades of stainless steel.

Demand for primary nickel in all end-uses up to 2007 is shown in Table 2.4. Demand is forecast to grow by 3% in 2007. The 2000-07 overall compound growth rate is 3.8% per year.

Regional compound growth rates are shown in Table 2.5. China's compound growth rate of almost 27% in 2000-07 is by far the largest in the world, and China will be the second largest nickel-consuming region, after Europe, by the end of 2007.

Table 2.4: World primary nickel consumption by end-use, 2000-2007 ('000 tonnes contained nickel)

	2000	2006	2007	CAGR 2000-07
Stainless steel	688	941	969	5.0%
Alloy Steels	54	62	64	2.4%
Non-Ferrous Alloys	165	177	184	1.6%
Plating	97	101	98	0.2%
Batteries	36	32	32	-1.7%
Other, inc. Foundry Products	81	99	108	4.1%
Non-Stainless total	433	471	485	1.7%
World total	1,121	1,412	1,455	3.8%

Data: CRU

Table 2.5: World primary nickel consumption by region, 2000-2007 ('000 tonnes contained nickel)

	2000	2005	2007	CAGR 2000-07
USA	166	146	150	-1.4%
Europe	412	417	438	0.9%
Japan	188	167	179	-0.7%
China	65	200	341	26.8%
Other Asia	202	232	236	2.3%
Rest of World	89	93	111	3.1%
World	1,121	1,256	1,455	3.8%

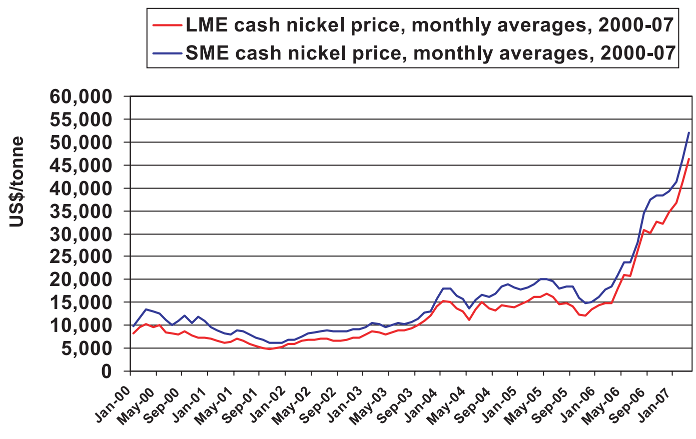
Data: CRU

2.2 Price developments

The London Metal Exchange (LME) nickel price exceeded $14,000/tonne in December 2004, which was historically an exceptionally high price. It then rose to unprecedented heights in 2006-7. In April-May 2007, the price exceeded $50,000/tonne on a cash basis. In September 2007 the cash price dropped to approximately $28,000/tonne by mid-month before rising to $32,975/tonne on the Latest Practicable Date. The Shanghai Metals Exchange cash nickel price has been very close to the LME nickel price, and usually slightly above it.

Chart 6

LME and SME cash nickel prices: shortages of immediate supplies, plus speculation, have driven the nickel price to unprecedented levels



Data: London Metal Exchange, Shanghai Metals Exchange

2.3 Supply-demand balance

Table 2.6: The nickel supply/demand balance, 2000-07 ('000 tonnes)

	2000	2001	2002	2003	2004	2005	2006	2007
Primary Nickel Consumption	1,121	1,108	1,161	1,230	1,262	1,256	1,412	1,455
% change	–	-1.2%	4.8%	5.9%	2.6%	-0.5%	12.4%	3.0%
Primary Nickel Production	1,099	1,161	1,184	1,212	1,261	1,281	1,357	1,450
% change	–	5.7%	1.9%	2.4%	4.0%	1.6%	6.0%	6.8%
Change in producer stockpiles	34	26	0	-70	-15	0	0	0
Total Supply	1,065	1,136	1,184	1,282	1,276	1,281	1,357	1,450
Market Balance	-57	28	23	53	14	25	-55	-5
Stocks	190	228	207	176	171	214	151	146
Weeks of Consumption	8.8	10.7	9.3	7.4	7.0	8.8	5.5	5.2

Data: CRU Analysis

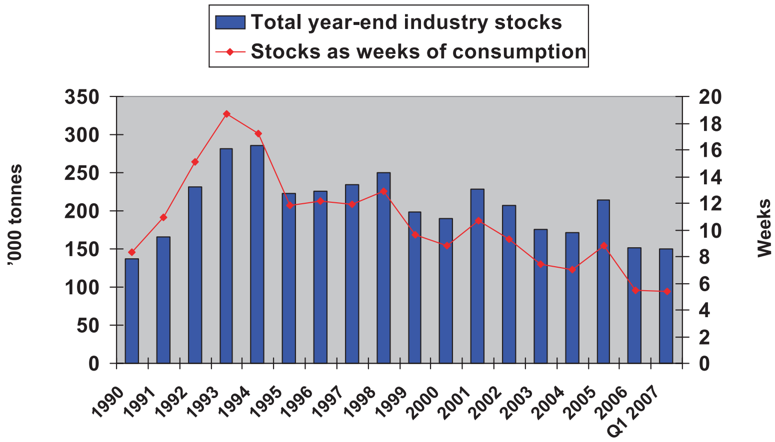
The global nickel market was in a slight surplus in 2003-5, followed by a deficit of 55,000 tonnes in 2006 (see Table 2.6). However, in reality consumption was greater than production in 2003-4 also. These deficits were covered by the release of stocks held by one large producer. There are no such exceptional stocks to cover any deficit that may appear in the near future.

The overall trend in stocks explains why the nickel market has become progressively tighter in recent years. Total industry stocks (including reported stocks held by producers, consumers and merchants and stocks in LME warehouses) have been on a declining trend since 1999. Stocks expressed as the number of weeks of consumption at the end of each period have fallen from 10.7 weeks at the end of 2001 to 5.4 weeks at the end of the first quarter of 2007. This is a minimal level of stocks, which can scarcely be reduced any further.

LME stocks at the end of April 2007 were 4,980 tonnes. By mid-June 2007 they had recovered to 9,048 tonnes. The increase in LME stocks during June indicates that the availability of metal improved slightly in that period. Nevertheless, the level of LME stocks is still very low by historical standards.

Chart 7

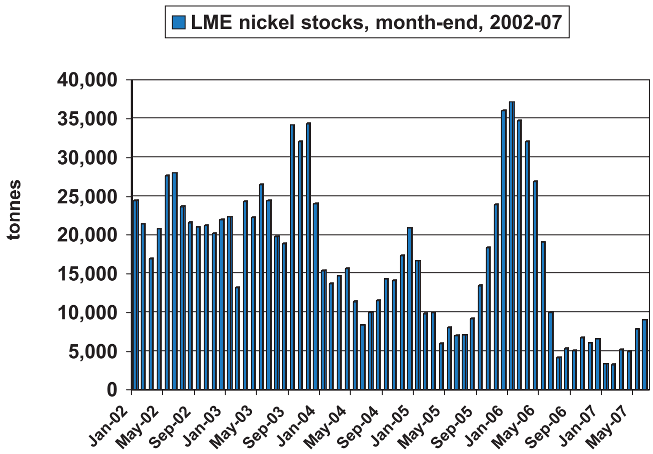
Total industry stocks of nickel have declined steadily since 1999, but stocks in relation to consumption have fallen faster, and to a minimal level



Data: CRU

Chart 8

LME nickel stocks reached critical levels in early 2007, but increased in June



Data: London Metal Exchange

The nickel market has therefore been extremely tight in 2004-6 and in the first half of 2007 for these reasons:

- Global demand for primary nickel has grown by 3.9% per year since 2000, and Chinese demand has grown by 27% per year.

- The industry has been unable to increase production at the same pace because of difficulties in bringing into production new projects using leaching technologies to exploit laterite nickel ores.

- There have been persistent losses of production at existing operations, as a result of labour disputes and other unforeseen problems.

- Stocks have therefore been reduced to very low levels, so there is no safety margin to absorb any unexpected increase in demand or loss of production.

In the coming years, the crisis of supply in the nickel industry should steadily be removed, as primary production accelerates. However, the market is expected to remain in slight deficit in 2007.

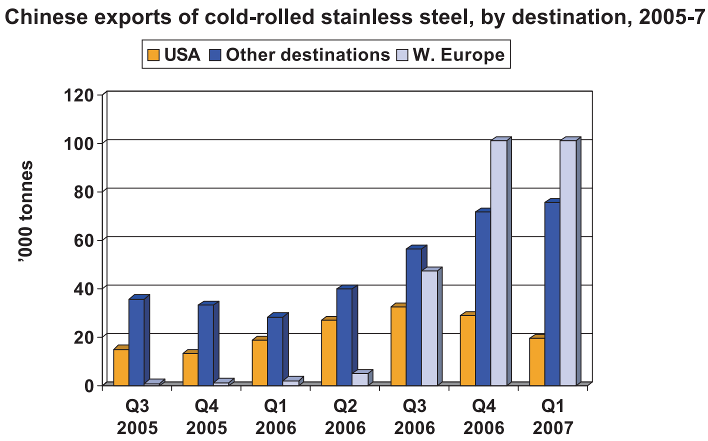
In mid-2007 the following indicators of trends in the nickel market could be observed:

- Demand from the stainless steel industry in Europe and the USA is weakening. Stainless production in these two regions was down by 0.2% in the first quarter of 2007, and a fall of 8.6% was predicted for the second quarter.

- Chinese exports of stainless steel rose sharply in late 2006 and early 2007 (see Chart below), as a result of substantial increases in stainless capacity in China. Chinese stainless steel production is currently exceeding the requirements of the domestic market, and is now displacing some production in other regions, notably Europe. Part of the increase in nickel consumption in China is thus being offset by reductions in consumption in other regions.

Chart 9

Chinese exports of cold-rolled stainless steel have almost quadrupled since 2005, as new Chinese production has come on stream



Data: CRU

- High prices for nickel and stainless steel are encouraging consumers to look for alternative and cheaper materials.

- On the supply side of the industry, production of Chinese nickel pig iron is growing fast. This will help to alleviate the immediate shortage of supply of nickel.

These factors can be expected to influence the nickel price in the remainder of 2007. However, China is expected to be a major factor influencing the world supply, demand and price of nickel.

3. The market for nickel in China

The production of nickel in China is dominated by one major producer which has the capacity to produce approximately 100,000 tonnes per year of refined nickel. The company operates its own mines, which produce sulphide ores, and also buys some nickel raw materials for smelting and refining, and is still expanding its capacity. Other nickel producers in China, which have both mining and refining capacity, produce sulphide ores and have a combined production capacity of approximately 12,000 tonnes per year.

Among these other producers, Xinjiang Xinxin Mining is the largest, and produces refined nickel cathode grading 99.9% nickel or more. Xinjiang Xinxin Mining has the second largest resources and reserves of sulphite nickel, among all Chinese nickel producers.

Total mine production of nickel in China is estimated at 69,000 tonnes of contained nickel in 2006. Production of refined nickel is estimated at 105,300 tonnes. The difference between these two totals is accounted for by imports of nickel ore, concentrates and matte.

In addition, there is a group of producers of nickel pig iron, with a nickel content of 2-3% from imported lateritic nickel ores. The first recorded production of this product in China was in 2006.

Nickel pig iron is produced in small blast furnaces which have been converted from the production of iron. The product is a low-grade ferro-nickel product containing 2-3% nickel (compared to 25-35% nickel contained in normal ferro-nickel). Nickel pig iron is produced from low grade lateritic ore, grading c. 1.1% nickel, which cannot be treated by the processes used to treat sulphide ores. Nickel pig iron is used in the production of some grades of stainless steel, and therefore competes in this market with finished nickel produced from sulphide ores.

The lateritic ores used in China to produce nickel pig iron are imported, mainly from the Philippines and Indonesia. The supply of this low grade ore into China is increasing rapidly.

Total production of nickel in the form of nickel pig iron in China is estimated at 31,300 tonnes of contained nickel in 2006. CRU expects production of nickel pig iron to more than double in 2007 to at least 75,000 tonnes of contained nickel. However, this is believed to be high cost nickel production, which may be unsustainable when nickel prices weaken.

Total production of nickel in all forms in China is estimated to have increased to 137,000 tonnes in 2006.

Total consumption of nickel in China is estimated at 271,000 tonnes in 2006, equivalent to 19.3% of global consumption. There is therefore considerable demand for nickel in China, in excess of domestic production. Imports totalled 128,400 tonnes of contained nickel in 2006. The supply-demand balance for nickel in China since 2000 is shown in Table 2.7. Production of nickel in China is expected to increase sharply in 2007-8 as a result of greater production of nickel pig iron.

China has been the fastest growing national market for nickel since 2000. Before 2000, the demand for nickel in China was almost entirely for the production of copper-nickel alloys and other applications outside the stainless steel industry. Since 2000 there has been very fast growth in the production of stainless steel. This industry now dominates the consumption of nickel in China. In 2006 stainless steel accounted for 173,000 tonnes of nickel consumption, and non-stainless applications accounted for 98,000 tonnes. Demand from the stainless steel sector in China is expected to continue to grow very rapidly because stainless steel production capacity continues to expand very fast. China's stainless steel production capacity is expected to grow from 4.69 million tonnes per year in 2006 to 7.04 million tonnes per year in 2007.

Table 2.7: China Nickel Supply-Demand Summary 2000-2006, ’000 tonnes contained nickel

	2000	2001	2002	2003	2004	2005	2006	CAGR 2000-06
Supply								
Mine production	51.0	51.5	54.6	60.8	63.0	59.8	68.9	5.1%
Refined production	50.9	49.5	53.5	64.7	72.6	95.0	105.3	12.9%
Ferronickel production							31.3	n.a.
Total nickel production	50.9	49.5	53.5	64.7	72.6	95.0	136.6	17.9%
Net imports	16.2	46.5	44.0	82.1	82.6	120.4	128.4	41.2%
Total supply: production + imports	67.1	96.0	97.5	146.8	155.2	215.4	265.0	25.7%
Demand								
Stainless steel	21.6	30.0	35.0	56.6	72.4	106.6	172.9	41.4%
Other applications: Mainland China	41.7	53.0	58.6	68.5	76.6	89.6	92.0	14.1%
Hong Kong	1.3	4.5	4.7	5.5	5.8	5.0	5.8	28.3%
Total demand	64.6	87.5	98.3	130.6	154.8	201.2	270.7	27.0%

Data: International Nickel Study Group, Trade statistics, CRU

SECTION 3: COPPER INDUSTRY OVERVIEW

Introduction and summary

Copper is the world’s third largest industrial metal by volume, after steel and aluminium. World consumption of refined copper in 2006 was estimated by CRU at 17.7 million tonnes, while production of refined copper was estimated at 17.5 million tonnes.

Between 2000 and 2006, global demand for refined copper grew an average compound annual rate of 2.3%. In 2007, global demand for refined copper is expected to grow by 2.7% to 18.15 million tonnes. Chinese demand is expected to grow by 18.5% in 2007, from 3.9 million tonnes in 2006 to 4.7 million tonnes in 2007.

1. Copper production

There are two main processes for the production of refined copper. In the smelter/refinery process, sulphide ores are crushed, milled and concentrated to produce copper concentrate, typically containing 30-35% copper. Concentrate is then smelted and cast into copper anodes and refined to produce copper cathode. About 69% of global refined production is produced by this method.

The second method of producing copper is the solvent extraction/electrowinning method. In this process, oxide ores are leached to form a weak copper-containing solution, which is concentrated using solvent extraction techniques (SX), before refined copper is produced by electrowinning (EW). This process accounts for around 18% of global refined copper production. The remaining 13% comes from recycled (or secondary) sources.

Refined copper is further transformed into various semi-fabricated copper and brass products, including wirerod, other rods, bars and sections, strip, sheet, plate, and tube, before final use in manufacturing. Globally, building construction is the largest end-use market for copper, followed by electrical and electronic products, transportation, industrial machinery, and consumer products.

Global production of refined copper grew from 4.9 million tonnes in 1960 to 17.7 million tonnes in 2006, an annual compound growth rate of 3.5%. From 1960 to 1973, global production of refined copper grew at an average of 3.9% per year. This period of strong growth was followed by two decades of slower growth of 1.4% per year. However, over the period 1995 to 2006, global refined copper production grew at a compound rate of 3.5% per year, driven principally by the rapid growth in production in Chile.

Chile is the largest producer of mined copper, and in 2006 the country produced 5.4 million tonnes, or 35% of the world's mined copper supply. The USA is the second largest producer, followed by Peru, Australia and China. Chile is also the largest producer of refined copper, followed by China, Japan, the USA and Russia. In 2006, Chile produced 3.0 million tonnes of refined copper, or 17% of global refined copper supply. Global supply of refined copper is expected to increase at 3.8% in 2007, slightly faster than the rate of growth in demand.

2. Copper consumption

The consumption of refined copper grew from 4.8 million tonnes in 1960 to 17.6 million tonnes in 2006, an annual compound growth rate of 2.9%. From 1960 to 1973, global demand for refined copper grew at a compound rate of 2.6% per year. This period of relatively strong growth was followed by two decades of slower growth of 1.6% per year. In the period 1995 to 2006, global copper consumption grew at a compound rate of 3.5% per year, driven principally by the rapid growth in consumption in China, and the resumption of growth in the countries of Eastern Europe and the former Soviet Union. Between 2001 and 2006, global refined copper demand increased from 14.4 million tonnes to 17.7 million tonnes, a compound annual increase of 3.8%. China contributed 53% of this growth.

3. Refined copper prices

In nominal terms, the price of refined copper has been trending upwards since the 1950s, before rising to new highs over the past two years. Until the recent upward price movement in 2005-2007, prices in real terms had been on a downward trend since the 1960s, as a result of improvements in efficiency at the mines, the introduction of new technology, and the closure of higher cost operations, followed by the start-up of lower cost replacements. In nominal terms, the current 20 year average price for copper is around $1.10/lb. In real terms it is $1.34/lb.

Since peaking in 2006, copper prices have eased back, and at the start of 2007 dropped temporarily below $6,000/tonne ($2.70/lb) before recovering again to over $7,000/tonne ($3.18/lb). The LME price of copper is forecast to average $2.80/lb in 2007, a very high figure by historical standards, but still well below the peak of close to $4.00/lb reached in May 2006.

The local price of refined copper is usually the LME price plus transport costs and transaction costs, which are reflected in a local premium. The premium reflects the local supply and demand for copper in that region. The Shanghai Metal Exchange also trades in copper. Prices on this exchange follow the LME price closely, and are normally slightly higher than the LME price.

4. The outlook for refined copper

Following growth of close to 4.6% in global refined copper demand in 2006, CRU expects copper demand to increase by 2.7% in 2007, from 17.7 million tonnes in 2006 to 18.1 million tonnes in 2007.

Global production of refined copper increased by 5.8% in 2006. Further strong growth is expected through 2008 as more mine, smelter and refinery capacity is brought on stream. Refined production will grow more quickly than smelter output in the short term, due to more rapid growth in output from solvent extraction and electrowinning than from the traditional electrolytic process.

The refined copper market is expected to remain finely balanced with low inventory levels through most of 2007.

5. The market for copper in China

Demand for refined copper in China was estimated to be 3.9 million tonnes in 2006, or around 22% of global demand. Chinese demand is expected to grow by 18.5% in 2007 to 4.7 million tonnes. Global demand for refined copper is expected to grow by 2.7% in 2007.

Production of refined copper in China was estimated to be just below 3.0 million tonnes in 2006. Chinese refined production is expected to expand to 3.39 million tonnes in 2007. Global refined output of refined copper is expected to grow by 6.7% to 18.8 million tonnes in 2007.

China lacks the mineral resource base in copper to cover its current and projected future requirements and as a consequence CRU expects that China will remain a net importer of copper concentrates, scrap and refined metal over the foreseeable future.

Copper consumption in China began increasing rapidly around the beginning of the 1990s. Many factors explain this rise, including an expanding population, rapid industrialisation and infrastructure development. Power generation and distribution has boosted demand for copper. Demand for consumer goods such as refrigerators and air conditioners also contributed to rising copper demand.

Chinese copper demand remains high in 2007 with key drivers now including the improvement of city distribution power networks, electrification of the railway network and growth in the automotive components and the air-conditioning and refrigeration industries. Domestic copper demand in China is rising faster than GDP and domestic production of copper semi-manufactured products is rising faster than domestic demand. The surplus is being exported.

The majority of the leading Chinese wirerod mills aim to increase their production by 20% in 2007. The Chinese government is also encouraging the production and export of copper air-conditioning and refrigeration tube through tax incentives. Over the next three years, further projects are expected to increase copper semi-manufacturing capacity by 3.4 million tonnes including a 1.2 million tonnes increase of copper wirerod capacity and 0.8 million tonnes of copper tube capacity. This will sustain the rate of growth in consumption of refined copper in China.

Overview

China's non-ferrous metal industry is highly regulated by the PRC Government. The relevant regulations govern a wide range of areas, including exploration, mining, production, imports and exports of non-ferrous metals, government levies and taxes, safety and environmental protection. The major regulatory departments in the PRC, which are relevant to the nonferrous metal industry, include:

- The NDRC formulates and implements major policies concerning the economic and social development of the PRC; reviews and approves investment projects exceeding a certain size and in specified sectors of the economy; proposes plans for the volume of important industrial products and raw materials for export; supervises the implementation of the plans and adjusts the total volume of exports based on the economic environment.

- The MLR is responsible for supervising and managing exploration for and exploitation of mineral resources. It has power to grant exploration permits and mining permits, to approve transfers and leases of exploration rights and mining rights, and to review exploration rights purchase price, mining rights purchase price and reserve estimates.

- The State Administration of Workplace Safety provides guidance on and supervision of the safety practices of non-coal mine enterprises throughout the country. It is responsible for formulating work safety regulations and is involved in the investigation of safety-related accidents.

- The Ministry of Labor and Social Security of the PRC, together with the State Administration of Workplace Safety, is responsible for supervising and administering safety-related works in mines and conducting reviews of safety facilities in mining areas. The safety facilities in mine construction projects are subject to inspection by the Ministry of Labor and Social Security in cooperation with the State Administration of Workplace Safety.

- The SAEP is responsible for supervising and controlling environmental protection and for monitoring the environmental system of the PRC.

To conduct our business, our Company shall obtain several licences and approvals from the relevant authorities, which includes the mining permit, the exploration permits, the safety production licence and the pollutant discharge permit. For details of these licences and approvals, please see the sections headed "Business — Mining", "Business — Exploration" and "Business — Environmental, Occupational Health and Safety".

Mineral Resource Law of the PRC and its Implementation Rules

In accordance with the Mineral Resources Law of the PRC (中華人民共和國礦產資源法) promulgated on 19 March 1986 and revised on 29 August 1996 by the Standing Committee of the National People's Congress and the "Rules for Implementation of the Mineral Resources Law of the PRC" (中華人民共和國礦產資源法實施細則) promulgated on 26 March 1994 by the State Council, mineral resources in the PRC are owned by the State and a licensing system is adopted for the exploration and exploitation of mineral resources. An entity engaging in the exploration and exploitation of mineral resources must meet certain qualifications and acquire the rights for exploration and mining from the relevant authorities by way of application, registration and payment of use fees.

The MLR is responsible for supervision and administration of the exploration and development of mineral resources throughout China. The department of land and resources at provincial level is in charge of supervising and administering the exploration and exploitation of mineral resources in its relevant jurisdiction. The PRC Government adopts a unified registration system for mineral exploration areas. The MLR is responsible for the registration of mineral resources exploration. The State Council may authorise relevant departments to be responsible for the registration of the exploration of special types of mineral resources.

An applicant seeking to establish a new mining enterprise must meet certain qualification requirements as set forth by the PRC Government and is subject to government approval. An applicant must detail description of the limits of the mining area, mine design or mining plan, production technique, safety and environmental protection measures together with other items and supporting documents.

Regulations on the validity, renewal and annual verification of the mining permits and exploration permits

In accordance with the Administrative Measures on Registration of Mineral Resources Exploitation (礦產資源開採登記管理辦法), the validity period of a mining permit shall be determined according to the scale of the mine. The maximum validity period of the term of mining permit for a big-scale mine, medium-scale mine and small-scale mine shall be 30 years, 20 years and 10 years, respectively.

In accordance with the Administrative Measures on Registration of Tenement of Mineral Resources Exploration and Survey (礦產資源勘查區塊登記管理辦法), the maximum validity period of the initial term of exploration permits shall be three years. Each renewal of exploration permit shall not exceed two years.

In accordance with the relevant provisions stipulated in the Administrative Measures on Registration of Tenement of Mineral Resources Exploration and Survey and the Administrative Measures on Registration of Mineral Resources Exploitation, mineral exploration permits and mining permits can be renewed within 30 days prior to their expiration, upon compliance with the prescribed extension procedure. If a holder of a mineral exploration permit or mining permit fails to renew its permit, such exploration or mining permit shall be automatically annulled upon expiration.

In accordance with the Reply Regarding Certain Issues on the Extension of the Validity Term of Mining Permits promulgated by the MLR and other relevant regulations, applicants are required to provide the following documents: an application for the extension, the original mining permit and the documents evidencing the fulfillment of applicant's obligation. The registration departments of the mining permits (at present MLR and its local branches) shall investigate if the applicants have been in breach of the relevant regulations that may lead to the cancellation of the permits; and if the extension application complies with the mining enterprise's permitted service term. In the event the applied extension term exceeds the permitted service term, applicants are required to provide relevant documents to prove its continuous exploration. Upon the grant of approval from the registration departments, the applicants will be informed to pay relevant fees and then issued new mining permits. In the event the application is not approved, the registration departments will serve an explanation letter and return the application.

According to the rules and regulations of the MLR, to apply for the extension of exploration permit, applicants are required to provide the following documents: an application, a map of the exploration site, the exploration permit, certificate of qualified geological exploration entity, an annual report of exploration, an accountant's report of the amount of investment vested and a capital assurance letter. The investigation departments shall conduct investigation with respect to the following: other mining or exploration rights cover the exploration site, the qualification of the applicants, the information provided in the application and the map of exploration site, the registration documents and information. Upon the grant of approval from the registration departments, a letter with information of the fee and the necessary procedures will be served to the applicants. In the event the application is not approved, the departments will serve a notice of non-approval.

According to the "Notice Relating to Certain Issues on the Enhancement of the Annual Verification of the Mining Development" issued by the MLR, mining licensees shall be inspected annually. The annual verification shall cover the following areas: the implementation of the mining development plan and the annual mining design; whether the exploitation at the mining site within the specified term compliance with the laws and regulations; any alteration of the mining areas, ore variety, mining methods or the company's name, and the extension of mining permits; any transfer of mining rights; re-mining rate and the flotation recovery rate; the payment of the mining resources compensation fees, mining rights use fees, mining rights purchase price and other mandatory fees; the implementation of the control of mining volume and the flow of products; and any noncompliance with the laws and regulations relating to mining resources.

Mining licensees shall submit the necessary documents to the relevant authorities for the annual verification before January 31 each year. The authorities shall investigate if there is any breach of laws and regulations relating to mining resources, and offenders shall be deemed as failure to pass the annual verification and be subject to punishments. The authorities shall inform the mining licensees about their failure to pass the annual verification and require them to make the necessary rectification within a time limit. If rectification is made within the time limit, the mining licensees accept the administrative punishments and fulfill the requirements of re-verification, then the licensees may be deemed to have passed the annual verification. If rectification is not made within the time limit or if re-verification is failed, the mining permit will be revoked.

According to the "Notice on Establishment of the Annual Verification System of Exploration Rights", the land and resources departments of different levels shall conduct an annual verification in October and November every year to inspect the exploration rights within the area under their administration. The land and resources departments shall make inquiries into: the accomplishment of the exploration works, the capital investment, the payment of exploration rights use fees and the progress of exploration during the exploration period. Once any breaches of laws or regulations were founded, punishments shall be imposed on the licensees according to the laws and regulations.

Regulations on the administration of the mineral resources of Xinjiang

In accordance with the Regulations on Mineral Resources Management of Xinjiang (新疆維吾爾自治區礦產資源管理條例) promulgated on 13 January 1995 and amended on 11 October 1997 by the Standing Committee of the People's Congress of Xinjiang, if a mining licensee does not carry out construction or production within one year after the date of the issuance of the mining permit, its mining permit will be revoked. If the annual output of a mine does not attain the planned annual output contemplated in the mining registration application for a long time, the coverage of the mine region and the mining scope may be reduced. The construction of a mine must follow the approved design of the mine, the basic construction procedures, and the construction inspection and acceptance system should be rigorously implemented. If any exploration activities damage the geological and ecological environment of a mine, the mining licensee is responsible for the recovery of the damaged environment. For those causing damages to the production and lives of any third party, compensation should be paid and necessary compensatory measures should be taken in accordance with the relevant regulations.

The State and provincial policy on copper and nickel production industry

According to the Decisions of the State Council on Enhancing Geological Works (國務院關於加強地質工作的決定) (the "Geological Decisions") promulgated on 20 January 2006, the PRC will focus on enhancing the exploration of mineral ores such as iron, copper, aluminium, lead, zinc, nickel, tungsten, tin, sylvite and gold. The construction of medium and large-sized mines of copper, aluminium, lead, zinc and nickel are industries encouraged according to the "Structural Adjustment of Industries Guidance Catalogue (2005) (產業結構調整指導目錄(2005年本)) ("Industries Guidance Catalogue"), which was promulgated by NDRC on 2 December 2005. The exploration and mining of non-ferrous metals, such as copper, lead, zinc and nickel, in Xinjiang Autonomous Region, was included in the Advantageous Industries for Foreign Investment in the Mid-west Regions Guidance Catalogue (Amendment 2004) (中西部地區外商投資優勢產業目錄(2004年修訂)) promulgated by NDRC and MOFCOM on 23 July 2004.

According to the Eleventh Five-Year Plan for the Economic and Social development of Xinjiang (2006-2010), Xinjiang will further enhance the exploration and development of non-ferrous metals such as copper, nickel, lead and zinc.

Regulations relating to replacement reserves

Exploration of replacement reserves of non-ferrous metals and development of key exploration technologies are listed in the Industries Guidance Catalogue as one of the industries in the encouraged category. In the future, the PRC will accelerate the exploration of replacement resources for nearly exhausted mines, existing oil and gas fields and resources-exhausted cities, and will also propel the in-depth mine searching and mine searching in fringe areas according to the Geological Decisions. Medium and large-sized mining enterprises applying for the exploration and development of any replacement resources in the western regions, outlying and poor areas as defined by the State Council and maritime space of the PRC, may apply for a reduction or exemption of exploration rights and mining rights use fees pursuant to the Measures of Exemption or Reduction of Mine Exploration and Mining Rights Use Fees (探礦權採礦權使用費的減免辦法) promulgated by MLR on 6 June 2000 ("Exemption or Reduction Measures"). Medium and large-sized mining enterprises in the western region of the PRC applying for the exploration and mining for searching replacement resources may apply for a reduction or exemption of exploration rights and mining rights use fees pursuant to the Opinions on the Implementation of the Certain Measures of the Development of the West (西部大開發實施意見) promulgated by the Office of Western Development of the State Council on 28 August 2001.

Measures for the Administration of the Use Fee and Purchase Price of Mineral Exploration and Mining Rights

In accordance with the Measures for the Administration of the Use Fee and Purchase Price of Mineral Exploration and Mining Rights (探礦權採礦權使用費和價款管理辦法) promulgated by the Ministry of Finance and the MLR on 7 June 1999, any entity who conducts exploration and mining activities of mineral resources in the PRC is required to pay exploration and mining rights use fees and a purchase price. The exploration rights use fee is calculated according to the exploration period and payable annually based on the size of the licensed area. The annual rate is RMB100 per square kilometre for the first three exploration years with an increment of RMB100 per year from the fourth exploration year onwards and until the maximum of RMB500 is reached. The mining rights use fee, which is RMB1,000 per square kilometre per year, shall be paid annually based on the size of the licensed area. The purchase price for mineral exploration and mining rights is determined according to the valuation result as validated by the MLR, and is paid by a lump-sum or by instalments within two years for an exploration rights and within six years for a mining rights. The use fee and purchase price of mineral exploration and mining rights are collected by the registration and administration department of such mineral exploration and mining rights during the registration of the mineral exploration and mining rights or during their annual inspection. Payment must be made before obtaining the exploration and mining permits.

In accordance with the Exemption or Reduction Measures, any entity engaging in exploration and mining of mineral resources in shortage throughout the country in the western region of the PRC may apply with the relevant land and resources department for reduction or exemption of exploration and mining rights use fees. The extent of reduction is as follows: mine exploration rights use fee may be exempted in the first year of exploration; reduced by 50% in the second to third year; reduced by 25% in the fourth to seventh year; mining rights use fee may be exempted during the mine infrastructure construction period and the first year after it's operation; reduced by 50% in the second to third year; reduced by 25% in the fourth to seventh year; and exempted during the year when the mine closes down. In accordance with the Notice of Measures of Reducing Mine Exploration and Mining Rights Use Fees (關於國家緊缺礦產資源探礦權採礦權使用費減免辦法的通知) in respect of Mineral Resources of the Country in Shortage by MLR on 21 September 2000, copper mines belong to mineral resources of the country in shortage and reduction of exploration and mining rights use fees of copper may be applicable.

Circular on Strengthening Reform of the System for Obtaining Mineral Exploration Rights and Mining Rights for Value

According to the "Circular on Strengthening Reform of the System for Obtaining Mineral Exploration Rights and Mining Rights for Value" (關於深化探礦權採礦權有償取得制度改革有關問題的通知), jointly issued by MOF and MLR on 25 October 2006, a system for the obtaining for mining rights and exploration rights for value will be adopted. Except otherwise promulgated, the State will grant new mining rights and exploration rights only through competitive mechanisms in the market, such as tenders, auctions and bidding for licence. Any owners that hold any mining rights or exploration rights with proven mineral resources without consideration shall pay the purchase price of such mining rights or exploration rights to the State. The purchase price of mining rights and exploration rights shall be paid in full within the requested period in accordance with the relevant regulations of the State. Unless otherwise stated in the Circular, mining rights and exploration rights shall not be paid by way of increase in the State-owned capital (國家資本金) of any enterprises.

In the event of having partially or fully paid for the mining rights or exploration rights by way of increase in the State-owned capital of any enterprises as approved by MOF and MLR or their provincial branches, the owners of these rights shall pay the purchase price to the State in cash. If the owners of these rights have difficulties in paying the necessary sum, they can have the option to pay by shares subject to necessary approvals. If the owners have difficulties in paying the full sum in cash at one time, they can pay by instalments within the validity of the rights as approved by the registration bureau of the mining rights or exploration rights. Mining rights shall be paid within no more than ten years, with the first year payment of no less than 20% of the full sum. Exploration rights shall be paid within no more than two years, with the first year payment of no less than 60% of the full sum. The option of payment by instalments will involve a payment of additional fee calculated at no less than the then prevailing bank lending rate.

The Department of Land and Resources of all administrative levels shall impose sanctions against owners of these rights which fail to pay in full the purchase price of their mining rights and exploration rights, and their respective right permits will not be renewed upon expiration.

Provisions on the Administration of Collection of the Mineral Resources Compensation Fee

In accordance with the Provisions on the Administration of Collection of the Mineral Resources Compensation Fee (礦產資源補償費徵收管理規定) promulgated on 27 February 1994 and revised on 3 July 1997 by the State Council, the mineral resources compensation fee is computed and collected based on a ratio of the sales income of mineral products. The mineral resources compensation fee paid by the enterprises shall be treated as administration costs. The mineral resources compensation fee is calculated using the following formula:

$$\text{Resources compensation fee} = \text{Sales income of mineral products} \times (1 - \text{deduction rate}) \times \text{Compensation fee rate} \times \text{Coefficient of mining recovery rate}$$

Any adjustment to the rates of the mineral resources compensation fee is determined by the Ministry of Finance, the MLR and the NDRC, and subject to the approval of the State Council. The mineral resources compensation fee is collected by the relevant department of land and resources together with the department of finance. The mineral resources compensation fee for the first half of each year shall be paid on or before 31 July of the same year, and those for the second half of the year shall be paid on or before 31 January of the following year. According to the Interim Measures on the Management of the Use of the Mineral Resources Compensation Fee (礦產資源補償費使用管理暫行辦法), the mineral resources compensation fee is mainly used on geological survey or exploration, mineral resources protection, or as subsidy to the fee collection departments.

Under specific circumstances, a mining licensee may be partly or fully exempted from the mineral resources compensation fee, upon the joint approval by the department of land and resources and the department of finance at the provincial level. Approval from the provincial people's government shall be required if the mineral resources compensation fee is reduced by more than 50% of the amount payable. Any approval for the reduction of the mineral resources compensation fee shall be reported to both the MLR and the Ministry of Finance for record-keeping purpose.

Regulations on Resource Tax

In accordance with the Provisional Regulations of the PRC on Resource Tax (中華人民共和國資源稅暫行條例) promulgated by the State Council on 25 December 1993, all enterprises and individuals engaged in the exploitation of mineral products within the territory of the PRC are required to pay resource tax. Applicable tax rates are determined by the Ministry of Finance in consultation with the relevant departments of the State Council based on the resource conditions of the taxable products exploited or produced by the taxpayer. The range of the prescribed tax rate is set out in the Table of Resource Tax Taxable Items and Tax Rates (資源稅稅目稅額幅度表). The tax rate for non-ferrous metals ore mined is ranging from RMB0.4 to RMB30.0 per tonne. The resource tax rate for copper ore is ranging from RMB1.4 to RMB1.6 per tonne. A new notice has been issued by the MOF and the State Administration of Taxation on 5 July 2007 to increase the resource tax rates of copper ore, lead and zinc ore and tungsten ore. Pursuant to the new notice which will take effect on 1 August 2007, the resource tax rate of the copper ore increases to RMB5 to RMB7 per tonne.

Provisional Measures on Financial Management of Safety Production Fees of High Risk Enterprises

On 8 December 2006, the Ministry of Finance and the State Safety Production Supervision Bureau (國家安全生產監督管理總局) promulgated the Provisional Measures on Financial Management of Safety Production Fees of High Risk Enterprises (高危行業企業安全生產費用財務管理暫行辦法). Safety production fees mean the funds specifically used for the improvement in production conditions of the enterprise in accordance with the required standard. Enterprises engaging in mining business in the PRC should provide for safety production fees. The standard provision for metal mines is RMB4 per tonne (surface mine) and RMB8 per tonne (underground mine). The standard provision can be raised by not more than 50% upon joint approvals from the safety production supervision bureau at the provincial level and the finance bureau for coal and coal-related non-metal mines, water underground mines, mines with self-ignition possibility, underground mines with protected buildings and railways above and other mines with special safety production requirements.

Customs duties on nickel products

Pursuant to the Notice of Adjustment of Tentative Tax Rates on Import and Export of some Merchandise by the Customs Tariff Commission of the State Council (國務院關稅稅則委員會關於調整部分商品進出口暫定稅率的通知) effective on 1 November 2006, the export duty of unwrought pure nickel (未鍛軋純鎳) is raised from 2% to 15%. In addition, pursuant to the Notice of Adjustment of Tentative Tax Rates on Import and Export of some Merchandise of the Tax Committee of the State Council (國務院關稅稅則委員會關於調整部分商品進出口暫定稅率的通知) effective on 1 June 2007, the export duty of nickel ore (鎳砂礦) and its concentrate is raised from 10% to 15%.

Mine Safety Law of the PRC and Its Implementation Rules

In accordance with the Mine Safety Law of the PRC (中華人民共和國礦山安全法) promulgated by the Standing Committee of the National People's Congress on 7 November 1992 and the Implementation Rules for the Mine Safety Law of the PRC (中華人民共和國礦山安全實施條例) promulgated by the PRC Ministry of Labour on 30 October 1996, the department in charge of labour administration and the authority in charge of the mining enterprises shall exercise supervision and administration with regard to mine safety work. A mining enterprise must possess facilities that ensure safety in production, establish and perfect safety management systems, take effective measures to improve working conditions, and strengthen safety control in mines in order to ensure safe production. The design of mine construction projects must comply with the safety rules and technological standards for the mining industry and subject to the approval of the authority in charge of mining enterprises. Mine construction projects must be conducted in accordance with the designs approved by the authority in charge of mining enterprises. The design of safety facilities in mine construction projects must be examined with the participation of the department in charge of labour administration, and must be designed, constructed and put into operation at the same time as the principal parts of the projects. Upon completion, the safety facilities in mine construction projects are subject to inspection for acceptance by the authority in charge of mining enterprises, with participation of the department in charge of labour administration. Failure to comply with the safety rules and technological standards in the mining industry would result in the applications for acceptance and operation being rejected.

Mining exploitation must meet certain requirements to ensure safe production. A mining enterprise must observe various safety rules and technological standards for the mining industry depending on different types of minerals exploited. It must establish and improve a safe production responsibility system, as well as give safety education and training to its workers and staff. The managers of the mine is responsible for production safety.

Measures for Implementation of Safety Production Licensing for Non-Coal Mine Enterprises

In accordance with the Measures for Implementation of Safety Production Licensing for Non-Coal Mine Enterprises (非煤礦礦山企業安全生產許可証實施辦法) promulgated by the State Administration of Work Safety of the PRC on 17 May 2004 and the Regulations on Safety Production Licence promulgated by the State Council on 13 January 2004, non-coal mine enterprises must obtain safety production licences pursuant to the relevant regulations. Those without safety production licences cannot conduct any production activities. The State Administration of Work Safety of the PRC is responsible for the guidance and supervision of the issue of safety production licences for non-coal mine enterprises throughout China. It is also responsible for the issue of safety production licences for non-coal mine enterprises under the central government's management (group companies, corporations and listed companies) and marine petroleum and natural gases enterprises. The department of work safety at the provincial level is responsible for the issue and administration of safety production licences for non-coal mine enterprises other than those mentioned above, as well as other non-mining enterprises which own non-coal mines or tailings facilities. In order to obtain a safety production licence, a non-coal mine enterprise must satisfy certain production safety requirements. The safety production licence issuing and administration department must issue the safety production licences to those enterprises meeting such production safety requirements pursuant to the relevant provisions. For metal and non-metal enterprises, safety production licences shall be issued to the enterprise and its individual production systems, respectively. The term of validity of a safety production licence shall be three years. If any non-coal mine enterprise needs to renew the safety production licence, it must apply for the renewal to the safety production licence issuing and administration authority three months before the expiration date.

According to the Implementation Rules for the Mine Safety Law of the PRC in Xinjiang Uygur Autonomous Region (新疆維吾爾自治區實施中華人民共和國礦山安全法辦法) promulgated on 24 September 1994 and amended on 11 December 1997 by the Standing Committee of the People's Congress of Xinjiang, head of mines and deputy-head of mines in charge of safety production must hold a safety certificate to be qualified as the head of mines of mine enterprises.

If any fatal accident in relation to production happens in any mine enterprise, the mine enterprise has to pay a minimum of RMB 200,000 to family members of the victim as compensation (including funeral allowance, pension and one-off employees' compensation in fatal cases) pursuant to the Decisions on Further Enhancing the Work on Safety of Production (《關於進一步加強安全生產工作的決定》) promulgated by the Xinjiang People's Government on 9 February 2006.

Laws and regulations relating to environmental protection

China has adopted extensive environmental laws and regulations. There are national and local standards applicable to land rehabilitation, reforestation, emission control, discharge to surface and subsurface water and the generation, handling, storage, transportation, treatment and disposal of waste materials. Pursuant to the PRC Environmental Protection Law (中華人民共和國環境保護法), the SAEP is empowered to formulate national environmental quality and discharge standards and monitor China's environmental system at the national level. The environmental protection bureau at the county level and above is responsible for environmental protection within its jurisdiction. Local environmental protection bureau may set stricter local standards than the national standards. Enterprises are required to comply with the stricter of the two sets of standards.

Under the PRC Law of Land Administration (中華人民共和國土地管理法), promulgated on 25 June 1986, and amended on 29 December 1988, 29 August 1998 and 28 August 2004, and the Land Rehabilitation Regulations (土地復墾規定), issued by the State Council in 1988 and effective 1 January 1989, if mining activities result in damage to arable land, grassland or forest, the mining operator must take measures to return the land to usable state within a prescribed time frame. The rehabilitated land must meet the rehabilitation standards, as required by law, and may only be used upon examination and approval by the land authority and the relevant industry administration authority. Any entity or individual that fails to fulfill its rehabilitation obligations may be fined, required to pay rehabilitation fees and/or denied application for land use rights by the local bureau of land and resources.

In addition, mining enterprises using forest areas in their operations are required to pay reforestation fees pursuant to the PRC Forest Law (中華人民共和國森林法), the Implementation Measures of the Forest Law (中華人民共和國森林法實施條例) and the Temporary Measures Regarding Payment of Reforestation Fees (森林植被恢復費徵收使用管理暫行辦法).

Pursuant to the Implementation of the Restrictions on Land Use Projects Catalogue (2006) (關於發佈實施《限制用地項目目錄(2006年本)》) and the Notice of the Prohibition on Land Use Projects Catalogue (2006) (禁止用地項目目錄(2006年本)的通知) promulgated by the MLR and the NDRC applications for new construction and expansion projects for refining raw copper with production capacity below 100,000 tonnes per year will not be accepted.

The PRC Environmental Protection Law requires any entity operating a facility that produces pollutants or other hazards to adopt environmental protection measures in its operations and to establish an environmental protection responsibility system. Effective measures to control and properly dispose of waste gases, waste water, waste residue, dust or other waste materials must be adopted.

Enterprises are required to register or file an environmental impact assessment with the local environmental protection bureau for approval before undertaking construction of any new production facility or major expansion or renovation of an existing production facility. A new, expanded or renovated facility will not be permitted to commence operation unless the local environmental protection bureau has inspected and determined to its satisfaction that the requisite environmental protection equipment has been appropriately installed at the facility. Environmental protection facilities should be designed, constructed and operated at the same time that a new production facility is designed, constructed and operated.

Any entity operating a facility that discharges pollutants, whether in the form of emissions, water, noise, or materials, must submit a pollutant discharge declaration statement detailing the amount, type, location and method of treatment. The local environmental protection bureau will determine an amount of discharge allowable under the law and will issue a pollutant discharge licence for that amount of discharge subject to the payment of discharge fees. If an entity discharges more than what is permitted by the pollutant discharge licence, it shall pay a fee for excessive discharge according to state provisions and shall assume responsibility for eliminating and controlling the pollution. If an enterprise has caused severe environmental pollution and has failed to eliminate or control the pollution within a required period of time, a fine may be imposed, or the enterprise may be ordered to suspend or close down its operations.

According to the Measures for the Administration of the Charging Rates for Pollutant Discharge Fees (排污費徵收標準管理辦法) promulgated on 28 February 2003, which came into effect on 1 July 2003, commencing from 1 July 2005, the discharge fees for emission of sulphur dioxide is comparable to the general discharge fees for the emission of air pollutants. The discharge fees for the emission of nitrous oxide is also comparable to the general discharge fees for emission of air pollutants.

Pursuant to the Notice of Publication of Comprehensive Work Report on Reduction of Energy and Emission by the State Council (國務院關於印發節能減排綜合性工作方案之通知) promulgated by the State Council on 23 May 2007, the discharge fee for emission of sulphur dioxide is to be doubled in the next three years from 0.63 per kilogram to 1.26 per kilogram.

Emission of waste water and the collection of water discharge fees are regulated by the PRC Water Pollution Control Law (中華人民共和國水污染法), enacted in 1984 and amended in 1996, and the Administrative Regulations on the Levy and Use of Discharge Fees (排污費徵收使用管理條例), issued by the State Council on 2 January 2003 and effective 1 July 2003.

Remedial measures under the PRC Environmental Protection Law and various environmental regulations include, among others, warnings, payments of damages and the impositions of fines. Any entity undertaking a construction project that fails to install pollution prevention and control facilities in compliance with applicable environmental standards may be ordered to suspend production or operations and may be fined. Criminal liability may be imposed for serious violation of environmental laws and regulations that causes material losses of property, personal injuries or death.

According to the "Opinion on the Enforcement of the Environmental Protection Laws and Prevention of Credit Risk" as promulgated by the SAEP on 12 July 2007, the following irregularities will be addressed as stipulated by the laws: commencement of construction without approval or without appropriate approval, the construction of environmental protection facilities not synchronising with the construction of the production facility, commencement of operation prior to environmental examination. The above breaches will be reported to the local people's bank, banking regulatory department and financial institutes. The financial institutes shall review the application of loans with diligence. For applicants who have not passed the environmental assessment examination or environmental acceptance examination, there will not be additional credit granted. Environmental departments of all levels will sanction against enterprises for the following: excessive discharge of pollutants, excessive total discharge level, discharge of pollutants without obtaining the necessary permits, discharges in breach of the levels allowed by the permit, or failure to recover the damaged environment within a prescribed period. These breaches will be reported to the local people's bank, banking regulatory department and financial institutes. The financial institutes of all levels shall review enterprises' application of loans with diligence. They should act on the information provided by the environmental protection departments and control the granting of loans with a view to prevent credit risk to the enterprises which are in violation of the environmental laws.

According to the Geological Environment Protection Regulations for the Xinjiang Uygur Autonomous Region (新疆維吾爾自治區地質環境保護條例) announced on 10 January 2002, implemented on 1 May 2002 and amended on 26 November 2004 by the Standing Committee of the People's Congress of Xinjiang, a mining licensee must establish necessary geological environment protection facilities in mining in accordance with the approved geological environmental protection plan, and restore the geological environment damaged by mining activities in a timely manner. When mining activities are terminated, the recovering and restoration of the geological environment damaged must be completed. A mining licensee must adopt permanent safety measures for sites where toxic and harmful materials are stored and restore the geological environment. In violation of such regulations, the mining licensee will be ordered to recover and restore the damaged geological environment within a prescribed period by department of land and resources of the PRC at county level or above. The land and resources department will undertake the restoration if the mining licensee fails to do so, but the cost of the restoration will be borne by the mining licensee. The mining licensee may be fined from RMB10,000 to RMB50,000 according to circumstances and its mining licence may be revoked.

HISTORY AND DEVELOPMENT

Our Company was established as a joint stock company with limited liability in the PRC on 1 September 2005. Our Company is principally engaged in the mining, ore processing, smelting and refining of nickel, copper and other non-ferrous metals which include cobalt and precious metals such as gold, silver, platinum and palladium. Before the establishment of our Company, our business was carried out by Xinjiang Non-ferrous.

Xinjiang Non-ferrous originated from Sino-Russian Non-ferrous and Rare Metals Co. Ltd. (中蘇有色及稀有金屬股份公司) ("Sino-Russian Non-ferrous") which was established in 1950 in accordance with the Sino-Soviet Treaty of Friendship, Alliance and Mutual Assistance (中蘇友好同盟互助條約). On 30 December 1954, Sino-Russian Non-ferrous became a PRC state-owned enterprise, and on 1 January 1955, Sino-Russian Non-ferrous changed its name to Xinjiang Industry Co.. In July 2000, the State Council reorganised the governing and administration system of non-ferrous metal enterprises in the PRC and as a result, the administration of Xinjiang Industry Co. was transferred to Xinjiang People's Government. On 15 March 2002, Xinjiang Non-ferrous was established as a wholly state-owned company with limited liability in the PRC by Xinjiang SASAC to administer and manage the non-ferrous metal enterprises in Xinjiang. Xinjiang Non-ferrous was mainly engaged in the mining, ore processing, smelting and refining of non-ferrous metals, such as nickel, copper, lithium, beryllium, tantalum, niobium and gold. It was also engaged in the research, design, mechanical processing and construction of facilities for the mining and processing of non-ferrous metals.

Kalatongke Mine was operated by Xinjiang Non-ferrous Kalatongke Mine, the predecessor of Kalatongke Mine, before the incorporation of our Company. Xinjiang Non-ferrous Kalatongke Mine was established in October 1988 as a state-owned enterprise. It principally engaged in, among others, the businesses of mining, ore processing and smelting of non-ferrous metals. In 1978, No.4 Geological Brigade of Xinjiang Bureau of Geology and Mineral Resources discovered mineral resources in nine rock bodies at Kalatongke Mine located in Fuyun County, Xinjiang. Xinjiang Non-ferrous entered into an agreement with Xinjiang People's Government to develop Kalatongke Mine in September 1984. The construction work commenced in 1985. Upon completion, the mining capacity reached 250 tonnes per day. The production of nickel matte commenced in May 1989 and the annual smelting capacity reached 2,100 tonnes per year. In 2002, Xinjiang Non-ferrous Kalatongke Mine carried out the technical development project to increase its mining capacity to 1,000 tonnes per day and its annual smelting capacity to 3,000 tonnes per year.

Fukang Refinery was operated by Xinjiang Non-ferrous Fukang Plant, the predecessor of Fukang Branch, prior to the establishment of our Company. Xinjiang Non-ferrous Fukang Plant was established in January 1994 as a state-owned enterprise, a company principally engaged in, among others, the production of nickel cathode and copper cathode. The construction work in Fukang Refinery commenced in 1991 and was completed in 1992. It started production of nickel cathode in October 1993.

Both Xinjiang Non-ferrous Kalatongke Mine and Xinjiang Non-ferrous Fukang Plant were initially established as state-owned enterprises which were not companies established in accordance with the Company Law and did not have a board of directors. The business decisions were made by members of our Board and senior management, please refer to the section headed "Directors, Supervisors, Senior Management and Employees" for details.

On 30 April 2004, Xinjiang Non-ferrous Kalatongke Mine completed the disposal of its 100%, 64.22%, 66.98% and 34% equity interest in Fuyun Xingtong Services Co., Ltd. (“Xingtong”), a company principally engaged in comprehensive supporting services, Xinjiang Sangong Power Co., Ltd. (“Sangong”), a company principally engaged in heating supply, Yinlong Aluminum-plastics Compound Tube Company of Xinjiang (“Yinlong”), a company principally engaged in aluminium plastic pipe manufacturing, and Fuyuan Hengsheng Beryllium Industry Co., Ltd. at a consideration of RMB329,962, RMB2.92 million, RMB1.85 million and RMB8.5 million, respectively. On the same day, Xinjiang Non-ferrous Fukang Plant completed the disposal of its 23.81% equity interest in Jinhui Real Estate Development Co., Ltd. at a consideration of RMB7.1 million to Xinjiang Non-ferrous. The above considerations were calculated on the basis of the book value of the identifiable assets and liabilities of the disposed subsidiaries and associates and there were no gain or loss on such disposals. The reasons for the disposals were that the principal businesses of the disposed subsidiaries and associates were not related to the principal activities of Xinjiang Non-ferrous Kalatongke Mine and Xinjiang Non-ferrous Fukang Plant and that they have limited synergies. The profit contributions of the disposed subsidiaries, namely Sangong, Yinlong and Xingtong, in 2004 were RMB44,000, RMB67,000 and RMB12,000, respectively.

On 30 April 2004, Xinjiang Non-ferrous Fukang Refinery, then holding 31% of the equity interest in Fukang Xingye Industry Co., Ltd. (“Xingye”), a company principally engaged in production of precious metals, acquired the remaining 69% of the equity interest in Xingye to increase the production capacity of Fukang Refinery. The vendors of such interest were the members of the Workers and Staff Members’ Associations for Share-Holding (職工持股會) of Fukang Refinery. Pursuant to the resolution of the Workers and Staff Members’ Associations for Share-Holding (職工持股會) dated 8 March 2004, the members of the Workers and Staff Members’ Associations for Share-Holding agreed to dispose their interest in Xingye at a consideration determined by reference to the fair value of the equity interest held by the vendors.

On 30 April 2004, Xinjiang Non-ferrous Kalatongke Mine, then holding 10% of the equity interest in Fuyun Huarui Copper Company Limited (“Huarui”), a company principally engaged in production of raw copper, acquired the remaining 90% of the equity interest in Huarui to increase the production capacity of Kalatongke Mine. The vendors were the members of the Workers and Staff Members’ Associations for Share-Holding of Kalatongke Mine. Pursuant to the resolution of the Workers and Staff Members’ Associations for Share-Holding dated 4 April 2004, the members of the Workers and Staff Members’ Associations for Share-Holding agreed to dispose its interest in Huarui at a consideration determined by reference to the fair value of the equity interest held by the vendors.

Huarui and Xingye were dissolved thereafter, and Xinjiang Non-ferrous transferred Huarui and Xingye to our Company as part of the operating assets pursuant to the Reorganisation Agreement. Therefore, no separate financial records for Huarui and Xingye were available.

Prior to the Reorganisation, Xinjiang Non-ferrous had 22 wholly-owned subsidiaries, including Xinjiang Non-ferrous Kalatongke Mine and Xinjiang Non-ferrous Fukang Plant which were established in October 1988 and January 1994, respectively. Pursuant to the Reorganisation, Xinjiang Non-ferrous injected all its nickel business together with associated copper and other non-ferrous metal businesses into our Company including all operational assets (including rights and liabilities) of Xinjiang Non-ferrous Kalatongke Mine and Xinjiang Non-ferrous Fukang Plant.

REORGANISATION

In preparation for the Global Offering, Xinjiang Non-ferrous underwent the Reorganisation pursuant to the Reorganisation Agreement, which became effective on 1 September 2005. On 8 August 2005, we entered into the Reorganisation Agreement with Xinjiang Non-ferrous, pursuant to which Xinjiang Non-ferrous transferred to us, all operational assets (including rights and liabilities) of Xinjiang Non-ferrous Kalatongke Mine and Xinjiang Non-ferrous Fukang Plant in relation to the mining, ore processing, smelting, refining of nickel, copper and other non-ferrous metal products. In respect of the transfer of liabilities relating to the transferred assets, Xinjiang Non-ferrous had obtained the requisite consent from the relevant creditors.

Under the Reorganisation Agreement, Xinjiang Non-ferrous has agreed to indemnify us against, among other things:

- all taxes not provided for in the Reorganisation Agreement that are payable in respect of the transferred assets, and all taxes payable in respect of the assets and businesses retained by Xinjiang Non-ferrous;

- all material claims in connection with any disputes arising from the transferred assets and related businesses occurred on or before 1 September 2005, the effective date of the Reorganisation; and

- all claims arising out of (a) any misrepresentation made by Xinjiang Non-ferrous; and (b) any breach of any provisions of the Reorganisation Agreement on the part of Xinjiang Non-ferrous.

In connection with the Reorganisation, we entered into the Non-competition Agreement with Xinjiang Non-ferrous on 17 September 2007 and two non-competition agreements with Zhongjin Investment and Shanghai Yilian on 8 August 2005, respectively. Xinjiang Non-ferrous has agreed not to compete with us in our core businesses (as defined in the Non-competition Agreement) and has granted us certain rights of first refusal and option pursuant to the Non-competition Agreement, details of which are set out in “Relationship with Xinjiang Non-ferrous — Competition — Non-competition Agreement.” Zhongjin Investment and Shanghai Yilian have also agreed not to compete with us in our core businesses and have granted us certain rights of first refusal pursuant to the respective non-competition agreements which we entered into with them.

The Incorporation of our Company

Pursuant to the Reorganisation, our Company was incorporated as a joint stock company with limited liability and registered capital of RMB300 million in the PRC on 1 September 2005. Xinjiang Non-ferrous, Shanghai Yilian, Zhongjin Investment, Xiamen Zijin, Xinjiang Xinying and Shaanxi Honghao were our Promoters. Xinjiang Non-ferrous injected all its nickel business together with associated copper and other non-ferrous metal businesses into our Company including all operational assets (including rights and liabilities) of Xinjiang Non-ferrous Kalatongke Mine and Xinjiang Non-ferrous Fukang Plant and satisfied its 60% capital contribution requirement for the sum of RMB231,259,877. Each of Shanghai Yilian, Zhongjin Investment, Xiamen Zijin, Xinjiang Xinying and Shaanxi Honghao contributed RMB77,086,626, RMB53,960,638, RMB15,417,325, RMB6,000,000 and RMB1,708,663 in cash into our Company in exchange for approximately 20%, 14%, 4.0%, 1.557% and 0.443%, respectively, of our share capital at a premium ratio of 1:0.778345 from the par value of the issued shares.

Upon our Company's incorporation on 1 September 2005, Xinjiang Non-ferrous Kalatongke Mine and Xinjiang Non-ferrous Fukang Plant became our branches, namely Kalatongke Branch and Fukang Branch, respectively. Xinjiang Non-ferrous Kalatongke Mine and Xinjiang Non-ferrous Fukang Plant were de-registered as a state-owned enterprise legal person on 1 September 2005 and 8 September 2005, respectively and we have obtained all necessary approvals and completed the registration for the corporate transformation of the predecessors of Kalatongke Branch and Fukang Branch in 2005.

Contribution by Xinjiang Non-ferrous

Pursuant to the Reorganisation, Xinjiang Non-ferrous injected all its nickel business together with associated copper and other non-ferrous metal businesses into our Company. Under the Reorganisation Agreement, Xinjiang Non-ferrous injected all operational assets (including corresponding rights and liabilities) of Xinjiang Non-ferrous Kalatongke Mine and Xinjiang Non-ferrous Fukang Plant for the amount of RMB231,259,877 as the capital contribution to our Company. The business, contractual rights and obligations and the then current employees relating to the Xinjiang Non-ferrous Kalatongke Mine and Xinjiang Non-ferrous Fukang Plant were transferred to our Company.

The assets and liabilities which Xinjiang Non-ferrous injected into us upon our establishment did not include non-operational assets such as schools, hospitals and back-up service entities. Such non-operating assets of Xinjiang Non-ferrous Kalatongke Mine were retained by the Xinjiang Non-ferrous Group. Xinjiang Non-ferrous Fukang Plant did not have such non-operational assets.

Pursuant to the Reorganisation Agreement, Xinjiang Non-ferrous agreed to indemnify us against certain taxes, claims and losses incurred in connection with the Reorganisation, as well as any breach of the provisions of the Reorganisation Agreement by Xinjiang Non-ferrous. These are more fully described in "Connected Transactions — Exempt Connected Transactions Pursuant to the Reorganisation — Reorganisation Agreement".

In connection with the Reorganisation, we entered into a number of agreements with the Xinjiang Non-ferrous Group. Pursuant to these agreements, we and the Xinjiang Non-ferrous Group will continue to purchase various products and services from each other as more fully described in the section headed "Connected Transactions — Non-exempt Continuing Connected Transactions Requiring Announcement and Independent Shareholders' Approval — Mutual Supply Agreement".

Land use rights, mining rights and trademark

Land use rights

We occupy 17 parcels of land in the PRC with an aggregate site area of approximately 2.2 million square metres.

The Kalatongke Mine and the Fukang Refinery operate on seven parcels of land occupying a total area of approximately 2,034,340 square metres. The seven parcels of land are used for mineral extraction and as production sites on which buildings and mining equipment are located. The land use rights in respect of these seven parcels of land were granted to Xinjiang Non-ferrous by the Xinjiang LRD. As advised by our PRC legal advisers, no land grant premium is required to be paid by Xinjiang Non-ferrous. In May 2006, our Company issued 80 million new shares and the registered capital was increased from RMB300 million to RMB380 million. Xinjiang Non-ferrous subscribed for 58,551,000 new shares with par value of RMB1 per share by injection of its land use rights in respect of seven parcels of land in the Kalatongke Mine and the Fukang Refinery valued at RMB79,071,634. This figure represents the value appraised by a qualified valuer based on comparable market price of the same type of land in the region. As part of the capital injection arrangement, Xinjiang Non-ferrous has undertaken to pay any land grant premium required by the relevant PRC land authority in the event of a sale of the seven parcels of land by our Company to any parties other than the Xinjiang Non-ferrous Group. Xinjiang Non-ferrous was not required to pay any land grant premium at the time of acquisition of the seven parcels of land from the Xinjiang LRD or at the time of capital injection into our Company. Shanghai Yilian, Zhongjin Investment, Xiamen Zijin, Xinjiang Xinying and Shaanxi Honghao subscribed for 10,724,000, 7,507,000, 2,145,000, 834,929 and 238,071 new shares with par value of RMB1 per share for cash consideration of RMB14,482,505, RMB10,138,023, RMB2,896,771, RMB1,127,552 and RMB321,509, respectively. With the increase of registered capital, Xinjiang Non-ferrous, Shanghai Yilian, Zhongjin Investment, Xiamen Zijin, Xinjiang Xinying and Shaanxi Honghao held 62.78%, 18.61%, 13.03%, 3.72%, 1.45% and 0.41%, respectively, of our share capital. Following the injection of the land use rights into our Company by Xinjiang Non-ferrous, our Company has obtained the land use rights in relation to the seven parcels of land. Before the injection of the land use rights into our Company, our Company leased the seven parcels of land from Xinjiang Non-ferrous. The aggregate amount of rent paid by us to Xinjiang Non-ferrous under the lease during the Track Record Period for 8.5 months amounted to approximately RMB1.5 million. Our Company obtained the land use rights for the remaining 10 parcels of land as state-owned granted land pursuant to agreements entered into with local land and resources bureau. Our Company has paid all land grant premium in respect of these 10 parcels of land for a total sum of approximately RMB1.6 million.

Mining rights

On 3 September 2005, our Company entered into the Mining Rights Transfer Agreement with Xinjiang Non-ferrous pursuant to which our Company acquired the mining rights of the Kalatongke Mine at a consideration of approximately RMB297.3 million. The valuation of the mining rights was based on the estimated approximately 30-year life of the Kalatongke Mine and the valuation of the mining rights was confirmed by MLR. The consideration was to be paid by our Company in annual instalments of RMB9.91 million each year over the course of 30 years ending 2035 under the Mining Rights Transfer Agreement.

In compliance with the Circular, our Company and Xinjiang Non-ferrous entered into the New Agreement whereby both parties agreed that our Company will pay the consideration as agreed between our Company and the Xinjiang LRD. Xinjiang Non-ferrous agreed to terminate the Mining Rights Transfer Agreement and refund the amount previously paid by our Company to Xinjiang Non-ferrous (being RMB13,215,000) to our Company under the Mining Rights Transfer Agreement. Such amount was refunded by Xinjiang Non-ferrous to our Company on 9 August 2007 in accordance with the terms of the New Agreement. Xinjiang Non-ferrous also agreed to terminate the Mining Rights Transfer Agreement and hence the payment obligations of our Company under the Mining Rights Transfer Agreement were extinguished upon signing of the New Agreement.

In compliance with the Circular, our Company also entered into the New Mining Rights Transfer Agreement with the Xinjiang LRD. Pursuant to the New Mining Rights Transfer Agreement, our Company, being the holder of the mining rights to the Kalatongke Mine, agreed to pay the Xinjiang LRD a consideration of RMB297,021,600. Our Company paid approximately 20% of the consideration (being RMB59,466,320) as first instalment to the Xinjiang LRD on 27 July 2007. The remaining 80% of the consideration (being RMB237,555,280) is payable in annual instalments of RMB26,429,476 each for eight years until 2015 and in respect of the last annual instalment for the sum of RMB26,119,472 in 2016. Other than the first instalment, an additional fee calculated at the then prevailing bank lending rate is payable together with each annual instalment (see details in the section headed “Relationship with Xinjiang Non-ferrous — Independence from Promoters — Financial independence”).

Our current mining permit is valid for 30 years until 27 July 2037, which, as advised by our PRC legal advisers, was granted at the maximum validity period for a mining permit according to relevant PRC laws and regulations. Further, we have been at all times since our entering into the Mining Rights Transfer Agreement with Xinjiang Non-ferrous on 3 September 2005 in legal possession of the mining rights and mining permit in relation to the Kalatongke Mine.

Trademark

Our Company has the right to use the “Bo Feng” (博峰) registered trademark in the PRC under Class 6. Our Company entered into a trademark licence agreement with Xinjiang Non-ferrous on 10 July 2006 (the “Trademark Licence Agreement”). Pursuant to the Trademark Licence Agreement, our Company (including our subsidiaries) is granted the right to use at no cost the “Bo Feng” trademark for a term of three years commencing from 10 July 2006 and ending 9 July 2009. The “Bo Feng” trademark is owned by Xinjiang Non-ferrous and registered with the Trademark Office of the State Administration for Industry and Commerce of the PRC. The Trademark Licence Agreement is renewable at our Company’s discretion six months prior to expiration, and it will be terminated if we obtain our own trademark for our products during the term of the licence. Xinjiang Non-ferrous has successfully filed the Trademark Licence Agreement with the Trademark Office of the State Administration for Industry and Commerce of the PRC.

The trademark of “Bo Feng” is not widely used in the PRC, including Xinjiang, and was used on the packaging materials for our products. The “Bo Feng” trademark is used by both our Company and the Xinjiang Non-ferrous Group. Approximately 90% of our annual sales were made under the trademark of “Bo Feng” since our incorporation in September 2005. We do not have exclusive right to use the trademark. Xinjiang Lithia Factory, a subsidiary of Xinjiang Non-ferrous Group, applies the “Bo Feng” mark to lithium products to be distributed to customers outside the Xinjiang Non-ferrous Group. Our main product nickel cathode is generally known as the “Xinjiang nickel” in the market, and we consider the “Bo Feng” trademark to be relatively unimportant in our sales operation and do not attribute significant market value in this trademark. Furthermore, since we are applying for the right to use the “ ” trademark, the “Bo Feng” trademark will be phased out in our sales operation and be replaced by our own trademark. We are applying for the right to use the “ ” trademark under Classes 6, 35, 37 and 40 in the PRC and we have applied to the Trademarks Registry for the use of the trademark in Hong Kong in June 2007. Our Company has also applied to the Trademarks Registry for the use of “新鑫” and “xinxin” in June 2007 but we do not have any plan to adopt these marks in addition to the “ ” trademark. In the event that we cease using the “Bo Feng” trademark, we believe that the impact of such cessation on the business, sales and financial results of our Company will be minimal (for further information, see the sections headed “Business — Intellectual property rights” and “Appendix IX — Statutory and general information — Further information about the business — Intellectual property”).

Share split

Pursuant to a written resolution of the shareholders of our Company dated 11 May 2007 and the approval from the CSRC dated 29 August 2007, each share of a par value of RMB1.00 be subdivided into four Shares of a par value of RMB0.25 each with effect from the date of this prospectus. Our total number of Shares was increased from 380,000,000 to 1,520,000,000. Changes to the shareholdings of our Promoters are as follow:

Promoters	No. of Shares before Share Split	No. of Shares after Share Split	Percentage *(approximate %)*
Xinjiang Non-ferrous	238,551,000	954,204,000	62.8
Shanghai Yilian	70,724,000	282,896,000	18.6
Zhongjin Investment	49,507,000	198,028,000	13.0
Xiamen Zijin	14,145,000	56,580,000	3.7
Xinjiang Xinying	5,505,000	22,020,000	1.5
Shaanxi Honghao	1,568,000	6,272,000	0.4
Total	380,000,000	1,520,000,000	100

Retained activities, assets and interests by Xinjiang Non-ferrous

Following the Reorganisation and subject to the Non-competition Agreement under which Xinjiang Non-ferrous and its associates (as defined in the Listing Rules) agreed not to compete with us in our core business (as defined in the Non-competition Agreement and for further information, see "Relationship with Xinjiang Non-ferrous — Non-competition Agreement"), the business activities, assets and interests that Xinjiang Non-ferrous or its associates (as defined in the Listing Rules) have retained include, among others, the following major businesses:

- investment in non-ferrous metal industry; mining, processing, acquisition and sales of non-ferrous metals;
- exploration and development, mining, ore processing, smelting of mineral resources; processing, acquisition and sales of mineral products;
- research and development, processing, production and sales of rare metals (such as lithium, beryllium, tantalum, niobium), non-ferrous metals and precious metal (such as gold), and related technological consulting service;
- acquisition of rare metals and scrap and obsolete metals;
- production and manufacturing of machinery parts, mine accessories, refractory materials, rubber products, arts and crafts products, crops and tractors (拖掛車);
- sales of metal materials, chemical products, building materials, electromechanical products, daily consumer goods, agricultural by-products, instrument and apparatus, cars, motor vehicles and parts, metal hardwares, transport equipment and electrical household apparatus, timber and processed oil;
- counter trade and trade agency, import and export business of self-operated and agent commodities and technology;

- processing with imported materials, and processing of imported materials or processing according to supplied samples, assembly of supplied parts and compensation trade;

- project design and consulting; general contracting for mining projects (level 2), building and constructing projects (level 2), smelting projects (level 2) and engineering projects (level 2); equipment installation; machinery repair and processing;

- property development and operation, property management service, property leasing, urban centralised heating supply and accommodation service;

- general cargo transportation, automobile transportation and maintenance, warehousing service, and loading/unloading service;

- catering service, household management service, environmental protection and tourism development; and

- sales and purchase of agricultural by-products.

Save as disclosed in the section headed "Relationship with Xinjiang Non-ferrous — Competition — Retained Businesses of Xinjiang Non-ferrous", the above businesses do not compete with any of the businesses operated by us. In addition, we have entered into the Non-competition Agreement with Xinjiang Non-ferrous. For further information, see the section headed "Relationship with Xinjiang Non-ferrous — Competition — Non-competition Agreement".

Disposal of equity interests of Zhongxin Mining

Zhongxin Mining, our previous subsidiary, was established on 24 January 2006 with a registered capital of RMB58,000,000. We initially subscribed for 51% of the paid-in capital of Zhongxin Mining at a consideration of RMB29,580,000 on 5 January 2006. On 22 June 2006, Xinjiang Non-ferrous transferred its 6% equity interests in Zhongxin Mining to us at a consideration of RMB3,480,000. The remaining 43% interests are held by No. 13 Agriculture Construction Division of Xinjiang Production and Construction Military Unit State-owned Assets Operation Co., Ltd. (新疆生產建設兵團第十三師國資經營公司) as to 17%, Shaanxi Honghao as to 9%, Hami City Huilong Mining Industry Co., Ltd as to 6%, Hami City Jinhua Mining Co. Ltd as to 6% and Xinjiang Aokai Mineral Development Co., Ltd. as to 5%. Except for Shaanxi Honghao who is a shareholder holding 0.4% equity interest of our Company, all the above shareholders are Independent Third Parties and, to the best of knowledge and belief of our Company, such shareholders are independent of each other.

Zhongxin Mining is located in Hami, Xinjiang. It is primarily engaged in the production of nickel metal through its smelter operation. It is uncertain when the smelter of Zhongxin Mining is capable of economically viable production. The Directors believe that our existing smelting capacity is sufficient for our Company's current operation requirements and there is no immediate need to include the smelter of Zhongxin Mining in our production. During the Track Record Period, no profit contribution was made by Zhongxin Mining as Zhongxin Mining reported loss amounted to approximately RMB3,087,000 and RMB1,296,000 for the year ended 31 December 2006 and the three months ended 31 March 2007 respectively. After due consideration, our Company decided and has resolved in a meeting of the Board held on 25 April 2007 to dispose of our investment in Zhongxin Mining. Pursuant to an equity transfer agreement dated 30 April 2007 between our Company and Xinjiang Investment and Development (Group) Company Limited (新疆投資發展(集團)有限責任公司) ("Xinjiang I&D"), an Independent Third Party, our Company transferred all our equity interest in Zhongxin Mining, being 57% of the registered capital of

Zhongxin Mining, to Xinjiang I&D at a price of RMB33,060,000. The consideration of RMB33,060,000 is based on a valuation conducted by a qualified valuer who is an Independent Third Party. We have received full consideration for the transfer. The filing of the transfer of the equity interest of Zhongxin Mining with the relevant PRC Government authority was completed on 25 May 2007.

The Directors envisage that the disposal of our Company's investment in Zhongxin Mining will not adversely impact on our business operations as the Directors believe that our current smelting capacity is sufficient for our production in the foreseeable future.

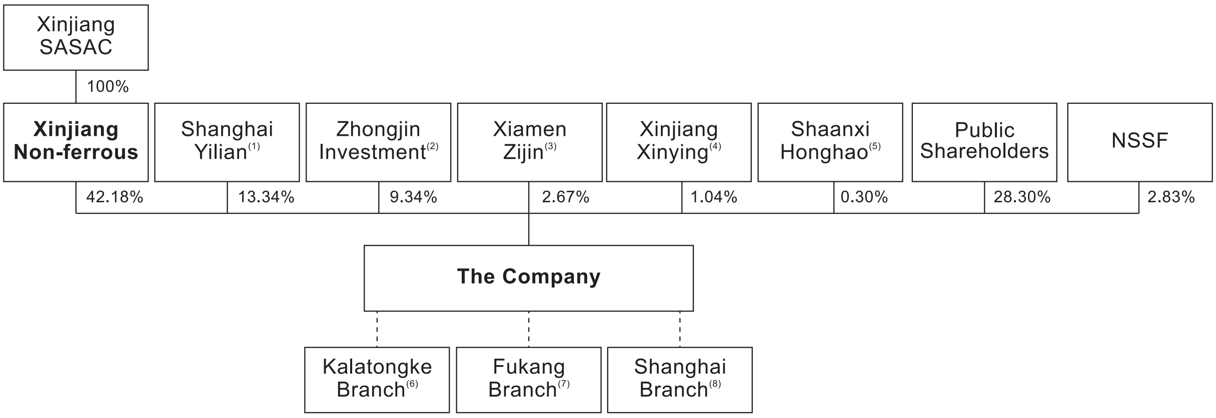
Approval, consents and consequences of the Reorganisation

The Reorganisation was approved by the relevant government authorities in the PRC, including, among others, SASAC, NSSF, CSRC, MLR, the People's Government of Xinjiang and Xinjiang SASAC. The reorganisation plan and the arrangements for the transfer of employees under the Reorganisation Agreement were approved at the general meeting of employee representatives. Zhang Junjie, one of the joint company secretaries of our Company, was the only key personnel transferred from the senior management of Xinjiang Non-ferrous to our Company since the date of incorporation. All the employees relevant to our Company's business have been transferred to our Company and entered into a new employment contract with our Company on substantially the same terms with an increase in salary after the transfer. We notified our creditors (including relevant banks), guarantors and the relevant third parties with respect to the Reorganisation and obtained their consents, if required, to the Reorganisation. Since completion of the Reorganisation, our Company has operated the Fukang Refinery through our Fukang Branch and the Kalatongke Mine through our Kalatongke Branch.

Xinjiang Non-ferrous Fukang Plant, Xinjiang Non-ferrous Kalatongke Mine and our Company have all been under the control and administration of Xinjiang Non-ferrous during the Track Record Period or since the respective dates of their establishment, whichever is the later. Hence the various restructurings leading to the incorporation of our Company constitute reorganisation of entities which were under the common control of Xinjiang Non-ferrous throughout the Track Record Period. In this connection, the financial information of our Company included in the section headed "Appendix I — Accountants' Report" has been prepared using the principles of merger accounting as prescribed in the Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants.

CORPORATE STRUCTURE

The following chart sets out our corporate structure, including our branches, immediately following the completion of the Global Offering (without taking into account any H Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option):



Notes:

(1) Shanghai Yilian is principally engaged in investment activities in the PRC. The beneficial owner of the entire shareholding of Shanghai Yilian is Mr. Zhou Chuanyou (周傳有). Mr. Zhou is one of our non-executive Directors and a PRC national.

(2) Zhongjin Investment is principally engaged in investment activities in the PRC. The beneficial owner of the 98.83% shareholding of Zhongjin Investment is Mr. Zhou Chuanyou (周傳有). For further details of Mr. Zhou, see Note (1) above.

(3) According to Xiamen Zijin's articles of association, Zijin Mining owns 100% shareholding in Xiamen Zijin. Xiamen Zijin is mainly engaged in non-ferrous metals businesses. It has other interests in copper mines and/or copper exploration projects mainly outside Xinjiang (i.e. Fujian province).

(4) According to Xinjiang Xinying's articles of association, the shareholders of Xinjiang Xinying are Zhu Fangying (朱芳瑩) and Jiang Jinlan (姜金蘭), who holds 90% and 10% of its equity interests respectively. Xinjiang Xinying is mainly engaged in the import and export business of building materials, steel materials, lumber materials, electromechanical products, machinery equipment, agricultural by-product, chemical products (except dangerous chemicals), communication equipment, equipment instruments, products for office use and stationeries (items above exclude those requiring special approval).

(5) According to Shaanxi Honghao's articles of association, the shareholders of Shaanxi Honghao are Zhang Haosen (張浩森) and Zuo Yufen (左郁芬), who hold 30% and 70% of its equity interests, respectively. Shaanxi Honghao is mainly engaged in the sale of metal products, chemical raw materials, machinery equipment and parts, building materials, steel alloys, electromechanical products, non-ferrous metals and mineral products.

(6) Kalatongke Branch is a branch of our Company and is not a separate legal entity. It is mainly engaged in the operation of the Kalatongke Mine which involves mining, ore processing and smelting of nickel, copper and other non-ferrous metals.

(7) Fukang Branch is a branch of our Company and is not a separate legal entity. It is mainly engaged in the refining of nickel, copper and other non-ferrous metals.

(8) Shanghai Branch is a branch of our Company and is not a separate legal entity. It is mainly engaged in the sales of our products in eastern China.

Assuming that the Over-allotment Option is exercised in full, Xinjiang Non-ferrous, Shanghai Yilian, Zhongjin Investment, Xiamen Zijin, Xinjiang Xinying and Shaanxi Honghao, the public shareholders and NSSF will own approximately 40.05%, 12.80%, 8.96%, 2.56%, 1.00%, 0.28%, 31.22% and 3.12%, respectively, of our issued share capital.

THE CORPORATE PLACING

As part of the International Placing, we and the Sole Global Coordinator have entered into placing agreements with the following corporate investors (the "Corporate Investors") in respect of the corporate placing. The Corporate Investors have agreed to acquire an aggregate of not more than HK$628 million worth of our H Shares at the Offer Price (the "Corporate Placing"). Assuming an Offer Price of HK$5.65 (being the mid-point of the Offer Price range set out in this prospectus), the total number of H Shares acquired by the Corporate Investors would be approximately 111,146,000 (rounded down to the nearest whole board lot of 1,000 H Shares for each of the Corporate Investors), representing approximately 18.5% of the Offer Shares or approximately 5.2% of the total number of Shares upon completion of the Global Offering (assuming the Over-allotment Option is not exercised). The exact number of H Shares to be issued to the Corporate Investors will be based on the Hong Kong dollars equivalent as at the Price Determination Date of the Offer Price.

The Offer Shares to be placed to each of the Corporate Investors will not be affected by any reallocation of the Offer Shares between the International Placing and the Hong Kong Public Offering in the event of an over-subscription under the Hong Kong Public Offering as described in the section headed "Structure of the Global Offering – The Hong Kong Public Offering – Reallocation" nor by any exercise of the Over-allotment Option to be granted by us to the Global Coordinator.

Each of the Corporate Investor(s) has agreed that it will not further participate in the International Placing (except for the Corporate Placing) and the Hong Kong Public Offering.

OUR CORPORATE INVESTORS

We set out below a brief description of our Corporate Investors:

Center Bright Limited

Center Bright Limited ("Center Bright") has agreed to acquire such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased for HK$59 million at the Offer Price. Center Bright is an indirect wholly-owned subsidiary of NWS Holdings Limited (Hong Kong Stock Code: 0659) ("NWS"). Center Bright and New World Strategic Investment Limited, one of our other Corporate Investors, are fellow subsidiaries of New World Development Company Limited (Hong Kong Stock Code: 0017) ("NWD").

Center Bright is incorporated in the British Virgin Islands and is principally engaged in investment holding business. NWS, together with its subsidiaries, engages in (i) the investment in and/or operation of facilities, contracting, transport and financial services; and (ii) the development, investment, operation and/or management of power plants, water treatment and waste management plants, roads as well as container terminals. NWS is currently a subsidiary of NWD.

Assuming an Offer Price of HK$5.65 (being the mid-point of the Offer Price range set out in this prospectus), the total number of H Shares that Center Bright would acquire would be approximately 10,442,000 H Shares, which represents approximately 1.7% of the Offer Shares (assuming the Over-allotment Option is not exercised).

China Life Insurance (Group) Company

China Life Insurance (Group) Company ("China Life") has agreed to acquire such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased for HK$118 million at the Offer Price. China Life is the controlling shareholder of China Life Insurance Company Limited (Hong Kong Stock Code: 2628). The ultimate controlling shareholder of China Life is the PRC Ministry of Finance.

The principal activities of China Life are individual life insurance, group life insurance, accident and health insurance and annuity business.

Assuming an Offer Price of HK$5.65 (being the mid-point of the Offer Price range set out in this prospectus), the total number of H Shares that China Life would acquire would be approximately 20,884,000 H Shares, which represents approximately 3.5% of the Offer Shares (assuming the Over-allotment Option is not exercised).

Fidelity Insurance Co Ltd

Fidelity Insurance Co Ltd ("Fidelity") has agreed to acquire such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased for HK$78 million at the Offer Price. The ultimate controlling shareholder of Fidelity is Chan Ping Che.

The principal activities of Fidelity are insurance agency and property investment business.

Assuming an Offer Price of HK$5.65 (being the mid-point of the Offer Price range set out in this prospectus), the total number of H Shares that Fidelity would acquire would be approximately 13,805,000 H Shares, which represents approximately 2.3% of the Offer Shares (assuming the Over-allotment Option is not exercised).

Grahamstowe Investments Limited

Grahamstowe Investments Limited ("Grahamstowe") has agreed to acquire such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased for HK$118 million at the Offer Price. The ultimate controlling shareholder of Grahamstowe is Mr. Leslie Lee Alexander.

Grahamstowe is a company incorporated in the British Virgin Islands. Mr. Leslie Lee Alexander is the owner of Houston Rockets, one of the basketball teams participating in the National Basketball Association in the United States.

Assuming an Offer Price of HK$5.65 (being the mid-point of the Offer Price range set out in this prospectus), the total number of H Shares that Grahamstowe would acquire would be approximately 20,884,000 H Shares, which represents approximately 3.5% of the Offer Shares (assuming the Over-allotment Option is not exercised).

Li Ka Shing Foundation Limited

Li Ka Shing Foundation Limited ("LKSF") has agreed to acquire such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased for HK$118 million at the Offer Price.

In 1980, LKSF was set up to co-ordinate donations towards medical, education, cultural and other community welfare projects in a systemic manner. LKSF and other private charitable foundations established by Mr. Li Ka-shing have supported numerous charitable activities with grants, sponsorships and commitments of over HK$8.4 billion.

Assuming an Offer Price of HK$5.65 (being the mid-point of the Offer Price range set out in this prospectus), the total number of H Shares that LKSF would acquire would be approximately 20,884,000 H Shares, which represents approximately 3.5% of the Offer Shares (assuming the Over-allotment Option is not exercised).

New World Strategic Investment Limited

New World Strategic Investment Limited ("NWSI") has agreed to acquire such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased for HK$59 million at the Offer Price. NWSI is a direct wholly-owned subsidiary of NWD. NWSI and Center Bright, one of our other Corporate Investors, are fellow subsidiaries of NWD.

NWSI is incorporated in the British Virgin Islands and is principally engaged in investment holding business. NWD is a leading Hong Kong-based conglomerate with core businesses including property, hotel operation, infrastructure, services, telecommunications and technology in Hong Kong, Macau and the PRC, and is also involved in a number of strategic investments.

Assuming an Offer Price of HK$5.65 (being the mid-point of the Offer Price range set out in this prospectus), the total number of H Shares that NWSI would acquire would be approximately 10,442,000 H Shares, which represents approximately 1.7% of the Offer Shares (assuming the Over-allotment Option is not exercised).

Sinotrans (HK) Holdings Limited

Sinotrans (HK) Holdings Limited ("Sinotrans (HK)") has agreed to acquire such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased for HK$78 million at the Offer Price. The ultimate controlling shareholder of Sinotrans (HK) is China National Foreign Trade Transportation (Group) Corp.

Founded in 1950, China National Foreign Trade Transportation (Group) Corporation (SINOTRANS) is a large and modern logistics group with world-wide comprehensive businesses. It mainly provides agency services of international freight forwarding of water, land, as well as air transports, with its businesses covering water transport, air transport, air express, rail transport, international multimodal transport, auto transport, warehousing shipping operation & management, chartering, shipping agency and integrated logistics.

Up to the end of 2005, SINOTRANS has established 40 domestic wholly owned subsidiary companies, 8 holding companies, one listed company in Hong Kong (SINOTRANS Limited), as well as one domestically listing company (SINOTRANS Air Transportation Development Co., Ltd.), with over 1,000 business entities nationwide. It has established 8 representative offices, 16 overseas subsidiaries, as well as agency relationships with over 400 foreign transport companies outside China.

Assuming an Offer Price of HK$5.65 (being the mid-point of the Offer Price range set out in this prospectus), the total number of H Shares that Sinotrans (HK) would acquire would be approximately 13,805,000 H Shares, which represents approximately 2.3% of the Offer Shares (assuming the Over-allotment Option is not exercised).

Our Directors and the Sole Sponsor confirm that none of the Corporate Investors or the ultimate beneficial owner(s) of the Corporate Investors is a connected person (as defined in the Listing Rules) of our Company and will not become a connected person as a result of the Corporate Placing. Our Directors confirm that none of the Corporate Investors has any business relationship with us. Each of the Corporate Investors has agreed with our Company that the aggregate holding (direct or indirect) of the Corporate Investor, its wholly-owned subsidiaries, any other companies under the management and control of the Corporate Investor and its connected person(s) (as defined under the Listing Rules), in the total issued share capital of the Company, will be less than 10% of our Company's entire issued share capital at any time during the period of twelve months following the Dealing Date.

CONDITIONS PRECEDENT

Each Corporate Investor's obligation to acquire H Shares is conditional only upon: (i) the Underwriting Agreement being entered into and having become unconditional by no later than the date and time as specified in the Underwriting Agreement and not having been terminated; and (ii) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the H Shares on the main board of the Stock Exchange, and which have not been withdrawn before the Dealing Date.

RESTRICTIONS ON DISPOSALS BY THE CORPORATE INVESTORS

Each Corporate Investor has undertaken and agreed that it will not, whether directly or indirectly, at any time during the period of twelve months following the Dealing Date ("twelve-month period"), dispose of any H Shares subscribed or any interest in any company or entity holding any of the H Shares, other than transfer to any wholly-owned subsidiary of the Corporate Investor (and in the case of Center Bright and NWSI, to any wholly-owned subsidiary of the Corporate Investor, the holding company which holds 100% equity interest in the Corporate Investor or any wholly-owned subsidiary of such holding company of the Corporate Investor) ("Investor affiliate"), provided that such Investor affiliate shall first give written undertaking in favour of the Sole Global Coordinator and our Company to, and the Corporate Investor undertakes to procure that such Investor affiliate will, strictly abide by the terms and restrictions imposed on the Corporate Investor under the relevant placing agreement as if such Investor affiliate were itself subject to such terms and restrictions including the 12-month non-disposal undertaking.

Each Corporate Investor agrees that, after the twelve-month period, it shall be free to dispose of any H Shares, provided that (a) the Corporate Investor shall notify our Company and the Sole Global Coordinator in writing prior to any disposal and shall ensure that any such disposal is strictly in accordance with all applicable laws and regulations including the SFO and does not create a disorderly or false market in the H Shares; and (b) the Corporate Investor shall not dispose of any H Shares to another person who engages directly or indirectly in a business which competes with the business of our Company, or to another entity which is a holding company, subsidiary of fellow subsidiary of such person, without the prior written consent of our Company and the Sole Global Coordinator.

OVERVIEW

We are a mining company based in Xinjiang, the PRC. We are principally engaged in the mining, ore processing, smelting and refining of nickel, copper and other non-ferrous metals, which include cobalt and precious metals such as gold, silver, platinum and palladium.

Our major product is nickel cathode. According to China Non-ferrous Metals Industry Association (中國有色金屬工業協會), we were, in 2006, the second largest integrated producer of nickel cathode in the PRC in terms of production volume, accounting for approximately 3.2% of the country's total production. China Non-ferrous Metals Association is a non-profit independent body registered with the State Council, comprising more than 700 members nationwide involved in the non-ferrous metals industry. In 2006, we sold approximately 3,304 tonnes of nickel cathode. As of 31 March 2007, we possessed approximately 247,408 tonnes of nickel resources in the PRC, of which approximately 163,800 tonnes were nickel reserves. Our other products include copper cathode, copper concentrate, raw copper, cobalt products, gold, silver, platinum and palladium derived from our production.

The following table illustrates our sales volume and turnover of nickel cathode and copper products and our turnover of other products for the three years ended 31 December 2006 and the three months ended 31 March 2007:

	For the year ended 31 December									For the three months ended 31 March					
	2004			2005			2006			2006(1)			2007		
	Sales volume	Turnover		Sales volume	Turnover		Sales volume	Turnover		Sales volume	Turnover		Sales volume	Turnover	
	(tonnes)	*(RMB million)*	*(% of turnover)*	*(tonnes)*	*(RMB million)*	*(% of turnover)*	*(tonnes)*	*(RMB million)*	*(% of turnover)*	*(tonnes)*	*(RMB million)*	*(% of turnover)*	*(tonnes)*	*(RMB million)*	*(% of turnover)*
Nickel cathode	2,710.2	313.0	71.2	3,328.4	407.0	74.7	3,303.5	604.7	69.6	799.5	94.3	58.4	943.3	281.0	86.1
Copper products															
Copper cathode	3,007.8	68.5	15.6	3,143.6	93.9	17.2	3,107.8	161.9	18.6	870.8	34.4	21.3	709.3	33.9	10.4
Raw copper	780.5	17.5	4.0	1,211.1	29.8	5.5	602.1	33.8	3.9	–	–	–	–	–	–
Copper concentrate	3,882.7	16.1	3.6	188.5	1.4	0.3	5,102.8	48.4	5.6	3,634.7	29.7	18.4	–	–	–
Other products(2)	–	24.6	5.6	–	12.6	2.3	–	20.3	2.3	–	3.1	1.9	–	11.4	3.5
Total(3)		439.7	100.0		544.7	100.0		869.1	100.0		161.5	100.0		326.3	100.0

Notes:

(1) Three months results ended 31 March 2006 were unaudited.

(2) Other products include cobalt products, precious metals such as gold, silver, platinum and palladium and by-products derived from our production. The sales volume of other products is not provided as different products are measured in different units.

(3) The total sales volume is not provided as different products are measured in different units.

We have four exploration permits covering an aggregate area of 159.91 square kilometres, and one mining permit valid for 30 years covering an aggregate area of 7.887 square kilometres in Fuyun County, Xinjiang. Our current mining permit is valid for a term of 30 years until 27 July 2037. Our PRC legal advisers have advised that our mining permit is granted at the maximum validity period for a mining permit according to relevant PRC laws and regulations. In respect of our mining rights, we have an operating mine in Kalatongke, Xinjiang, namely the Kalatongke Mine. Our facilities in the Kalatongke Mine include a concentrator and a smelter. Our refining plant, namely the Fukang Refinery, is situated in Fukang, Xinjiang. The map below illustrates the location of Xinjiang and our operating sites in Xinjiang:

We conduct our underground mining, ore processing and smelting operations at the Kalatongke Mine. Products from our operations at the Kalatongke Mine include nickel matte and copper products such as copper concentrate and raw copper. The nickel matte produced at our Kalatongke Mine is delivered to our Fukang Refinery for refining into nickel cathode and other products such as copper cathode.

We do not carry out geological surveying work ourselves. Such work is performed by Independent Third Parties such as the No. 4 Geological Brigade (新疆地質四大隊) of the Xinjiang Bureau of Geology and Mineral Resources (新疆地礦局) which has a geological surveying and exploration team. We engage third party exploration professionals with requisite qualifications to carry out exploration work. Our Directors believe that the above outsourcing arrangements lower our operational costs by eliminating the need to constantly maintain an in-house team of exploration professionals while exploration work is carried out only periodically when we make new discoveries of geological anomalies. Although exploration is not among our Company's principal activities, we determine the exact locations of exploration, decide exploration methods, and assess further exploration plans in any given exploration location.

We have located and discovered 11 deposits, six of which are confirmed to have economically viable mineral resources according to the SRK Report. We have been carrying out mining operation at Deposit Y1 since 1989 and we expect to commence the mining process at Deposit Y2 in 2009. As at 31 March 2007, Deposit Y1 and Deposit Y2 reported the following reserves and net resources (i.e. total resources minus total reserves):

	Nickel				**Copper**			
	Reserves (in super high grade ore) *(tonnes)*	**Reserves (in other grades of ore)** *(tonnes)*	**Net resources** *(tonnes)*	**Total resources** *(tonnes)*	**Reserves (in super high grade ore)** *(tonnes)*	**Reserves (in other grades of ore)** *(tonnes)*	**Net resources** *(tonnes)*	**Total resources** *(tonnes)*
Already in Mining Operation								
Deposit Y1	9,239	85,876	7,285	102,400	11,924	127,965	14,198	154,087
Not Yet in Mining Operation								
Deposit Y2 west	38,220	3,833	16,755	58,808	53,060	6,431	28,459	87,950
Deposit Y2 east	–	26,733	27,367	54,100	–	58,607	55,693	114,300

Source: SRK Report (Appendix V-5 and V-6)

The above table includes reserves contained in approximately 1.75 million tonnes of ore classified as "super high grade" in Deposit Y1 and Deposit Y2 west which has a nickel or copper content greater than or equal to 3%. Such ore does not require ore processing and can be fed directly to our smelter, thus by-passing the ore processing process and thereby reducing operating costs. This provides a significant cost advantage to our Company.

Our reserves are greater than our net resources, because a relatively large portion of our resources have been classified as reserves. As of 31 March 2007, there were approximately 40,879,700 tonnes of estimated ores in the deposits at the Kalatongke Mine.

Based on the current reserves of 23,978,260 tonnes and a small percentage of existing certified mineral resources of 40,879,700 tonnes, and at a mining rate of one million tonnes per annum, SRK has assessed that the Kalatongke Mine has the potential for a mine life of approximately 30 years commencing from 31 March 2007. Please see the section headed "Resource and Reserve — Executive Summary" as set out in Appendix V — Independent Technical Review Report (Appendix V-5 and V-6).

Our end-customers use our products for a wide range of industrial and consumer applications. For example, nickel is mainly used for the manufacturing of stainless steel. Other uses of nickel include the production of alloys, electro-plating, aerospace and military applications and coinage. Copper is mainly used in the building and construction industry, transportation, production of wires and cables, electrical and electronic products. Precious metals, such as gold, silver and platinum, are used for industrial purposes and in art and jewelry. We sell all of our products in the PRC through our sales team in Xinjiang and the Shanghai Branch.

We have commissioned SRK to undertake an independent technical review and assessment of the mine, concentrator, smelter and refinery operated by us and our mineral assets. Details of the findings, reporting standard and scope of work conducted by SRK are set out in Appendix V — Independent Technical Review Report.

COMPETITIVE STRENGTHS

We believe that we have the following principal competitive strengths:

We have abundant natural nickel resources at the Kalatongke Mine

As at 31 March 2007, we had approximately 40,879,700 tonnes of estimated ores in the 11 deposits, six of which are confirmed to have economically viable mineral resources according to the SRK Report. We benefit from the abundance and the high metal grade of nickel, which we believe allows our production to sustain for another 30 years after the increase of the production capacity of mineral ores upon completion of our technical improvement projects at the Kalatongke Mine in 2009.

During 2006 and in the first three months of 2007, over 81.0% and 84.5% of nickel content, and 94.7% and 96.7% of copper content, respectively, in all the ores and metal concentrates used in the smelting operation at the Kalatongke Mine was supplied by our own mining and ore processing operations and the rest was purchased from external sources. As a result, we are largely self-sufficient in this regard and benefit from lower production costs. According to the SRK Report, we have a high resource self-sufficiency from established vertical integration based on exploration for mining deposits, developing and mining minerals and processing on-site to allow economical transportation to our Fukang Refinery. Currently all the nickel matte produced at the Kalatongke Mine is supplied to our Fukang Refinery for refining operations.

In 2006, we were the second largest integrated producer of nickel cathode in the PRC

According to China Non-ferrous Metals Industry Association (中國有色金屬工業協會) in 2006, we were the second largest integrated producer of nickel cathode in the PRC in terms of production volume and we sold approximately 3,304 tonnes of nickel cathode. As at 31 March 2007, we possessed approximately 247,408 tonnes of nickel resources in the PRC, of which approximately 163,800 tonnes were nickel reserves. For further information, see Appendix V — Independent Technical Review Report. With our ongoing investment in exploration of the site with an area of 159.91 square kilometres which is covered by our four exploration permits, we believe that further nickel reserves can be identified that allows us to have strategic control over nickel resources. We also believe that our level of nickel resources will give us a competitive edge in the market in respect of the supply of raw materials to our integrated production chain.

We are located in Xinjiang, which is endowed with nickel resources, and are well positioned to capture opportunities in the growing nickel market

Xinjiang is endowed with nickel resources which spread across Xinjiang Altay, Tianshan and Kunlun mountains. Mineral deposits are located in the prolific Tianshan and West Junggar mineral belts of Xinjiang which extend westward into the Central Asian Republics of Uzbekistan and Kyrgyzstan where gold ore bodies such as Muruntau (170 million oz of gold), Kalmakyr (90 million oz of gold), and Kumtor (18 million oz of gold) are located. Copper-nickel deposits are located in Kalatongke, Shanshan and Hami. Copper deposits that are in production include the Ashele Copper Mine and the Tuwu-Yandong Copper Mine.

The PRC government has declared support for the development of western China and is continuing to construct additional infrastructure to support economic growth through the provision of tax incentives. The abundance of mineral deposits, strong demand for minerals from eight neighbouring countries and favourable transportation infrastructure in Xinjiang assists Xinjiang to achieve its goal of being the new Euro-Asia continental bridge. Our Kalatongke Mine and our Fukang Refinery is located at the foot of the Altay mountain and Tianshan mountain, respectively. Our Company is carrying out exploration through third parties in the vicinity of the Altay mountain. We believe that we are well positioned to capture the business opportunities arising from the development potential of nickel mining and nickel reserves in Xinjiang.

In 2006, the PRC was the largest consuming nation for nickel in the world and approximately 48.5% of the nickel consumption in the PRC had to be satisfied through imports. Since the beginning of 2007, prices of nickel have generally been rising as a result of an increasing demand for nickel from the stainless steel industry in the PRC. We believe that the demand for nickel will continue to increase.

We have an integrated nickel production chain

We adopt an integrated operating model that includes mining, ore processing, smelting and refining of nickel, copper and other non-ferrous metals. Our Kalatongke Mine produces nickel matte for our refining operations in our Fukang Refinery. Our relatively high resource self-sufficiency ratio from established vertical integration has enabled us to place less reliance on external sources of production materials for our operations. Even though we expect that we will procure more of production materials from external sources in accordance with the expansion plans of our operations, we believe that our resource self-sufficiency ratio will remain relatively high. Our integrated production chain has enabled us to reduce the risk of fluctuations in prices and supply of production materials in our smelting operation, which in turn reduces the risk of fluctuations in prices and supply of nickel matte in our refining operation.

We benefit from current government industrial policies of the PRC which favour the development of enterprises engaging in the production of non-ferrous metals such as nickel and copper and policies encouraging the development of the central-western part of the PRC

The PRC Government has been promoting the development of the western region of the PRC since 2000 and Xinjiang, which is located in the western region of the PRC, benefits from this policy. The PRC Government also considers non-ferrous metals to be the strategic raw materials which are important to both the economic growth and national defence of the PRC. In particular, we enjoy the following preferential policies:

- according to the "Structural Adjustment of Industrial Policy Guidance Catalogue" (產業結構調整指導目錄) promulgated by the NDRC in 2005, our core businesses in nickel and copper production fall within the encouraged category;

- except our Shanghai Branch, we have received an exemption of enterprise income tax from 2005 to 2010, which is subject to annual review from 2007 to 2010. The Directors have confirmed that the People's Government of Xinjiang has conducted the annual review and granted us (other than our Shanghai Branch) the exemption from enterprise income tax in 2007; and

- policy encourages the wet process refining techniques which are currently employed by us.

For further information on governmental policies, see the section headed "Regulations — The State and provincial policy on copper and nickel production industry".

We believe that we will continue to receive support and benefits from both the PRC Government and the People's Government of Xinjiang, which is a positive factor in strengthening our business.

We have effective cost control which enables us to price our products competitively and flexibly while maintaining the quality of our products at national standards

We maintain effective cost control through the procurement of raw materials such as nickel concentrate for the production in our Kalatongke Mine, continuous technological improvement in our production facilities and high metal recovery rate. In 2000, we developed a management information system jointly with Zhongnan Industry University (中南工業大學) for our Kalatongke Mine. This system transfers the data from the ore processing workshop and the smelting workshop to a central data centre. Through automated input of raw materials in accordance with a pre-set formula, the system has improved the accuracy of the input of raw materials and reduces waste. In addition, we also have energy-saving devices. Even though the production volume increased during the three years ended 31 December 2006 by 19.7%, the actual amount of electricity and water consumed in the process of our production of each tonne of ore minerals decreased by 17.3% and 30.2%, respectively. Comparing with the year of 2005, we also reduced the average consumption of coke by 12.5% due to our adoption of an oxygen-rich smelting (富氧熔煉) technique in 2006. We believe that through effective cost control, we are able to adopt a flexible and competitive pricing strategy with reference to applicable LME prices, spot prices in the Yangtze River Non-ferrous Metals Spot Market, futures prices in the Shanghai Futures Exchange and the prices set by our competitors, while maintaining the quality of our products at national standards.

We have effective quality control, production safety and environmental protection systems

We emphasise standardised operation and have implemented stringent policies on various aspects including quality control, production safety and environmental protection. We provide regular training and a set of internal guidelines and manuals for our employees setting out our requirements on quality control, production safety and environmental protection. We have a quality control team in our Kalatongke Mine and Fukang Refinery which is responsible for monitoring various stages of our production chain. In addition, we have adopted various environmental protection measures. Waste residue and waste water discharged from our Kalatongke Mine and Fukang Refinery are reused, recycled, or supplied to enterprises engaging in the cement and building materials manufacturing businesses. In respect of gas emissions from our Kalatongke Mine and Fukang Refinery, the standards set by the relevant environmental protection authorities were complied with during the Track Record Period. According to the Inspection Opinion of the Environmental Protection Bureau of Xinjiang (新疆環保局) dated 26 April 2006, the discharge of major pollutants from our manufacturing process complied with the licensing requirements in respect of waste disposal. We have received awards in relation to our contribution to Xinjiang, quality control, smelting and refining technology as well as other aspects of our operations including our environmental protection measures. The operations at our Kalatongke Mine and Fukang Refinery have been certified as being in compliance with the ISO9001:2000 standard, which is an internationally recognised quality assurance standard and is the highest quality assurance standard at the national level. Our Kalatongke Mine and Fukang Refinery have also obtained ISO 14001:1996 and ISO 14001: 2004 environmental management system certificates, as well as GB/T28001-2001 occupational health and safety management system certificate.

Our operating sites are well connected with existing transportation network in Xinjiang and other parts of the PRC

Our Kalatongke Mine is located in Kalatongke, the Fuyun County of Xinjiang and is approximately 450 kilometres north of Urumqi, the capital city of Xinjiang. Our Fukang Refinery is situated in Fukang, the Changji Hui Autonomous State (昌吉回族自治州) of Xinjiang and is approximately 76 kilometres north of Urumqi. Fukang Refinery has a geographical advantage in securing adequate supplies of raw materials from our Kalatongke Mine as well as other suppliers in Xinjiang and nearby provinces of the PRC as well as securing us with convenient access to other materials such as coal and coke. National highway 216 connects our Kalatongke Mine, Fukang Refinery and Urumqi with other national highway network to other parts of China. According to the SRK Report, we have a simple transportation logistics which allows economical transportation of raw materials from our Kalatongke Mine to our Fukang Refinery. We believe that the location of our operating sites and the well-developed transportation network in Xinjiang provide us with favourable conditions to conduct our business.

Our senior management possesses extensive experience in the non-ferrous metals industry in the PRC

We have an experienced, stable and well-educated management team with extensive expertise in the non-ferrous metals industry in the PRC. Mr. Yuan Ze, our chairman and executive Director, has been working for our Company and our predecessor since 1998 and possesses extensive experience in the non-ferrous metals industry in the PRC. Mr. Shi Wenfeng, our executive Director, has been working for our Company and our predecessor since 1989 specialising in refining operations. Mr. Zhang Guohua, our executive Director, has been working for our Company and our predecessor since 1984 and is experienced in mining operations. They are well supported by an able senior management team in the day-to-day operations of our Company. Over the years, the management has obtained various awards. For further information, please see the section headed "Business — Awards". Our management team has accumulated relevant industry experience and knowledge in the non-ferrous metals industry in the PRC. We believe that our experienced and proactive management team, together with our emphasis on the continual development on our staff, has enabled us to maintain flexibility in allocating our resources and adjusting our business strategies for any anticipated change in market conditions.

BUSINESS STRATEGIES

Our primary business objective is to become one of the most resource-rich, efficient and profitable nickel-oriented and diversified metal mining companies in the PRC. We intend to implement the following business strategies to achieve our business objective:

We intend to expand our operations to other parts of Xinjiang and neighbouring central Asian countries

We seek to expand our operations into other parts of Xinjiang and neighbouring central Asian countries which have significant mineral resources potential such as nickel and copper.

We intend to acquire additional exploration and mining rights with apparent and substantial mineral resources and mineral reserves or through the acquisition of majority equity interests of the holders of such rights where practicable. We believe that by expanding our operations into other parts of Xinjiang and neighbouring central Asian countries, we can secure control of more mineral reserves and sustain long term growth.

We intend to enhance our strategic control of mineral resources by way of increasing our nickel reserves through further exploration and acquisition of exploration and/or mining rights

We believe control of mineral resources is fundamental to long-term sustainable expansion of our business. There is a potential to increase the current reserve base of the Kalatongke Mine through focused exploration efforts. Currently, we have four exploration rights in Fuyun County covering an aggregate area of approximately 159.91 square kilometres and we intend to carry out more in-depth exploration in this area through third party professional exploration teams with a view to increase our nickel reserves. We also intend to extend our exploration to other deposits in Kalatongke which we have identified as likely to contain abundant mineral resources. In addition, there are a number of geologically anomalies in Kalatongke on which we are yet to strengthen exploration operations and prove the existence of mineral reserves. We will continue to perform further geological exploration through third party professional exploration teams in order to strengthen our knowledge in respect of mineral resources in the Kalatongke region. We also intend to acquire mining rights in mines with proven mineral reserves and/or acquire exploration rights in areas with apparent and substantial mineral resources and/or acquire equity interests in the holders of such mining rights and exploration rights. Through the control of additional mineral resources, we will be able to secure a reliable supply of mineral raw materials from the Kalatongke Mine for our refining operations in the Fukang Refinery. In addition, we expect to increase our purchases of raw materials from external sources to cater for the increasing demand of our products.

We will continue to increase our production capacity and enhance efficiency of our mining and processing operations through technical improvement projects for our Kalatongke Mine and Fukang Refinery

We seek to expand our mining operation and production in our Kalatongke Mine by strengthening our in-depth exploration and mining. We believe that with a larger production scale, we will be able to reduce the average cost of our products. The technical improvement projects in our Kalatongke Mine involve expansion of our mining and ore processing capacity. We expect to raise the production capacity of our mining operation to 3,400 tonnes of mineral ores per day in 2009 from the current production capacity of 1,000 tonnes of mineral ores per day in 2006 by further exploration and mining of Deposit Y1 and the commencing production at Deposit Y2. We expect to raise the production capacity of our ore processing operation to 3,000 tonnes per day in 2009 from the current production capacity of 1,000 tonnes per day. We also expect to raise the production capacity of our smelting operation to 7,000 tonnes per year in 2009 from 3,600 tonnes per year in 2006 by further expansion of the existing concentrator. These projects in the Kalatongke Mine are expected to be completed by the end of 2009.

We expect that our production volume in the Fukang Refinery will increase correspondingly with the expansion in our Kalatongke Mine and the increase of external purchases of raw materials. In 2006 our Fukang Refinery installed equipment for improvement of metal recovery rate. We also seek to enhance the production efficiency of our mining and refining operations by improving the metals recovery rate. High recovery rates of saleable metals will result in more saleable products and less metal wastes and thereby minimising our disposal and other operating costs.

The technical improvement projects of our Fukang Refinery involve expansion of our nickel refining capacity. We expect to raise the production capacity of our refining operation from 3,500 tonnes per year in 2006 to, 5,000 tonnes per year in 2007, 8,000 tonnes per year in 2008 and 13,000 tonnes per year in 2009 by re-engineering of our ancillary facilities, installation of new equipment and facilities, construction of new plant and workshops. We expect that, upon the completion of the technical improvement projects in respect of the production of nickel, we will improve the production capacity of our Fukang Refinery. These projects in the Fukang Refinery are expected to be completed by the end of 2009.

We will continue to focus on our small to medium-sized customers while at the same time expand our sales of nickel to larger customers with our expanding production scale

While we have a relatively stable small to medium-sized customers, we intend to continue to expand our customer base to larger customers, such as large scale steel manufacturers by direct sale and tender and through large scale trading companies. We have entered into one-year supply agreement with a large scale state-owned enterprise, Shenyang Chengtong Metals Company Limited (瀋陽誠通金屬有限公司) ("Chengtong") since April 2006. The major product we sell to Chengtong is nickel cathode. Chengtong was one of our top five customers, contributing 5.09% and 10.17% of the turnover of our Company for the year ended 31 December 2006 and the three months ended 31 March 2007, respectively. Chengtong is a large scale trading company and has an established sales network of non-ferrous metals in north-eastern China. While we will continue to focus on our existing customer base, as and when our production capacity increases and upon completion of our technical improvement projects, we will be in a better position to enter into more supply contracts with larger customers.

We intend to continue to improve the quality of our products

We intend to improve the quality of our products by developing and upgrading products which are ultrafine, ultramicro and ultrapure. These products usually command a higher price in the market. Through our own research and development capabilities, we developed a production line of ultra-fine nickel powder (超細鎳粉) in 2003 with an annual production capacity of 200 tonnes. In August 2005, we established a new cobalt cathode production workshop with an annual production capacity of 130 tonnes. We commenced production of cobalt cathode in November 2006. We believe that the development of more precise and better quality products is important in maintaining our competitive edge in the market. We will begin this development process by conducting relevant market research and feasibility studies including profitability of each product and technical testing on these products.

OUR PRODUCTS

The mineral ores extracted from our Kalatongke Mine are polymetallic ores. The ores primarily contain nickel and copper, as well as a smaller amount of other non-ferrous metals such as cobalt, gold, silver, platinum and palladium.

Nickel

Nickel is a lustrous, silvery metal. It has a high melting point of 1,453°C, low thermal and electrical conductivities, high resistance to corrosion and oxidation, extraordinary strength and toughness at elevated temperatures. It is widely used both as a pure metal and as a component of alloys with other metals. In 2006, more than 60% of nickel produced worldwide was used for the production of stainless steel.

Nickel cathode

We produce nickel matte at the Kalatongke Mine. It is a mixture of nickel, copper, cobalt, iron and other vulcanised metals smelted with nickel concentrate powder. The nickel content of nickel matte is approximately 40%. Nickel matte is mainly used to produce nickel cathode, nickel powder, sulphuric acid nickel, oxidised nickel, nickel alloy and nickel salt. Nickel cathode has a wide industrial and commercial application. All nickel matte produced in the Kalatongke Mine is delivered to the Fukang Refinery as raw materials for the production of nickel cathode.

Nickel cathode is characterised by its purity, high melting point and corrosion resistance. Its good mechanical properties are not compromised by high working pressure under various temperatures. It also has magnetic extendibility. The nickel content of nickel cathode is approximately 99.96%. It is mainly used in the production of stainless steel, high-strength alloys, precision alloys, electroplate and petrochemical productions.

Copper

Copper has a high electrical and thermal conductivity and its good malleability makes copper to be used in a wide range of applications in the building and construction industry, transportation, the production of wires and cables, electrical and electronic products and, to a lesser extent, the production of industrial machinery and equipment and consumer products.

Copper cathode

We produce copper cathode from nickel matte through the refining process in the Fukang Refinery. According to the national standards of copper cathode, the copper and silver contents of copper cathode is not less than approximately 99.95%.

Raw copper

We produce raw copper at the Kalatongke Mine. Depending on the price of copper concentrate and raw copper in the market, we sometimes produce raw copper from copper concentrate through our smelter in the Kalatongke Mine instead of selling all of our copper concentrate to our customers. The copper content of raw copper is approximately 95%.

Copper concentrate

We produce copper concentrate at the Kalatongke Mine. It is extracted from polymetallic ores and is a necessary raw material for the production of copper. Its copper content is approximately 25% to 28%. We sell a portion of our copper concentrate directly from the Kalatongke Mine to our customers. The rest of our copper concentrate is used to produce raw copper through the smelting process in our smelter in the Kalatongke Mine.

Other products

In addition to nickel and copper products, our products include cobalt products, precious metals such as gold, silver, platinum and palladium derived from our production.

SALES VOLUME AND TURNOVER

The following table illustrates our sales volume and turnover of nickel cathode and copper products and the turnover of other products for the three years ended 31 December 2006 and the three months ended 31 March 2007:

	For the year ended 31 December									For the three months ended 31 March					
	2004			2005			2006			2006[1]			2007		
	Sales volume	Turnover		Sales volume	Turnover		Sales volume	Turnover		Sales volume	Turnover		Sales volume	Turnover	
	(tonnes)	*(RMB million)*	*(% of turnover)*	*(tonnes)*	*(RMB million)*	*(% of turnover)*	*(tonnes)*	*(RMB million)*	*(% of turnover)*	*(tonnes)*	*(RMB million)*	*(% of turnover)*	*(tonnes)*	*(RMB million)*	*(% of turnover)*
Nickel cathode	2,710.2	313.0	71.2	3,328.4	407.0	74.7	3,303.5	604.7	69.6	799.5	94.3	58.4	943.3	281.0	86.1
Copper products															
Copper cathode	3,007.8	68.5	15.6	3,143.6	93.9	17.2	3,107.8	161.9	18.6	870.8	34.4	21.3	709.3	33.9	10.4
Raw copper	780.5	17.5	4.0	1,211.1	29.8	5.5	602.1	33.8	3.9	–	–	–	–	–	–
Copper concentrate	3,882.7	16.1	3.6	188.5	1.4	0.3	5,102.8	48.4	5.6	3,634.7	29.7	18.4	–	–	–
Other products[2]	–	24.6	5.6	–	12.6	2.3	–	20.3	2.3	–	3.1	1.9	–	11.4	3.5
Total[3]		439.7	100.0		544.7	100.0		869.1	100.0		161.5	100.0		326.3	100.0

Notes:

(1) Three months results ended 31 March 2006 were unaudited.

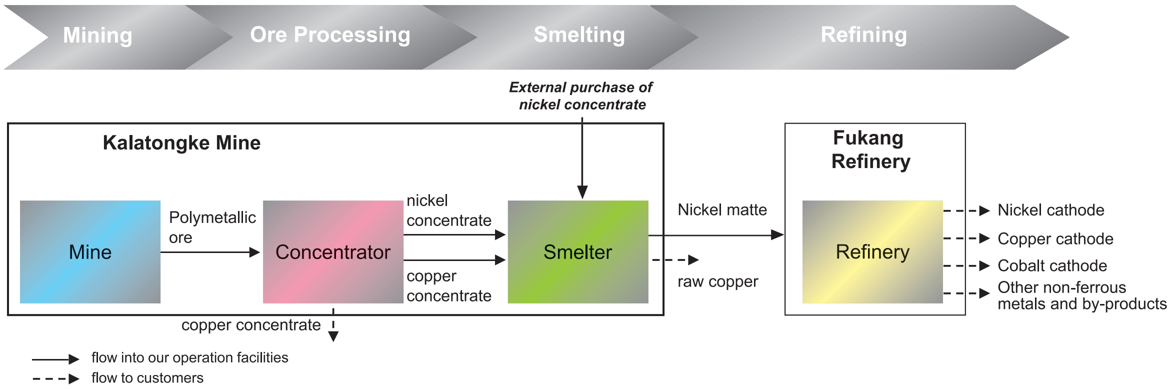
(2) Other products include cobalt products, precious metals such as gold, silver, platinum and palladium and by-products derived from our production. The sales volume of other products is not provided as different products are measured in different units.

(3) The total sales volume is not provided as different products are measured in different units.

There has been a stable increase in sales volume of nickel cathode during The Track Record Period. The turnover contribution of nickel cathode represented 71.2%, 74.7%, 69.6% and 86.1% of our total turnover in each of the three years ended 31 December 2006 and the three months ended 31 March 2007, respectively. The turnover contribution of copper cathode represented approximately 15.6%, 17.2%, 18.6% and 10.4% of our total turnover for the three years ended 31 December 2006 and the three months ended 31 March 2007, respectively. The turnover contribution of copper concentrate represented approximately 3.6%, 0.3%, 5.6% and nil of our total turnover for the three years ended 31 December 2006 and the three months ended 31 March 2007, respectively.

INTEGRATED PRODUCTION CHAIN

Both of our production sites, the Kalatongke Mine and the Fukang Refinery, play an important role in our manufacturing process. The diagram below shows our integrated production chain, the respective functions and inter-relationship of the two major sites in the production chain and the manufacturing processes of our nickel and some of our by-products.



Our mining, ore processing and smelting operations are conducted at the Kalatongke Mine. The major product of the Kalatongke Mine is nickel matte. All of the nickel matte produced is delivered to the Fukang Refinery for our internal use as raw materials.

Our refining operation is conducted at the Fukang Refinery. The major product is nickel cathode. Other products produced at the Fukang Refinery include copper cathode, cobalt cathode, and precious metals such as gold, silver, palladium and platinum.

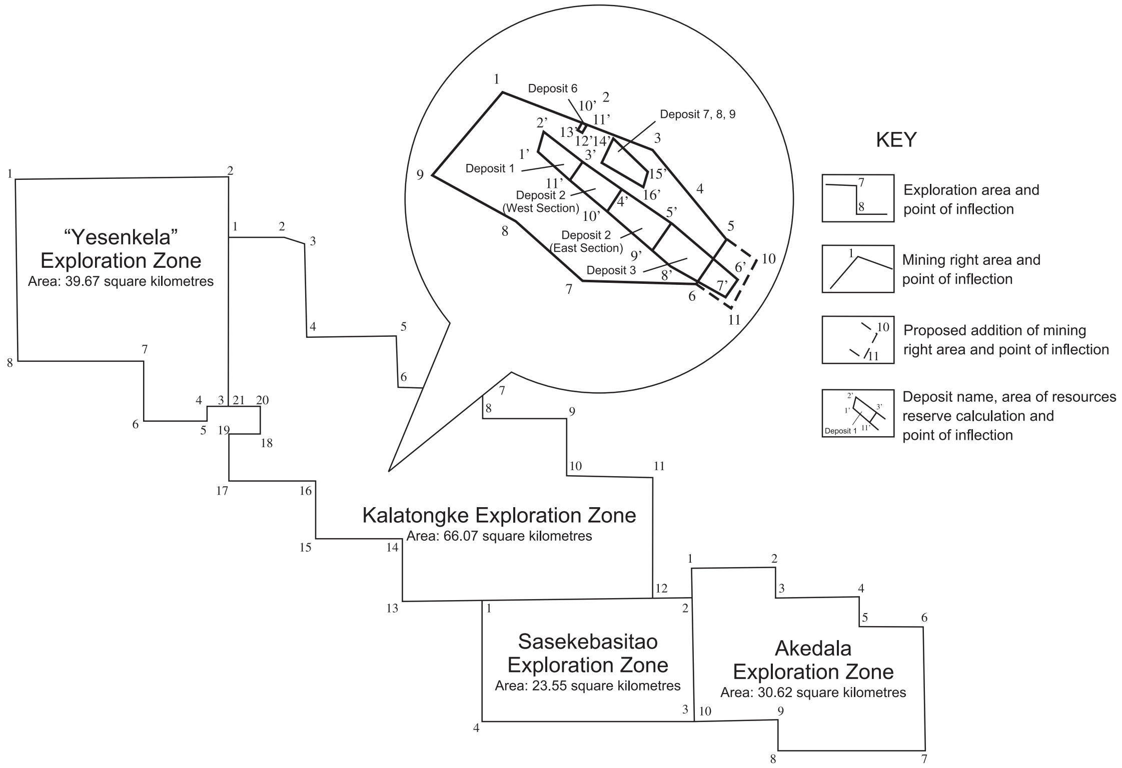
MINING

Our mining operation is carried out at the Kalatongke Mine. It includes the blasting of ore deposits, cutting and stoping (excavation in successive layers) of ore, ore transportation and planning, design and construction relating to mining operations. We have put in place technological plans for the effective operation of the Kalatongke Mine, taking into account the relevant ore occurrence and mode of variation.

Kalatongke Mine

The Kalatongke Mine is situated in Fuyun County near the north-eastern boundary of Junggar Basin in Xinjiang. It is located within the Kalatongke Exploration Zone, which is one of the four exploration zones respectively covered by our four exploration permits. The Kalatongke Mine is approximately 450 km from Urumqi, the capital city of Xinjiang. We have obtained the land use rights of the Kalatongke Mine with a site area of approximately 1.4 million square metres.

As at the Latest Practicable Date, we had located and discovered a total of 11 deposits, six of which were confirmed to have economically viable mineral resources. Our predecessor had been carrying out mining operation at Deposit Y1 since 1989 and we expect to start the mining process at Deposit Y2 in 2009. According to the SRK Report, the potential to find economic copper-nickel deposits in the areas covered by our exploration permits is good due to the fact that the geophysical anomalies and confirmed deposits are an extension of current mine and defined deposits and they have geological similarities to the known deposits. SRK is of the opinion that at a mining rate of one million tonnes per annum, the Kalatongke Mine will have a mining life of approximately 30 years commencing from 31 March 2007. For further details, see "Appendix V — Independent Technical Review Report". The map below shows the respective locations and boundaries of our exploration rights, mining rights, land use rights and the deposits in the Kalatongke Mine:



The following table sets out information about our mine and exploration zones, which are located adjacent to each other.

Number of operating mine	1
Number of deposits discovered	11
Number of mining rights	1
Number of exploration rights	4
Nickel reserves estimate as of 31 March 2007	163,800 tonnes
Nickel net resources estimate as of 31 March 2007	83,508 tonnes
Copper reserves estimate as of 31 March 2007	258,000 tonnes
Copper net resources estimate as of 31 March 2007	161,337 tonnes
Expected mine life (years)	30

The table below sets out the capacity of mining operation at the Kalatongke Mine from 2004 to 2006 and the projected capacity of mining operation at the Kalatongke Mine from 2007 to 2009.

Mining *(tonnes per day)*	**2004** *(actual)*	**2005** *(actual)*	**2006** *(actual)*	**2007** *(forecast)*	**2008** *(forecast)*	**2009** *(forecast)*
Mining volume	1,000	1,000	1,000	1,000	1,000	3,400
Mining capacity(1)	1,000	1,000	1,000	1,000	1,000	3,400
Utilisation rate	100%	100%	100%	100%	100%	100%

Note:

(1) Mining capacity at the end of the relevant year under normal operating conditions

Our production facilities comprise an ore processing plant and a smelting plant located at the Kalatongke Mine, and a refining plant located at the Fukang Refinery.

The table below sets out the ore processing and smelting capacity of the Kalatongke Mine from 2004 to 2006 and the projected ore processing and smelting capacity of the Kalatongke Mine from 2007 to 2009.

Ore processing *(tonnes per day)*	**2004** *(actual)*	**2005** *(actual)*	**2006** *(actual)*	**2007** *(forecast)*	**2008** *(forecast)*	**2009** *(forecast)*
Ore processing volume	1,000	1,000	1,000	1,000	1,000	3,000
Ore processing capacity(1)	1,000	1,000	1,000	1,000	1,000	3,000
Utilisation rate	100%	100%	100%	100%	100%	100%

Note:

(1) Designed ore processing capacity at the end of the relevant year under normal operating conditions

Smelting *(tonnes per year)*	**2004** *(actual)*	**2005** *(actual)*	**2006** *(actual)*	**2007** *(forecast)*	**2008** *(forecast)*	**2009** *(forecast)*
Smelting volume(1)	2,644	3,471	3,693	3,677	3,879	5,373
Smelting capacity(1)(2)	3,000	3,000	3,600	3,600	3,600	7,000
Utilisation rate	88%	116%	103%	102%	108%	77%

Notes:

(1) Volume and capacity figures refer to contained nickel metal in tonnes

(2) Designed smelting capacity at the end of the relevant year under normal operating conditions

The table below sets out the refining capacity of our Fukang Refinery from 2004 to 2006 and the projected refining capacity of our Fukang Refinery from 2007 to 2009.

Refining *(tonnes per year)*	**2004** *(actual)*	**2005** *(actual)*	**2006** *(actual)*	**2007** *(forecast)*	**2008** *(forecast)*	**2009** *(forecast)*
Refining volume	2,659[(2)]	3,260[(2)]	3,365[(2)]	5,000	8,568[(2)]	10,010
Refining capacity[(1)]	2,040	3,000	3,000	5,000	8,000	13,000
Utilisation rate	130%	109%	112%	100%	107%	77%

Notes:

(1) Designed refining capacity at the end of the relevant year under normal operating conditions

(2) The refining volume exceeded the designed capacity through the improvement in electricity flow

As of 31 March 2007, there were approximately 40,879,700 tonnes of estimated ores in the 11 deposits at the Kalatongke Mine. The following table illustrates the grade and contained metal of such ore:

	Nickel	**Copper**
Metal Grade (%)	0.61	1.03
Contained Metal (tonnes)	247,408	419,337

Source: the Ministry of Land and Resources of Xinjiang and Company

We are currently operating at the Deposit Y1 of the Kalatongke Mine. The following table illustrates the resource estimate of Deposit Y1 as of 31 March 2007:

Ore Quality	**Category**	**Ore** *('000 tonnes)*	**Nickel** *(tonnes)*	**Copper** *(tonnes)*	**Nickel** *(%)*	**Copper** *(%)*
Super high grade	B(111b)	265	9,525	12,293	3.59	4.64
High grade	B(111b)	4,099	41,622	64,173	1.02	1.57
Low grade	C(331)	4,967	20,845	31,708	0.42	0.64
Low grade	C(332)	3,290	14,424	19,159	0.44	0.58
Sub-economic grade	D(333)	4,779	15,984	23,193	0.33	0.49
Sub-economic grade (oxidised)	D(332)	488	0	3,561	0.00	0.75
Total	B+C+D	17,888	102,400	154,087	0.57	0.86

Source: Company and SRK Report (Appendix V-26)

Of the nickel resources and copper resources in the above table, approximately 95,115 tonnes and approximately 139,889 tonnes were nickel reserves and copper reserves, respectively.

We expect to commence the mining process at Deposit Y2 in 2009. The following table illustrates the resource estimate of Deposit Y2 west as of 31 March 2007.

Ore Quality	Category	Ore *('000 tonnes)*	Nickel *(tonnes)*	Copper *(tonnes)*	Nickel *(%)*	Copper *(%)*
Super high grade	332(C)	1,450	39,402	54,701	2.72	3.77
Super high grade	333(D)	160	3,941	6,899	2.46	4.31
High grade	332(C)	320	2,724	4,634	0.85	1.45
High grade	333(D)	420	3,268	5,934	0.78	1.41
Low grade	332(C)	330	1,218	1,996	0.37	0.60
Low grade	333(D)	1,970	6,799	11,407	0.35	0.58
Low grade	334(D)	720	1,456	2,379	0.20	0.33
Total	C+D	5,370	58,808	87,950	1.10	1.64

Source: Company and SRK Report (Appendix V-31)

Of the nickel resources and copper resources in the above table, approximately 41,921 tonnes and approximately 59,460 tonnes were nickel reserves and copper reserves, respectively.

The following table illustrates the resource estimate of Deposit Y2 east as of 31 March 2007:

Category	Ore *('000 tonnes)*	Nickel *(tonnes)*	Copper *(tonnes)*	Nickel *(%)*	Copper *(%)*
332(C)	5,300	27,300	60,600	0.52	1.14
333(D)	4,610	22,500	46,100	0.49	1.00
334(D)	1,352	4,300	7,600	0.32	0.56
Total	11,262	54,100	114,300	0.48	1.01

Source: Company and SRK Report (Appendix V-31)

Of the nickel resources and copper resources in the above table, approximately 26,733 tonnes and approximately 58,607 tonnes were nickel reserves and copper reserves, respectively.

We have been carrying out preliminary implemental exploration in other deposits. The following table illustrates the resource estimates for Deposit Y3, Deposit Y7 and Deposit Y9 as of 31 March 2007:

Deposit	Category	Ore (1,000 tonnes)	Nickel (tonnes)	Copper (tonnes)	Nickel (%)	Copper (%)
Y3	333 (D)	5,610	28,680	53,370	0.51	0.95
Y7	D	270	1,700	5,400	0.63	2.00
Y9	D	480	1,700	4,200	0.35	0.88
Total		6,360	32,080	62,970		

Note: The known resources at Deposit Y6 are insignificant, and are not stated in the above table.

The major products of the Kalatongke Mine are nickel matte, copper concentrate and raw copper. During the Track Record Period, the nickel matte produced in the Kalatongke Mine was exclusively delivered to the Fukang Refinery for refining and production of nickel cathode. For the year ended 31 December 2006, we used approximately 36.6% of copper concentrate produced internally at the Kalatongke Mine for the production of raw copper, and we sold the rest of the copper concentrate to our customers.

In respect of our mining operation at the Kalatongke Mine, we are required to pay resource taxes, mining rights fees and mineral resources compensation fees. We have fully paid all such taxes and fees according to the relevant PRC laws and regulations during the Track Record Period.

Mining process

Our mining operation is conducted underground at the Kalatongke Mine. Currently, we adopt two mining methods. The super-high grade ore is mined by cut-and-fill mining method. The high grade ore is mined by undercut-and-fill mining method. We intend to use sublevel carving in the mining of low grade ore upon completion of our technical improvement projects of our Kalatongke Mine. We use waste rock or cemented tailings as primary filling materials to achieve economic efficiency and reduce potential harm to the environment. After drilling, blasting, oredrawing, fragmentation haulage and hoisting transportation, the ore is transported to our concentrator and smelter for processing, which are also situated in the Kalatongke Mine.

In line with prevailing industry practice, we outsource our underground mining works to third party contractors in accordance with our internal tender procedures. Our contractors are Independent Third Parties. This outsourced mining work involves low-skill labourers. We have retained full control of the crucial functions of our mining operations, including the decision of mining method and the formulation of production safety programs. Our production safety department manages and supervises the mining works carried out by our contractors. These functions require substantial involvement of our own technical staff. All our contractors must possess the requisite qualifications for undertaking mining works. We usually select the contractors by assessing their track records and experience. We usually enter into agreements with our contractors for a term of three years. We have not had any major disputes with our contractors during the Track Record Period.

We require our contractors to possess the appropriate qualifications in safety and production. Our contractors work under the supervision of our production safety department.

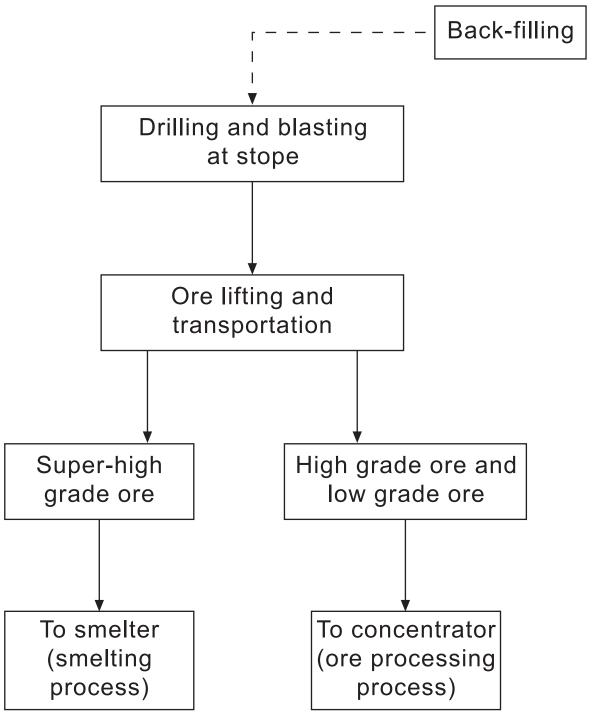
Under the contract entered into between our Company and the contractors, the contractors must undertake to conduct mining works upon the following principal terms, in locations specified by us:

Scope of work:	Mining works in locations specified by us
Payment terms:	Monthly payment (including labour insurance) is made and based on our agreed specifications and formula
Accident liability:	All legal, administrative and financial liabilities arising from any accident in our underground mining operations at the Kalatongke Mine shall be the responsibility of the contractors, provided such accident happened without any fault on the part of our Company
Production safety and environmental protection:	The contractors must strictly observe the relevant production safety and environmental protection regulations and provide regular training to their workers, the costs of which are borne by the contractors

We impose certain technical requirements on the mineral ore extracted by our contractors. We inspect the mineral ore each month, and we generally pay our contractors if and when our technical requirements are met. The mining contracting fees payable to our contractors are reflected in our financial information as subcontracting work under cost of goods sold.

Our smelting operations at the Kalatongke Mine are conducted throughout the year save for the period of overhaul of our facilities which usually happens once every 18 months. We operate 24 hours a day with four groups of workers working in three eight-hour shifts. We monitor our contractors' performances and their compliance of the safety measures on a regular basis.

The flow chart below shows the major steps of our mining process in our mine:



Mining rights

The ownership of mineral resources in China belongs to the State. A qualified mining company can apply for mining rights in a designated area for a specified period of time for production purposes. The licence of mining rights also grants exploration rights within the designated mine area for the licensee's production purposes. The validity of mining rights can be extended until the mining of reserves within a designated area has been exhausted, subject to the approval of the relevant regulatory authorities.

In general, a holder of an exploration right enjoys priority in obtaining the mining rights in respect of the area explored. As at the Latest Practicable Date, we had secured one mining rights within the area of the Kalatongke Mine.

Mining rights

In May 1990, Xinjiang Non-ferrous Kalatongke Mine, a wholly-owned subsidiary of Xinjiang Non-ferrous before the Reorganisation, obtained the mining permit number (1990)0104 from the Ministry of Geology and Mineral Resources (地質礦產部), which subsequently became MLR in 1998. In 2005, Xinjiang Non-ferrous obtained the mining rights of the Kalatongke Mine by way of increase in its State-owned capital (國家資本金) according to the then regulations. On 3 September 2005, our Company entered into the Mining Rights Transfer Agreement with Xinjiang Non-ferrous pursuant to which our Company acquired the mining rights of the Kalatongke Mine at a consideration of approximately RMB297.3 million.

The valuation of the mining rights was based on factors including the resource and reserve reports and other relevant geological reports of the Kalatongke Mine. This valuation was approved by MLR in accordance with "Interim Measures on the Administration of the Valuation of Exploration Rights and Mining Rights" (探礦權採礦權評估管理暫行辦法) promulgated by MLR. We are advised by our PRC legal advisers that we are not required to pay for the mining rights in respect of the period prior to the date of signing of the Mining Rights Transfer Agreement and the transfer of the mining rights from Xinjiang Non-ferrous to us under the Mining Rights Transfer Agreement has complied with the applicable laws and regulations in the PRC. Furthermore, our PRC legal advisers have advised that we will not be liable for charges relating to mining rights due and payable for the period prior to the Reorganisation. Our mining rights in respect of the Kalatongke Mine was appraised by Beijing Jingwei Assets Appraisal Co., Ltd. (北京經緯資產評估有限責任公司) and the appraisal value was approved by the MLR.

In compliance with the Circular, our Company and Xinjiang Non-ferrous entered into the New Agreement whereby both parties agreed that our Company will pay the consideration as agreed between our Company and Xinjiang LRD. Xinjiang Non-ferrous agreed to terminate the Mining Rights Transfer Agreement and refund the amount previously paid by our Company to Xinjiang Non-ferrous (being RMB13.2 million) to our Company under the Mining Rights Transfer Agreement. Such amount was refunded by Xinjiang Non-ferrous to our Company on 9 August 2007 in accordance with the terms of the New Agreement. Xinjiang Non-ferrous also agreed to terminate the Mining Rights Transfer Agreement and hence the payment obligations of our Company under the Mining Rights Transfer Agreement were extinguished upon signing of the New Agreement.

In compliance with the Circular, our Company also entered into the New Mining Rights Transfer Agreement with the Xinjiang LRD. Pursuant to the New Mining Rights Transfer Agreement, our Company, being the holder of the mining rights to the Kalatongke Mine, agreed to pay Xinjiang LRD a consideration of RMB297,021,600 for a term of 30 years commencing from 27 July 2007 and expiring on 27 July 2037. Our Company paid approximately 20% of the consideration (being RMB59,466,320) as first instalment to Xinjiang LRD on 27 July 2007. The remaining 80% of the consideration (being RMB237,555,280) is payable in annual instalments of RMB26,429,476 each for eight years until 2015 and in respect of the last annual instalment for the sum of RMB26,119,472 in 2016. Other than the first instalment, an additional fee calculated at the then prevailing bank lending rate is payable together with each annual instalment. Our PRC legal advisers have advised that the rate should be the prevailing lending rate published by the PBOC from time to time (see details in the section headed "Relationship with Xinjiang Non-ferrous — Independence from Promoters — Financial Independence").

Our PRC legal advisers have confirmed that both the New Agreement and the New Mining Rights Transfer Agreement are legal, valid and enforceable under PRC laws and are in compliance with the Circular. Further, our PRC legal advisers have confirmed that our Company is in compliance with the Circular and has legally owned the mining rights of the Kalatongke Mine since September 2005.

We intend to fund future payment obligations with part of the net proceeds of the Global Offering. Currently, we have no intention to sell our mining rights.

Our current mining permit, valid for a term of 30 years until 27 July 2037, was granted at the maximum validity period allowed by the relevant PRC laws and regulations according to our PRC legal advisers. Further, we have been at all times since our entering into the Mining Rights Transfer Agreement with Xinjiang Non-ferrous on 3 September 2005 in legal possession of the mining rights and mining permit in relation to the Kalatongke Mine. Our Mining permit is subject to verification on an annual basis and our Company has never failed to pass the annual verification during the mining period. We set out below the particulars of our mining rights:

Mine	Location	Interest held by our Company	Mining permit no.	Mining area *(sq. km)*	Validity period of the mining rights	Mining method
Kalatongke Mine	Fuyun County, Xinjiang	100%	1000000720060	7.887	From 27 July 2007 to 27 July 2037	Underground

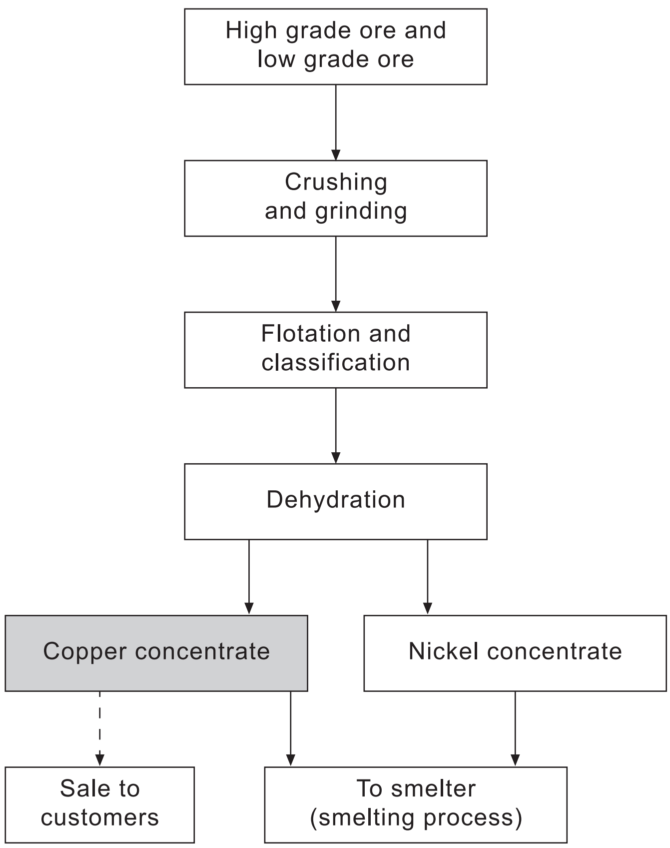
Pursuant to PRC laws and regulations, the holder of an exploration permit has a preferential right to obtain the related mining permit after successful discovery of ore resources. Application for mining rights is conditional upon the submission of a geological report containing reserves and resources information, a resources utilisation proposal and an environmental impact assessment report.

ORE PROCESSING

Ore processing is the second major stage of our operations. The concentrator in the Kalatongke Mine processes sulphide ore from the underground mine to produce metal concentrates. Ore processing typically involves crushing, screening, grinding and classifying, mineral concentrate dehydration and tailing disposal. We use sequential flotation techniques for classification after crushing and grinding in the concentrator. To produce metal concentrates, we segregate the useful components of ores from useless stones through physical or chemical methods, or a combination of the two, and then collect the useful components through a number of concentration methods. After ore processing, the contents of nickel and copper of the ores and their gradings are increased and improved. Such operations are carried out in the concentrator of the Kalatongke Mine.

We produce copper concentrate and nickel concentrate from our ore processing operation. We sell part of our copper concentrate directly to external customers and process the rest in our smelter to produce raw copper. Nickel concentrate is processed in our smelter to produce nickel matte.

The following flow chart shows the major steps of ore processing process in our concentrator:

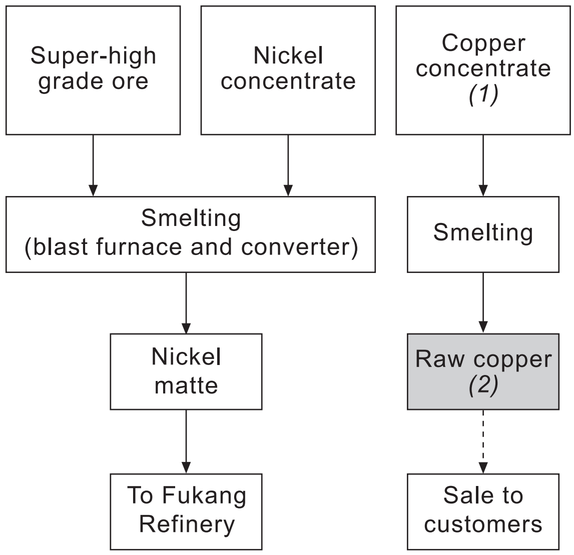


We have a production management information system in place in our ore processing facilities. We developed this system with Zhongnan Industry University (中南工業大學) in 2000. This system records the raw materials input in our production process. It also records such information on a daily, monthly and yearly basis, which allows instant comparison between current data and historical data. Pressures and temperatures at various points of the ore processing facilities are measured. All such data is transferred to the data centre through intranet, and there are alarms and warnings if there is any malfunctioning. Through automated input of raw materials in accordance with pre-set formula, the system has improved the accuracy of the input of raw materials and reduces waste.

SMELTING

Our smelting process involves fragmentation haulage, smelting, settling and separation, blowing, water hardening and nickel matte (水淬金屬化高冰鎳) formation. We produce nickel matte through our smelting facilities with super high grade ore and nickel concentrate. We adopt the pyrogenic process to produce such nickel matte. The pyrogenic method used by us has undergone several improvements throughout our years of operation and closed furnace oxygen-rich smelting (密閉鼓風爐富氧熔煉) is the technology used in the pyrogenic method at the Kalatongke Mine. Depending on the prices of copper concentrate and raw copper, we may also produce raw copper from copper concentrate through our smelter in the Kalatongke Mine. We sell all the raw copper directly to our customers.

The following flow chart shows the major steps of smelting process in our smelter:



Notes:

1. A portion of our copper concentrate is sold to customers directly during the ore processing process. The rest of the copper concentrate is used to produce raw copper during the smelting process.

2. Depending on the prices of copper concentrate and raw copper in the market, we may produce raw copper from copper concentrate instead of selling all copper concentrate to customers.

We also have a production management information system in our smelting facilities similar to that installed in our ore processing facilities. Such automated production management information system collects and analyses the data we gather from our production process and helps us to maintain the stability of our smelting process. This system also helps us to better monitor the quality of our products during the smelting process.

REFINING

Our refining operation is conducted at the Fukang Refinery. The nickel matte produced at the Kalatongke Mine is transported by road to the Fukang Refinery for refining. Our refining process involves grinding, leaching, pressure leaching, cobalt disposing and electrowinning.

Fukang Refinery

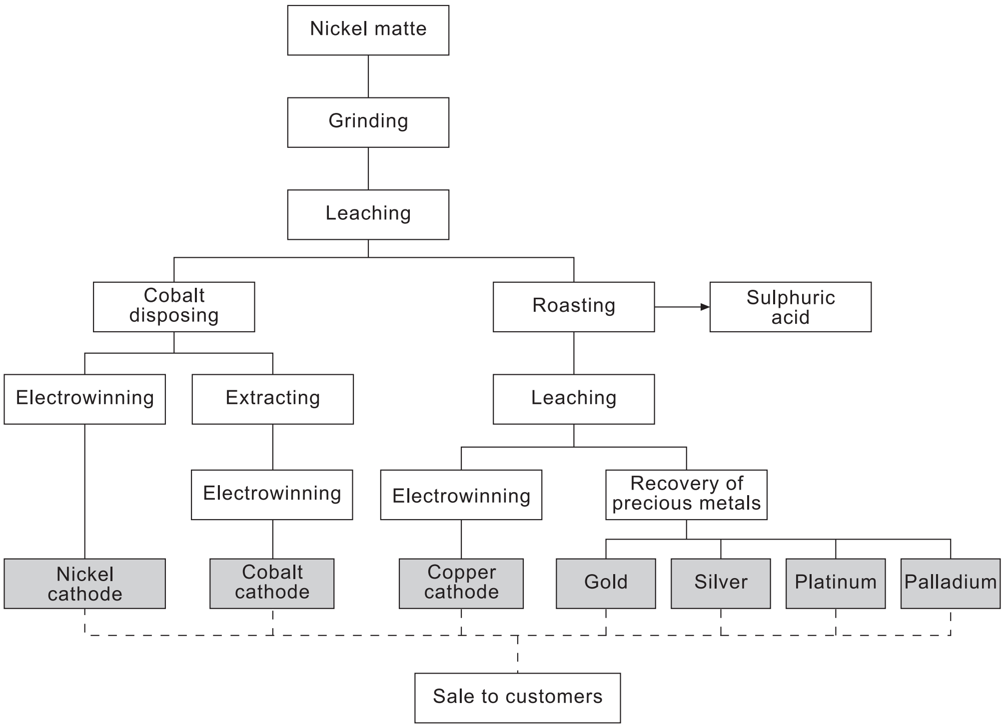
The Fukang Refinery is a refining plant. It is situated in Fukang City of Xinjiang and is approximately 76 kilometres north of Urumqi, the capital city of Xinjiang. We have obtained the land use rights of the Fukang Refinery with a site area of approximately 750,168 square metres. The Fukang Refinery is the first enterprise in the PRC to adopt the wet process in the refining of nickel cathode. In 2006, the Fukang Refinery obtained the ISO9001:2000 system certification from the China Classification Society Quality Assurance Ltd. In addition to nickel cathode, we also produce copper cathode and other products at the Fukang Refinery, including cobalt products, precious metals such as gold, silver, platinum and palladium. We sell our products through our sales department in Xinjiang and the Shanghai Branch. Nickel cathode and copper cathode are sold under the trademark of "Bo Feng (博峰)". According to SRK, the Fukang Refinery is a well managed refinery that achieves consistently high metal recoveries and produces high quality metal.

Refining process

At the Fukang Refinery, we adopt the wet process in the refining of nickel matte into nickel cathode, copper cathode, cobalt cathode, gold, silver, platinum and palladium. The wet method is an environmental-friendly technique and the amount of discharge of waste residues and waste gas caused by such method is relatively small. We are able to shorten the production process, decrease the production costs and increase recovery rate through the adoption of the wet process. In 2006, the recovery rate of nickel, copper and cobalt reached 96.7%, 95.5% and 79.8%, respectively.

We run our refining operation at the Fukang Refinery throughout the year save for the period of overhaul of our facilities which usually happens once every 18 months. We operate 24 hours a day with four groups of workers working in three eight-hour shifts.

The following flow chart shows the major steps of our refining process:



EXPLORATION

We focus on, and will continue to focus on, mining and ore processing of polymetallic ore mined at the Kalatongke Mine. We do not engage in the identification of greenfield reserves and resources or any other related exploration activities and are only involved in exploration within the Kalatongke Mine for the purpose of implementing our existing mining operations rather than prospecting for hitherto unknown resources. We engage only in high-level direction of exploration. Geological surveying work is performed by Independent Third Parties such as the No. 4 Geological Brigade (新疆地質四大隊) of the Xinjiang Bureau of Geology and Mineral Resources (新疆地礦局) which has a geological surveying and exploration team with requisite qualifications to carry out exploration work.

We do not possess the expertise, technical skills, or equipment to conduct greenfield exploration activities for hitherto unknown resources and reserves, nor do we possess the expertise, technical skills, or equipment to conduct any implemental exploration necessary for our existing mining programs other than high-level planning and setting directional initiatives.

The necessary expertise for the majority of the steps involved in such implemental exploration includes sophisticated assay analyses and statistical modeling. The majority of the steps involved in implemental exploration require a team of at least 45 surveying engineers with deep knowledge of geology, of whom at least 15 must be senior engineers with Grade-A qualification. The necessary equipment involved in such implemental exploration work amounts to at least RMB9 million. We have 27 employees who possess the requisite knowledge to perform high-level planning and set directional initiatives of exploration. These employees spend most of their time in the production, and only a small fraction of their time is spent on performing high-level planning and setting directional initiatives of exploration. Our Company is not in the business of exploration for natural resources and the Directors have confirmed that the Company does not intend to invest in any other equipment, the hiring of employees or the acquisition of technical expertise required for full-fledged exploration activities. Our Directors are of the view that our activities do not include to a material extent the exploration for natural resources.

Our Directors believe that these outsourcing arrangements lower our operational costs by eliminating the need to constantly maintain an in-house team of exploration workers while exploration work is carried out only periodically as and when we make new discoveries about geological anomalies. Nevertheless, our exploration is directed by us and we determine the exact locations of exploration, the exploration methods and assess further exploration plans in any given exploration location. It suits us as the holder of four exploration rights to be involved in the high-level direction of exploration in the concerned land areas, although exploration is not among our Company's principal activities.

Exploration Permits and Renewal

We obtained four exploration permits at no cost through a change in registration to our Company's name at the time of our establishment. Before the Reorganisation, Xinjiang Non-ferrous was the holder of these permits and had successively obtained them from the Xinjiang government at no acquisition cost. These exploration permits cover four parcels of adjacent land with an aggregate exploration area of 159.91 square kilometers, the particulars of which are as follows:

Exploration project	Location	Interest held by our Company	Exploration permit no.		Exploration area (sq.km)		Validity period of the exploration right		Exploration method
			Past(1)	Current	Past	Current	Past	Current	
Xinjiang Fuyun County Kalatongke Mine Area G21, G22	Fuyun County, Altay Prefecture, Xinjiang	100%	6500000620686(2)	6500000733871	23.55	23.55	From 25 April 2006 to 1 August 2007	From 13 September 2007 to 13 September 2008	Anomaly verification
Xinjiang Fuyun County Kalatongke Mine Yesenkela District peripheral general exploration	Fuyun County, Altay Prefecture, Xinjiang	100%	6500000621085	6500000732318	39.67	39.67	From 25 April 2006 to 25 April 2007	From 21 June 2007 to 21 June 2008	In-depth exploration and peripheral general exploration
Xinjiang Fuyun County Kalatongke Mine relay resources exploration	Fuyun County, Altay Prefecture, Xinjiang	100%	6500000621084(3)	6500000724071	65.98	66.07	From 19 May 2006 to 19 May 2007	From 26 July 2007 to 26 July 2008	In-depth exploration
Xinjiang Fuyun County Akedala Ore Body No. 39	Fuyun County, Altay Prefecture, Xinjiang	100%	6500000620549	6500000634472	30.62	30.62	From 25 April 2006 to 11 November 2006	From 9 March 2007 to 9 March 2008	Gravity and magnetic anomaly verification

Notes:

(1) All past exploration permits were held in the name of our Company. Previously, they were held by Xinjiang Non-ferrous Kalatongke Mine.

(2) The exploration permit numbered 6500000620686 expired on 1 August 2007. Our Company applied for renewal of the said exploration permit and MLR issued a letter of receipt on 10 July 2007. The exploration unit, an Independent Third Party, has ceased all exploration activities since 1 August 2007. The validity period of such permit was more than one year because it also covered the period during which our Company was applying for the renewal of such exploration permit. Our Company has obtained a renewed exploration permit on 13 September 2007.

(3) The exploration permit numbered 6500000621084 expired on 19 May 2007. Our Company applied for renewal of the exploration permit and MLR issued a letter of receipt on 16 May 2007 and the exploration unit, an Independent Third Party, had ceased all exploration activities since 19 May 2007. Our Company obtained a renewed exploration permit on 26 July 2007.

Each of our exploration permits is valid for a term of approximately one year. As advised by our Company's PRC legal advisers, there is no published criteria issued by Xinjiang LRD in determining the length of exploration permits and the one-year validity period of each of our Company's exploration permits does not conflict with the applicable PRC laws and regulations, which stipulate that the term of a renewed exploration permit should not be longer than two years. During the Track Record Period, our Company had paid RMB34,200, RMB8,200, RMB85,400 and RMB3,200, respectively, to the PRC Government as the annual fee for our exploration permits. We will apply for renewal of our exploration permits upon expiry in 2008 in accordance with the then applicable PRC laws and regulations. In order to renew our exploration permits, we are required to invest certain minimum amount on exploration work in the area covered by our exploration permits. According to the Administrative Measures on Registration of Tenement of Mineral Resources Exploration and Survey, the required minimum investment in the exploration areas is RMB2,000 per sq.km for the first year, RMB5,000 per sq.km for the second year and RMB10,000 per sq.km from the third year after obtaining the exploration permit. As at the Latest Practicable Date, we made sufficient amount of investment on exploration work in the areas covered by our exploration permits to support our renewal. As far as the Directors are aware, it is unprecedented for our PRC Government to grant an exploration permit to a third party other than the original holder if the original holder of the permit has complied with the requirement of minimum annual investment. For further information, see the section headed "Risk Factors — We may be unable to renew our mining permit and exploration permits" and "Risk Factors — We may be unable to pass the annual verification of our mining permit and exploration permits". Our PRC legal advisers have confirmed that the annual fee for an exploration permit is RMB100 for each square kilometre for the first three mining years and there will be an annual increment of RMB100 per square kilometre thereafter but the total exploration fee for exploration permit would not exceed RMB500 per square kilometre.

Exploration Work and Progress

Xinjiang Non-ferrous commenced exploration in 2001, and our Company has carried out implemental exploration through Independent Third Parties since our establishment. The exploration work conducted by Xinjiang Non-ferrous during the Track Record Period included the probing of geological anomalies in the south-western extension of Deposits Y1-Y3. As a result of the aforesaid exploration effort, 1.75 million tonnes of super rich ore was discovered in Deposits Y1 and Y2 west in 2004. This is reported as probable reserves in the SRK Report. Such ore has nickel or copper content of at least 3%. Deposit Y1 is already in production. We expect to generate income from the said super rich ore in Deposit Y2 starting around end of 2009. During the Track Record Period, our exploration expenditure (mainly comprising fees paid to the said Independent Third Parties) amounted to approximately RMB14,497,000, representing approximately 1.54% of our Company's net profit during the same period. We intend to apply approximately RMB150 million of the net proceeds of the Global Offering to exploration within the Kalatongke Mine and/or those mines which we may acquire in the future for the purpose of implementing relevant mining programs.

The following table sets forth our actual and estimated costs in conducting exploration activities and mining activities for the periods indicated:

	For the year ended 31 December			For the three months ended 31 March	For the three months ended 30 June	For the year ending 31 December
	2004	**2005**	**2006**	**2007**	**2007**	**2007 (estimated)**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)* (unaudited)	*(RMB'000)*
Exploration activities	807	3,385	9,809	497	181	12,000
Mining activities	49,329	56,376	68,677	14,969	20,609	70,000

During the Track Record Period, we had not derived any income from our exploration activities.

REPAIR AND MAINTENANCE

We regularly inspect, maintain and repair our equipment and facilities of our mining, ore processing and smelting operations at the Kalatongke Mine and refining operations at the Fukang Refinery. In addition to periodic inspection and maintenance throughout the year, an overhaul of our equipment and facilities occurs generally once every 18 months, during which production may be suspended for a period of up to one month. As at the Latest Practicable Date, we had a team of approximately 160 staff responsible for regular repair and maintenance of our equipment and facilities at the Kalatongke Mine. We carry out daily maintenance according to our internal rules and procedures. Our mechanical engineering department is responsible for the overhaul and inspection of our equipment and facilities. During the Track Record Period, we had not suffered from any major breakdown of equipment and facilities which led to material disruption to our operations. According to the SRK Report, the housekeeping of the concentrator in the Kalatongke Mine appeared to be good for its age and most working areas were clear and clean. For the smelter in the Kalatongke Mine, SRK is in the opinion that its housekeeping was generally good and of acceptable standard and the equipment generally seemed to be in good repair and well maintained.

We carry out periodic inspection of our equipment and facilities in the Fukang Refinery once every year or every half year depending on categories, features and conditions of our equipment and facilities. An annual major maintenance plan is prepared and approved by the management. As at the Latest Practicable Date, we had a team of 140 staff responsible for regular repair and maintenance of our equipment and facilities in the Fukang Refinery. During the Track Record Period, we had not suffered from any major breakdown of equipment and facilities which led to material disruption of our operations. According to the SRK Report, the housekeeping of the Fukang Refinery was generally good and attained an appropriate standard.

CAPITAL EXPENDITURE

Capital expenditure	For the year ending 31 December 2007		2008		2009		Total	
	RMB million	*%*	*RMB million*	*%*	*RMB million*	*%*	*RMB million (Note)*	*%*
Mining and ore processing operations	164.0	77.1	137.1	29.2	80.6	43.2	381.7	43.9
Smelting operation	5.0	2.3	293.1	62.5	96.2	51.5	394.3	45.4
Refining operation	43.8	20.6	39.1	8.3	10.0	5.4	92.9	10.7
Total	212.8	100.0	469.3	100.0	186.8	100.0	868.9	100.0

Note: Of these expenditure for our mining and ore processing, smelting, and refining operations, we plan to expend approximately RMB78.1 million, RMB200.3 million, and RMB32.5 million, respectively, during the three years ending 31 December 2009 for the purchase of production equipment and the construction of production facilities which are environmental-friendly and which will enhance the health and safety of our employees.

As at 31 March 2007, we had total capital commitments of approximately RMB993.1 million. We plan to fund our capital commitments with cash from operating activities, proceeds from the Global Offering and short-term and long-term indebtedness. For details of the production capacity and utilisation rate for each of our mining and ore processing operations, smelting operation and refining operation during the Track Record Period and going forward, see the section headed "Business — Mining" above.

TECHNICAL IMPROVEMENT PROJECTS

Kalatongke Mine

During the Track Record Period, we had deepened our mining shafts, and improved our underground infrastructure. We aim to expand our mining capacity from 1,000 tonnes per day in 2006 to 3,400 tonnes per day in 2009 by further improving our underground infrastructure. We aim to increase our ore processing capacity from 1,000 tonnes per day in 2006 to 3,000 tonnes per day in 2009 by improving our ore grinding and dehydration capabilities. We will also expand our smelting capacity in Kalatongke Mine from 3,600 tonnes per year in 2006 to 7,000 tonnes per year in 2009 by increasing the use of oxygen-rich smelters. We expect the use of the said smelters to decrease the use of coke by approximately 12.5%.

Fukang Refinery

During the Track Record Period, we installed a cobalt cathode production line and installed a new section of nickel cathode production line. We aim to expand our refining capacity from 3,000 tonnes per year in 2006 to 13,000 tonnes per year in 2009 by improving our oxygen-rich leaching techniques, so that our production lines will be more time-efficient and will achieve metal recovery rates even closer to 100%. We will also re-engineer our ancillary facilities, install new equipment and construct new workshops at the Fukang Refinery.

During the Track Record Period, we had invested approximately RMB169 million in the technical improvement projects. We plan to invest an additional amount of approximately RMB869 million in the technical improvement projects up to the end of 2009.

ENERGY

Electricity

We consume a substantial amount of electricity in our mining, ore processing, smelting and refining operations. We use the wet process to produce certain products, such as nickel cathode and copper cathode, and this procedure requires a continuous supply of electricity in large quantity. As our production capabilities increase and our business grows, our consumption of electricity will grow accordingly. During the Track Record Period, we had not experienced any power supply shortages that had resulted in prolonged suspension of our production operations.

The Kalatongke Mine and the Fukang Refinery are connected to the regional electrical power grid. According to the SRK Report, we have available capacity for both our current production rate and our proposed expansion plans and the existing transmission lines and transformers have sufficient capacity for the proposed expansion. The regional electrical power grid is sourced from a combination of hydro-electrical and coal fired power stations. One hydro-electrical power station is located only approximately 110 kilometres from Kalatongke and several coal fired power stations are located between Urumqi and Kalatongke. In the event of any prolonged electricity suspension, we have a reserve electricity generator at the Kalatongke Mine to ensure continuous production. A new electricity transmission station is expected to be completed at the Kalatongke Mine by the end of 2007. We generate electricity by a diesel dynamo at the Fukang Refinery which is sufficient to maintain the lighting system and the operation of core production facilities.

Water supply

We consume a substantial amount of water in the Kalatongke Mine and the Fukang Refinery. The Kalatongke Mine sources its water supply from two sources. For domestic water and potable water, the source is a well-field at Sasekebasitao which is located approximately 4.5 kilometres from Kalatongke. Water for the concentrator is pumped from underground aquifers and is also recycled from the tailings storage facility. Water for the smelter is provided by underground water and recycled water from the tailings storage facility. A side dam was built near the tailing dam in early 2007 to further filter the water and pump all water back for further processing. Make-up water has been sourced from the Eerqisi River. We have recently investigated ground water sources closer to the Kalatongke Mine. We have engaged an adviser to assist us in locating other suitable water sources which would reduce costs. We plan to start a project for the increased use of underground water with daily and annual capacity of 12,000 and 4.3 million cubic meters, respectively. This project uses biological aerated filtration (BAF) technology and is expected to commence operation by the end of 2007. If additional make-up water is required, it can be sourced from recently located ground water sources. The Fukang Refinery sources its water from three local water bores. We paid to the local government water resource levy for the water usage in the Kalatongke Mine and the Fukang Refinery on an annual basis. For water-saving purpose, we have installed a water recollecting device both in the Kalatongke Mine and the Fukang Refinery for water recycling purpose which has substantially reduced the volume of water used. During the Track Record Period, we had not experienced any water shortages.

According to the SRK Report, our Fukang Refinery has adequate water supplies for production purposes. In the Kalatongke Mine, our technical improvement projects will increase the site water demand which will require that water be recovered from the Eerqisi River and new water source be found around the mining area in dry weather conditions.

Coke

We require coke for the production of heat, deoxidation and recovery of metals in our smelting operation. During the Track Record Period, coke prices raised from 2004 to the second half of 2005, and stabilized since then. Currently, we source our coke from several different suppliers in Xinjiang and we generally keep a stockpile of about one month’s supply.

Coal

Coal is mainly used in heating for our production facilities in the Kalatongke Mine and Fukang Refinery, especially during winter times. Our refining process also requires coal for heating during production. We obtain coal from several different suppliers in Fukang. We believe that the domestic supply of coal should be sufficient to satisfy our demand for coal in the near future.

QUALITY CONTROL

As at the Latest Practicable Date, we had a quality control department with approximately 150 inspection staff in total in our operating sites. They are responsible for quality supervision, examination and management. Our quality control department regularly prepares quality control report for our management to review. A coordination meeting is held approximately once a week and our quality control department reports the result of its weekly examination and inspection in the meeting. The operations at the Kalatongke Mine and the Fukang Refinery have been certified as being in compliance with ISO9001:2000 standards. Our automated real-time production management information system at the Kalatongke Mine also plays an important role in our quality control.

We have implemented internal production rules to ensure product quality. These rules are equally applicable to our employees and the workers of our contractors. All the workers of our contractors are under our management and supervision. They are required to follow the safety rules in our underground mining operation. They conduct work in strict compliance with our technical standards. We regularly have meetings with the contractors to deal with technical problems. We conduct regular internal appraisals in accordance with the requirement under the ISO9001:2000 standard quality management system every month and have preventive measures to reduce production risks. Further, we provide continuous training to our employees and workers of our contractors to improve their knowledge and skills regarding quality of products.

MAJOR AWARDS

Kalatongke Mine

The Kalatongke Mine has received the following major awards:

- Advanced enterprise for the implementation of environmental protection target obligation system in 2005;
- Scientific and Technological Progress Second Prize of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區科學技術進步二等獎) by People's Government of Xinjiang Uygur Autonomous Region in 2004;
- GB/T19001-2000-ISO9001 : 2000 : Quality Management System Certificate by Beijing Zhongan Zhihuan Certification Centre (北京中安質環認証中心) in 2004;
- Model Home of Staff (模範職工之家), by the Foundation of All-China Federation of Trade Unions (中華全國總工會基金會) in October 1998;
- GB/T24001-1996-ISO14001 : 1996: Environment Management System Certificate by Beijing Zhongan Zhihuan Certification Centre (北京中安質環認証中心) in 2004.

Fukang Refinery

The Fukang Refinery has received the following major awards:

- ISO9001:2000 Quality Management System Certification by China Quality Certification Centre (中國質量認證中心) in 2006;
- Occupational Health and Safety Management System Certificate by China Quality Certification Centre (中國質量認證中心) in 2006;
- ISO14001 Certificate Environmental Management System by China Quality Certification Centre (中國質量認證中心) in 2006;
- "Xinjiang Top Brand", by Xinjiang Top Brand Strategy Promotion Committee (新疆名牌戰略推進委員會) in September 2006 in respect of the BoFeng (博峰) brand of nickel cathode and copper cathode;
- Outstanding Enterprise in the country-wide "Ankang Cup" (安康杯) Contest, by the Foundation of All-China Federation of Trade Unions in 2000 and 2003;
- GB/T19001-2000-ISO9001:2000 Quality Management System Certification by China Classification Society Quality Assurance Ltd. (中國船級社質量認證機構) in 2003;
- Scientific and Technological Progress First Prize of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區科學技術進步一等獎) in 2002;
- Star of Innovation and Creativity Technology Award of United Nations (聯合國發明創新科技之星獎), by Technological Information Promotion System of United Nations for new wet method refining process in October 1997;
- National Scientific and Technological Progress First Prize (國家科技進步一等獎), by the PRC State Commission of Science and Technology for new wet method refining process in December 1995; and
- Scientific and Technological Progress First Prize (科技進步一等獎), by China National Non-Ferrous Metals Industry Corp., for new wet method refining process in December 1994.

SALES AND DISTRIBUTION

Sales and marketing strategy

We focus our sales to small to medium-sized customers for higher profit margins and better pricing arrangement generally. Most of our customers are trading companies located in different parts of China and their connections with local small to medium-sized customers assist us to penetrate various domestic markets and to optimise our market share. The trading companies on-sell our products to their customers and this arrangement minimises our credit risk associated with small to medium-sized customers outside Xinjiang. We also sell products directly to customers in Xinjiang and neighbouring areas. In general, we require cash payment upon or deposit payment before the delivery of our products to our customers. The Directors believe that this sales and marketing strategy would help us to better manage the risk and broaden our customer base to cater for the expected increase of production capacity after the completion of technical improvement projects at the Kalatongke Mine and the Fukang Refinery.

While we focus on our relatively stable small to medium-sized customers, we intend to continue broadening our customer base by supplying our products to larger customers, such as large scale steel manufacturers and large scale trading companies. We have been supplying nickel cathode to Shenyang Chengtong Metals Company Limited (瀋陽誠通金屬有限公司) ("Chengtong") which is a large scale trading company principally engaging in the sale of non-ferrous metals since April 2006 under a one-year contract. We have renewed the supply agreement with Chengtong for another year commencing from April 2007. Chengtong has an established sales network of non-ferrous metals in north-eastern China. Chengtong was one of our top five customers, contributing 5.09% and 10.17% of the turnover of our Company for the year ended 31 December 2006 and the three months ended 31 March 2007, respectively.

Sales channels

At present, our principal markets are mainly in Eastern China (Shanghai, Jiangsu and Zhejiang province) and Central China (Shaanxi, Sichuan and Henan province). Our products are sold through our own sales team in Urumqi, which is responsible for sales within Xinjiang, and through our Shanghai Branch for the sales of our products in eastern China and to the trading companies whom we have maintained a long-term business relationship. The trading companies will on-sell our products to the small to medium-sized customers located in various parts of China.

Our sales team in Xinjiang and the Shanghai Branch are principally responsible for collection of market information, promotion of sales and development of our Company's business.

Pricing

We price our major products with reference to the applicable LME prices, the spot prices in the Yangtze River Non-ferrous Metals Spots Market, the futures prices in the Shanghai Futures Exchange and the prices set by our competitors. Accordingly, our pricing will not deviate from market prices significantly. Currently, as there is generally an excess demand of nickel and copper products and we are not bound by any long term sale and purchase contract for more than one year, we can price our products flexibly. Under the supply contract with Xinhao, one of our major customers, our Company is entitled to flexibly adjust the price of our products according to market fluctuations by giving immediate written notice to Xinhao. In general, we set our price between the retail price and the bulk price of one of our major competitors. We have secured good and stable relationships with our major customers. We have a pricing committee comprising of our senior management who will meet and discuss pricing strategy from time to time. In times of economic downturn or a drastic decrease in the demand or price of any one of our products, our pricing committee will convene meetings and the general manager will approve the final price. We may reshuffle our product mix, continue to reduce our utility usage and waste, and increase our metal recovery rate during such times to cater for such situations. The Directors believe that with our high resource self-sufficiency ratio and cost effective production, we are able to utilise our resources and optimise our profits even in times when metal prices remain low.

We believe that the factors affecting our pricing include:

- prices of non-ferrous metals products of the same type, especially the spot price of competitors;
- our production cost and profit margin;
- our relationship with our customers;
- quality of our products; and
- demand and supply in the market.

Products payment and delivery

Our customers are generally required to pay us in full before delivery of our products. Under the supply contract with Xinhao, Xinhao is required to pay us in full before we deliver our products to them. For Xinhao and other trading companies, once we receive full payment from them in respect of the sale of our products, they on-sell our products to its customers and we are not responsible for any loss of these trading companies should the customers of Xinhao or these trading companies fail to pay up. For details of our payment arrangement with Xinhao, please see the section headed "Financial Information — Other receivables, prepayments and other current assets". Our PRC legal advisers have advised that this payment arrangement does not violate any PRC laws or regulations. This payment arrangement enables us to effectively eliminate any credit risk, reduce costs and administrative work. Our focus on small to medium-sized customers has enabled us to maintain credit control in contrast with larger customers which usually require credit period for payment. As a result, our trade receivables were relatively low during the Track Record Period.

Under existing contractual arrangement with some of our major customers, such as Xinhao, they are required to collect products in the Fukang Refinery and bear all logistics, transportation, warehousing and insurance costs. In addition, they bear the risk for all loss, damage or destruction of products after collection from the Fukang Refinery.

For other customers, the means by which we transport our products to them is subject to the size of the order, market conditions and customers' preference. When market demand is high and there is a supply shortage of our products, some of our customers tend to collect products from our operating sites and bear the transportation costs. When there is a sufficient supply of our products in the market and competition is more intense, products are transported to our customers through third party logistics companies.

Customers who have placed orders with the Shanghai Branch usually collect our products from a warehousing service provider which we engage in Shanghai. Under such circumstances, we bear the cost of transporting our products to the warehousing service provider in Shanghai. Some of our customers may also pick up our products from the warehousing service provider in Beijing. We bear the cost of transportation for goods delivered to our Beijing warehouse. Our products are mainly delivered by road within the PRC.

MAJOR CUSTOMERS

Our sales to the five largest customers accounted for approximately 64.0%, 60.4%, 75.9% and 78.3% of our total sales for the three years ended 31 December 2006 and the three months ended 31 March 2007, respectively. For the three years ended 31 December 2006 and the three months ended 31 March 2007, sales to our largest customer, accounted for approximately 42.7%, 39.9%, 42.3% and 32.9% of our turnover, respectively. Xinhao was a related party of Shaanxi Honghao who is, and has become one of our Promoters since 1 September 2005, and a connected person (as defined under the Listing Rules) of our Company. One of the shareholders of Xinhao who was related to Shaanxi Honghao, transferred all his equity interests in Xinhao to an Independent Third Party on 6 June 2006 and Xinhao ceased to be a connected person of our Company. We sell our nickel cathode, copper cathode, cobalt products and copper concentrate to Xinhao and it has a considerable base of approximately 16 small to medium-sized end-customers located in various parts of China including Shaanxi, Chengdu, Henan and Shanxi. Xinjiang Non-ferrous and us have a long-term business relationship with Xinhao since 1999. The Directors confirm that the transactions between our Company and Xinhao during the Track Record Period were on normal commercial terms and reflected market rates. For further details of these transactions, please see Appendix I — Accountants' Report.

We negotiate the commercial terms on the transactions with Xinhao on a product-by-product basis. According to the supply contract with Xinhao, our Company is entitled to flexibly adjust the price of the products according to market fluctuations by giving immediate written notice to Xinhao. When Xinhao resells our products to its customers, Xinhao has agreed to assume the risk if its customers fail to make payment for the products delivered and Xinhao has no right of recourse against us for our products sold. We consider Xinhao as our end-customer even though Xinhao resells our products to its customers. Our Directors consider that the sale terms under the supply contract with Xinhao to be generally in line with those of our other major customers who are trading companies.

We have not entered into any long-term supply contract for more than one year with Xinhao as we believe that it will be in the best interest of our Company to maintain a flexible contractual term so that we can adjust our production and pricing in a timely manner. Further, China has become the world's largest consumer of stainless steel since 2006. Taking into account the excessive demand of nickel in the market, we believe that we could secure alternative customers or new customers, such as Chengtong, in a short period of time should we fail to continue our supply to Xinhao for whatever reason. Further, upon completion of our technical improvement projects, we expect to benefit from our increased production volume to cater for the sustained demand for nickel while continuing to broaden our customer base.

As at the Latest Practicable Date, save for the Xinjiang Non-ferrous Group, all of our customers are Independent Third Parties in which none of the Directors, Supervisors and their respective associates or shareholders who, to the knowledge of the Directors, holding more than 5% of our issued share capital has any interest. For details of our transactions with Xinjiang Non-ferrous Group, see the section headed "Connected Transactions".

MAJOR SUPPLIERS

Our major suppliers in our ordinary course of business mainly consist of suppliers of nickel concentrate, sulphite matte, coke, coal and electricity, processed oil, equipment instalment, mining and exploration services and accessories, motor parts and other electrochemical products.

For the three years ended 31 December 2006 and the three months ended 31 March 2007, purchases from our largest supplier (being Wenzhou Shengda Mining Company Limited (溫州盛達礦山有限公司) in 2004, Hami Huilong Mining Company Limited (哈密滙隆礦業有限責任公司) in 2005, Xinjiang Non-ferrous Gold Construction Company (新疆有色黃金建設公司) (a member of the Xinjiang Non-ferrous Group) in 2006, and Hami Jiatai Mining Resources Development Company (哈密佳泰礦產資源開發公司) in the first three months ended 31 March 2007) accounted for approximately 11.4%, 18%, 19.1% and 17.8% of our total purchases, respectively. Our purchases from the five largest suppliers accounted for approximately 32.9%, 47.9%, 57.2% and 51.5% of our total purchases for the three years ended 31 December 2006 and the three months ended 31 March 2007, respectively.

Amongst the Xinjiang Non-ferrous Group and other state-owned enterprises, Xinjiang Non-ferrous Gold Construction Company (新疆有色黃金建設公司) (a member of the Xinjiang Non-ferrous Group) which provided construction services to our Company and Fuyun County Electricity Bureau (富蘊縣電力局) which supplied power to our Company, were two of our top five suppliers. For the three years ended 31 December 2006 and the three months ended 31 March 2007, approximately 88.0%, 87.0%, 92.1% and 95.3% of our production materials, fuel and electricity were purchased from Independent Third Party suppliers and the remaining 12.0%, 13.0%, 7.9% and 4.7% were purchased from the Xinjiang Non-ferrous Group.

For the three years ended 31 December 2006 and the three months ended 31 March 2007, all the ores used in our ore processing operation at the Kalatongke Mine was supplied by our own mining operation. For the three years ended 31 December 2006 and the three months ended 31 March 2007, approximately 100%, 85.0%, 81.0% and 84.5% of nickel content, and 100%, 89.5%, 94.7% and 96.7% of copper content, respectively, in all the ores and metal concentrates (comprising primarily nickel concentrate) used in our smelting operation at the Kalatongke Mine were supplied by our own mining and ore processing operations and the rest were purchased from Independent Third Parties.

Throughout the Track Record Period, 100% of our mining and exploration service required from outside of our Company was provided by Independent Third Parties. We have to purchase nickel concentrate from external suppliers since 2004 as a result of the increasing production capacity of the Kalatongke Mine. However, the volume of external purchase of nickel concentrate from our major suppliers dropped considerably during the three months ended 31 March 2006 as our major suppliers carried out its annual repair and maintenance work during that period.

During the Track Record Period, approximately 38.5%, 38.2%, 62.5% and 51.5%, respectively, of our transportation, storage and loading services were provided by Independent Third Parties. During the same periods, approximately 90.6%, 86.3%, 57.2% and 66.1%, respectively, of other supporting and ancillary services required from outside of our Company were provided by Independent Third Parties.

Save for the Xinjiang Non-ferrous Group, all of the suppliers are Independent Third Parties in which none of the Directors, Supervisors and their respective associates or shareholders who, to the knowledge of the Directors, holding more than 5% of our issued share capital has any interest. For details of our transactions with Xinjiang Non-ferrous Group, see the section headed "Connected Transactions".

RESEARCH, DEVELOPMENT AND INTELLECTUAL PROPERTY RIGHTS

Research and development

As at the Latest Practicable Date, we had a research and development team consisting of 371 engineering technicians. We have 33 senior engineers and 335 engineers of which three of them are of professor level. They are responsible for research and development of our production process.

Through our own research and development capabilities, in 2003, we developed a production line of ultra-fine nickel powder (超細鎳粉) with an annual production capacity of 200 tonnes. In August 2005, we established a new cobalt cathode production workshop with an annual production capacity of 130 tonnes and commenced production in November 2006.

During the Track Record Period, our expenditure on research and development amounted to nil amount, RMB300,000, RMB440,000 and RMB20,000, respectively.

With a view to further enhancing our technology development, we have undertaken certain joint research and development projects with research institutes, universities and third party private companies. We have entered into agreements to engage Zhongnan Industry University (中南工業大學), Changsha Mine Research Institute (長沙礦山研究院) and Zhongnan University (中南大學) to conduct research and development projects for us. The results of the research and development projects are owned by us. We paid an agreed fee to these institutions for conducting the research and development projects. These institutions were responsible for providing technological engineers and facilities for the research and development projects. All of them are Independent Third Parties. The principal terms of our engagement were summarised below:

(i) Zhongnan Industry University (中南工業大學)

Date of agreement:	20 April 2000
Scope of work:	To develop a management information system for our Kalatongke Mine
Period:	May 2000 to April 2002
Fee:	RMB450,000

(ii) Changsha Mine Research Institute (長沙礦山研究院)

Date of agreement:	31 December 2003
Scope of work:	To develop a new back-filling method
Period:	1 January 2004 to 31 October 2004
Fee:	RMB300,000

(iii) Zhongnan University (中南大學)

Date of agreement:	10 November 2004
Scope of work:	To research in reconstructing a soft-blasting mining environment which improved the stability of ore beds
Period:	November 2004 to June 2007
Fee:	RMB1,380,000

Our Directors believe that the results of the research and development have improved our mining and production technologies, thereby increasing our nickel resources and enhancing the quality of the metal concentrates produced at the Kalatongke Mine, which in turn has enabled us to reduce our production costs and enhance our production efficiency.

Intellectual property rights

Pursuant to a trademark licence agreement entered into between Xinjiang Non-ferrous and our Company, Xinjiang Non-ferrous has granted us a licence to use the “Bo Feng (博峰)” trademark without any consideration for a term of three years commencing from 10 July 2006 and ending 9 July 2009 (for further information, see the section headed “Connected Transactions”). This trademark licence agreement is renewable at our Company’s discretion six months prior to its expiry, and it will be terminated if we obtain our own trademark for our products during the term of the licence. The “Bo Feng” trademark is registered in the name of Xinjiang Non-ferrous in the PRC for a term expiring on 20 March 2009. Xinjiang Non-ferrous guarantees that it will not waive its right to renew the trademark of “Bo Feng” and that the trademark will not be declared invalid and does not infringe any trademark rights or intellectual property rights of third parties. Further, we are currently in the process of applying for the right to use the “ ” trademark under Classes 6, 35, 37 and 40 in the PRC and under Classes 6, 16, 35, 37 and 40 in the Trademarks Registry in Hong Kong (for further information, see the section headed “Reorganisation and Corporate Structure — Land use rights, mining rights and trademark — Trademark” and Appendix IX — Statutory and General Information — 2. Further information about the business — B. Intellectual property). We currently use this trademark for our Company logo, and will use this trademark for our products once it is registered.

COMPETITION

Our major competitors are large PRC-based non-ferrous metals producers. For further information, see the section headed "Risk Factors — We face increasing competition from domestic and foreign competitors". Major customers of these large PRC-based non-ferrous metals producers are large scale steel manufacturers, which are different from our traditional customer base. While we intend to maintain our relationships with certain trading companies and small to medium-sized customers to which we are usually able to sell our products at a higher margin, we also intend to continue to broadening our customer base by supplying our products to larger customers, such as large scale steel manufacturers. We believe that with our mineral resources, our expansion plan through technical improvement projects of the mining and processing operations, recognition of our product brand, high resource self-sufficiency ratio and low cost structure, we will be able to maintain a competitive edge in such market segment. We sold approximately 3,304 tonnes of nickel cathode, our major product, in 2006. This represents approximately 3.2% of the PRC's total production of nickel cathode in that year. We are the second largest integrated producer of nickel cathode in the PRC in terms of production volume in 2006. As the PRC's production of nickel cathode is smaller than national consumption, the discrepancy is imported from abroad. As such, we face competition from overseas producers of nickel cathode. In relation to potential new competitors, we believe that the major barriers of entry to the non-ferrous metals industry include quantity of mineral reserves, production scale, product quality, level of technology, research and development capability and product distribution capability. According to SRK, we have a strategic advantage over new competitors based on our established position, good quality infrastructure, granted mining and exploration tenements, simple transport logistics and prior knowledge of the good geological prospectivity of mining in the region.

EMPLOYEES

As at the Latest Practicable Date, we had approximately 2,210 full-time employees, including 1,147 employees in the Kalatongke Mine, 1,020 employees in the Fukang Refinery and 43 employees in our headquarters. We outsource our underground extraction work to third party contractors which is in line with prevailing industry practice. We require the relevant certification from these third party workers who also need to comply with our safety procedures. We maintain control of the underground extraction works carried out by these workers and the relevant operating equipment and facilities. The social security and labour insurance of these third party workers is borne by the contractors.

In accordance with the relevant PRC laws and regulations, our Company has already established social security insurance scheme for all of our staff members covering areas such as old-age, unemployment, basic medical, serious illness, work-related injury and child-bearing. The contribution ratio for old-age insurance is 8% for individual and 20% for enterprise; for medical insurance, it is 2% for individual and 6%-6.5% for enterprise; for unemployment insurance, it is 1% for individual and 2% for enterprise; for work-related injury insurance and child-bearing insurance, contribution ratio for enterprise are 0.5%-2% and 0.65%-0.8%, respectively. Our Company has established and implemented the social security insurance plan in accordance with the relevant PRC laws and regulations, as well as local rules. Our Company has neither experienced any default in making insurance payment nor received punishment from government departments due to any violation of the social security related regulations. Based on the above, the Directors confirmed that it is unnecessary for our Company to make provision for the relevant insurance payments.

We review our employee remuneration policies on an annual basis. Our standard remuneration package includes basic salary, retirement benefits, medical insurance, bonuses and awards. We have participated in pension schemes, medical insurance, unemployment insurance and personal injury with payments based on a certain percentage of the amount of the employees' basic salary. Our relationship with our employees has generally been satisfactory and our workforce has remained relatively stable. We provide training in respect of the business, market position, safety production, environmental protection, techniques, quality control and management for our employees from time to time. For further information of our employees and their training, see the section headed "Directors, Supervisors, Senior Management and Employees — Employees" and Appendix V — Independent Technical Review Report. Our employee remuneration policies are not applicable to the workers of our contractors. We enter into project contracts with our contractors. All the wages of the workers of our contractors, medical insurance and welfare fees are paid for by the contractors.

ENVIRONMENTAL, OCCUPATIONAL HEALTH AND SAFETY

Environmental matters

We are subject to PRC national and local environmental laws and regulations on matters such as air emission, solid waste emission, sewage waste waters, discharge of waste water and pollutants, tailings, noise pollution, land reclamation, radioactive element disposal and mining control. According to our PRC legal advisers, we control our current total emissions of major waste pollutants under the level permitted by our pollutant discharge licences issued by the Environmental Protection Bureau of Xinjiang (新疆維吾爾自治區環境保護局), and we fully paid the waste discharge fees of the Kalatongke Mine and the Fukang Refinery during the Track Record Period. According to our PRC legal advisers, the Kalatongke Mine and the Fukang Refinery are in compliance with PRC environmental standards (for further information, see Appendix V — Independent Technical Review Report). The Directors and our PRC legal advisers have confirmed that our Company has not been subject to any penalties arising from non-compliance of environmental laws or regulations during the Track Record Period. No environmental protection requirements are imposed on us by our customers.

Major pollutants discharged from our operations are approximately 170,000 tonnes of tailings per annum and approximately 7,560 tonnes of gaseous sulphide dioxide of very slight concentration per annum. In order to comply with the applicable environmental protection laws, we use the tailings and solid waste in our Kalatongke Mine for underground filling. We also sell waste residue to enterprises engaging in cement and building materials manufacturing. Water discharged from shafts is used for ore processing and greening, or is discharged to bare land without drainage for natural evaporation. The Kalatongke Mine has complied with the standards set by environmental protection authorities in respect of gas emission by installing a filtration system during the Track Record Period.

In order to reduce the impact on the environment, we engaged an Independent Third Party to design our tailings dam to avoid the seepage of waste metals. We invested approximately RMB1.1 million in 2006 for the maintenance of the dust collection system in our smelters to enhance collection efficiency. We researched and developed a back-filling system, using shoveled earth materials to restore exploited land areas to productivity and stability. The costs of compliance were approximately RMB3.1 million, RMB3.2 million and RMB3.6 million in 2004, 2005, and 2006, respectively. The expect cost going forward is in the range of RMB3.0 million to RMB4.0 million per annum. As for the closure of our tailings dam, the Environmental Protection Bureau of Xinjiang has approved a tailings impoundment closure plan with a budget of approximately RMB4.69 million, as estimated by a third party independent technical adviser. It will be spent at the closure of the tailings dam when its service life comes to an end in 2008. Our Company has made provision of approximately RMB4.16 million as of 31 March 2007 which represents the present value of the estimated future closure expenditures of our tailings dam. This measure addresses potential future risks associated with the tailings dam. The personnel responsible for formulating and implementing these measures have an average experience of more than 10 years. Apart from the provision for the estimated closure expenditure of our tailings dams, our Directors consider that no further provisions with respect to the environmental contingencies are needed due to the remoteness of their occurrence and the inability to reliably estimate such expenditures.

SRK Assessment of Areas of Concern (Kalatongke Mine and concentrator)

The residual sulphide minerals that are present in the mine waste products tailings may in time lead to the formation of acid and cause metals to leach from these wastes. The fine and coarse tailings and waste rock have not been characterised adequately to determine their overall acid-base balance. The leach extraction tests that have been conducted on the tailings do not adequately estimate cumulative effects or future changes in the potential for metals released to the aquifer in the very long term. If the waste materials are not appropriately stored or secured, exposure to oxidising conditions leading to the onset of acid generation could represent environmental areas of concern in the long term.

Coarse tailings that are being backfilled to the underground workings have cement added which results in a high pH and provide secure short term storage of these materials. The backfill materials contain metal sulphide minerals that may cause metal leaching if exposed to extended oxidising conditions. When mining ceases soluble metals could be released to the groundwater which may affect groundwater quality. This risk however can be managed if the potential for metal release is known in advance and adequate control measures can be implemented. The most simple and effective control measure would be to pump water from the mine and to treat it before discharging. This however will require a long term commitment after mine closure.

The proposed closure of the fine tailings storage area is reasonable if there is no risk of metal release from the tailings in the long term, and provided adequate measures are taken to address geotechnical stability and water management. SRK has reviewed a copy of the official approval by the Environmental Protection Bureau of Xinjiang official of the tailings impoundment closure plan with a budget of RMB4.69 million, which was suggested by a third party independent technical advisor. Although the Copper-Nickel mine is in a dry area with a low rainfall, the tailings have a sulphur content of up to 18%. The residual risk for acid generation has not been quantified. SRK considers that acid generation and/or metal leaching from the tailings is possible. The site that will need to be developed for the replacement of the existing tailings facility has not been selected by our Company. Depending on the location and size of the facility, establishing a new tailings area will incur additional costs. A distant location may also incur additional capital costs, and pumping costs may impact on operating costs.

SRK Assessment of Areas of Concern (Kalatongke smelter)

The cumulative effect of infiltration that passes through the slag, when spread over a large area could impact ground water quality. Infiltration may be controlled by compacting the surfaces of the slag materials or placing impermeable covers to provide environmental protection. We are of the view that the sale of the slag to a third party may be possible. Should the slag be sold to a third party and removed from site, the slag will no longer represent an environmental risk.

Sales contracts have not yet been established for the sulphuric acid that will be produced. The storage of large quantities of sulphuric acid on site may be costly and could represent an environmental hazard until such time that the acid can be sold.

In the Fukang Refinery, there is a small amount of discharge of waste residues. Waste water and processed sewage water is discharged together to a water storage pool.

We invest approximately RMB400,000 per annum in the greening and landscaping of the Kalatongke Mine and the Fukang Refinery. The greening program at the Kalatongke Mine includes an irrigation system to maintain the vegetation that has been established. The greening program at the Fukang Refinery includes vast roadside areas and an irrigation system has been implemented to sustain the planted vegetation.

According to our PRC legal advisers, the environmental impact assessment reports in respect of our technical improvement projects at the Kalatongke Mine and the Fukang Refinery meet the applicable PRC environmental standards and requirements. SRK has made a number of recommendations with regard to environmental matters. Our Company intends to fully adopt SRK's recommendations. For more details, see Appendix V — Independent Technical Review Report.

We have not had any material breach of any applicable environmental laws or regulations during the Track Record Period. As at the Latest Practicable Date, we were not subject to any material environmental claims, lawsuits, penalties or administrative sanctions. However, we believe that the PRC Government is moving towards more rigorous enforcement of environmental laws and regulations and the adoption of more stringent environmental standards. For further information, see the section headed "Risk Factors — Risks relating to us and our industry — We may incur substantial costs upon closure of tailings storage area and changes in environmental laws and regulations or their interpretation or implementation, or unanticipated environmental effects from our operations, could require us to incur new or increased costs" and the section headed "Regulations — Laws and regulations relating to environmental protection".

According to the Inspection Opinion of the Environmental Protection Bureau of Xinjiang dated 12 June 2007, the environmental protection facilities of the Kalatongke Mine and the Fukang Refinery operate properly. The Kalatongke Mine and the Fukang Refinery obtained ISO 14001:1996 and ISO14001:2004 environment management system certificate in 2004 and 2006, respectively. In achieving this certification, we have demonstrated implementation of environmental management systems considerate of the environment. The Kalatongke Mine has established an environmental control system for regular internal examinations to detect potential environmental hazards and to adopt corresponding resolving measures. We have developed a recycling system to reduce waste discharge for our existing production. In 2005, the Kalatongke Mine was awarded the "Advanced enterprise for the implementation of environmental protection target obligation system". We also obtained certain awards for the Fukang Refinery (see the section headed "Business — Awards" for further information).

Occupational health and safety

We have dedicated personnel and facilities to handle occupational health and safety matters. We actively implement and enforce safety measures to prevent and reduce danger and risks involving occupational health and safety. In addition, we provide safety-related training and manuals to our employees and conduct routine medical examination and treatment for them. We have adequate insurance coverage for our employees in accordance with applicable PRC laws and regulations. Third-party contractors are responsible for procuring adequate insurance coverage for their employees. Our Company holds Safety Production Licence issued by the Safety and Production Supervisory Administration Department of Xinjiang. The Kalatongke Mine obtained GB/T28001-2001 occupational health and safety management system certificate in 2004. The Fukang Refinery was recognised as an Outstanding Enterprise in the national "Ankang Cup" Contest (安康杯) by the Foundation of All-China Federation of Trade Unions

(中華全國總工會基金會) in 2000 and 2003. In 2006, the Fukang Refinery was awarded the Occupational Health and Safety Management System Certificate by China Quality Certification Centre (中國質量認證中心). There are no requirements imposed on us by our customers in relation to social, health and safety issues.

We have a safety production committee in the Kalatongke Mine consisting of 13 full-time employees. There is a safety committee at each workshop. In addition to an annual review of safety responsibilities, we hold a monthly safety meeting at each workshop. If any serious accident occurs at a workshop, the head of the workshop is required to complete additional safety training. In respect of contractor workers, the contractors are principally responsible to provide training to them in respect of occupational health and safety at their own costs. The contractors have the requisite safety qualifications and their own safety management systems, which are generally integrated with our safety system at the Kalatongke Mine. For special operations, such as explosion operation, the training will be organised by us in the Kalatongke Mine. We also conduct some internal safety training for contractor workers according to their work type. If we find any hidden danger in underground operations we will notify the contractors in a timely manner. All the expenses incurred from rectifying such danger are borne by the contractors.

Each of our major operations has maintained its own safety reporting system. Although we have safety measures in place at all stages of our operations, industrial accidents may still occur. There was one carbon monoxide poisoning accident causing one fatality at the Kalatongke Mine which involved our own employee during the Track Record Period. The accident was caused by non-compliance with the relevant mine safety regulation. In respect of the only incident which was caused by non-compliance of relevant regulation on mine safety by Xinjiang Non-ferrous Kalatongke Mine, the predecessor of the Kalatongke Branch, our Company has paid in full the fine imposed by the authority and has made compensation to the deceased family in accordance with the relevant laws. There were also three fatalities in another two accidents at the Kalatongke Mine which involved third party contractor workers during the Track Record Period, one of which was caused by non-compliance of relevant regulation on mine safety by the subcontractor. Our PRC legal advisers have confirmed that we are not responsible or required to pay any compensation in respect of the accidents involving contractor workers. Our PRC legal advisers have also confirmed that our Company has been in all material aspects in compliance with the applicable PRC laws and regulations on mine safety and other relevant PRC laws and regulations in respect of the accidents involving contractor workers. Although we are not responsible for payment of compensation in accidents involving contractor workers, we render all necessary and timely assistance to the contractor workers in the event of an accident. The estimated direct economic loss arising from these accidents amounted to approximately RMB150,016 in compensation paid and administrative penalties. Our PRC legal advisers have advised that we are not exposed to any further liability, financial or otherwise, in respect of these fatality incidents.

All of the aforementioned accidents were caused by machinery malfunctioning, geological changes or non-compliance of the safety guidelines on the part of the concerned employees. We had paid in full all compensation payable to workers' casualties and industrial injuries in accordance with the relevant PRC laws and regulations during the Track Record Period. Save for the aforesaid, industrial accidents did not have any adverse material effect on our financial condition and results of operation during the Track Record Period. Save as disclosed above, the Directors confirm that there are no other major accidents at the Kalatongke Mine during the Track Record Period. To address potential future risks, we have taken the following preventative measures:

- strengthening of geological conditions investigation;
- implementing standardised safety production and operation;

- strengthening safety inspection on site and implementing safety production management responsibility system;

- implementing better management of explosives by building a new underground warehouse; and

- enhancing safety education.

The costs of compliance with applicable PRC laws and regulations were approximately RMB8.1 million, RMB8.0 million, and RMB7.3 million in 2004, 2005, and 2006, respectively. The expected annual cost going forward is in the range of RMB7.0 million to RMB8.5 million per annum.

For further information, see the section headed “Risk factors — We are subject to various operational risks and may lack sufficient insurance coverage”. According to the SRK Report, we have achieved reasonable accident statistics in our mine, concentrator, refinery and support facilities and such statistics compared very well with other mining companies in China and against international best practice.

In the Fukang Refinery, we have a team of safety inspection staff which is responsible for periodic spot checks. We have prepared various occupational safety manuals for our employees at the Fukang Refinery. All new employees must attend safety training sessions conducted by the safety and environmental department of the Fukang Refinery and pass an examination before they are allocated to different workshops. They then need to take other examinations at the workshops before they are allowed to start working. Staff engaged in special tasks are provided with regular training and they are required to have the requisite licences. There were no major accidents causing fatality or serious injury that occurred at the Fukang Refinery.

INSURANCE

We maintain insurance policies for our major production facilities and property, plant and equipment in the PRC. These policies cover losses arising from fire, earthquakes and other calamities in respect of buildings, machinery, equipment and automobiles, which are insured at their replacement cost. We also maintain work cover insurance for our employees. Currently, consistent with industry practice in the PRC, we do not maintain business interruption insurance or third party liability insurance against claims for property damage, personal injury and environmental liabilities. We have not made any material claims under our insurance policies and have not experienced any material business interruptions during the Track Record Period.

During the Track Record Period, we had not experienced any significant loss or damage to our buildings, machinery, equipment and automobiles. We renew insurance policies annually as required by PRC law. Our Directors confirm that, subject to the relevant disclosure in the section headed “Risk Factors — We are subject to various operational risks and may lack sufficient insurance coverage,” our insurance coverage over our assets was adequate as at the Latest Practicable Date.

LITIGATION AND REGULATORY MATTERS

As at the Latest Practicable Date, we were not involved in any actual or pending legal or arbitration proceedings that we believe would have a material adverse impact on our financial condition or results of operations. In particular, we were not involved in any claims in relation to exploration or mining rights made or notified either by third parties against us or vice versa.

Our PRC legal advisers have confirmed that we are in compliance with applicable PRC laws and regulations in all material respects. Furthermore, our Directors and our PRC legal advisers are of the view that we have obtained all necessary licences, approvals and permits that are required for our business operations in the PRC including but not limited to the safety and construction permits, and paid all compensation and completed construction of all necessary safety environmental protection facilities. Our Directors and our PRC legal advisers are also of the view that since our inception, we have been in compliance in all material respects with the applicable laws and regulations in the PRC where we operate our businesses.

LAND AND BUILDINGS

Property interests

Owned-properties

As at the Latest Practicable Date, our Company possessed land use rights of 17 parcels of land with an aggregate site area of approximately 2.2 million square metres and owned and occupied 189 properties with an aggregate gross floor area of approximately 95,600 square metres in the PRC. The land use rights of the 17 parcels of land are for terms expiring from 2044 to 2076. The land and properties are used for mining, smelting and refining workshops, offices, staff quarters, carparking and other industrial purposes.

In relation to the land use rights we possess in the PRC, we have obtained land use rights certificates for the 17 parcels of land with an aggregate site area of approximately 2.2 million square metres.

In relation to the 189 properties that we own and occupy in the PRC, we have obtained building ownership certificates for 185 properties. We do not have building ownership certificates for four public housing units in Shanghai (see Appendix IV — Property Valuation Report property number 7), with an aggregate gross floor area of approximately 177.48 square metres for residential purpose, representing approximately 0.19% of the aggregate gross floor area of properties purchased and occupied by us. As advised by our PRC legal advisers, the transfer of these properties is governed by certain rules promulgated by the Shanghai Housing and Land Resources Bureau in 1995, which specify that the purchaser of such property must be a staff with Shanghai residency or a public housing tenant with Shanghai residency status. Notwithstanding the purchase price of the property has been paid in full, our Company is unable to meet the residency requirements and obtain the relevant building ownership certificates.

Among the 185 properties which we possess the relevant building ownership certificates, four units in Xinjiang with a total gross floor area of approximately 415.91 square metres for residential purpose (see Appendix IV — Property Valuation Report property numbers 2 and 5), representing approximately 0.44% of the aggregate gross floor area of properties occupied by us are without land use rights certificates. As advised by our PRC legal advisers, our Company is unable to obtain any land use rights certificate as the local land bureau is yet to commence the issue of land use rights certificate in that area. We will apply for the land use rights certificate once the local land bureau commences the issue of land use rights certificate.

It is estimated that the aggregate estimated costs of relocation of the four public housing units in Shanghai and four units in Xinjiang are approximately RMB2,500 and the estimated monthly rental for replacement properties is approximately RMB5,000.

Our Company has obtained all the title certificates in relation to the land use rights and property ownership rights for our core business operations in China. Our Directors believe that the owned-properties to which we have not obtained the relevant land use rights certificates or building ownership certificates (as the case may be) as described above are not material to our Company's operations as all of these owned-properties are used for staff quarters and the percentages to the aggregate gross floor area occupied by us are negligible. If necessary, the Directors believe that our Company would be able to relocate the staff to comparable alternative properties without any material adverse effect to our Company's operations.

Our exploration activities are conducted in remote desert area in Xinjiang and there is no need to construct any buildings upon the land at this stage. We have not yet applied for the land use rights of the relevant piece of land even though we may be entitled to apply, as advised by our PRC legal advisers. We will apply for the relevant land use rights as and when required. Our PRC legal advisers have advised that the exploration activities carried out by our Company and the current arrangements are in compliance with the PRC laws and regulations and that our access to land for exploration will not be adversely affected.

Leased properties

As at the Latest Practicable Date, our Company leased a property from Xinjiang Non-ferrous with an aggregate gross floor area of approximately 1,992 square metres at a rental of RMB1,635,930 per annum with a term commencing from 1 July 2007 and expiring on 31 December 2009 for office purpose (see Appendix IV — Property Valuation Report property number 8).

Construction-in-progress

As at the Latest Practicable Date, our Company had three projects under construction:

- the technical improvement project at the Kalatongke Mine;
- the technical improvement project at the Fukang Refinery; and
- two buildings as the staff quarters at the Kalatongke Mine.

We have obtained the relevant land use right certificates for all the construction-in-progress at the Kalatongke Mine and the Fukang Refinery. Our PRC legal advisers have advised that the construction-in-progress in respect of the technical improvement projects of the Kalatongke Mine and the Fukang Refinery have both obtained the approval and filing of projects and are in compliance with the relevant PRC laws and regulations. Our PRC legal advisers have further advised that the construction-in-progress in relation to the technical improvement projects of both the Kalatongke Mine and the Fukang Refinery is legal and valid and upon completion of the construction-in-progress, there is no legal impediment for our Company to obtain the building ownership certificates.

We have not obtained the planning/commencement of construction permits for the construction-in-progress at the Kalatongke Mine for the two buildings to be used as staff quarters (see Appendix IV — Property Valuation Report property number 4). The Directors are of the view that there is no impediment to obtain the building ownership certificates for the construction-in-progress of the staff quarters after completion of the construction work as it is common for building ownership certificates to be issued in respect of construction-in-progress located in the area of the Kalatongke Mine notwithstanding the absence of planning/commencement of construction permits.

As advised by our PRC legal advisers, the relevant planning and construction department has confirmed that as the relevant construction-in-progress in relation to the staff quarters has not been included in its city planning scheme, there is no need to obtain the planning/commencement of construction permits for the construction-in-progress. The relevant property bureau has issued letters in favour of our Company confirming the entitlement of building ownership certificates for the construction-in-progress immediately upon completion of the construction work and the requirement to obtain planning and commencement of construction permission has been waived. Our PRC legal advisers have further advised that (i) the construction-in-progress of the staff quarters does not violate PRC laws and regulations; (ii) the relevant government department will not regard the construction-in-progress as illegal and will not impose administrative sanction including an order to cease construction work; and (iii) there is no legal impediment to obtain the relevant building ownership certificates upon completion of the construction and obtaining the completion certificate.

Property valuation and property valuation report

Sallmanns (Far East) Limited, an independent valuer, has valued our Company's owned and leased property interests in which our Company held equity interests of more than 50% as at 30 June 2007 at RMB410,770,000.

SUMMARY

Pursuant to the Reorganisation, we have entered into a number of agreements with Xinjiang Non-ferrous to document the basis on which the Reorganisation is to be effected and also to regulate the continuing business relationship between us and the Xinjiang Non-ferrous Group. We have also entered into, in the ordinary course of business, certain transactions with the Xinjiang Non-ferrous Group which will continue after the Listing.

We set out below details regarding our connected transactions, the historical transaction amounts and the annual cap on future transaction amounts.

CONNECTED TRANSACTIONS PURSUANT TO THE REORGANISATION

1. *Reorganisation Agreement*

To effect the Reorganisation, we entered into a Reorganisation Agreement with Xinjiang Non-ferrous on 8 August 2005, further details of which are set out in the section headed "Reorganisation and Corporate Structure".

2. *Non-competition agreements and the options granted under the Non-competition Agreement*

In connection with the Reorganisation, we entered into the Non-competition Agreement with Xinjiang Non-ferrous on 17 September 2007 and two non-competition agreements with Zhongjin Investment and Shanghai Yilian on 8 August 2005, further details of which are set out in the section headed "Reorganisation and Corporate Structure".

During the term of the Non-competition Agreement, Xinjiang Non-ferrous has granted us, among others:

(1) a right of first refusal to purchase on no less favorable terms, if Xinjiang Non-ferrous or any of its associates intends to transfer or sell to any third party, the 34% shareholding or any part thereof in Ashele Copper; and

(2) an option to purchase the whole or any part of the 50% equity interest held by Xinjiang Non-ferrous in Hami Hexin.

In relation to our option granted by Xinjiang Non-ferrous under the Non-competition Agreement, Xinjiang Non-ferrous is required to notify us immediately in writing once Hami Hexin has obtained a mining permit for the mine. Such notice must set out full details and Xinjiang Non-ferrous has agreed to provide us with supporting documents and information which may be necessary for us to make a decision as to whether to exercise the option. According to the Non-competition Agreement, the purchase price for the transfer of the 50% equity interest in Hami Hexin is to be determined by an independent internationally recognised valuer based on market value and our Company and Xinjiang Non-ferrous have agreed to negotiate for the purchase price on that basis. If our Company decides not to exercise the option to acquire the equity interest in Hami Hexin within 60 days upon receipt of the notice from Xinjiang Non-ferrous offering to transfer the 50% equity interest, Xinjiang Non-ferrous has agreed to dispose its equity interest in Hami Hexin to an Independent Third Party to avoid any direct or indirect competition with our Company. It is expected that the disposal of interest in Hami Hexin would be effected within a period of six months of such decision having become effective and that during such six-month period, Xinjiang

Non-ferrous would not commence operation in Hami Hexin. If for any reason additional time beyond the aforesaid 60 days' period is considered necessary to assess such option, we may extend such period subject to the approval solely by independent non-executive Directors. The transfer of equity interest in Hami Hexin does not require the consent of Western Rare Metals, as the pre-emptive rights in transferring the equity interest in Hami Hexin between a shareholder of Hami Hexin and its associates and subsidiaries have been waived pursuant to a pre-emptive rights waiver agreement entered into between Xinjiang Non-ferrous and Western Rare Metals on 8 June 2007.

The details of the arrangement under the Non-competition Agreement are set out in section headed "Relationship with Xinjiang Non-ferrous – Competition – Non-competition Agreement". The grant of the right of first refusal and the option under the Non-competition Agreement do not involve any monetary consideration. Accordingly, the grant of the right of first refusal and the option are qualified under Rule 14A.68 of the Listing Rules as de minimis transactions which are exempt from the reporting, announcement and independent shareholders' approval requirements. As the exercise of the right of first refusal and/or the option under the Non-competition Agreement will constitute connected transactions under the Listing Rules, we will comply with the relevant requirements of Chapter 14A of the Listing Rules as necessary in the event that such right or option is exercised.

3. Mining Rights Transfer Agreement and the New Agreement

We entered into the Mining Rights Transfer Agreement with Xinjiang Non-ferrous on 3 September 2005. In compliance with the Circular, our Company entered into the New Agreement with Xinjiang Non-ferrous whereby Xinjiang Non-ferrous agreed to terminate the Mining Rights Transfer Agreement and the payment obligations of our Company thereunder were extinguished pursuant to the New Agreement. The details of the arrangements under the Mining Rights Transfer Agreement and the New Agreement are set out in the section headed "Relationship with Xinjiang Non-ferrous — Independence from Promoters — Financial Independence".

The obligations of the parties under the Mining Rights Transfer Agreement and the New Agreement have been performed and there shall be no further outstanding obligations thereunder after the Listing. The Mining Rights Transfer Agreement and the New Agreement constitute connected transactions exempt from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

We set out below a summary of the continuing connected transactions which we have entered into with the Xinjiang Non-ferrous Group:

Type of Transaction	Term	Applicable Listing Rule	Waiver Sought
Trademark licence	Three years commencing from 10 July 2006 to 9 July 2009	14A.33	N/A
Comprehensive supporting services for the Kalatongke Mine	Commencing from the Dealing Date to 31 December 2009	14A.34	Yes
Lease of property	Two years and six months commencing from 1 July 2007 to 31 December 2009	14A.34	Yes
Mutual supply of production supplies, storage, transportation and loading services, and other supporting and ancillary services	Commencing from the Dealing Date to 31 December 2009	14A.35	Yes

Exempt Continuing Connected Transactions

4. Trademark Licence Agreement

Xinjiang Non-ferrous is the registered owner of the trademark "Bo Feng (博峰)" in the form of romanised spelling (pingyin), Chinese characters as well as in the form of a logo. The trademark is registered in the PRC under Class 6 and will expire on 20 March 2009. We entered into the Trademark Licence Agreement dated 10 July 2006 with Xinjiang Non-ferrous pursuant to which Xinjiang Non-ferrous granted us a licence to use the trademark of "Bo Feng" on our products. Our products have been widely known as "Xinjiang nickel" in the PRC and our Company has not used "Xinjiang nickel" as the trademark on our principal products. We have been selling our products under the "Bo Feng" trademark since 2005. The trademark of "Bo Feng" was used on nickel, copper and cobalt products produced from Fukang Refinery. However, as the products are not sold to retail customers, our Company and Xinjiang Non-ferrous believe that there is no significant market value in the trademark and therefore Xinjiang Non-ferrous has agreed to grant us the licence to use the "Bo Feng (博峰)" trademark for no consideration. The Directors believe that the Trademark Licence Agreement was entered into between Xinjiang Non-ferrous and our Company on normal commercial terms. The principal terms of the Trademark Licence Agreement are set out as follows:

- Xinjiang Non-ferrous grants us the right to use the trademark of "Bo Feng (博峰)" at no consideration for a term of three years commencing from 10 July 2006 and ending 9 July 2009;

- the Trademark Licence Agreement is renewable at our Company's discretion six months prior to its expiry, and it will be terminated once we have obtained our own trademark for our products during the term of the licence;

- Xinjiang Non-ferrous undertakes that it will not waive its right to renew the trademark of "Bo Feng (博峰)" and that the trademark will not be declared invalid and has not infringed any intellectual property rights of third parties; and

- we must notify Xinjiang Non-ferrous any infringement of the trademark that comes to our knowledge and assist Xinjiang Non-ferrous in preventing and prohibiting such infringement.

Should the Trademark Licence Agreement be renewed, we shall ensure compliance with Chapter 14A of the Listing Rules.

The Trademark Licence Agreement has been entered into on normal commercial terms and falls below the de minimis threshold as stipulated under Rule 14A.33(3) of the Listing Rules and hence constitutes a continuing connected transaction exempt from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

Continuing Connected Transactions Exempt from Independent Shareholders' Approval

5. Comprehensive Services Agreement

Connection of the parties

Xinjiang Non-ferrous is the controlling shareholder of our Company and therefore a connected person of our Company under the Listing Rules. Transactions between a member of Xinjiang Non-ferrous Group and us will constitute connected transactions of our Company under the Listing Rules.

Description of the transactions

Under the Reorganisation, the Xinjiang Non-ferrous Group has retained certain assets and businesses which formerly provided supporting services to the Xinjiang Non-ferrous Kalatongke Mine. In order for the provision of such services to be continued after the Listing, on 17 September 2007, we entered into a Comprehensive Services Agreement with Fuyun Xingtong, a wholly-owned subsidiary of Xinjiang Non-ferrous, principally engaged in, among other things, beverage, catering services, transportation, satellite communication and sales of liquefied gases. The principal terms of the Comprehensive Services Agreement are set out as follows:

- Fuyun Xingtong agreed to provide us with certain supporting services including educational, nursery, medical and healthcare services to the employees at the Kalatongke Mine for a term commencing on the Dealing Date and ending on 31 December 2009 which may be renewed upon agreement by Fuyun Xingtong and us, subject to the approval by the Stock Exchange and/or our independent shareholders (depending on the requirement of the Stock Exchange);

- services provided by Fuyun Xingtong to us include educational services for children of our staff members, child daycare services, environmental hygiene services and medical services;

- we are entitled to obtain such services from any third party. If we can obtain better terms from any third party provider than those offered by Fuyun Xingtong, we are entitled to request Fuyun Xingtong to offer us those better terms, and if Fuyun Xingtong refuses, we are entitled to terminate the provision of such services by Fuyun Xingtong;

- the supporting services will be provided according to the following pricing policies in order of priority:
  - the price prescribed by the State (國家指定價) (including any price prescribed by any relevant local government), if applicable;
  - where there is no state-prescribed price but there is a state-guidance price (國家指導價), then the state-guidance price;
  - where there is neither a state-prescribed price nor a state-guidance price, the market price which is determined by (i) the price offered by an Independent Third Party for providing similar services, or (ii) where not applicable, the market price for providing similar services in the PRC under general commercial terms; or
  - where none of the above is applicable, the price shall be determined by the parties based on reasonable costs incurred by Fuyun Xingtong in providing the services plus a profit margin of 5% of such costs; and
- we and Xinjiang Non-ferrous will ensure that any specific agreements which set out the specific terms and conditions for the provision of any such services are entered into between us in accordance with the terms and conditions of the Comprehensive Services Agreement.

Our Directors believe that it is in the best interest of our Company that we continue to procure the supporting services from Fuyun Xingtong in order to ensure a smooth operation of our business as our business and workforce continues to grow.

Our Directors are of the view that any specific agreements on the provision of any of the above services are simply further elaboration on the provision of the same supporting services as contemplated under the Comprehensive Services Agreement, and therefore shall not constitute new categories of connected transactions.

We are required to ensure the compliance with the requirements of Chapter 14A of the Listing Rules should we decide to enter into any new agreement with Fuyun Xingtong.

Historical transaction amounts

For the three years ended 31 December 2006 and the three months ended 31 March 2007, the aggregate expenditure for the supporting services provided by Fuyun Xingtong to us under the Comprehensive Services Agreement amounted to approximately nil amount, RMB0.57 million, RMB2.09 million and RMB0.58 million, respectively.

Annual cap on future transaction amounts

Our Directors have assumed that our business will continue to grow and the need for the provision of supporting services by Fuyun Xingtong to us will continue to increase. Having considered the historical transaction amounts, the development trend of our business, the expected demand and supply of our products and the expected increase in our workforce, our Directors project that our annual expenditure for the three years ending 31 December 2009 in respect of the supporting services to be provided by Fuyun Xingtong to us under the Comprehensive Services Agreement will reach approximately RMB3.32 million, RMB3.32 million and RMB3.32 million, respectively. The increase from the historical amount of approximately RMB2.09 million in 2006 to the expected transaction amount of approximately RMB3.32 million in 2007 was because of the increase of the labour cost caused by the increase in salary and other ancillary expenses on insurance costs and other employment related benefits. Our Directors consider that the above caps are reasonably determined pursuant to Rule 14A.35(2) of the Listing Rules.

6. Property Lease Agreement

Connection of the parties

Xinjiang Non-ferrous is the Controlling Shareholder of our Company and therefore a connected person of our Company under the Listing Rules. Transactions between a member of Xinjiang Non-ferrous Group and us will constitute connected transactions of our Company under the Listing Rules.

Description of the transactions

Since 1 September 2005, we have been leasing from Xinjiang Non-ferrous certain office premises on the 6th Floor, Youse Building, No. 4 You Hao North Road, Urumqi, Xinjiang with a gross floor area of approximately 540 square metres for general commercial and business use. To accommodate the need for more office space due to the expected expansion of our business, on 22 June 2007, we entered into the Property Lease Agreement with Xinjiang Non-ferrous pursuant to which Xinjiang Non-ferrous agreed to lease to us certain larger office premises on the 7th and 8th floors, Youse Building, No. 4 You Hao North Road, Urumqi, Xinjiang with a total gross floor area of approximately 1,992 square metres for office use. The principal terms of the Property Lease Agreement are set out as follows:

- the term is for a period commencing from 1 July 2007 and ending 31 December 2009; we will be entitled to renew the lease by giving two months' written notice prior to its expiry;
- the annual rental is RMB1,635,930;
- our rights under the Property Lease Agreement survive any sale by Xinjiang Non-ferrous of the office premises or any part thereof and remain valid against Xinjiang Non-ferrous and/or the new owner of the office premises or any part thereof;
- if Xinjiang Non-ferrous intends to sell the office premises or any part thereof, it has to give us one month's prior written notice, and we are granted a first right of refusal on terms Xinjiang Non-ferrous offers to any third party;
- we are entitled to sub-let the office premises or any part thereof to associated entities during the subsistence of the lease;
- we may at any time during the term of the Property Lease Agreement terminate the lease by giving a two months' prior written notice, but Xinjiang Non-ferrous may not unilaterally terminate the Property Lease Agreement unless we make structural changes to the office premises or we fail to pay rent for more than three months; and
- we may renew the lease upon expiry of the term by giving a two months' prior written notice to Xinjiang Non-ferrous and upon entering into a new lease with Xinjiang Non-ferrous.

The above offices premises are leased from Xinjiang Non-ferrous instead of from Independent Third Parties for the following reasons:

- Xinjiang Non-ferrous has spare office premises which are readily available to be leased for office use, and therefore we were able to commence the operation of our business on these offices premises immediately without having to search for suitable premises in the market;

- the office premises leased from Xinjiang Non-ferrous are in close proximity to the central business district of Urumqi which is administratively convenient for us to conduct our business; and

- we have been conducting business historically at office premises in the Youse Building and additional relocation costs have to be incurred if we lease office premises elsewhere from an Independent Third Party, which our Directors do not consider justified. Our Directors are of the view that the Property Lease Agreement was entered into on normal commercial terms and such terms are fair and reasonable to us.

Should the term of the Property Lease Agreement be renewed, we shall ensure that the requirements of Chapter 14A of the Listing Rules are complied with.

Our PRC legal advisers have confirmed that the terms of the Property Lease Agreement comply with the relevant laws and regulations in the PRC. Sallmanns (Far East) Limited, an independent valuer, has confirmed that the terms of the Property Lease Agreement reflect the prevailing market condition in the PRC and that the rent reflects market rates of comparable properties and is fair and reasonable to us.

Historical transaction amounts

The rental paid to Xinjiang Non-ferrous from 1 September 2005 to 31 December 2005 and for the year ended 31 December 2006 was RMB100,000 and RMB1,017,970, respectively. For the three months ended 31 March 2007, the rental paid to Xinjiang Non-ferrous was RMB408,983.

Annual cap on future transaction amounts

Our Directors expect that there will be no annual increase in the rental and the total area of the leased premises under the Property Lease Agreement. On that basis, our Directors expect that the rental that will be paid by us to Xinjiang Non-ferrous for the three years ending on 31 December 2009 will not exceed a maximum amount of RMB1,635,930 per annum. Our Directors consider that the above caps are reasonably determined pursuant to Rule 14A.35(2) of the Listing Rules.

Non-exempt Continuing Connected Transactions

7. Mutual Supply Agreement

Connection of the parties

Xinjiang Non-ferrous is the controlling shareholder of our Company and therefore a connected person of our Company under the Listing Rules. Transactions between a member of Xinjiang Non-ferrous Group and us will constitute connected transactions of our Company under the Listing Rules.

Description of the transactions

Under the Reorganisation, Xinjiang Non-ferrous has retained certain assets and businesses as described in "Reorganisation and Corporate Structure — Reorganisation — Retained activities, assets and interests by Xinjiang Non-ferrous" and the Xinjiang Non-ferrous Group will continue to provide certain production supplies and ancillary services to our Company after the Listing. We will also continue to provide certain products including nickel cathode, copper cathode and sulphuric acid to members of the Xinjiang Non-ferrous Group on an arm's length basis. The Xinjiang Non-ferrous Group purchases copper cathode and sulphuric acid from us for their own production and resells the nickel cathode to third parties.

To regulate the relationship between the Xinjiang Non-ferrous Group and our Company in respect of the mutual provision of production supplies and ancillary services, we entered into the Mutual Supply Agreement with Xinjiang Non-ferrous on 17 September 2007. The principal terms of the Mutual Supply Agreement are set out as follows:

The Xinjiang Non-ferrous Group has agreed to provide our Company with:

- production supplies: supplemental production materials (including chemical materials, coal, coke and other raw materials), components of production facilities and work safety products;

- storage, transportation and loading services: warehousing services in Beijing for the sales and distribution of nickel cathode to our end-customers in Beijing and its surrounding areas, Hebei province and the north-eastern region of the PRC; road transportation service for the delivery of nickel matte from the Kalatongke Mine to the Fukang Refinery for the production of nickel cathode, copper cathode, and other ancillary products, and delivery of coke, coal and copper concentrate to and from the Kalatongke Mine; and loading of coke and other raw materials at the Kalatongke Mine; and

- other supporting and ancillary services: project design (including shafts, underground passageways and environmental assessment), project supervision and construction (including underground shaft drilling construction services, construction of ancillary structures such as drainage, ventilation, transportation infrastructure, boiler rooms, and cobalt cathode workshops), repair and processing of facilities and equipment installation for the technical development projects in the Kalatongke Mine and the Fukang Refinery.

During the Track Record Period, the amounts we paid to the Xinjiang Non-ferrous Group for the provision of production supplies were approximately RMB16.0 million, RMB22.5 million, RMB19.7 million and RMB2.6 million respectively, representing approximately 12.0%, 13.0%, 7.9% and 4.7% of our aggregate amounts paid to all our suppliers of production supplies. The amounts we paid to the Xinjiang Non-ferrous Group for the provision of storage, transportation and loading services during the Track Record Period were approximately RMB3.6 million, RMB5.1 million, RMB4.1 million and RMB0.7 million respectively, representing approximately 61.5%, 61.8%, 37.5% and 48.5% of our aggregate amounts paid to all our suppliers of such services. The amount we paid to the Xinjiang Non-ferrous Group for the provision of other supporting and ancillary services during the Track Record Period were approximately RMB4.7 million, RMB6.3 million, RMB83.6 million and RMB7.6 million respectively, representing approximately 9.5%, 13.7%, 42.8% and 33.9% of our aggregate amounts paid to all our suppliers of such services. Our Company has not received any transportation services involving mini-railways in the mine operated exclusively by Xinjiang Non-ferrous.

Apart from the Xinjiang Non-ferrous Group, our Company has engaged at least three alternative suppliers which are Independent Third Parties for each of the above goods and services. We appoint our supplier based on merits by taking into consideration factors such as price and quality. During the Track Record Period, the amounts we paid to alternative suppliers for the provision of production supplies were approximately RMB117.3 million, RMB149.7 million, RMB230.9 million and RMB53.3 million respectively, representing approximately 88.0%, 87.0%, 92.1% and 95.3% of our aggregate amounts paid to all our suppliers of production supplies. The amounts we paid to alternative suppliers for the provision of storage, transportation and loading services during the Track Record Period were approximately RMB2.3 million, RMB3.2 million, RMB6.9 million and RMB0.7 million respectively, representing approximately 38.5%, 38.2%, 62.5% and 51.5% of our aggregate amounts paid to all our suppliers of such services. The amounts we paid to alternative suppliers for the provision of other supporting and ancillary services during the Track Record Period were approximately RMB45.3 million, RMB39.8 million, RMB111.8 million and RMB14.9 million respectively, representing approximately 90.5%, 86.3% 57.2% and 66.1% of our aggregate amounts paid to all our suppliers of such services. The Directors believe that since there are alternative suppliers of the above goods and services available in the market, we do not rely on the Xinjiang Non-ferrous Group and are able to operate independently of the Xinjiang Non-ferrous Group in this regard.

We have agreed to provide the Xinjiang Non-ferrous Group with our nickel cathode, copper cathode and sulphuric acid. During the Track Record Period, the amounts the Xinjiang Non-ferrous Group paid to us for the purchase of our products were approximately RMB11.4 million, RMB16.1 million, RMB19.6 million and RMB1.3 million, respectively, representing approximately 2.6%, 3%, 2.3% and 0.4% of our aggregate sales to all of our customers of such products.

We sell a small amount of nickel cathode at market price to Beijing Baodi Xindi Kemao Company Limited (北京寶地新廸科貿有限公司) (“Beijing Baodi”), a trading company and a wholly-owned subsidiary of Xinjiang Non-ferrous. Beijing Baodi then resells the nickel cathode to its small-sized third party customers in Beijing which generally place small orders. The nickel cathode sold by Beijing Baodi to its customers are sourced from our Company and Beijing Baodi does not sell any other non-ferrous metals that our Company produces. Beijing Baodi would not sell the nickel cathode in markets other than in Beijing. During the Track Record Period, our sales of nickel cathode to Beijing Baodi amounted to approximately RMB9.9 million, RMB14.9 million, RMB17.4 million and RMB1.2 million, respectively, representing approximately 3.2%, 3.7%, 2.9% and 0.4% of our total turnover of nickel cathode. We sell our nickel cathode to Beijing customers through Beijing Baodi as we believe that we could minimise our administrative costs and credit risks in association with small-sized customers through this arrangement. Currently, we do not regard the Beijing market as a major or strategic market for our products and the sale of nickel cathode to such market has decreased significantly since 2006. The Directors consider that the current selling arrangement in the Beijing market is consistent with our general sales and marketing strategy of focusing on small- to medium-sized customers through trading companies. In light of above, the Directors are of the view that the sale of nickel cathode by Beijing Baodi does not represent any competition with our Company’s business.

We may establish our sales office in a region after considering various factors, including our production volume and capacity, selling strategy, cost-efficiency and resources (i.e. human resources or financial position) as well as whether such region would be able to contribute around or more than 5% to our total revenue. We confirm that, in the event we establish our own sales office in Beijing, our Company will cease to sell nickel cathode products to Beijing Baodi. Further, pursuant to the Non-competition Agreement, Xinjiang Non-ferrous undertakes that neither it nor any of its associates will directly or indirectly compete with the business of our Company. For details, please see “Relationship with Xinjiang Non-ferrous — Non-competition Agreement”. Prior to the establishment of our Beijing sales office, our Company undertakes that the sales of nickel cathode to Beijing Baodi will not exceed RMB17.5 million for each of the three years ending 31 December 2009.

Other principal terms of the Mutual Supply Agreement include:

- the Mutual Supply Agreement is for a term commencing from the Dealing Date and ending on 31 December 2009 which may be renewed upon agreement by Xinjiang Non-ferrous and us, subject to the approval by the Stock Exchange and/or our independent shareholders (depending on the requirement of the Stock Exchange);

- our Company and the Xinjiang Non-ferrous Group are at liberty to procure any of the required services and products from any third party save and except that Xinjiang Non-ferrous must provide our Company with services or supplies on terms no less favourable than those offered to any third party and that Xinjiang Non-ferrous must source nickel cathode and copper cathode exclusively from our Company;

- each party of the Mutual Supply Agreement may terminate the mutual provision of products and services on six months' prior written notice unless we have informed Xinjiang Non-ferrous by written notice that we are unable to obtain similar products and services from a third party (save that we have provided written consent to the termination by Xinjiang Non-ferrous);

- the above products, supplies and services will be provided according to the following pricing policies in order of priority:

  - the price prescribed by the State (國家指定價) (including any price prescribed by any relevant local government), if applicable;

  - the price recommended under the State pricing guidelines (國家指導價), when no state-prescribed price is available;

  - the market price, when neither the state-prescribed price nor the state-recommended price is available; or

  - the price determined by the parties based on the reasonable costs incurred in providing the goods or services plus a profit margin of 5% on such costs, when none of the above is available, applicable or feasible; and

- we and Xinjiang Non-ferrous will ensure that any specific agreements which set out the specific terms and conditions for the provision of any such services and products are entered into between us and the respective subsidiaries and associates of Xinjiang Non-ferrous and us in accordance with the terms and conditions of the Mutual Supply Agreement.

Our Directors are of the view that any specific agreements on the provision of any of the above services and products are simply further elaboration on the provision of services and products as contemplated under the Mutual Supply Agreement, and therefore shall not constitute new categories of connected transactions.

We intend to continue to procure production supplies and ancillary services from the Xinjiang Non-ferrous Group as our Directors believe that:

- the Xinjiang Non-ferrous Group has an established system of mining, ore processing, smelting, processing, repairing, manufacturing, equipment installation, construction, transportation, storage, design, and it has competitive strengths over other suppliers of similar services in Xinjiang;
- our smelting operation is enhanced by the capability and techniques of the Xinjiang Non-ferrous Group in designing and producing non-standardised production facilities and equipment;
- the design institute of the Xinjiang Non-ferrous Group has the expertise in the design of production facilities in respect of mining, ore processing and refining of non-ferrous and precious metals and they are familiar with our production sites, facilities and equipment;
- the Xinjiang Non-ferrous Group has an experienced and stable construction team in shafts construction and facilities installation; and
- the automobile transportation companies, the materials procurement company and the storage warehouse of the Xinjiang Non-ferrous Group are able to provide us with a stable supply of materials, transportation services and warehousing services.

If the Mutual Supply Agreement is renewed upon expiry of its current term, we are required to ensure compliance with the requirements of Chapter 14A of the Listing Rules.

Historical transaction amounts

For each of the three years ended 31 December 2006 and the three months ended 31 March 2007, the aggregate expenditure for the production supplies and ancillary services provided by the Xinjiang Non-ferrous Group to us, being the subject matter of the Mutual Supply Agreement, amounted to approximately RMB24.4 million, RMB33.9 million, RMB107.4 million and RMB10.9 million, respectively. The significant increase of such expenditure in 2006 was primarily attributable to the design and construction services provided by Xinjiang Non-ferrous Gold Construction Company (新疆有色黃金建設公司) to us for the construction works of our technical improvement projects in the Kalatongke Mine and the Fukang Refinery. Xinjiang Non-ferrous Gold Construction Company is the only member of the Xinjiang Non-ferrous Group which provides construction services. During the Track Record Period, our expenditure to Xinjiang Non-ferrous Gold Construction Company, which was successful in its bid for providing construction services to our Company, amounted to approximately RMB3.3 million, RMB4.8 million, RMB80.9 million and RMB7.6 million, which accounted for only approximately 12.0%, 14.6%, 37.4% and 23.5%, respectively, of the total expenditure incurred by our Company on construction services including the expenditure spent on our technical improvement projects. All construction services provided by Xinjiang Non-ferrous Gold Construction Company to us had gone through a tender process (see details in the paragraph headed "Connected Transactions — Non-exempt Continuing Connected Transactions Requiring Announcement and Independent Shareholders' Approval — Mutual Supply Agreement — Tender process" below. The technical improvement projects are expected to be completed in 2009.

For each of the three years ended 31 December 2006 and the three months ended 31 March 2007, the aggregate revenues for the products supplied by us to the Xinjiang Non-ferrous Group, being the subject matter of the Mutual Supply Agreement, amounted to approximately RMB11.4 million, RMB16.1 million, RMB19.6 million and RMB1.27 million, respectively.

Annual cap on future transaction amounts

Our Directors have assumed that (i) our business will continue to grow and the need for the mutual provision of production supplies, ancillary services, and products provided will continue to increase; and (ii) the prices of utilities, raw materials and finished products are expected to increase in 2007, 2008 and 2009. Having considered the historical transaction amounts, the expected market conditions, the development trend in the non-ferrous metals industry, the demand and supply of our products and our production expansion plans, the Directors project that our annual expenditure in respect of production supplies and ancillary services to be provided by the Xinjiang Non-ferrous Group to us under the Mutual Supply Agreement for the three years ending 31 December 2009 will reach approximately an aggregate of RMB120.4 million, RMB248.5 million and RMB181.9 million, respectively.

A substantial part of the annual expenditure is attributable to the construction costs in relation to our technical improvement projects of the Kalatongke Mine and the Fukang Refinery which are expected to be completed by the end of 2009 and are expected to reach approximately RMB85.0 million, RMB197.0 million and RMB120.2 million for the three years ending 31 December 2009. We commenced our technical improvement project in respect of mining and ore processing operations in 2007, which mainly involves underground shaft drilling at the Kalatongke Mine. Such underground construction works are expected to continue until the end of 2009. The expected construction costs is expected to increase as the technical improvement project on improving the smelting and refining capacity will commence in 2008, which involves the building and construction of the new smelter at the Kalatongke Mine and the factories at the Fukang Refinery, which is expected to be completed by the end of 2009. We expect that a substantial part of the construction works relating to the technical improvement projects at the Kalatongke Mine and the Fukang Refinery will be completed by 2008. Therefore, we expect that the construction costs payable under the Mutual Supply Agreement will drop considerably towards the end of 2009, which explains the decrease of the proposed annual cap from RMB248.5 million in 2008 to RMB181.9 million in 2009.

After deducting the construction costs of the aforesaid technical improvement projects, the remaining balances of the annual cap for each of the three years ending 31 December 2009 is approximately RMB35.4 million, RMB51.5 million and RMB61.7 million, respectively. Our Company expects that the production capacity will increase gradually as the technical improvement projects at the Kalatongke Mine and the Fukang Refinery progress. As a result, there will be a corresponding increase in the demand for the production supplies, storage, transportation and loading services, and other supporting and ancillary services as provided by Xinjiang Non-ferrous Group from 2007 to 2009.

Our Directors also project that our annual revenue in respect of our products provided by us to the Xinjiang Non-ferrous Group under the Mutual Supply Agreement for the three years ending 31 December 2009 will be approximately RMB18.6 million, RMB18.5 million and RMB19.4 million, respectively. The caps are generally in line with the historical transaction amount for the year ended 31 December 2006. Our Directors consider that the above caps are reasonably determined pursuant to Rule 14A.35(2) of the Listing Rules.

Tender process

We invite construction companies to bid for all of our major construction works, including our technical improvement projects, through a tendering process. One of the bidders is a wholly-owned subsidiary of Xinjiang Non-ferrous, Xinjiang Non-ferrous Gold Construction Company (新疆有色黃金建設公司), a connected person of our Company. When calculating the proposed annual caps for the provision of construction services, we have taken into account the progress and schedule of our technical improvement projects and have assumed that all the tenders submitted by Xinjiang Non-ferrous Gold Construction Company would be successful. The Directors are of the view that each of the tasks relating to our technical improvement projects is independent of each other and there is no inter-dependency amongst the various tasks so far as bidding for construction works is concerned. There is no guarantee that a successful bidder in one particular tender will be selected in the next tender. The Directors believe that there is sufficient internal mechanism in place to ensure that the tendering process is conducted in a fair and open manner. We will invite at least three bidders which we consider to have the experience and expertise for a task and invite them to submit their tender applications. The bidding process is supervised and monitored by designated members of the senior management and technical staff of our Company with the experience and expertise in a particular project, including general managers, deputy general managers, the chief engineer, the chief financial officer and technical personnel of our Company. At least three bidders are required to submit their proposals for our consideration in each tender and their proposals would be kept confidential until the selection meeting. We invite the representatives of each of the bidders to attend selection meetings held by our Company and the application will be considered on its merits in accordance with our selection criteria. Usually within a week, our Company will notify in writing unsuccessful bidders with reasons for the decision.

Our Company has in place certain selection criteria for the bidding process, which will be made known to all bidders. In the decision making process, the senior management and the technical staffs of our Company would consider various factors including, among others, (i) qualification of the bidders, (ii) resources of the bidders particularly the availability of manpower, (iii) experience and technical expertise of the bidders in similar construction projects, (iv) reputation and quality of work and (v) proposed commercial terms and in particular the fee quotation provided by the bidder. In previous tender invitations, we have invited at least two independent bidders to submit their tenders. Other than Xinjiang Non-ferrous Gold Construction Company, our Company has been engaging two Independent Third Party suppliers for the provision of the construction services for our technical improvement projects. Our Chairman, Mr. Yuan Ze, has not been, and will not be involved or exerting any influence, in the selection and decision-making process involving the Xinjiang Non-ferrous Group. Further, Mr. Yuen Ze has undertaken not to give any confidential or sensitive commercial information of our Company to Xinjiang Non-ferrous and any other third party and will physically abstain from the meetings to consider connected transactions with Xinjiang Non-ferrous.

WAIVER

Pursuant to the Listing Rules, once our H Shares are listed on the Stock Exchange, the transactions under paragraph 7 above would normally require full reporting, announcement and prior approval by independent shareholders, and the transactions described in paragraphs 5 and 6 above would normally require full reporting and announcement as each of the percentage ratios (other than profits ratio) calculated by reference to Rule 14.07 of the Listing Rules is expected on an annual basis to be (i) less than 2.5% or (ii) more than 2.5% but less than 25% and the annual consideration is less than HK$10,000,000. We have entered into written agreements in respect of these continuing connected transactions for periods not exceeding three years. In addition, the Directors (including the independent non-executive Directors) confirm that it is in our interests to continue with these transactions after the Listing and that such transactions are entered into in the ordinary and usual course of business of our Company and are conducted on normal commercial terms and are fair and reasonable and in the interests of our shareholders as a whole.

On the above basis, we have applied for and the Stock Exchange has granted a waiver pursuant to Rule 14A.42(3) of the Listing Rules to exempt (1) the non-exempt continuing connected transactions described in paragraph 7 above from strict compliance with the announcement and independent shareholders' approval requirements and (2) the non-exempt continuing connected transactions described in paragraphs 5 and 6 above from strict compliance from the announcement requirements under Rule 14A.47 and 14A.48 to 14A.54 of the Listing Rules subject to (i) the Directors' undertaking that our Company would comply with the applicable requirements under

Chapter 14A for each of the three years ending 31 December 2009; (ii) the aggregate value of each of the non-exempt continuing connected transactions described in paragraphs 5 to 7 above for each financial year of the three years ended 31 December 2009 not exceeding the relevant cap set forth below; (iii) the details of the non-exempt continuing connected transactions will be disclosed in our annual report as required by Rule 14A.45 of the Listing Rules; (iv) our independent non-executive Directors shall review the non-exempt continuing connected transactions annually and confirm in our next annual report; and (v) each year the auditors of our Company shall provide a letter to the Board confirming that each of the non-exempt continuing connected transactions:

			Historical amounts				Proposed annual caps		
			Year ended 31 December			Three months ended 31 March			
			2004 *(RMB)*	**2005** *(RMB)*	**2006** *(RMB)*	**2007** *(RMB)*	**2007** *(RMB)*	**2008** *(RMB)*	**2009** *(RMB)*
Transaction									
5.	Comprehensive Services Agreement								
	Provision of supporting services by Fuyun Xingtong to us		Nil	567,868	2,087,930	580,000	3,320,900	3,320,900	3,320,900
6.	Property Lease Agreement								
	Lease of certain office premises from Xinjiang Non-ferrous by us		Nil	100,000 *Note*	1,017,970	408,983	1,635,930	1,635,930	1,635,930
7.	Mutual Supply Agreement								
	(a)	Provision of construction services by the Xinjiang Non-ferrous Group to us	3,277,000	4,837,000	80,925,000	7,619,000	85,015,700	197,007,000	120,200,000
	(b)	Production supplies, storage, transportation and loading services and other supporting and ancillary services (other than construction services) by the Xinjiang Non-ferrous Group to us	21,090,000	29,052,000	26,509,000	3,281,000	35,380,470	51,467,950	61,659,500
	(c)	Provision of our products to the Xinjiang Non-ferrous Group	11,389,700	16,096,000	19,623,000	1,267,000	18,632,300	18,455,400	19,436,900

Note: For the period from 1 September 2005 to 31 December 2005.

The Directors are of the view that the annual caps of all the non-exempt continuing connected transactions described in paragraphs 5 to 7 above are fair and reasonable.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those as at the date of this prospectus on the continuing connected transactions referred to in this section including, but not limited to, a requirement that these transactions be made conditional on approval by our independent shareholders, we will take immediate steps to ensure compliance with such requirements.

Opinion of our Directors

The Directors (including the independent non-executive Directors), having reviewed the relevant information (including, among other things, the historical transaction amounts, the underlying agreements, the trends and growth in the industry in which our Company operates and the future plans of our Company) relating to the continuing connected transactions and the justifications set out above for each of the transactions, are of the opinion that each of the continuing connected transactions disclosed above has been entered into, and will be carried out in our ordinary and usual course of business and on normal commercial terms or on terms no less favourable to our Company than terms available to or from (as appropriate) Independent Third Parties, and that the annual caps of each of these continuing connected transactions disclosed above is fair and reasonable and in the interest of our shareholders as a whole.

Confirmation from the Sole Sponsor

The Sole Sponsor has reviewed the relevant documentation, information and historical transaction amounts provided by us, and have participated in the due diligence and discussions among our advisers and us to satisfy themselves of the reliability of the information provided in relation to the connected transactions described in paragraphs 1 to 7 above. Based on the above, the Sole Sponsor is of the view that (i) the non-exempt continuing connected transactions described in paragraphs 5 to 7 above for which waivers are sought have been entered into in the ordinary and usual course of business of our Company on normal commercial terms and the terms of such transactions are fair and reasonable as far as our Company is concerned and are in the interests of our shareholders as a whole and (ii) that the proposed annual caps for these non-exempt continuing connected transactions referred to above are fair and reasonable.

OVERVIEW

Immediately after the completion of the Global Offering, Xinjiang Non-ferrous is expected to own approximately 42.18% of our issued share capital (assuming the Over-allotment Option is not exercised) and to continue to be our Controlling Shareholder. Xinjiang Non-ferrous will be able to exercise all the rights of a Controlling Shareholder pursuant to our Articles of Association and the relevant PRC laws, including the election of Directors and voting in respect of amendments to the Articles of Association. However, as our Controlling Shareholder, Xinjiang Non-ferrous will be required to comply with certain provisions under the Articles of Association relating to the protection of minority shareholders.

In connection with the Reorganisation, whilst our Company will continue to operate independently of the Xinjiang Non-ferrous Group, we have entered into a number of agreements and arrangements with Xinjiang Non-ferrous and the other Promoters to regulate certain ongoing transactions with them. For details of such agreements and arrangements, see "Connected Transactions."

COMPETITION

Our Business

We possess an integrated production chain that includes mining, ore processing, smelting and refining of nickel, copper and other non-ferrous metals. Other non-ferrous metals include cobalt products and precious metals such as gold, silver, platinum and palladium.

Retained Businesses of Xinjiang Non-ferrous

Pursuant to the Reorganisation, Xinjiang Non-ferrous injected all its nickel business together with associated copper and other non-ferrous metal businesses into our Company. Under the Reorganisation Agreement, Xinjiang Non-ferrous transferred all operational assets (including rights and liabilities) of the Xinjiang Non-ferrous Kalatongke Mine and the Xinjiang Non-ferrous Fukang Plant to our Company. Please refer to "Reorganisation and Corporate Structure — Retained activities, assets and interests by Xinjiang Non-ferrous" for a description of the business activities, assets and interests that Xinjiang Non-ferrous and its associates have retained following the Reorganisation.

The core business of the Xinjiang Non-ferrous Group consists of (i) mining, ore processing, smelting and refining of rare metals such as lithium, beryllium, tantalum, niobium and precious metals such as gold, (ii) providing research, design, mechanical processing, and construction services for the mining and processing of non-ferrous metals and (iii) sales of raw materials, transportation and real estate development. Xinjiang Non-ferrous is operating eight mines located in Xinjiang and has approximately 10,000 employees.

The following table sets forth a summary of the main business operations of the Xinjiang Non-ferrous Group and our Company:

(a) Main business operations of the Xinjiang Non-ferrous Group

Type of products and services of the Xinjiang Non-ferrous Group	Overlap with our Company
1. Mining products	
Rare metals — Lithium, Beryllium, Tantalum, Niobium	No
Precious metals — Gold	Limited overlapping which does not represent direct competition with our Company
2. Mining and other services	
Trading of nickel cathode (through Beijing Baodi, a member of the Xinjiang Non-ferrous Group)	No
Mine-related transportation services	No
Mine-related heating services	No
Mine-related construction services(1)	No
Mine-related repair and maintenance services	No
Other mine-related services	No
Other business activities (including real estate development)	No

(b) Main business operations of our Company

Type of products of the Company	Overlap with the Xinjiang Non-ferrous Group
Non-ferrous metals — Nickel and Copper	Limited overlapping which does not represent direct competition with the Company(2)
Precious metals — Gold	Limited overlapping which does not represent direct competition with the Company
Precious metals — Silver	No
Rare metals — Platinum and Palladium	No

Notes:

(1) The Xinjiang Non-ferrous Group also provides a wide range of construction services to third parties. Their services include mining-related construction services, industrial building construction services, residential building services, and facilities installation services.

(2) The Xinjiang Non-ferrous Group has retained copper concentrate business through its interests in Ashele Copper and nickel business through its interests in Hami Hexin and the Company has a right of first refusal and/or an option to purchase under the Non-competition Agreement. Further details of the rights of first refusal and/or the option are set out in the section headed "Relationship with Xinjiang Non-ferrous — Non-competition Agreement".

Xinjiang Non-ferrous, through an integrated gold production chain, is engaged in the mining, smelting and refining of gold bullions. Grade of gold products of Xinjiang Non-ferrous meets the required standard of gold bullions that are allowed to sell to the Shanghai Gold Exchange. In contrast, the Company's gold products are sold to gold refining plant and cannot directly trade in the Shanghai Gold Exchange.

In contrast, our mines and processing facilities are used mainly for production of nickel and only a small amount of gold as by-product is smelted and refined from nickel-copper concentrate at the Fukang Refinery. During the Track Record Period, our turnover attributed to gold accounted for only approximately RMB3.2 million, RMB4.3 million, RMB6.2 million and RMB1.2 million respectively, representing approximately 0.73%, 0.79%, 0.71% and 0.37% of our total sales, respectively. We expect that the percentage generated from sales of gold products will not have any material change in the near future. As such, we consider that our nature of involvement in production and sale of gold is different to that of Xinjiang Non-ferrous. Moreover, we have no intention to develop gold as our major product.

For the reasons explained above, the Directors consider that there is no direct competition in gold business between us and Xinjiang Non-ferrous given the insignificant amount of our sales of gold products.

Notwithstanding the Reorganisation, Xinjiang Non-ferrous has retained an aggregate of 34% shareholding in Ashele Copper (as to 29% by Xinjiang Non-ferrous and 5% by Xinjiang Non-ferrous Import and Export, a wholly-owned subsidiary of Xinjiang Non-ferrous) which is engaged in the production and sales of copper concentrate (the "Copper Retained Business"). The other shareholders of Ashele Copper are Zijin Mining, Xinjiang Geological and Mineral Exploration and Development Bureau (新疆地質礦產勘查開發局) and Xinjiang Baodi Mineral Industry Co. Ltd. (新疆寶地礦業有限責任公司), holding 51%, 13% and 2% shareholding, respectively. Ashele Copper is engaged in the mining of copper ore and the production and sales of copper concentrate. Copper concentrate is also one of our products produced during our ore processing operation in our Kalatongke Mine. Further, Xinjiang Non-ferrous has retained a 50% shareholding in Hami Hexin which is engaged in exploration works of copper and nickel in the Hami Tulaergen area, Xinjiang (新疆哈密圖拉爾根地區) (the "Nickel Retained Business", together with the "Copper Retained Business", the "Retained Businesses"). The other shareholder of Hami Hexin is Western Rare Metals. Although the exploration work conducted by Hami Hexin is still at its early stage, it is likely that nickel products will be produced once the mining process is initiated. Apart from its shareholding in the Company, the 50% interests in Hami Hexin, and the 34% passive investment in Ashele Copper, Xinjiang Non-ferrous does not engage in any copper or nickel related business.

We sell a small amount of nickel cathode at market price to Beijing Baodi Xindi Kemao Company Limited (北京寶地新廸科貿有限公司) ("Beijing Baodi"), a trading company and a wholly-owned subsidiary of Xinjiang Non-ferrous. Beijing Baodi then resells the nickel cathode to its small-sized third party customers in Beijing which generally place small orders. The nickel cathode sold by Beijing Baodi to its customers are sourced from us and Beijing Baodi does not sell any other non-ferrous metals that we produce. Beijing Baodi would not sell the nickel cathode in markets other than in Beijing. During the Track Record Period, our sales of nickel cathode to Beijing Baodi amounted to approximately RMB9.9 million, RMB14.9 million, RMB17.4 million and RMB1.2 million, respectively, representing approximately 3.2%, 3.7%, 2.9% and 0.4% of our total turnover of nickel cathode for the same period. We sell our nickel cathode to these small-sized third party customers in Beijing through Beijing Baodi as we believe that we could minimise our administrative and operating costs and credit risks in association with them through such arrangement. Currently, we do not regard the Beijing market as a major or strategic market for our products and the sale of nickel cathode to such market has decreased significantly since 2006. The Directors consider that the current selling arrangement in the Beijing market is consistent with our general sales and marketing strategy of focusing on small- to medium-sized customers through trading companies. In light of above, the Directors are of the view that the sale of nickel cathode by Beijing Baodi does not represent any competition with our business.

Copper concentrate business of Ashele Copper

Description of business

Ashele Copper is a PRC joint stock company which is held, among others, as to 51% by the Zijin Mining and as to an aggregate of 34% by Xinjiang Non-ferrous. Ashele Copper is engaged in the production of copper concentrate in Hamahe County of the Altay Prefecture (阿勒泰地區哈馬河縣) which potentially competes with our copper concentrate produced in our Kalatongke Mine. Ashele Copper commenced production of copper concentrate in May 2005. It produced 60,000 tonnes of copper concentrate in 2006. For the two years ended 31 December 2006, Ashele Copper generated turnover of approximately RMB325 million and RMB1,389 million, respectively and net profit of approximately RMB82 million and RMB759 million, respectively.

Ashele Copper is engaged in the mining of copper ore and the production and sales of copper concentrate. The major product of Ashele Copper, namely copper concentrate, is different from the major product we produce, i.e. nickel cathode. The management of Ashele Copper is independent from ours and none of the Directors or senior management of the Company is involved in the management of Ashele Copper.

Rationale for non-inclusion of the Copper Retained Business

Xinjiang Non-ferrous's interest in Ashele Copper was not transferred to us under the Reorganisation primarily because our Directors did not regard copper concentrate as a major product of our business. Further, Ashele Copper is a passive investment of Xinjiang Non-ferrous as it only owns 34% shareholding in Ashele Copper and does not have control over Ashele Copper. Such arrangement was to allow the Company to continue its focus on its core business on production of nickel cathode. The major product of our business is nickel cathode and we did not sell any copper concentrate during the three months ended 31 March 2007. The co-existence of nickel and copper in our polymetallic ore has made it possible for us to produce a relatively smaller quantity of copper concentrate. During our ore processing operation, the extraction and production of copper concentrate from our nickel-copper ores increases the recovery rate of nickel. If we do not extract copper concentrate in our ore processing operation, the nickel recovery rate will be lowered. Hence, our Directors believe that in utilising our mineral ores, the ancillary production of copper concentrate is technically feasible and economically beneficial to our production of nickel cathode.

For the three years ended 31 December 2006, we sold 3,882.7 tonnes, 188.5 tonnes and 5,102.8 tonnes of copper concentrate, respectively. For the three months ended 31 March 2007, we did not record any sale of copper concentrate. Our turnover derived from copper concentrate represented approximately 3.6%, 0.3% and 5.6% of our total turnover for the three years ended 31 December 2006, respectively. Whereas, our turnover derived from our major product, nickel cathode, represented approximately 71.2%, 74.7%, 69.6% and 86.1% of our total turnover for the three years ended 31 December 2006 and the three months ended 31 March 2007, respectively. We set the price for our copper concentrate generally in accordance with the copper prices of the Shanghai Futures Exchange and our pricing is not affected by the pricing of copper concentrate of Ashele Copper.

The production scale of copper concentrate of Ashele Copper is much larger than ours. The copper concentrate of Ashele Copper is derived from copper-zinc ores. We extract polymetallic copper-nickel ores at the Kalatongke Mine. With our current equipment and facilities, we are only able to process nickel-copper ores and not copper-zinc ores. Currently, the refining capability of our Fukang Refinery is unable to process the copper concentrate produced in our Kalatongke Mine into copper cathode. As a transitional measure, we have to sell the copper concentrate to external customers or produce raw copper from copper concentrate in our smelter in our Kalatongke Mine. We expect that, upon the completion of the technical improvement project of our Fukang Refinery in respect of the production of nickel cathode in 2009, the refining capability of our Fukang Refinery will be improved. We may use the copper concentrate produced internally for the production of copper cathode.

Our Company undertakes (i) to cease selling copper concentrate upon expected completion of the technical development project of our Fukang Refinery in 2009 and (ii) that the percentage of sales of copper concentrate prior to such completion will not exceed 10% of the total annual sales of our Company. Our Company will make appropriate disclosure in respect of its compliance with such undertakings in the annual reports after Listing.

Further, as Xinjiang Non-ferrous owns only 34% shareholding in Ashele Copper, Xinjiang Non-ferrous does not have control over its management. Our Directors believe that there is, and there will be, no material competition between Ashele Copper and us on copper concentrate business as we expect that the excess demand for copper concentrate in the market is likely to continue and Ashele Copper's production volume of copper concentrate would not have any material impact on us. There is no current plan for Xinjiang Non-ferrous to inject the Copper Retained Business into our Company.

With a view to further protecting the interests of our shareholders, Xinjiang Non-ferrous has granted us a right of first refusal to purchase the 34% shareholding or any part thereof in Ashele Copper under the Non-competition Agreement. For further information, please refer to the section headed "Relationship with Xinjiang Non-ferrous — Non-competition Agreement" below.

Exploration business of Hami Hexin

Description of business

Hami Hexin is a PRC limited liability company incorporated on 26 October 2006 with registered capital of RMB100 million, which is 50% owned by Xinjiang Non-ferrous and 50% owned by Western Rare Metals, an Independent Third Party. The business scope of Hami Hexin includes investment in mining resources, development, and sales of mining products. Currently, it is mainly engaged in exploration works of copper and nickel in the Hami Tulaergen area, Xinjiang (新疆哈密圖拉爾根銅鎳礦). As it is uncertain whether the mine has any economic value worth extracting, it is difficult to ascertain the current and expected operating scale of Hami Hexin. Hami Hexin has yet to commence any business operation and did not generate any income or profits during the Track Record Period. Hami Hexin incurred operating losses of approximately RMB0.3 million and approximately RMB0.3 million for the year ended 31 December 2006 and the three months ended 31 March 2007, respectively.

The management of Hami Hexin is independent from ours and none of the Directors or senior management of the Company is involved in the management of Hami Hexin.

Rationale for non-inclusion of the Nickel Retained Business

Xinjiang Non-ferrous' interest in Hami Hexin was not transferred to us primarily because our Directors did not believe Hami Hexin's current business activity competes with our business. Hami Hexin has been engaged in the early stage of exploration works of copper and nickel in the Hami Tulaergen area, Xinjiang since April 2007. It is uncertain whether the mine has any economic value worth extracting and information on the reserves of the mine is still lacking. The Directors believe that it will take a substantial period of time for Hami Hexin to be in economic production and becoming profitable. As such, it will not be in the best interests of our Company and our shareholders as a whole to include any interest in Hami Hexin in our Company at this stage for the purpose of the Global Offering.

With a view to further protecting the interests of our shareholders, Xinjiang Non-ferrous has granted our Company an option to purchase the whole or any part of its 50% equity interest in Hami Hexin. For further information, please refer to the section headed "Relationship with Xinjiang Non-ferrous — Non-competition Agreement" below.

Non-competition Agreement

On 17 September 2007, we entered into the Non-competition Agreement with Xinjiang Non-ferrous, under which Xinjiang Non-ferrous and its associates (as defined in the Listing Rules) agreed not to compete with us in our core business (as defined in the Non-competition Agreement).

Xinjiang Non-ferrous has undertaken in the Non-competition Agreement, among others, that during the term specified in the Non-competition Agreement, neither it nor any of its associates will compete with us, directly or indirectly, whether on its own or jointly with another entity, by participating in or providing any support to any activities or businesses which directly or indirectly compete with our businesses, whether inside or outside the PRC, except for the Retained Businesses, as referred to in the section headed "Relationship with Xinjiang Non-ferrous — Competition — Retained Businesses of Xinjiang Non-ferrous" above.

Under the Non-competition Agreement, Xinjiang Non-ferrous has granted us the right to:

(1) take up or purchase any business opportunity in relation to our core business (as defined in the Non-competition Agreement) and any business opportunity which competes or is likely to compete, directly or indirectly, with our business and ensure that such business opportunity is first offered to us on fair and reasonable terms; and

(2) produce or purchase any new products or new technology, developed by Xinjiang Non-ferrous or in co-operation with a third party, or introduced by a third party, in relation to our core business (as defined in the Non-competition Agreement) and ensure that such new products or new technology are first offered to us on fair and reasonable terms.

Xinjiang Non-ferrous is required to notify us immediately of any business opportunity, new products or new technology in relation to our core business (as defined in the Non-competition Agreement) and any business which competes, or is likely to compete, directly or indirectly, with our business. Xinjiang Non-ferrous is also obliged to ensure that such business opportunity, new products or new technology is first offered to us on fair and reasonable terms. Our independent non-executive Directors will decide whether to accept the offer of any such business opportunity, new products or new technology.

In order to further protect the interests of our shareholders, during the term of the Non-competition Agreement, Xinjiang Non-ferrous has granted us:

(1) a right of first refusal to purchase on no less favorable terms, if Xinjiang Non-ferrous or any of its associates intends to transfer or sell to any third party, the 34% shareholding or any part thereof in Ashele Copper;

(2) an option to purchase the whole or any part of the 50% equity interest held by Xinjiang Non-ferrous in Hami Hexin; and

(3) in the event that we decide not to take up or purchase the business opportunity, produce or purchase the new products or new technology offered by Xinjiang Non-ferrous referred to above for any reason and Xinjiang Non-ferrous or any of its associates has taken up such business opportunity, new products or new technology, a right of first refusal to take up or purchase the business opportunity and to produce or purchase any new products or new technology in relation to our core business (as defined in the Non-competition Agreement) on no less favourable terms, if Xinjiang Non-ferrous or any of its associates intends to transfer or sell to any third party such business opportunity, new products or new technology.

In relation to our rights of first refusal described above, under the Non-competition Agreement, Xinjiang Non-ferrous and/or its associates is required to notify us immediately in writing before the transfer of any of its relevant interest in Ashele Copper to a third party. Such notice must set out the full terms of the proposed transfer and any information which may be reasonably required by us in order for us to make a decision as to whether to exercise the rights of first refusal. Should we decide not to exercise our rights of first refusal, Xinjiang Non-ferrous could sell the relevant interests to an Independent Third Party or any of its associates on no more favourable terms than as offered to us and the rights of first refusal described above in respect of the relevant interest will lapse.

In relation to our option granted by Xinjiang Non-ferrous under the Non-competition Agreement, Xinjiang Non-ferrous is required to notify us immediately in writing once Hami Hexin has obtained a mining permit for the mine. Such notice must set out full details and Xinjiang Non-ferrous has agreed to provide us with supporting documents and information which may be necessary for us to make a decision as to whether to exercise the option. According to the Non-competition Agreement, the purchase price for the transfer of the 50% equity interest in Hami Hexin is to be determined by an independent internationally recognised valuer based on market value and our Company and Xinjiang Non-ferrous have agreed to negotiate for the purchase price on that basis. If our Company decides not to exercise the option to acquire the equity interest in Hami Hexin within 60 days upon receipt of the notice from Xinjiang Non-ferrous offering to transfer the 50% equity interest, Xinjiang Non-ferrous has agreed to dispose its equity interest in Hami Hexin to an Independent Third Party to avoid any direct or indirect competition with our Company. It is expected that the disposal of interest in Hami Hexin would be effected within a period of six months of such decision having become effective and that during such six-month period, Xinjiang Non-ferrous would not commence operation in Hami Hexin. If for any reason additional time beyond the aforesaid 60 days' period is considered necessary to assess such option, we may extend such period subject to the approval solely by independent non-executive Directors. The transfer of equity interest in Hami Hexin does not require the consent of Western Rare Metals, as the pre-emptive rights in transferring of the equity interest in Hami Hexin between a shareholder of Hami Hexin and its associates and subsidiaries have been waived pursuant to a pre-emptive rights waiver agreement entered into between Xinjiang Non-ferrous and Western Rare Metals on 8 June 2007.

Xinjiang Non-ferrous has undertaken to provide an annual confirmation from its directors (excluding those directors who also then hold directorships in our Company) to us for inclusion in our annual report confirming that Xinjiang Non-ferrous has not breached the terms of the Non-competition Agreement. Xinjiang Non-ferrous also undertakes to provide all information necessary for annual review by the independent non-executive Directors within four months after financial year end and to allow, subject to confidentiality restrictions imposed by third parties, the representatives of our Company and an international renowned accounting firm to be appointed by our Company to have access to the financial and corporate records for us to determine whether the Non-competition Agreement has been complied with by Xinjiang Non-ferrous. Such disclosure on how the Non-competition Agreement has been complied with and enforced is consistent with the principles of making voluntary disclosures in the corporate governance report as required under the Listing Rules.

Xinjiang Non-ferrous will meet with all of its associates, including us, every six months to review the operational and financial performance of its business portfolio and to discuss business plans in relation to the Retained Businesses. Members of our senior management will represent our Company at these meetings, at which they may make inquiries in order to evaluate the performance of the Retained Businesses.

If we decide to exercise the rights of first refusal and/or the option granted under the Non-competition Agreement, we will ensure that we comply with the requirements under Rule 8.10(1)(b). As the exercise or non-exercise of the option or the rights of first refusal under the Non-competition Agreement will constitute a connected transaction under the Listing Rules, we will comply with the relevant requirements of Chapter 14A of the Listing Rules as necessary. As at the Latest Practicable Date, we do not have any plan to acquire any interest of Hami Hexin from Xinjiang Non-ferrous although it is our intention to acquire the interest as soon as we have determined that the Hami Tulaergen area has economic value for extraction and information on the reserves of the mine has been obtained as well as Hami Hexin obtains its mining rights permit.

Decisions made by our independent non-executive Directors to exercise or not to exercise the rights of first refusal and/or the option under the Non-competition Agreement will be disclosed in our annual reports and through announcements in accordance with the disclosure requirements of the Listing Rules. An annual review would also be conducted by our independent non-executive Directors on such decisions to exercise or not to exercise the rights of first refusal and/or the option.

The Non-competition Agreement will take effect upon the Listing and remain effective until the earlier of (a) the date on which Xinjiang Non-ferrous directly or indirectly effectively holds less than 30% of our issued share capital and Xinjiang Non-ferrous has no control on our Board of Directors; and (b) the date on which our H Shares cease to be listed on the Stock Exchange.

Our Directors confirm that, save as disclosed above, there is no direct or indirect competition or likely competition between our business and the businesses of the Xinjiang Non-ferrous Group.

The Directors have confirmed that none of them is interested in any business, which competes or is likely to compete, either directly or indirectly, with our business.

INDEPENDENCE FROM PROMOTERS

Having considered the following factors, we are satisfied that we can conduct our business independently from the Xinjiang Non-ferrous Group and other Promoters after the Global Offering.

Financial independence

(i) The Kalatongke mining rights

Pursuant to the Mining Rights Transfer Agreement which our Company entered into with Xinjiang Non-ferrous on 3 September 2005, the Company obtained the mining rights to the

Kalatongke Mine from Xinjiang Non-ferrous for the consideration of approximately RMB297.3 million. The consideration was to be paid by annual instalments of approximately RMB9.9 million each year over 30 years ending 2035. Our Company did not give any security in favour of Xinjiang Non-ferrous in respect of the payment of the consideration. In accordance with the terms of the Mining Rights Transfer Agreement, our Company paid RMB13,215,000 to Xinjiang Non-ferrous as part of the consideration.

Such transfer of the mining rights was approved by Xinjiang LRD and a mining permit numbered 6500000620075 was issued to our Company. Thus our Company legally acquired the mining rights of the Kalatongke Mine.

Pursuant to the Circular, for any enterprise that has partially or fully paid for the mining rights by way of increase in State-owned capital (國家資本金) of such enterprises as approved, the mining rights holders, who have converted the consideration for the mining rights to State-owned capital (國家資本金), should now pay the consideration to the State in cash. For details, please refer to "Regulations — Circular on Strengthening Reform of the System for Obtaining Mineral Exploration Rights and Mining Rights for Value".

In compliance with the Circular, our Company and Xinjiang Non-ferrous entered into the New Agreement whereby both parties agreed that our Company will pay the consideration as agreed between our Company and Xinjiang LRD. Xinjiang Non-ferrous agreed to terminate the Mining Rights Transfer Agreement and refund the amount previously paid by our Company to Xinjiang Non-ferrous (being RMB13,215,000) to our Company under the Mining Rights Transfer Agreement. Such amount was refunded by Xinjiang Non-ferrous to our Company on 9 August 2007 in accordance with the terms of the New Agreement. Xinjiang Non-ferrous also agreed to terminate the Mining Rights Transfer Agreement and hence the payment obligations of our Company under the Mining Rights Transfer Agreement were extinguished upon signing of the New Agreement. Under the New Agreement, Xinjiang Non-ferrous would not have any right of recourse against our Company regarding the mining rights of the Kalatongke Mine.

In compliance with the Circular, our Company also entered into the New Mining Rights Transfer Agreement with the Xinjiang LRD. Pursuant to the New Mining Rights Transfer Agreement, our Company, being the holder of the mining rights to the Kalatongke Mine, agreed to pay Xinjiang LRD a consideration of RMB297,021,600 for a term of 30 years commencing from 27 July 2007 and expiring on 27 July 2037. Our Company paid approximately 20% of the consideration (being RMB59,466,320) as the first instalment to the Xinjiang LRD on 27 July 2007. The remaining 80% of the consideration (being RMB237,555,280) is payable in annual instalments of RMB26,429,476 each for eight years until 2015 and in respect of the last annual instalment for the sum of RMB26,119,472 in 2016. Other than the first instalment, an additional fee calculated at the then prevailing bank lending rate is payable together with each annual instalment. Our PRC legal advisers have advised that the rate should be the prevailing lending rate published by the PBOC from time to time. Our Company is liable to pay compensation for direct economic loss should the Company default in the payment of instalment and the additional fee. Further, the Xinjiang LRD may forfeit any instalment paid and the mining rights transferred under the New Mining Rights Transfer Agreement.

Our PRC legal advisers have confirmed that both the New Agreement and the New Mining Rights Transfer Agreement are legal, valid and enforceable under PRC laws and are in compliance with the Circular. Further, our PRC legal advisers have confirmed that our Company is in compliance with the Circular and has legally owned the mining rights of the Kalatongke Mine since September 2005.

In view of the above, our Company does not owe Xinjiang Non-ferrous any amount with regard to the mining rights of the Kalatongke Mine and the Directors believe that our Company is not and should not be regarded as financially dependent on Xinjiang Non-ferrous with respect to the mining rights of the Kalatongke Mine.

(ii) Assignment of loans and release of related guarantee

Xinjiang Non-ferrous has provided guarantee for an amount of RMB60 million in respect of certain loans to Zhongxin Mining which was previously a subsidiary of the Company. In April 2007, our Company entered into an agreement for the disposal of its interest in Zhongxin Mining to an Independent Third Party. Further details of the disposal are contained in the section headed "Reorganisation and Corporate Structure — Disposal of equity interests of Zhongxin Mining" of the Prospectus.

Xinjiang Non-ferrous Group has in the past provided guarantee for an amount of RMB5 million in respect of certain loans owed by our Company to China Huarong Asset Management Co. Ltd. and China Cinda Asset Management Co. Ltd.. Such loans were assigned to Xinjiang Non-ferrous on 24 July 2007 and the above guarantee was released as part of the assignment of the loans. Further details of the assignment of the loans are contained in "Financial Information — Indebtedness". There is no intra-group guarantee between the Xinjiang Non-ferrous Group and our Company or any other guarantee constituting a connected transaction of our Company as defined under Chapter 14A of the Listing Rules.

(iii) Independent accounting and treasury functions

We have our own financial management system and our financial related personnel are independent from the Xinjiang Non-ferrous Group.

Independence of sources of raw materials/energy and operational production capabilities

(i) Exploration services in mine area

Our Company conducts exploration work in the Fuyun County, Xinjiang and has engaged qualified third party contractors who are Independent Third Parties to carry out such work on our behalf. Our Company engages contractors to carry out exploration work in order to minimise costs and allow us to concentrate our resources efficiently on our core activities. Our Company does not engage Xinjiang Non-ferrous nor any member of the Xinjiang Non-ferrous Group to carry out the exploration work and does not rely on Xinjiang Non-ferrous in this regard.

(ii) Mining

We have our own mining rights to the Kalatongke Mine which we acquired from Xinjiang Non-ferrous. The mining rights covers an aggregate mining area of approximately 7.887 square kilometres in Xinjiang.

(iii) Energy

We require a substantial amount of electricity, water, coke and coal for our business operations.

We source coke and coal from several different suppliers in Xinjiang, one of which is a wholly-owned subsidiary of Xinjiang Non-ferrous. The amount of purchases of coal by our Company from this supplier was nil, nil, RMB1.8 million and nil, accounting for 0%, 0%, 38% and 0% of our total purchases of coal, respectively, during the Track Record Period. Our Company also has backup measures to maintain its coal production in the event of energy shortage. Save for this supplier of coal, our suppliers of electricity, water, coke and coal are Independent Third Parties and we do not rely on the Xinjiang Non-ferrous Group for their supply.

(iv) Production supplies and ancillary services

Pursuant to the Mutual Supply Agreement, Xinjiang Non-ferrous agreed to provide us with the following services:

- production supplies: supplemental production materials (including chemical materials, coal, coke and other raw materials), components of production facilities and work safety products;

- storage, transportation and loading services: warehousing services in Beijing for the sales and distribution of nickel cathode to our end-customers in Beijing and its surrounding areas, Hebei province and the north-eastern region of the PRC; road transportation service for the delivery of nickel matte from the Kalatongke Mine to the Fukang Refinery for the production of nickel cathode, copper cathode, and other ancillary products, and delivery of coke, coal and copper concentrate to and from the Kalatongke Mine; and loading of coke and other raw materials at the Kalatongke Mine; and

- other supporting and ancillary services: project design (including shafts, underground passageways and environmental assessment), project supervision and construction (including underground shaft drilling construction services, construction of ancillary structures such as drainage, ventilation, transportation infrastructure, boiler rooms, and cobalt cathode workshops), repair and processing of facilities and equipment installation for the technical development projects in the Kalatongke Mine and the Fukang Refinery.

Apart from the Xinjiang Non-ferrous Group, our Company has engaged at least three alternative suppliers which are Independent Third Parties for each of the above goods and services. We appoint our supplier based on the supplier's own merit and after taking into consideration factors such as price and quality. During the Track Record Period, the amounts we paid to alternative suppliers for the provision of production supplies were RMB117.3 million, RMB149.7 million, RMB230.9 million and RMB53.3 million respectively, representing 88.0%, 87.0%, 92.1% and 95.3% of our aggregate amounts paid to all our suppliers of production supplies. The amounts we paid to alternative suppliers for the provision of storage, transportation and loading services during the Track Record Period were RMB2.3 million, RMB3.2 million, RMB6.9 million and RMB0.7 million respectively, representing 38.5%, 38.2%, 62.5% and 51.5% of our aggregate amounts paid to all our suppliers of such services. The amounts our Company paid to alternative suppliers for the provision of other supporting and ancillary services during the Track Record Period were RMB45.3 million, RMB39.8 million, RMB111.8 million and RMB14.9 million respectively, representing 90.5%, 86.3%, 57.2% and 66.1% of our aggregate amounts paid to all our suppliers of such services. The Directors consider that the provision of production supplies and the storage, transportation and loading services are not crucial to our operations as they are merely peripheral to our core activities. All such services are easily obtainable by our Company in the open market and the Directors do not consider our Company relies on the Xinjiang Non-ferrous Group in respect of those services. Although the provision of other supporting and ancillary services (including the construction services) is relatively more important to our Company's core activity of mining, there are also other independent providers in the market. The appointment of any provider of those services is subject to a fair and open bidding process conducted by our Company. In view of the above, the Directors also do not consider there is reliance on Xinjiang Non-ferrous by our Company with respect to the provision of other supporting and ancillary services (including the construction services) and our Company is able to operate independently of the Xinjiang Non-ferrous Group in this regard. In respect of the provision of the construction services by Xinjiang Non-ferrous, the details are set out in section headed "Connected Transactions — Non-exempt continuing connected transactions requiring announcement and independent shareholders' approval — Mutual Supply Agreement".

(v) Comprehensive Services Agreement

Under the Reorganisation, the Xinjiang Non-ferrous Group has retained certain assets and businesses which formerly provided non-production related supporting services to the Xinjiang Non-ferrous Kalatongke Mine. In order for the provision of such services to be continued after the Listing, the Company entered into a Comprehensive Service Agreement with Fuyun Xingtong, a wholly-owned subsidiary of Xinjiang Non-ferrous. Under this agreement, the Xinjiang Non-ferrous Group agreed to provide certain services to our Company, including education, environment and medical services and other supporting services (such as gardening and greening, cargo handling, and environmental hygiene). The Directors consider that such services are not crucial or functionally important to our operations and our Company is able to obtain these services from Independent Third Parties in the open market.

(vi) Trademark

Xinjiang Non-ferrous is the registered owner of the trademark "Bo Feng (博峰)". Xinjiang Non-ferrous has granted to us the right to use the trademark of "Bo Feng" at no consideration for a term of three years commencing from 10 July 2006 and ending 9 July 2009.

Our main product is widely known as "Xinjiang nickel" in the industry, and the Directors consider the "Bo Feng" trademark to be relatively unimportant in our sales operation. Further, since our Company is applying for the right to use the " " trademark, the "Bo Feng" trademark will be phased out in its sales operation and be replaced by the " " trademark.

(vii) Lease agreement

Since 1 September 2005, we have been leasing from Xinjiang Non-ferrous certain office premises on the 6th Floor, Youse Building, No. 4 You Hao North Road, Urumqi, Xinjiang with a gross floor area of approximately 540 square metres for general commercial and business use. To accommodate the need for more office space due to the expected expansion of our business, on 22 June 2007, we entered into the Property Lease Agreement with Xinjiang Non-ferrous pursuant to which Xinjiang Non-ferrous agreed to lease to us certain larger office premises on the 7th and 8th floors, Youse Building, No. 4 You Hao North Road, Urumqi, Xinjiang with a total gross floor area of approximately 1,992 square metres for office use.

Our Company had been able to save relocation costs by not relocating to premises leased from an Independent Third Party and to commence the operation of our business in these office premises immediately after our establishment without having to search for other suitable premises in the market.

Sallmanns (Far East) Limited has confirmed that the terms of the Property Lease Agreement reflect the prevailing market condition in the PRC and that the rent reflects market rates of comparable properties and is fair and reasonable. In view of the nature of the premises, the Directors do not believe that this arrangement will compromise our Company's operational independence from the Xinjiang Non-ferrous Group.

Independence of access to customers

All customers are Independent Third Parties save and except that our Company sells from time to time nickel cathode, copper cathode and sulphuric acid to the Xinjiang Non-ferrous Group. For each of the three years ended 31 December 2006 and the three months ended 31 March 2007, the aggregate revenue for the products supplied by our Company to the Xinjiang Non-ferrous Group amounted to approximately RMB11.4 million, RMB16.1 million, RMB19.6 million and RMB1.3 million, respectively, accounting for approximately 2.6%, 3.0%, 2.3% and 0.4% of our Company's turnover for the respective periods.

We sell a small amount of nickel cathode at market price to Beijing Baodi Xindi Kemao Company Limited (北京寶地新廸科貿有限公司) (“Beijing Baodi”). For details of the sales arrangement to Beijing Baodi, please refer to the section headed “Relationship with Xinjiang Non-ferrous — Competition” above. In considering opening its sales office in Beijing, our Company will consider various factors, including but not limited to, its production volume and capacity, selling strategy, cost-efficiency, resources (both in terms of human and financial resources), contribution of revenue in the region (approximately 5% of its total revenue) and the potential of other principal markets. In the event that our Company establishes our own sales office in Beijing, our Company will cease to sell nickel cathode products to Xinjiang Non-ferrous. Prior to our establishment of Beijing sales office, our Company undertakes the sales of nickel cathode to Beijing Baodi will not exceed RMB17.5 million for each of the three years ending 31 December 2009.

We have independent access to all of our customers and do not rely on the Xinjiang Non-ferrous Group for any referral.

Independence of our Board and management

Our Board, which comprises four executive Directors, two non-executive Directors and three independent non-executive Directors, functions independently from that of Xinjiang Non-ferrous. One of our executive Directors, namely our Chairman Mr. Yuan Ze, maintains a dual role in our Company and Xinjiang Non-ferrous. In addition, our senior management is independent from the management of Xinjiang Non-ferrous and all personnel involved in production and management of our businesses were transferred to us at the time of the Reorganisation, except our chairman Mr. Yuan, who also serves as the chairman and party secretary of Xinjiang Non-ferrous.

Mr. Yuan maintains his dual roles with our Company and Xinjiang Non-ferrous for the overall benefit of our Company. Mr. Yuan has served as the Chairman of Xinjiang Non-ferrous and our Company since 2002 and 2005, respectively. Mr. Yuan was responsible for overseeing the operation and strategic business development of Xinjiang Non-ferrous Kalatongke Mine and Xinjiang Non-ferrous Fukang Plant before the Reorganisation and the Fukang Branch and the Kalatongke Branch after the incorporation of our Company in 2005. Mr. Yuan has long established the leadership and trust from the regulatory and supervisory authorities in Xinjiang and the shareholders of our Company as a whole throughout the years. It is expected that Mr. Yuan will devote no less than 70% of his time to the management of our Company and therefore his involvement in the management of Xinjiang Non-ferrous would be very limited.

Mr. Yuan has overall supervisory responsibilities of our Company. Mr. Yuan acts as our Company’s legal representative and he is responsible for supervising our Company’s management team and committees, making decisions regarding our Company’s finance, technology and industrial assets, establishment of our Company’s technological platform, and management of our Company’s investments and financial forecast. He is also the chairman of our strategic planning committee.

Mr. Yuan chairs the board meetings at Xinjiang Non-ferrous. He acts as the legal representative of Xinjiang Non-ferrous to sign any bonds, material contracts and other material documents of Xinjiang Non-ferrous.

According to our PRC legal advisers, the overlap of Mr. Yuan’s role in our Company and Xinjiang Non-ferrous is in compliance with the requirements set forth in the applicable PRC regulation, namely the Opinion on Further Standardising Operations and Intensifying Reform of Companies Listed Outside China (Guo Jing Mao Qi Gai (1999) no. 230).

Of the four executive Directors, only one executive Director, namely Mr. Yuan, will take part in the management of both Xinjiang Non-ferrous and our Company after the Listing. Mr. Yuan Ze has undertaken to physically abstain from board meetings when considering any connected transactions with Xinjiang Non-ferrous Group to avoid the conflict of interests. Given that three out of four of our executive Directors will not be involved in Xinjiang Non-ferrous's management, our Board of Directors is independent from that of Xinjiang Non-ferrous.

One of our non-executive Directors, namely Mr. Zhou Chuanyou, is also the chairman and chief executive of Zhongjin Investment, one of our Promoters. He is also the chairman and director of Shanghai Yilian, also one of our Promoters. Each of Zhongjin Investment and Shanghai Yilian is not interested, directly or indirectly, in any other business which competes with the business of our Company and has executed a non-competition agreement with us. There are no transactions between our Company and each of Zhongjin Investment and Shanghai Yilian or any entities controlled by Zhongjin Investment or Shanghai Yilian. Any potential transactions between (1) Zhongjin Investment or any entities controlled by Zhongjin Investment or (2) Shanghai Yilian or any entities controlled by Shanghai Yilian and our Company will be approved by the Board in accordance with the requirements of Chapter 14A of the Listing Rules and Mr. Zhou Chuanyou (or any other Directors who are interested in the transactions) will abstain from voting. Where such transactions are required to be put before the independent shareholders of our Company for approval, an independent Board committee will be established in accordance with the requirements of the Listing Rules.

The decision-making process of the Board in relation to the Non-competition Agreement and the option over Xinjiang Non-ferrous's equity interest in Hami Hexin and the right of first refusal over the Xinjiang Non-ferrous Group's equity interest in Ashele Copper will be governed and monitored as follows:

- the independent non-executive Directors will be responsible for deciding, without attendance by Mr. Yuan Ze or any other executive director, whether to take up a new opportunity referred to us, whether to exercise the right of first refusal to acquire Xinjiang Non-ferrous equity interest in Ashele Copper and/or whether to exercise our option to acquire Xinjiang Non-ferrous' equity interest in Hami Hexin under the terms of the Non-competition Agreement;

- the independent non-executive Directors may employ an independent financial adviser ("IFA") as they consider necessary to advise them on the terms of any such new opportunity or option;

- prior to the first regular board meeting after the Listing, the independent non-executive Directors will engage an IFA to provide advice as to whether it is in the best interests of our Company and our shareholders to exercise the option. The independent non-executive Directors will also consider at that meeting, without the attendance by Mr. Yuan Ze or any other executive director, whether to exercise any of the options. If the independent non-executive Directors and/or the IFA conclude that exercising the option would be in the best interests of our Company and our shareholders, a proposal will be put to the independent shareholders of our Company to consider. In the event that the independent non-executive Directors and the IFA conclude that the exercise would not be in the best interests of our Company and our shareholders, their decision and reasons will be reported to shareholders by way of a formal announcement;

- Mr. Yuan Ze and Xinjiang Non-ferrous will undertake to keep us informed of new opportunities and to provide all information reasonably required by the independent non-executive Directors to assist them in their consideration of any new opportunity and/or the exercise of the option;

- the independent non-executive Directors will also review, on an annual basis, any decisions in relation to new opportunities referred to us, and state their views with basis and reasons in our annual report; and

- any transaction that is proposed between us and Xinjiang Non-ferrous including the exercise or non-exercise of the option will be required to comply with Chapter 14A of the Listing Rules including, where applicable, the announcement, reporting and independent shareholders' approval requirements of those rules.

The Directors consider that the arrangements as set out above and in the paragraph headed "Non-competition Agreement" in this section, which are endorsed by the board of directors of Xinjiang Non-ferrous, are reasonable measures in managing any conflicts of interest between the Xinjiang Non-ferrous Group and our Company in respect of the Retained Businesses.

CONTINUING TRANSACTIONS WITH XINJIANG NON-FERROUS

After the Reorganisation, various continuing transactions between the Xinjiang Non-ferrous Group and our Company have been entered into in the ordinary and usual course of business of our Company and/or on normal commercial terms. For details of these transactions, see "Connected Transactions."

OUR BOARD OF DIRECTORS

Our Board of Directors consists of nine Directors, four of whom are executive Directors, two of whom are non-executive Directors and three of whom are independent non-executive Directors. Our Directors are elected at shareholders' meetings for a term of three years, renewable upon re-election. The principal functions and duties conferred on our Board of Directors include:

- convening shareholders' general meetings and reporting the Board's work at the shareholders' general meetings;
- implementing the resolutions passed by the shareholders in general meetings;
- deciding our business plans and investment plans;
- preparing our annual financial budgets and final report;
- formulating the proposals for profit distributions, recovery of losses and for the increase or reduction of our registered capital; and
- exercising other powers, functions and duties conferred by the shareholders in general meetings.

We have entered into service contracts with our executive Directors, non-executive Directors and independent non-executive Directors since June 2006.

SUPERVISORY COMMITTEE

We have established a supervisory committee in accordance with our Articles of Association and the requirements of the Company Law. Our supervisory committee is responsible for monitoring our financial matters and overseeing the actions of our Board of Directors and our management personnel. Our supervisory committee consists of five Supervisors. Three of the Supervisors are elected by our shareholders in the shareholders' meeting, including two independent Supervisors and one Supervisor elected as shareholder representatives. The other two Supervisors are elected by our employees. Supervisors serve for a term of three years, after which they may be re-elected. An elected Supervisor cannot concurrently hold the position of Director or other senior executive. The principal functions and powers conferred on our supervisory committee include:

- attending Board meetings;
- examining our financial affairs and information;
- inspecting the balance sheets, profit and loss accounts, business reports, dividend distribution proposals and other financial information proposed at shareholders' general meetings by the Directors from time to time; and
- overseeing the actions of our Board of Directors and other senior management and ensuring they are properly carrying out their duties.

Adoption of any resolution proposed at a meeting of the supervisory committee requires the approval of two-thirds of our Supervisors.

DIRECTORS

Executive Directors

Yuan Ze (袁澤)

Mr. Yuan Ze, aged 58, has been the Chairman of our Company since September 2005. Mr. Yuan completed a postgraduate course in natural geography at Nanjing University in December 1997. From October 1998 up to January 2002, he served as the secretary of the Communist Party committee of Xinjiang Industry Co. Since January 2002 and up to present, he has served as the secretary of the communist party committee and chairman of Xinjiang Non-ferrous. Mr. Yuan received the Xinjiang Uygur Autonomous Region Model Labour Award (新疆維吾爾自治區勞動模範) in 2005.

Shi Wenfeng (史文峰)

Mr. Shi Wenfeng, aged 40, has been a Director and the General Manager of our Company since September 2005. Mr. Shi graduated from the Department of Chemical Engineering of Chengdu University of Science and Technology with a Bachelor's degree in engineering, majoring in the metallurgy of non-ferrous metals from September 1985 to July 1989 and is a senior engineer in Metallurgy. Mr. Shi has accumulated more than 18 years of experience in the smelting industry. From September 1993 to January 1994, he served as the deputy head of the central refinery workshop of the Fukang Refinery. From November 1994 to January 1995, he served as the head of the production division of Fukang Refinery. From February 1995 to March 1998, he served as the assistant head of Fukang Refinery. From March 1998 to January 2002, he served as the deputy head of Fukang Refinery. From January 2002 to August 2005, he served as the head of Fukang Refinery. Mr. Shi received the National Model Labour Award (全國勞動模範) awarded by the State Council in 2005, and he received the Scientific and Technological Progress First Prize (科學技術進步一等獎) in 1995 and 2002 awarded by the National Committee of Science and Technology of the PRC (國家科學技術委員會) and the People's Government of Xinjiang, respectively, for his contribution to the development of the wet process in the refining of nickel and the development of technology and production application in extracting copper and precious metals from smelting tailing of nickel ore.

Zhang Guohua (張國華)

Mr. Zhang Guohua, aged 43, has been a Director and the Executive Deputy General Manager of our Company since September 2005. He completed a postgraduate course in management science and engineering at Dalian University of Technology in November 2003. From October 1988 to December 1993, he served as a deputy section leader and section leader of the environmental safety section of Kalatongke Mine. From January 1994 to June 1996, he served as a mining workshop supervisor of the Kalatongke Mine. From June 1996 to March 1997, he served as an assistant to the head of Kalatongke Mine. From March 1997 to March 1998, he served as the chairman of the labour union of Kalatongke Mine. From March 1998 to March 1999, he served as the secretary of the communist party committee of the Kalatongke Mine. He served as the deputy general manager and manager of the sales branch of Xinjiang Non-ferrous Metals Industry Co. from April 1999 to February 2002. Mr. Zhang has accumulated more than 23 years of experience in the mining industry. From March 2002 to August 2005, he served as the head of Kalatongke Mine. He has also served as the secretary of the Communist Party committee of our Company since September 2005. Mr. Zhang was recognised by Xinjiang Non-ferrous as the Model Labour (勞動模範) for the years of 2003 and 2004.

Liu Jun (劉俊)

Mr. Liu Jun, aged 42, has been a Director of our Company since September 2005. Mr. Liu graduated from Kunming University of Science and Technology with a Bachelor's degree in engineering, majoring in mining engineering from September 1983 to July 1987. He served as the deputy supervisor (production technology) of the mining workshop of Kalatongke Mine from May 1991 to December 1993. From January 1994 to December 1994 he served as the head of production technology division of Kalatongke Mine. He served as the chief engineer of Kalatongke Mine from March 1997 to April 2000. From April 2000 to August 2005 he served as the deputy general manager of Kalatongke Mine. Since September 2005, he has become the head of the Kalatongke Mine and he has also served as a Director and deputy general manager of our Company. Mr. Liu has accumulated more than 20 years of experience in the mining industry. Mr. Liu's contribution to nickel matte blowing and recovery processing and industrialised production received a scientific and technological progress second prize from the People's Government of Xinjiang for the year of 2004.

Non-executive Directors

Zhou Chuanyou (周傳有)

Mr. Zhou Chuanyou, aged 43, has been a non-executive Director and the vice-chairman of our Company since September 2005. He completed a postgraduate course in law at Fudan University in July 1987. Mr. Zhou taught in Huadong Politics and Law Institute from July 1987 to January 1990. From September 1995 he served as the Chairman of Shanghai Jinying Investment Company Ltd. (上海金鷹投資有限公司), which is the predecessor of Zhongjin Investment, and he is currently the beneficial owner of 98.83% shareholding in Zhongjin Investment. Mr. Zhou has served as a director of Shanghai Yilian since May 2005 and is currently the beneficial owner of the entire shareholding of Shanghai Yilian. Mr. Zhou has served as a director of Shanghai Zhongjin Real Estate (Group) Co., Ltd. (上海中金房產(集團)有限公司) since February 1998 and a vice chairman and director of Dazhong Insurance Co., Ltd. of China (大眾保險股份有限公司) since September 1998.

Niu Xuetao (牛學濤)

Mr. Niu Xuetao, aged 43, has been a non-executive Director of our Company since September 2005. He completed an undergraduate course in Law at Northwest Institute of Political Science and Law in July 1990. Since February 2003, he served as the deputy chief executive officer of Zhongjin Investment. Since 22 June 2004, Mr. Niu served as the vice-president and the director of Xinjiang Fanhua Mine and Energy Industrial Company Ltd. (新疆泛華礦能實業有限公司), a company principally engaged in real estate development business, which is not related to Xinjiang Non-ferrous, and he is also a general manager of Shanghai Yilian since May 2005.

Independent Non-Executive Directors

Chen Jianguo (陳建國)

Mr. Chen Jianguo, aged 44, an independent non-executive Director since June 2006, graduated from the Xinjiang Institute of Finance and Economics and obtained a Bachelor's degree in economics in July 1985. In 1988, he obtained a Master's degree in economics from Dongbei University of Finance and Economics. Since September 1988, he has been teaching at the Faculty of Finance of Xinjiang Institute of Finance and Economics. He was promoted to an associate professor in July 1996 and has become the Head of Faculty of Finance of Xinjiang Institute of Finance and Economics since 1997. From January 1999 to August 1999, he studied in Nyenrode

Business Universiteit in Netherlands pursuant to the Chinese Management Development Program. In 2001, he obtained a Master's degree in Business Administration from Haagse Hogeschool, University of Professional Education in Netherlands. Since April 2002, he has served as a standing council member of Xinjiang International Taxation Research Institute (新疆國際稅收研究會常務理事). Mr. Chen has acted as an independent director of Markor International Furniture Co. (美克國際傢俱股份有限公司) and Xinjiang Guannong Fruit & Antler Co., Ltd. (新疆冠農果茸股份有限公司), both of which are PRC companies listed on the Shanghai Stock Exchange, since September 2002 and January 2003, respectively. Mr. Chen has also acted as an independent director of Zhundong Petroleum Technology Co., Ltd. (準東石油技術股份有限公司) and Great Western Region Tourism Co., Ltd. (大西部旅遊股份有限公司) since September 2004 and December 2003, respectively.

Sun Baosheng (孫寶生)

Mr. Sun Baosheng, aged 59, an independent non-executive Director since June 2006, studied and obtained a postgraduate qualification in engineering in 1982. From August 1975 to September 1978, Mr. Sun served as the team leader and technician of the Bureau of Geominerals Exploration and Development of Xinjiang. From October 1975 to April 1976, he studied remote sensing geology in Peking University. From September 1978 to April 1982, he studied minerogenetic rule and minerogenetic prognostic (成礦規律及成礦預測) at Xinjiang University and obtained a Master's degree. He has served as the Head of the Teaching and Research Section of Deposits Geochemical (礦物地球化學教研室主任) since October 1981. He was qualified as a professor in June 1994. He is currently a tutor of PhD students in Xinjiang University, and also serving as deputy director of the Geological Society of Xinjiang Uygur Autonomous Region (新疆地質協會副理事長), member of Council of China Resource Industry (中國資源產業理事會理事), member of the group of experts of Xinjiang Resource and Environment Center (新疆資環中心專家組成員), visiting fellow of Xinjiang Institute of Ecology and Geography Chinese Academy of Sciences (中國科學院新疆生態與地理 研究所客座研究員).

Ng Yuk Keung (吳育強)

Mr. Ng Yuk Keung, aged 43, an independent non-executive Director since January 2007, graduated from the University of Hong Kong with a Bachelor's degree in economic and management, and a Master's degree in global business management and E-commerce. He has been qualified as a Chartered Accountant with Institute of Chartered Accountants in England and Wales and is fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. During the period from 1988 to 2001, he worked in PricewaterhouseCoopers and took part in various initial public offerings. From 2004 to 2006, he served as deputy chief financial officer, joint company secretary and qualified accountant in a H-share company listed in Hong Kong. Since August 2006, he has served as vice president, chief financial officer, joint company secretary and qualified accountant in China Huiyuan Juice Group (中國滙源果汁集團), a company listed on the Stock Exchange.

SUPERVISORS

Jiang Mingshun (姜明順)

Mr. Jiang Mingshun, aged 52, has been the chairman of the supervisory committee since April 2006. He is a Supervisor elected by our employees as employees' representative in the supervisory committee. He graduated from Central Xinjiang Communist Party School (新疆自治區黨校) in 1988, majoring in political theory. Mr. Jiang had worked in Keketuohai Mining Bureau (可可托海礦務局) since 1973. From August 1983 to August 1986, he worked in the Labour Union of Keketuohai

Mining Bureau. He served as the Party branch secretary of Keketuohai Mining Bureau No. 1 Mine and Transportation Section from August 1988 to January 1992. From 1 November 1991 he served as the assistant chief director (the deputy for the chief director) of the Keketuohai Mining Bureau (可可托海礦務局行政辦公室). He served as deputy head of Fukang Refinery from January 2002 to August 2005.

Chen Jiahong (陳家洪)

Mr. Chen Jiahong, aged 37, has been a Supervisor of our Company since May 2006. He is a representative of the Shareholders in the supervisory committee. He served as a technician of Division 801 of the No. 8 Geographical Region of Fujian Province (福建省第八地質大隊801分隊) from July 1990 to December 1992, and the in-charge technician of the No. 5 engineering department of No. 8 Geographical Region of Fujian Province from January 1993 to July 1994. He held various positions in Zijin Mining as monitor, workshop supervisor, deputy head, head of mine and deputy general manager from July 1994 to March 2002. Since March 2002, Mr. Chen has been the general manager of Ashele Copper and the deputy general manager of Zijin Mining (紫金礦業集團). Mr. Chen was a Director of our Company from September 2005 to April 2006. Since August 2006, he has served as the vice-president of Zijin Mining, an H-share listed company in Hong Kong.

Sun Baohui (孫寶輝)

Mr. Sun Baohui, aged 37, has been a Supervisor of our Company since June 2006. He was elected by our employees as employees' representative in the supervisory committee. He majored in the metallurgy of non-ferrous metals and graduated from Kunming University of Science and Technology with a Bachelor's degree in engineering in July 1992. Mr. Sun served as a technician, a deputy head and a head of the smelting workshop at the Kalatongke Mine successively from July 1992 to September 2000. From April 2003 to September 2005, he served as the head of the ore processing workshop at Kalatongke Mine. Since September 2005, he has served as the deputy general manager of and the president of the labour union at the Kalatongke Mine.

Independent Supervisors

Chen Yuping (陳玉萍)

Ms. Chen Yuping, aged 43, is an independent Supervisor of our Company since 12 June 2006. Ms. Chen majored in industry economics and obtained a Bachelor's degree in economics from Xinjiang Institute of Finance and Economics in July 1985 and a Master's degree in business administration from Oklahoma City University in June 1989. Since July 1985, Ms. Chen has been teaching in the Faculty of Business Administration of Xinjiang Institute of Finance. Ms. Chen is now a professor and has been the deputy head of the Faculty of Business Administration of Xinjiang Institute of Finance and Economics since July 2001 and was appointed an associate professor in July 1996. From January 2000 to September 2000, she studied in Nyenrode University in Netherlands pursuant to the Chinese Management Development Project.

Hu Zhijiang (胡志江)

Mr. Hu Zhijiang, aged 62, is an independent Supervisor of our Company since 12 June 2006. He is a qualified senior accountant and a practising accountant. Mr. Hu was a deputy head in the Agricultural Planning and Finance Section of the Finance Department of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區財政廳農財處) from 1992 to 1994. From 1994 to 1997, he served as the head of the Legal and Taxation Section of the Finance Department of Xinjiang Uygur

Autonomous Region (新疆維吾爾自治區財政廳法制税政處). From 1997 to 2001, he served as the head of the Accounting Section of the Finance Department of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區財政廳會計處). From 1998 to 2000, he served as a member of the Senior Assessment Committee for Professional Qualification in Accounting of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區會計專業技術資格高級評審委員會). From 2001 to 2005, he served as the inspector at the deputy department level of the Finance Department of Xinjiang Uygur Autonomous Region (副廳級巡視員). Mr. Hu has been the vice chairman of the eighth committee of the Accounting Association of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區會計學會第八屆理事會) since 2002.

JOINT COMPANY SECRETARIES

Zhang Junjie (張俊杰)

Mr. Zhang Junjie, aged 45, is one of the joint company secretaries of our Company. He graduated from Zhongnan Mining and Smelting Institute (中南礦冶學院) with a Bachelor's degree in engineering, majoring in mining engineering from September 1979 to July 1983. Mr. Zhang has more than 23 years, experience in the mining industry. From July 1983 to September 1988, he was employed as the deputy head of the comprehensive planning department of Xinjiang Keketuohai Mining Bureau. From October 1988 to March 1991, he was the head of the production technology division and the head of the mining workshop of the Kalatongke Mine. From April 1991 to March 1993, he was the deputy head and acting head of the production technology division of Xinjiang Keketuohai Mining Bureau. From March 1993 to August 1997, he was the deputy chief economist of Xinjiang Non-ferrous Industry Co. Copper and Nickel Branch (新疆有色金屬工業公司銅鎳分公司). From August 1997 to March 1998, he was a deputy manager of Xinjiang Non-ferrous Industry Co. Copper and Nickel Branch (新疆有色金屬工業公司銅鎳分公司). From April 1998 to July 2002, he was the head of the finance department of Xinjiang Industry Co.. From July 2002 to August 2005, he was the head of the assets management department of Xinjiang Non-ferrous. Since September 2005 he has been the secretary to our Board of Directors.

Lam Cheuk Fai (林灼輝)

Mr. Lam Cheuk Fai has been our qualified accountant and the other joint company secretary of our Company since June 2006. He is also the qualified accountant and a member of the senior management of our Company. For further details regarding Lam Cheuk Fai, see "Qualified accountant" below.

QUALIFIED ACCOUNTANT

Lam Cheuk Fai (林灼輝)

Mr. Lam Cheuk Fai, aged 53, is our qualified accountant and joint company secretary. He joined us in June 2006. Mr. Lam was awarded a Higher Certificate in Accountancy from the Hong Kong Polytechnic University (formerly known as the Hong Kong Polytechnic) in 1979, and a Master's degree of Business Administration from the University of East Asia, Macau in 1988. Mr. Lam is a fellow of both the Association of Chartered Certified Accountants of the United Kingdom and the Hong Kong Institute of Certified Public Accountants. From 1979 to 1985, Mr. Lam worked for Touche Ross & Co. (now known as Deloitte & Touche) in Hong Kong and the U.S. and Arthur Young & Co. (now known as Ernst & Young) in Hong Kong. Mr. Lam has approximately 30 years' working experience in auditing, accounting, internal control, taxation, company secretarial work and financial management in multinational organisations in the U.S., Hong Kong and the PRC. He was previously employed as the chief financial officer and the company secretary by a listed company in Hong Kong.

SENIOR MANAGEMENT

Shi Wenfeng (史文峰)

Mr. Shi Wenfeng is one of our executive Directors. For further details regarding Mr. Shi, see "Executive Directors" above.

Zhang Guohua (張國華)

Mr. Zhang Guohua is one of our executive Directors. For further details regarding Mr. Zhang, see "Executive Directors" above.

Liu Jun (劉俊)

Mr. Liu Jun is one of our executive Directors. For further details regarding Mr. Liu, see "Executive Directors" above.

Feng Chaoyu (馮朝雨)

Mr. Feng Chaoyu, aged 44, is a deputy general manager of our Company and the head of our Fukang Plant. Mr. Feng completed an undergraduate course in business administration at the Kunming University of Science and Technology in July 2004. Mr. Feng started working at Fukang Refinery since January 1992. Mr. Feng has been working in the non-ferrous industry since 1983.

Wu Tao (吳濤)

Mr. Wu Tao, aged 41, is the chief engineer of our Company. Mr. Wu studied in the Department of Chemical Engineering at Chengdu University of Science and Technology from September 1985 to July 1989 specialising in the metallurgy of non-ferrous metals and graduated with a Bachelor's degree in engineering. He started working at the Kalatongke Mine upon graduation. Since October 1991, he has been working at the Fukang Refinery and has been our chief engineer since September 2005. He was awarded two Scientific and Technological Progress First Prizes (科學技術進步一等獎), one by the National Committee of Science and Technology in 1995 for his contribution to the wet process adopted in refining and one by the Peoples' Government of Xinjiang for the year of 2002 for his contribution to the development of production methods in smelting, extraction from tailings and the production of copper and precious metals.

He Hongfeng (何洪峰)

Mr. He Hongfeng, aged 37, is the chief financial officer of our Company since September 2005. Mr. He graduated from Xinjiang College of Finance and Economics in 1992 with a Bachelor's degree in economics. Prior to joining our Company in September 2005, he was working in Zhongjin Investment as an accountant. Mr. He is a certified accountant, certified valuer and certified tax consultant in the PRC.

Zhang Junjie (張俊杰)

Mr. Zhang Junjie is the joint company secretary of our Company. For further details regarding Mr. Zhang, see "Joint Company Secretaries" above.

Lam Cheuk Fai (林灼輝)

Mr. Lam Cheuk Fai is a joint company secretary and a qualified accountant of our Company for the purpose of Rule 3.24 of the Listing Rules. For further details regarding Mr. Lam, see "Qualified Accountant" above.

MANAGEMENT PRESENCE IN HONG KONG

We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirement of Rule 8.12 and Rule 19A.15 of the Listing Rules. For further information, see the section headed "Waiver from compliance with the Listing Rules and the Companies Ordinance".

BOARD AUDIT COMMITTEE

We have established an audit committee. The primary duties of the audit committee are to review and supervise our financial reporting process and internal control system and provide advice to the Board of Directors. As at the Latest Practicable Date, the audit committee consisted of three members: Mr. Zhou Chuanyou, a non-executive Director, Mr. Ng Yuk Keung, an independent non-executive Director and Mr. Chen Jianguo, an independent non-executive Director, with Mr. Chen Jianguo serving as its chairman.

BOARD REMUNERATION AND REVIEW COMMITTEE

We have established a remuneration and review committee. The board remuneration and review committee considers and recommends to the Board the remuneration and other benefits paid to the Directors and members of senior management. As at the Latest Practicable Date, the board remuneration and review committee was composed of five members: Mr. Shi Wenfeng, an executive Director, Mr. Niu Xuetao, a non-executive Director and all of our three independent non-executive Directors, with Mr. Shi Wenfeng serving as its chairman.

STRATEGY PLANNING COMMITTEE

We have established a strategy planning committee whose primary duties are to formulate our overall development plans and investment decision-making procedures. The strategy planning committee currently consists of five members, including Mr. Yuan Ze, an executive Director, Mr. Shi Wenfeng, an executive Director, Mr. Zhang Guohua, an executive Director, Mr. Zhou Chuanyou, a non-executive Director and Mr. Sun Baosheng, an independent non-executive Director, with Yuan Ze serving as its chairman.

COMPENSATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

We reimburse our Directors and Supervisors for expenses which are necessarily and reasonably incurred for providing services to us or executing matters in relation to our operations. We pay our executive Directors compensation in the form of salaries, housing allowances, performance bonus (if any), other allowances and benefits in kind, including our contribution to the pension scheme for them in accordance with relevant PRC law. We pay our non-executive Directors and independent non-executive Directors a fixed annual allowance. Our Supervisor as shareholders' representative and our independent Supervisors receive a fixed annual allowance. Our Supervisors as employees' representatives are not entitled to additional remuneration other than their usual salaries as our employees.

The aggregate amount of salaries, housing allowances, other allowances and benefits in kind paid by us to our five highest paid individuals during the three years ended 31 December 2004, 2005 and 2006 and the three months ended 31 March 2007 was approximately RMB659,000, RMB1,035,000, RMB1,716,000 and RMB371,000, respectively. For the three years ended 31 December 2006, as approved by the shareholders in the shareholders' meeting, our Company paid fixed salary without allowance to the executive Directors and no remuneration nor allowance were paid to the non-executive Directors, and a fixed annual allowance was paid to the independent non-executive Directors.

During the three years ended 31 December 2004, 2005 and 2006 and the three months ended 31 March 2007, the aggregate amount of salaries, housing allowances, pension scheme contributions, other allowances and benefits in kind paid by us to Directors and to Supervisors is as set out below.

	Remuneration			
	For the year ended 31 December			For the three months ended 31 March
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Directors	546	852	1,306	229
Supervisors	249	355	544	61
Total	795	1,207	1,850	290

Save as disclosed above, no other payments have been paid or are payable, in respect of the three years ended 31 December 2004, 2005 and 2006 and the three months ended 31 March 2007, by us or our subsidiary to our Directors and Supervisors.

SHARE APPRECIATION RIGHTS INCENTIVE SCHEME

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

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

Our Company has obtained an approval in principle from Xinjiang SASAC on 17 July 2007 for the adoption of the Share Appreciation Rights Incentive Scheme. According to SASAC's approval, the quantum of the share appreciation rights, timing of the grant and pricing should be determined in accordance with the relevant laws and regulations of the PRC in relation to share appreciation rights incentive scheme. As at the Latest Practicable Date, our Company has not yet adopted the Share Appreciation Rights Incentive Scheme, and therefore, no share appreciation rights had been granted pursuant to the Share Appreciation Rights Incentive Scheme. The terms of the Share Appreciation Rights Incentive Scheme and its adoption are subject to further approvals by Xinjiang SASAC and our shareholders.

The share appreciation rights are not transferable, nor are there any voting rights attached to the share appreciation rights. The proposed Share Appreciation Rights Incentive Scheme is not a scheme involving the grant of options over new securities of our Company, and therefore will not fall within the ambit of, and will not be subject to, regulations in Chapter 17 of the Listing Rules.

Our Company will make appropriate announcement and comply with the relevant requirements under the Listing Rules and to seek approval from Xinjiang SASAC and our shareholders prior to the adoption of the Share Appreciation Rights Incentive Scheme.

EMPLOYEES

As at 31 March 2007, we had approximately 2,210 full-time employees. Breakdowns by function and location as at the Latest Practicable Date are as follows:

Division	**Employees**	**Total** *(in percentages)*
Management and administration	126	5.7%
Engineering technician	371	16.8%
Production staff	1,252	56.6%
Repair and maintenance	300	13.6%
Inspection	150	6.8%
Sales	11	0.5%
Total	2,210	100%

The remuneration package of our employees includes salary, bonuses and allowances. We participate in the social insurance plans organised by local governments in the PRC. In accordance with the relevant national and local labour and social welfare laws and regulations, we are required to pay on behalf of our employees a monthly social insurance premium covering pension insurance, medical insurance, unemployment insurance, work cover and maternity cover. According to the currently applicable local regulations, the respective percentages of the pension insurance, medical insurance, unemployment insurance and housing reserve fund we must contribute are 20.0%, 6.0%-6.5%, 2.0% and 10.0%, respectively, of our employees' total monthly basic salary. We also contribute 2% of our employees' total monthly basic salary for occupational injury insurance and 0.6%-1% of the total monthly basic salary for maternity cover.

Our Company has not experienced any significant problems with its employees or disruption of its operations due to labour disputes nor has it experienced any major difficulties in the recruitment and retention of experienced staff. The Directors believe that our Company has a good working relationship with its employees.

COMPLIANCE ADVISER

We are expected to appoint BOCI Asia as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. The material terms of the compliance adviser's agreement to be made between us and BOCI Asia include the following:

(a) BOCI Asia is appointed by us as our compliance adviser for the purpose of Rule 3A.19 of the Listing Rules for a period commencing on the Dealing Date and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the Dealing Date; and

(b) pursuant to Rule 3A.23 of the Listing Rules, BOCI Asia will advise our Company on the following matters:

(1) before the publication of any regulatory announcement, circular or financial report;

(2) where a transaction, which might be a notifiable or connected transaction (as defined under the Listing Rules), is contemplated including share issues and share repurchases;

(3) where our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where the business activities, developments, or results of our Company deviate from any information in this prospectus; and

(4) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the Shares.

OUR COMPANY

To the best knowledge of our Directors, immediately following the completion of the Global Offering (but not taking into account any H Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option) and the transfer of certain Shares by Xinjiang Non-ferrous to NSSF, the following person(s) (not being Directors) will have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be, directly and/or indirectly interested in 10% or more of the nominal value of any class of share capital, carrying rights to vote in all circumstances at general meetings of our Company:

Name	**Number of Shares**	**Approximate percentage of shareholding**
Xinjiang Non-ferrous	894,204,000	42.18%
Shanghai Yilian *(Note)*	282,896,000	13.34%
Zhongjin Investment *(Note)*	198,028,000	9.34%

Note: All the shareholdings/equity interests of Shanghai Yilian and 98.83% of the shareholdings of Zhongjin Investment are beneficially owned by Mr. Zhou Chuanyou (周傳有). The interest attributable to Mr. Zhou represents his indirect deemed interest in our issued capital via his equity interests in Shanghai Yilian and Zhongjin Investment.

For details of our Directors' and Supervisors' interests in the Shares immediately following the completion of the Global Offering, please refer to the section headed "Appendix IX — Statutory and general information — Further Information about Directors, Supervisors, Senior Management and Staff".

Save as disclosed in this prospectus, our Directors are not aware of any person (who is not a Director) who will, immediately following the completion of the Global Offering (assuming the Over-allotment Option is not exercised), has an interest or a short position in Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Our registered capital immediately prior to the Global Offering is RMB380,000,000.

The following is a description of our share capital in issue and to be issued as fully paid or credited as fully paid immediately before and after the completion of the Global Offering:

Description of Shares	Immediately before the Global Offering		Immediately after the Global Offering assuming no exercise of the Over-allotment Option		Immediately after the Global Offering assuming full exercise of the Over-allotment Option	
	(shares)	*(in percentage)*	*(shares)*	*(in percentage)*	*(shares)*	*(in percentage)*
Domestic Shares	1,520,000,000	100%	1,460,000,000 *(Note 1)*	68.87%	1,451,000,000 *(Note 2)*	65.66%
H Shares	—	—	660,000,000 *(Note 3)*	31.13%	759,000,000 *(Note 4)*	34.34%
Total	1,520,000,000	100%	2,120,000,000	100%	2,210,000,000	100%

Notes:

(1) The 1,460,000,000 Domestic Shares will be held by the Promoters, of which 894,204,000, 282,896,000, 198,028,000, 56,580,000, 22,020,000 and 6,272,000 Domestic Shares will be held by Xinjiang Non-ferrous, Shanghai Yilian, Zhongjin Investment, Xiamen Zijin, Xinjiang Xinying and Shaanxi Honghao, respectively.

(2) The 1,451,000,000 Domestic Shares will be held by the Promoters, of which 885,204,000, 282,896,000, 198,028,000, 56,580,000, 22,020,000 and 6,272,000 will be held by Xinjiang Non-ferrous, Shanghai Yilian, Zhongjin Investment, Xiamen Zijin, Xinjiang Xinying and Shaanxi Honghao, respectively.

(3) The 660,000,000 H Shares consists of 60,000,000 H Shares converted from 60,000,000 Domestic Shares, 540,000,000 H Shares under the International Placing and 60,000,000 H Shares under the Hong Kong Public Offering subject to reallocation of H Shares between the International Placing and the Hong Kong Public Offering. According to the relevant approval from the SASAC, 60,000,000 Domestic Shares held by Xinjiang Non-ferrous will be converted into an equal number of H Shares and will be transferred to NSSF for holding upon the completion of the Global Offering.

(4) The 759,000,000 H Shares consists of 69,000,000 H Shares converted from 69,000,000 Domestic Shares, 630,000,000 H Shares under the International Placing and 60,000,000 H Shares under the Hong Kong Public Offering subject to reallocation of H Shares between the International Placing and the Hong Kong Public Offering. According to the relevant approval from the SASAC, the 69,000,000 Domestic Shares held by Xinjiang Non-ferrous will be converted into an equal number of H Shares and will be transferred to NSSF for retention upon the completion of the Global Offering.

The above table assumes that the Global Offering becomes unconditional and is completed.

RANKING

Domestic Shares and H Shares are both ordinary shares in the share capital of our Company. However, H Shares may only be subscribed for by, and traded in Hong Kong dollars between, legal or natural persons of Hong Kong, Macau, Taiwan or any country other than the PRC, subject to any exception stipulated under PRC law. Domestic Shares, on the other hand, may only be subscribed for by, and traded between, legal or natural persons of the PRC (other than Hong Kong, Macau and Taiwan) and must be subscribed for and traded in Renminbi. All dividends in respect of H Shares are to be paid by our Company in Hong Kong dollars whereas all dividends in respect of Domestic Shares are to be paid by our Company in Renminbi.

Under our Articles of Association, all shareholders holding ordinary shares of our Company, including Domestic Shares or H Shares, are entitled to the rights and assume the obligations stipulated in our Articles of Association equally.

Under our Articles of Association, Domestic Shares and H Shares are deemed as different classes of Shares under our Articles of Association. Any change or abrogation of the rights of shareholders of different classes must be approved by shareholders by way of a special resolution and at separate shareholders' class meetings convened by the affected shareholders of different classes. However, any change or abrogation of any rights of shareholders of a certain class resulting from a change of domestic or overseas laws, administrative regulations or the rules of the place of listing or any legally binding decisions or orders announced by domestic or overseas regulatory authorities does not need to be approved by shareholders and at separate shareholders' class meeting.

Except as described in this prospectus and in relation to the dispatch of notices and financial reports to our shareholders, dispute resolution, registration of Shares on different parts of our register of shareholders, the method of share transfer and the appointment of dividend receiving agents, which are all provided for in the Articles of Association and summarised in Appendix VIII to this prospectus, our Domestic Shares and our H Shares will rank pari passu with each other in all respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this prospectus. However, the transfer of Domestic Shares is subject to such restrictions as PRC law may impose from time to time.

Save for the Global Offering and as disclosed in this prospectus, our Company does not propose to carry out any public or private issue or to place securities simultaneously with the Global Offering or within the next six months and we have not approved any share issue plan other than the Global Offering.

TRANSFER OF OUR DOMESTIC SHARES FOR LISTING AND TRADING ON THE STOCK EXCHANGE

Holders of our Domestic Shares may transfer their Domestic Shares to overseas investors, and such transferred shares may be listed or traded on an overseas stock exchange provided that the transfer and trading of such transferred shares has obtained approval from the State Council securities supervisory and administrative authorities (at present, the CSRC). In addition, such transfer must have complied with the regulations, requirements and procedures prescribed by the relevant stock exchange. No approval of separate class meeting is required for the listing and trading of such transferred shares on an overseas stock exchange.

In this regard, if any holders of our Domestic Shares are to transfer their Domestic Shares to overseas investors for listing and trading on the Stock Exchange, such transfer and conversion are subject to the approval of the State Council securities supervisory and administrative authorities (at present, the CSRC). The listing of such converted shares on the Stock Exchange is also subject to the approval of the Stock Exchange.

Based on the procedures for the transfer and conversion of our Domestic Shares into H Shares as disclosed below, we can apply for the listing of all or any portion of our Domestic Shares on the Stock Exchange as H Shares in advance of any proposed transfer to ensure that the transfer process can be completed promptly upon notice to the Stock Exchange and delivery of shares for entry on our H Share register. The relevant procedural requirements for the transfer and conversion of our Domestic Shares to H Shares are:

(1) Holders of Domestic Shares obtain the requisite approval from the State Council securities supervisory and administrative authorities (at present, the CSRC) for the transfer of all or part of their Domestic Shares into H Shares;

(2) Holders of Domestic Shares provide us a removal request in respect of a specified number of Shares together with the relevant documents of title;

(3) Subject to obtaining the approval of our Board, we then issue a notice to our Share Registrar with instructions that, with effect from a specified date, our Share Registrar is to issue the relevant H Share certificates for such specified number of Shares to the holders of Domestic Shares;

(4) The specified number of Domestic Shares to be transferred to H Shares are then re-registered on our Share register maintained in Hong Kong on condition that:

  (a) our Share Registrar lodges with the Stock Exchange a letter confirming the proper entry of the relevant Shares on the H Share register and the due dispatch of the share certificates; and

  (b) the admission of the H Shares (converted from Domestic Shares) to trade in Hong Kong will comply with the Listing Rules and the general rules of CCASS and CCASS operational procedures in force from time to time;

(5) Upon completion of the transfer and conversion, the shareholding of the relevant holders of Domestic Shares in our domestic Share register will be reduced by the number of Domestic Shares transferred and the number of H Shares in the H Share register will correspondingly increase by the same number; and

(6) We will comply with the Listing Rules to inform our shareholders and the public by way of an announcement not less than three days prior to the proposed effective date.

Upon completion of the Global Offering, Xinjiang Non-ferrous will be subject to the following regulatory transfer restrictions:

- Under the Company Law, Shares which have been issued before we publicly issue Shares are prevented from being transferred within one year from the date of listing on a stock exchange; and

- Under the Listing Rules, Xinjiang Non-ferrous is prevented from, amongst other things (i) disposing of or agreeing to dispose of any of our H Shares for a period of six months from the Dealing Date on the Stock Exchange; and (ii) during a period of six months thereafter, disposing of or agreeing to dispose of any of our H Shares if, immediately after such disposition, it would cease to be our Controlling Shareholder.

TRANSFER OF SHARES ISSUED PRIOR TO DEALING DATE

Our Promoters hold all existing Domestic Shares as promoter shares (as defined in the Company Law). Under the Company Law, promoter shares may not be sold within a period of one year from 1 September 2005, on which we were established as a joint stock limited company. This lock-up period expired on 31 August 2006. The Company Law further provides that in relation to the public share offering, the shares of the company which have been issued prior to the offering shall not be transferred within one year from the date of the listing. However based on the Provisional Procedures for the Reduction of State-Owned Shareholdings and the Raising of Social Security Funds issued by the State Council and based on the discussions between our PRC legal advisers and the competent PRC authorities, our PRC legal advisers have advised that any transfer of the Shares allocated or issued to NSSF before the Listing will not be subject to such transfer restriction. Please refer to the section headed "Risk Factors — Share price of our H Shares may be affected as a result of a disposal by NSSF of its shareholding in our Company" for risks associated with the possible transfer of the Shares held by NSSF.

TRANSFER OF STATE-OWNED SHARES TO NSSF

In accordance with relevant PRC regulations regarding disposal of state-owned shares, Xinjiang Non-ferrous is required to transfer to NSSF such number of Domestic Shares, as in aggregate equivalent to 10% of the number of the Offer Shares (60,000,000 H Shares before the exercise of the Over-allotment Option, and 69,000,000 H Shares after the exercise in full of the Over-allotment Option). At the time of the Listing, such Domestic Shares will be converted into H Shares on a one-for-one basis and will be held by the NSSF immediately thereafter. These H Shares will not constitute any part of the Offer Shares. Neither Xinjiang Non-ferrous nor us will receive any proceeds from the transfer by Xinjiang Non-ferrous to NSSF or any subsequent disposal of such H Shares by NSSF.

The transfer of state-owned shares by Xinjiang Non-ferrous to NSSF has been approved by SASAC on 30 June 2006 and subsequently approved by NSSF on 10 July 2006. The conversion of those shares into H Shares has been approved by CSRC on 29 August 2007. We have been advised that both the aforementioned transfer and the conversion, and the holding of H Shares by NSSF following such transfer and conversion, have been approved by the relevant authorities and are in compliance with applicable PRC laws and regulations.

As advised by our PRC legal advisers, the above-mentioned arrangement is mandated by the relevant PRC authorities in accordance with the State policy and neither Xinjiang Non-ferrous nor our Company has any influence over the arrangement. Further, as advised by our PRC legal advisers, the H Shares to be held by NSSF upon completion of the Global Offering shall not be subject to any sale restriction or lock-up under the Company Law.

REGISTRATION AND DEPOSIT OF SHARES NOT LISTED ON OVERSEAS STOCK EXCHANGE

According to the Notice of Centralised Registration and Deposit of Non-overseas Listed Shares of Companies Listed on an Overseas Stock Exchange (關於境外上市公司非境外上市股份集中登記存管有關事宜的通知) issued by the CSRC on 28 March 2007, an overseas listed company is required to register its shares that are not listed on the overseas stock exchange with China Securities Depository and Clearing Corporation Limited within 15 business days upon listing.

You should read the following discussion and analysis of our financial condition and results of operations together with our audited consolidated financial statements, including the notes thereto, attached as Appendix I of this prospectus. Unless otherwise stated, all financial information has been presented at the net value after eliminating transactions between sectors and other internal transactions.

This discussion contains forward-looking statements that involve risks and uncertainties. We caution you that our business and financial performance are subject to substantial risks and uncertainties. In evaluating our business, you should carefully consider the information provided under the section entitled "Risk Factors" in this prospectus.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We are a mining company based in Xinjiang, the PRC. We are principally engaged in the mining, ore processing, smelting and refining of nickel, copper and other non-ferrous metals which include cobalt products and precious metals such as gold, silver, platinum and palladium. One of our major products is nickel cathode. The sales of our nickel cathode accounted for approximately 71.2%, 74.7%, 69.6% and 86.1% of the turnover of our Company and its subsidiaries (the "Group"), for each of the three years ended 31 December 2006 and the three months ended 31 March 2007, respectively. During the same period, the sales of copper cathode, accounted for approximately 15.6%, 17.2%, 18.6% and 10.4% of the Group's turnover.

Basis of presentation

Pursuant to the Reorganisation, Xinjiang Non-ferrous injected all its nickel business together with certain assets at Kalatongke Mine and Fukang Refinery into our Company except certain non-operating assets at Kalatongke Mine were retained by Xinjiang Non-ferrous (see "Reorganisation and corporate structure — Reorganisation — Contribution by Xinjiang Non-ferrous"). Kalatongke Mine and Fukang Refinery maintained separate books and records respectively.

Prior to and following the Reorganisation, the relevant business is directly or indirectly controlled by Xinjiang Non-ferrous. Accordingly, the Group has applied the Accounting Guideline 5 "Merger Accounting for Common Control Combinations", using the principles of merger accounting, in accounting for the Reorganisation. The consolidated financial statements present the consolidated results, consolidated cash flows and consolidated financial position of the Group as if the relevant business were transferred to our Company by Xinjiang Non-ferrous on 1 January 2004, the beginning of the earliest period presented or when such businesses were established or acquired by Xinjiang Non-ferrous, whichever is the shorter period.

Since the non-operating assets such as schools and hospitals at Kalatongke Mine were controlled by the management of the relevant business prior to the Reorganisation, the non-operating assets and their operating results were included in the Group's financial information up to 31 August 2005 despite they were retained by Xinjiang Non-ferrous after the Reorganisation. All these non-operating assets can be separately identifiable in the Kalatongke Mine's books and records. The net book value of these non-operating assets at 31 August 2005 are as follows:

	RMB'000
Staff quarters	18,790
Schools	2,355
Hospitals	1,981
Others	4,095
	27,221

For detailed discussions, please see the Accountants' Report set out in Appendix I.

Mining rights, exploration rights and land use rights

In September 2005, our Company acquired the mining rights of the Kalatongke Mine from Xinjiang Non-ferrous. Currently, our Company has four exploration rights in Fuyun County covering an aggregate mine area of 159.91 square kilometres. At our establishment, the registration of these four exploration rights was changed to our name at no cost from Xinjiang Non-ferrous. In May 2006, our Company issued new shares to Xinjiang Non-ferrous in exchange for certain land use rights in the Kalatongke Mine and the Fukang Refinery. For further details, see "Reorganisation and corporate structure".

Since the exploration rights were acquired by Xinjiang Non-ferrous at no cost and the rights were transferred to us at no cost, no value for these exploration rights have been recognised in our consolidated financial statements.

Factors affecting results of operations and financial condition

Our business and historical financial condition and results of operations have been affected by a number of important factors which we believe will continue to affect our financial condition and results of operations in the future. Our results are primarily affected by the following factors:

Price volatility of our products and raw materials. We are exposed to the risk of price fluctuations in the purchase of raw materials and the sale of our products. For example, the price of our nickel cathode and copper products are set with reference to international and domestic market prices. Similar to our competitors, we have limited ability to anticipate and manage commodity price fluctuations. Nevertheless, we generally attempt, to the extent possible, to adjust our production volume and product mix in order to achieve lower production costs and higher average sales prices. We also intend to enter into more supply contracts with our customers, such as large steel manufacturers. We also face raw materials price risk as prices of raw materials such as nickel concentrate and sulphite matte (低冰鎳) may fluctuate, depending on the grading, demand and supply of these raw materials. The quantity of raw materials purchased is affected by the purchase price and our relationship with suppliers. Nonetheless, we have been managing to supply a significant portion of the raw materials by our own mining and ore processing operations.

Economic growth in the PRC and globally. Non-ferrous metals have diverse industrial uses and their demand depends on, among others, the state of the global economy, stability of international trade and the demand from the stainless steel industry. In recent years, China has become an important market and its influence on the global non-ferrous metals industry has been increasing. The economic growth in the PRC has been accompanied by growth in the refined nickel production at a compound annual growth rate of 17.4% from 2000 to 2006. In 2006, all of our turnover was derived from domestic sales. We expect demand for non-ferrous metals and related products to increase as the PRC economy continues to grow.

PRC Government control and policies. The PRC Government exercises a substantial degree of influence over the mining and smelting of non-ferrous metals. Certain existing laws and regulations involve barriers to entry, production quotas, tax, setting, amending or abolishing import tariffs and limitations and duties on the export of certain non-ferrous metals and related products. Future changes in the level of PRC Government control may have a direct impact on our business, financial condition and results of operations. However, we believe the regulatory trends will be favorable for large entities and we attempt to adjust our business strategies and operations to respond to evolving PRC Government policies. For details of preferential policies we are currently enjoying, see "Business — Competitive strengths — We benefit from current government industrial policies of the PRC which favour the development of enterprises engaging in the production of non-ferrous metals such as nickel and copper and policies encouraging the development of the central-western part of the PRC".

Product mix. Nickel cathode is our major product. We also produce copper products, namely copper cathode, copper concentrate and raw copper. Other products include cobalt and precious metals such as gold, silver, platinum and palladium. During the three years ended 31 December 2006 and three months ended 31 March 2007, (i) sales of nickel cathode accounted for approximately 71.2%, 74.7%, 69.6% and 86.1%, respectively; (ii) sales of copper cathode accounted for approximately 15.6%, 17.2%, 18.6% and 10.4%, respectively; (iii) sales of raw copper accounted for approximately 4.0%, 5.5%, 3.9% and nil, respectively; (iv) sales of copper concentrate accounted for approximately 3.6%, 0.3%, 5.6% and nil respectively; and (v) sales of other products accounted for approximately 5.6%, 2.3%, 2.3% and 3.5%, respectively, of the Group's turnover. Our revenue from the sale of our products is mainly affected by grading and input volume of metal ores, commodity prices in the PRC and production volume.

Cost of electricity and coke. We consume a substantial amount of electricity and coke in our operations. We purchase electricity from the local power grid at market prices. We purchase the coke from several different local suppliers. In response to rising electricity prices, we have introduced electricity conservation measures. However, changes in prices of electricity and coke in the future will continue to impact on our cost of sales, and will adversely affect our results of operations to the extent such price increases cannot be transferred to our customers through higher prices of our products. The average electricity price increased from RMB0.31 per Kwh in 2004 to RMB0.38 per Kwh in the first three months in 2007 and the average coke price increased from RMB450 per tonne in 2004 to RMB1,106 per tonne in the first three months in 2007. Electricity and fuel accounted for approximately 16.6% and 11.6% of our total cost of sales for the year ended 31 December 2006 and the three months ended 31 March 2007, respectively.

Critical accounting policies

Significant accounting policies are those that require management to exercise judgment and to make estimates that would yield materially different results if management applied different assumptions or make different estimates.

Our financial statements have been prepared in accordance with HKFRS. Our principal accounting policies are set forth in Section II Note 3 to the Accountants' Report, set out in Appendix I of this prospectus. HKFRS requires that we adopt accounting policies and make estimates that our Directors believe are most appropriate in the circumstances for the purposes of giving a true and fair view of our results and financial condition. We believe the most complex and sensitive judgment, because of its significance to our financial statements, results primarily from the need to make estimates about the effects of markets that are inherently uncertain. Actual results in these areas could differ from our estimates. We have identified below the accounting policies that we believe are the most critical to our consolidated financial statements and that involve the most significant estimates and judgments.

Depreciation and amortisation

Property, plant and equipment

In accounting for buildings and mining structures, machinery and equipment, transportation facilities and electronic equipment and others, we must make estimates about the expected useful life span of the assets, the expected residual values of the assets, and the potential for impairment based on the fair value of the assets and the cash flows they generate. The following table sets forth additional information regarding our buildings, machinery and equipment, transportation facilities and electronic equipment and others and the depreciation rates per annum over the estimated useful lives using the straight line method:

Assets	**Estimated useful lives**
Buildings	20 to 50 years
Machinery and equipment	10 to 18 years
Transportation facilities	10 to 12 years
Electronic equipment and others	6 to 12 years

Mining structures include the main and auxiliary mine shafts and underground tunnels. Depreciation is provided to write off the cost of the mining structure using the units of production method based on the estimated production volume for which the structure is designed.

We review the carrying values of the buildings and mining structures, machinery and equipment, transportation facilities and electronic equipment and others for impairment when events or circumstances indicate the carrying value may not be recoverable. Factors indicating potential impairment include, but are not limited to, significant decreases in the market value of the buildings and mining structures, machinery and equipment, transportation facilities and electronic equipment and others, a significant change in the asset's physical condition and operating or cash flow losses associated with the use of the buildings and mining structures, machinery and equipment, transportation facilities and electronic equipment and others. Impairment losses are recognised in the income statement.

There is an inherent uncertainty associated with estimating the future cash flow used in the impairment test. If the actual future cash flow turns out to be different from that as estimated, there is a risk the impairment charges recognised to date may be inaccurate, or further impairment charges may be necessary in future periods.

Mining rights

Mining rights are stated at cost less accumulated amortisation and impairment losses. Amortisation of mining rights is calculated to write off the cost less accumulated impairment of losses over the shorter of: (a) the periods of the rights on a straight-line basis or (b) of the useful lives of the mines in accordance with the production plans and reserves on the units of production method. This amortisation method reflects the pattern in which the asset's future economic benefits are expected to be consumed by our Company, taking into account the future change of our Company's production capacity.

Land use rights

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

Inventory

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

Impairment provisions on inventory, accounts receivables and other receivables

A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statements.

Inventories of the Group are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Deferred income tax

We make full provisions for deferred income tax, using the liability method, for all significant temporary differences arising between the tax base of assets and liabilities and their carrying value in our financial statements. We record a valuation allowance, when appropriate, to adjust deferred tax asset balances to the amount we expect to realise. We consider the amount of taxable income available in carryback years, future taxable income and potential tax planning strategies in assessing the need for a valuation allowance. We must generate future taxable income to realise fully our net deferred tax assets. If we determine we will be unable to realise all or a portion of our net deferred income tax assets in the future, an adjustment to the deferred tax asset balance would be charged to the income tax provision in the period such determination is made.

Provisions

Provisions are made when we have a present obligation resulting from a past event, and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the time value of money for the provision is determined to be material, provisions will be determined by discounting the expected future cash flows at a pre-tax rate reflecting current market conditions. Where discounting is used, the increase in provisions due to the passage of time is recognised as a borrowing cost.

Results of operations

The following discussion addresses the principal trends that have affected our results of operations during the periods under review. The following table sets forth each of the line items of the Group's income statements in RMB which are extracted from the Accountants' Report set out in Appendix I to this prospectus for the three years ended 31 December 2006 and each of the three months ended 31 March 2006 and 2007:

	Year ended 31 December			Three months ended 31 March	
	2004	**2005**	**2006**	**2006**	**2007**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)* (unaudited)	*(RMB'000)*
Turnover	439,669	544,741	869,068	161,526	326,346
Cost of sales	(226,387)	(270,664)	(348,419)	(67,661)	(122,301)
Gross profit	213,282	274,077	520,649	93,865	204,045
Selling and marketing expenses	(3,633)	(3,368)	(7,494)	(3,246)	(1,218)
Administrative expenses	(37,308)	(71,653)	(65,496)	(11,773)	(14,403)
Other income	3,058	3,037	5,208	1,189	3,531
Other (losses)/gains — net	(1,041)	(2,387)	51	338	362
Operating profit	174,358	199,706	452,918	80,373	192,317
Finance costs	(4,243)	(5,644)	(10,122)	(2,510)	(2,733)
Profit before income tax	170,115	194,062	442,796	77,863	189,584
Income tax expense	(57,520)	(366)	(119)	–	–
Profit for the year/period	112,595	193,696	442,677	77,863	189,584
Attributable to:					
Equity holders of the Company	112,728	193,696	444,004	77,943	190,141
Minority interests	(133)	–	(1,327)	(80)	(557)
	112,595	193,696	442,677	77,863	189,584
Earnings per share for profit attributable to the equity holders of the Company during the year/period *(RMB)*[(1)]					
— basic and diluted	0.157	0.220	0.318	0.065	0.125
Profit distribution to Holding Company	88,472[(2)]	207,575[(2)]	13,045	–	–
Dividend	–	–	400,000	–	–

Notes:

(1) The basic earnings per share for each of the years ended 31 December 2004, 2005 and 2006 and for each of the three months ended 31 March 2006 (unaudited) and 2007 were computed by dividing the profits attributable to the equity holders of the Company by the weighted average numbers of shares in issue during the Relevant Periods and has been adjusted for the share split effective on the date of this prospectus. There were no dilutive potential ordinary shares during the relevant period and, therefore, diluted earnings per share are not presented.

(2) In line with the normal practice of state-owned enterprises, Xinjiang Non-ferrous, a state-owned enterprise, directly instructed its then wholly-owned subsidiaries, including Xinjiang Non-ferrous Kalatongke Mine and Xinjiang Non-ferrous Fukang Plant, to distribute their profits to itself, amounting to RMB88.5 million and RMB207.6 million in 2004 and 2005, respectively. The profit distributions were made and settled by way of cash.

Turnover

Turnover represents revenues generated from the sale of our products to external customers net of value added tax. Our turnover is affected by our total sales volume which is in turn subject to our production capacity and market conditions. It is also affected by our product sales mix as average selling prices vary among our different product segments as well as within a product segment and between periods.

The following table sets forth a breakdown of our Group's turnover by product segments for the periods indicated:

	For the year ended 31 December									For the three months ended 31 March					
	2004			2005			2006			2006[1]			2007		
	Sales volume	Turnover		Sales volume	Turnover		Sales volume	Turnover		Sales volume	Turnover		Sales volume	Turnover	
	(tonnes)	*(RMB million)*	*(% of turnover)*	*(tonnes)*	*(RMB million)*	*(% of turnover)*	*(tonnes)*	*(RMB million)*	*(% of turnover)*	*(tonnes)*	*(RMB million)* (unaudited)	*(% of turnover)*	*(tonnes)*	*(RMB million)*	*(% of turnover)*
Nickel cathode	2,710.2	313.0	71.2	3,328.4	407.0	74.7	3,303.5	604.7	69.6	799.5	94.3	58.4	943.3	281.0	86.1
Copper products															
Copper cathode	3,007.8	68.5	15.6	3,143.6	93.9	17.2	3,107.8	161.9	18.6	870.8	34.4	21.3	709.3	33.9	10.4
Raw copper	780.5	17.5	4.0	1,211.1	29.8	5.5	602.1	33.8	3.9	–	–	–	–	–	–
Copper concentrate	3,882.7	16.1	3.6	188.5	1.4	0.3	5,102.8	48.4	5.6	3,634.7	29.7	18.4	–	–	–
Other products[2]	–	24.6	5.6	–	12.6	2.3	–	20.3	2.3	–	3.1	1.9	–	11.4	3.5
Total[3]	–	439.7	100.0	–	544.7	100.0	–	869.1	100.0	–	161.5	100.0	–	326.3	100.0

Notes:

(1) Three months results ended 31 March 2006 were unaudited.

(2) Other products include cobalt products, precious metals such as gold, silver, platinum and palladium and by-products derived from our production. The sales volume of other products is not provided as different products are measured in different units.

(3) The total sales volume is not provided as different products are measured in different units.

Cost of sales

Cost of sales includes production costs, such as raw material costs, labour costs, third party subcontracting work costs, electricity and fuel costs, depreciation and amortisation, other manufacturing overhead as well as other costs. Major raw materials used in our production include nickel concentrate and small amount of sulphite matte. During the year of 2006 and in the first three months of 2007, approximately 81.0% and 84.5% of nickel content, and 94.7% and 96.7% of copper content of all the ores and metal concentrates used in the smelting operation at our Kalatongke Mine were supplied by our own mining and ore processing operations hence only a small portion of nickel content and copper content were originated from external sources.

The following table sets forth a breakdown of the Group's cost of sales for the periods indicated:

	For the year ended 31 December						For the three months ended 31 March			
	2004		2005		2006		2006		2007	
	(RMB million)	*(% of turnover)*	*(RMB million)*	*(% of turnover)*	*(RMB million)*	*(% of turnover)*	*(RMB million)* (unaudited)	*(% of turnover)*	*(RMB million)*	*(% of turnover)*
Total turnover	439.7	100.0%	544.7	100.0%	869.1	100.0%	161.5	100.0%	326.3	100.0%
Direct material — nickel concentrate and sulphite matte	0.0	0.0%	46.3	8.5%	118.9	13.7%	7.0	4.3%	32.7	10.0%
Other direct materials	59.1	13.4%	57.7	10.6%	57.9	6.7%	13.7	8.5%	6.2	1.9%
Direct labour	70.7	16.1%	79.0	14.5%	95.8	11.0%	14.5	9.0%	25.5	7.8%
Subcontracting work	19.8	4.5%	21.5	3.9%	21.9	2.5%	4.0	2.5%	3.6	1.1%
Electricity and fuel	42.3	9.6%	53.4	9.8%	57.8	6.7%	14.8	9.2%	14.2	4.4%
Depreciation and amortisation	20.9	4.8%	23.8	4.4%	29.5	3.4%	7.3	4.5%	7.7	2.3%
Other manufacturing overhead	10.3	2.3%	8.9	1.6%	10.0	1.1%	3.3	2.0%	3.5	1.1%
Inventory movement	(0.2)	(0.0)%	(25.1)	(4.6)%	(51.1)	(5.9)%	1.7	1.0%	25.8	7.9%
Tax and levy	3.5	0.8%	5.2	1.0%	7.7	0.9%	1.4	0.9%	3.1	1.0%
Total cost of sales	226.4	51.5%	270.7	49.7%	348.4	40.1%	67.7	41.9%	122.3	37.5%
Gross profit	213.3	48.5%	274.0	50.3%	520.7	59.9%	93.8	58.1%	204.0	62.5%

Gross profit and gross profit margin

Our Group's gross profit margin was approximately 48.5%, 50.3%, 59.9% and 62.5% for the three years ended 31 December 2006 and the three months ended 31 March 2007, respectively.

Selling and marketing expenses

Selling and marketing expenses primarily consist of salaries for employees of our sales force, social welfare benefits, office expenses, transportation and freight expenses, packaging costs, entertainment expenses and insurance costs. Selling and marketing expenses among different product lines may vary as our product mix changes.

Administrative expenses

Administrative expenses primarily consist of salaries payable to our employees responsible for management, social welfare benefits, insurance costs, labor union fees, on-the-job training fees, depreciation and amortisation, directors' fees, repair charges, research and development costs, quality control costs, design costs, legal fees, rent, travel and conference costs, consulting fees, provision for bad debts, land use fees, management fees payable to Xinjiang Non-ferrous, land and property taxes, mineral resources compensation fees, and housing provident funds.

Prior to the Reorganisation, our Kalatongke Mine and Fukang Refinery were fully-owned subsidiaries of Xinjiang Non-ferrous. Same as the other stated-owned enterprises, Xinjiang Non-ferrous charged a management fee to its subsidiaries each year before the Reorganisation. During the Track Record Period, we paid Xinjiang Non-ferrous RMB14.0 million and RMB29.3 million in 2004 and 2005, respectively. The payment of management fee was ceased since the establishment of our Company on 1 September 2005.

In accordance with the Provisions on the Administration of Collection of the Mineral Resources Compensation Fee (礦產資源補償徵收管理規定) promulgated by the State Council, our Group is required to pay mineral resources compensation fees twice every year to the relevant department of land and resources and the department of finance. Such fee is computed and collected based on a ratio of the sales income of mineral products. For details of the aforementioned provisions and fees, please refer to the section headed "Regulations". For the three years ended 31 December 2006 and the three months ended 31 March 2007, our Group's mineral resources compensation fees were approximately RMB1.3 million, RMB2.8 million, RMB4.7 million and RMB1.4 million, respectively.

Other income

Other income represents interest income and subsidy income.

Other (losses)/gains — net

Other (losses)/gains — net primarily consists of income from sales of scrap materials and waste residues, profit or loss on disposal and impairment of fixed assets.

Finance costs

Finance costs comprise interest expenses on bank loans and non-cash interest expense related to the interest-free mining rights payable using the effective interest method. This non-cash interest expense is to accrete the carrying amount of mining rights payable recognised in the balance sheet to the present value of the estimated future cash flows expected to be required for their settlement in the future.

Income tax expense

The provision for PRC current income tax is calculated based on the statutory income tax rate of 33% of the assessable income of each of the companies/branches now comprising the Group determined in accordance with the PRC Enterprise Income Tax Provisional Regulations (中華人民共和國企業所得稅暫行條例) for the Track Record Period, except for sales branch in Shanghai, which was taxed at preferential rate of 15% for the years ended 31 December 2004 and 2005 based on the relevant PRC tax laws and regulations. For details of the aforementioned regulation, please see Appendix VI — Taxation.

Our Company, except for Shanghai branch, was exempted from enterprise income tax from 2005 to 2006 pursuant to the approval obtained from Xinjiang Uygur Autonomous Region Government on the backdrop of the PRC Government's promotion of the western region's development since 2000 as well as our nickel and copper business fall within the encouraged category in the "Structural Adjustment of Industrial Policy Guidance Catalogues" (產業結構調整指導目錄). This tax exemption was further extended to 2010 pursuant to the approval and our Company will be reviewed annually to confirm the tax exemption for 2007 to 2010. Our PRC legal advisers have advised that the original approval authority is responsible to review our annual tax exemption.

Minority interests

Minority interests represent losses attributable to the minority shareholder of our subsidiary. The Group's 57% equity interest in Zhongxin Mining, the only subsidiary company of the Group, was disposed pursuant to an equity transfer agreement signed with an Independent Third Party on 30 April 2007.

Three months ended 31 March 2007 compared to three months ended 31 March 2006
(All figures referred to three months ended 31 March 2006 were unaudited figures)

Turnover

Turnover increased by approximately 102.0% from approximately RMB161.5 million for the three months ended 31 March 2006 to approximately RMB326.3 million for the three months ended 31 March 2007. This increase in revenue was primarily due to increases in sales volume and prices of nickel cathode.

Turnover from nickel cathode increased by approximately 198.0% from approximately RMB94.3 million for the three months ended 31 March 2006 to approximately RMB281.0 million for the three months ended 31 March 2007. This increase in revenue of nickel cathode was primarily due to an increase in sales volume and average selling price from approximately 799.5 tonnes and approximately RMB117,999 per tonne for the three months ended 31 March 2006 to approximately 943.3 tonnes and approximately RMB297,853 per tonne for the three months ended 31 March 2007, respectively. This represented an increase of approximately 18.0% and 152.4% in sales volume and average selling price, respectively.

Turnover from copper cathode decreased slightly by approximately 1.5% from approximately RMB34.4 million for the three months ended 31 March 2006 to approximately RMB33.9 million for the three months ended 31 March 2007. This decrease in revenue of copper cathode was primarily due to a 18.5% decrease in sales volume from approximately 870.8 tonnes for the three months ended 31 March 2006 to approximately 709.3 tonnes for the three months ended 31 March 2007, respectively. Average selling price increased by 21.3% from RMB39,454 per tonne for the three months ended 31 March 2006 to RMB47,863 per tonne for the three months ended 31 March 2007.

We either sell part of our copper concentrate directly to external customers or process the rest to produce raw copper. We did not record any turnover of raw copper and copper concentrate for the three months ended 31 March 2007 as we stockpiled approximately 4,235 tonnes of copper concentrate as at 31 March 2007 in anticipation of higher market price for copper concentrate in the rest of 2007. Further, we did not record any turnover of raw copper for the three months ended 31 March 2006 but we sold 3,635 tonnes of copper concentrate during the same period due to the strong market demand of copper concentrate in the first half of 2006. Turnover from copper concentrate was approximately RMB29.7 million for the three months ended 31 March 2006.

Turnover from other products increased by approximately 2.7 times from approximately RMB3.1 million for the three months ended 31 March 2006 to approximately RMB11.4 million for the three months ended 31 March 2007. This increase in revenue of other products was primarily due to an increase in the sales volume of cobalt products and ultra-fine nickel powder (超細鎳粉).

Cost of sales

Cost of sales increased by approximately 80.6% from approximately RMB67.7 million for the three months ended 31 March 2006 to approximately RMB122.3 million for the three months ended 31 March 2007. This increase in cost of sales was primarily due to an increase in sales volume of nickel cathode and the increase in outside purchase of direct material, namely nickel concentrate and sulphite matte, for the usage in our smelting operation at the Kalatongke Mine during the same period. The increase in outside purchase of direct material for the three months ended 31 March 2007 as compared with the same period ended 31 March 2006 was primarily due to the relatively smaller purchase volume in the first quarter of 2006. This was due to the annual overhaul of our only then supplier, namely Hami Huilong Minerals Co., Ltd. (哈密滙隆礦業有限責任公司), an Independent Third Party, in the first three months ended 31 March 2006. The following table sets forth the respective unit cost of sales of our major products for the three months ended 31 March 2006 and 31 March 2007:

	Three months ended 31 March		**Percentage**
	2006	**2007**	**change**
	(RMB per tonne)	*(RMB per tonne)*	
Unit cost of sales:			
Nickel cathode	56,900	97,203	70.8%
Copper cathode	16,861	28,716	70.3%
Raw copper	–*(Note)*	–*(Note)*	–*(Note)*
Copper concentrate	1,385	–*(Note)*	n.a.

Note: There were no sales during the period.

The unit cost of sales of nickel cathode increased by approximately 70.8% from RMB56,900 per tonne for the three months ended 31 March 2006 to approximately RMB97,203 per tonne for the three months ended 31 March 2007. The unit cost of sales of copper cathode increased by approximately 70.3% from approximately RMB16,861 per tonne for the three months ended 31 March 2006 to approximately RMB28,716 per tonne for the three months ended 31 March 2007. These increases were primarily due to (i) the increase in the direct labour cost as a result of overall pay rise and performance-linked bonus, and (ii) the increase in the cost and consumption volume of outside purchase of direct material which incurred higher unit costs than that supplied internally by our Kalatongke Mine. This was partially offset by a decrease in other direct materials from approximately RMB13.7 million for the three months ended 31 March 2006 to approximately RMB6.2 million for the three months ended 31 March 2007. Cost of direct labour accounted for approximately 9.0% and 7.8% of our total turnover for the three months ended 2006 and 2007, respectively.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased approximately 117.5% from approximately RMB93.8 million for the three months ended 31 March 2006 to approximately RMB204.0 million for the three months ended 31 March 2007. The gross profit margin for the three months ended 31 March 2007 was approximately 62.5%, representing an increase of approximately 4.4% compared with approximately 58.1% for the three months ended 31 March 2006.

Selling and marketing expenses

Our selling and marketing expenses decreased approximately 62.5% from approximately RMB3.2 million for the three months ended 31 March 2006 to approximately RMB1.2 million for the three months ended 31 March 2007. This decrease in selling and marketing expenses was primarily due to a decrease in transportation and freight expenses as a result of nil sales of copper concentrate for the three months ended 31 March 2007.

Administrative expenses

Our administrative expenses increased by approximately 22.0% from approximately RMB11.8 million for the three months ended 31 March 2006 to approximately RMB14.4 million for the three months ended 31 March 2007. This increase in administrative expenses was primarily due to an increase in staff cost and an increase in mineral resources compensation fees.

Other income

Other income increased from approximately RMB1.2 million for the three months ended 31 March 2006 to approximately RMB3.5 million for the three months ended 31 March 2007, representing an increase of approximately 191.7%. The increase was primarily due to an increase in interest income of approximately RMB2.2 million resulting from an increase in bank balances.

Finance costs

Our finance costs increased slightly from approximately RMB2.5 million for the three months ended 31 March 2006 to approximately RMB2.7 million for the three months ended 31 March 2007. This increase was primarily due to more bank loan interest expenses incurred by our only subsidiary company, Zhongxin Mining, in 2007. On 25 May 2007, we completed the disposal of all our 57% equity interest in Zhongxin Mining.

Income tax expense

Our Company did not incur any PRC enterprise income tax for the three months ended 31 March 2006 and 31 March 2007 as our Company obtained an exemption of payment of PRC enterprise income tax during the relevant periods. Our Shanghai Branch also did not generate any taxable income for the respective periods.

Net profit for the period and net profit margin

Our Group's net profit increased by approximately 143.4% from approximately RMB77.9 million for the three months ended 31 March 2006 to approximately RMB189.6 million for the three months ended 31 March 2007. Net profit margin for the three months ended 31 March 2006 was approximately 48.2% as compared to the net profit margin of approximately 58.1% for the three months ended 31 March 2007.

2006 compared to 2005

Turnover

Turnover increased by approximately 59.6% from approximately RMB544.7 million in 2005 to approximately RMB869.1 million in 2006. This increase in turnover was primarily due to the increase in average selling prices of nickel cathode, copper cathode and copper concentrate, and the increase in the sales volume of copper concentrate as a result of increased demand for our products.

Turnover from our nickel cathode increased by approximately 48.6% from approximately RMB407.0 million in 2005 to approximately RMB604.7 million in 2006. This increase in turnover of nickel cathode was primarily due to an increase in average selling price from approximately RMB122,291 per tonne in 2005 to approximately RMB183,033 per tonne in 2006. This represented an increase in 49.7% in average selling price.

Turnover from copper cathode increased by approximately 72.4% from approximately RMB93.9 million in 2005 to approximately RMB161.9 million in 2006. This increase in turnover of copper cathode was primarily due to the increase in average selling price of copper cathode by approximately 74.4% from approximately RMB29,865 per tonne in 2005 to approximately RMB52,087 per tonne in 2006.

Turnover from raw copper increased by approximately 13.4% from approximately RMB29.8 million in 2005 to approximately RMB33.8 million in 2006. This increase was primarily due to the increase in average selling price of raw copper by approximately 127.9% from approximately RMB24,632 per tonne in 2005 to approximately RMB56,125 per tonne in 2006. This increase was partly offset by the decrease in sales volume from approximately 1,211 tonnes in 2005 to approximately 602 tonnes in 2006. The decrease in sales volume of raw copper was a result of selling more copper concentrate instead of producing raw copper due to strong market demand of copper concentrate in the first half of 2006.

Turnover from copper concentrate increased significantly by 33.6 times from approximately RMB1.4 million in 2005 to approximately RMB48.4 million in 2006. This increase in turnover of copper concentrate was primarily due to an increase in sales volume and average selling price from approximately 188 tonnes and approximately RMB7,447 per tonne in 2005 to approximately 5,103 tonnes and approximately RMB9,492 per tonne in 2006, respectively. This represented a 26.1 times and 27.5% increase in sales volume and average selling price, respectively.

Turnover from our other products increased by approximately 61.1% from approximately RMB12.6 million in 2005 to approximately RMB20.3 million in 2006. This increase in turnover was principally attributable to the commencement of the sale of cobalt cathode and the increase in selling prices of precious metal in 2006.

Cost of sales

Cost of sales increased by approximately 28.7% from approximately RMB270.7 million in 2005 to approximately RMB348.4 million in 2006. This increase in cost of sales was primarily due to the increase in unit cost of sales of both nickel cathode and copper cathode. The following table sets forth the respective unit cost of sales of our major products in 2005 and 2006:

	2005	**2006**	**Percentage change**
	(RMB per tonne)	*(RMB per tonne)*	
Unit cost of sales:			
Nickel cathode	61,631	78,184	26.9%
Copper cathode	14,097	19,572	38.8%
Raw copper	10,864	8,775	(19.2)%
Copper concentrate	1,424	1,328	(6.7)%

The unit cost sales of nickel cathode increased by approximately 26.9% from approximately RMB61,631 per tonne in 2005 to approximately RMB78,184 per tonne in 2006. The unit cost of sales of copper cathode increased by approximately 38.8% from approximately RMB14,097 per tonne in 2005 to approximately RMB19,572 per tonne in 2006. These increases were primarily due to the increase in the costs and the outside purchase volume of direct material in 2006 which incurred higher unit costs than that supplied internally by our Kalatongke Mine. Cost of direct labour also increased from approximately RMB79.0 million in 2005 to approximately RMB95.8 million in 2006.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by approximately 89.9% from approximately RMB274.1 million in 2005 to approximately RMB520.6 million in 2006. The gross profit margin in 2006 was approximately 59.9%, representing an increase of approximately 9.6% compared with approximately 50.3% in 2005.

Selling and marketing expenses

Our selling and marketing expenses increased by approximately 120.6% from approximately RMB3.4 million in 2005 to approximately RMB7.5 million in 2006. This increase in selling and market expenses was primarily due to an increase in transportation and freight expenses as a result of increases in the sales volume of both copper cathode and copper concentrate to the provinces outside Xinjiang in 2006 as compared with 2005.

Administrative expenses

Our administrative expenses decreased by approximately 8.6% from approximately RMB71.7 million in 2005 to approximately RMB65.5 million in 2006. The decrease in administration expenses was primarily due to the termination of management fee payments to Xinjiang Non-ferrous effective from September 2005 amounted to approximately RMB29.3 million, which was offset by general increase in administration expenses as a result of, among others, increases in staff costs, legal and professional fees, mineral resources compensation fee and the inclusion of amortisation of land use rights for the first time in 2006.

Other income

Other income increased from approximately RMB3.0 million in 2005 to approximately RMB5.2 million in 2006. This increase was mainly due to an increase in interest income by approximately RMB2.0 million resulting from an increase in bank balance.

Other gains — net

Other net gains increased from a net loss of approximately RMB2.4 million in 2005 to a net gain of approximately RMB51,000 in 2006. The increase was primarily due to a decrease in impairment of property, plant and equipment by approximately RMB2.1 million.

Finance costs

Our finance costs increased by approximately 80.4% from approximately RMB5.6 million in 2005 to approximately RMB10.1 million in 2006. This increase was primarily due to an increase of non-cash interest expense related to the interest-free mining rights payable using the effective interest method. This non-cash interest expense is to accrete the carrying amount of mining rights payable recognised in the balance sheet to the present value of the estimated future cash flows expected to be required for their settlement in the future in 2006.

Income tax expense

Our income tax expense decreased from approximately RMB366,000 in 2005 to approximately RMB119,000 in 2006. Our Company is exempted from enterprise income tax from 2005 to 2010 pursuant to the approval upon annual review from Xinjiang Uygur Autonomous Region Government, except for Shanghai branch of our Company, which was taxed at a tax rate of 33% in 2006 and 15% in 2005.

Net profit for the year and net profit margin

Our Group's net profit increased by approximately 128.5% from approximately RMB193.7 million in 2005 to approximately RMB442.7 million in 2006. Net profit margin in 2005 was approximately 35.6% as compared to the net profit margin of approximately 50.9% in 2006.

Minority interests

We recorded a loss attributable to our minority interests in our then only subsidiary company of RMB1.3 million in 2006. The minority loss in 2006 was due to the pre-operating loss incurred by Zhongxin Mining, which was disposed by us pursuant to an equity transfer agreement signed with an Independent Third Party on 30 April 2007.

2005 compared with 2004

Turnover

Turnover increased by approximately 23.9% from approximately RMB439.7 million in 2004 to approximately RMB544.7 million in 2005. This increase in turnover was primarily due to an increase in the sales volume and price of both nickel cathode and copper cathode as a result of increased demand for both products.

Turnover from nickel cathode increased by approximately 30.0% from approximately RMB313.0 million in 2004 to approximately RMB407.0 million in 2005. This increase in turnover of nickel cathode was primarily due to an increase in sales volume and average selling price from approximately 2,710 tonnes and approximately RMB115,502 per tonne in 2004 to approximately 3,328 tonnes and approximately RMB122,291 per tonne in 2005, respectively. This represented an increase of approximately 22.8% and 5.9% in sales volume and average selling price, respectively. The increase in sales volume in 2005 was principally attributable to the expansion in the capacities of both Kalatongke Mine and Fukang Refinery in 2005.

Turnover from copper cathode increased by approximately 37.1% from approximately RMB68.5 million in 2004 to approximately RMB93.9 million in 2005. This increase in turnover of copper cathode was primarily due to the increase in average selling price in copper cathode from approximately RMB22,768 per tonne in 2004 to approximately RMB29,865 per tonne in 2005. This increase was also due to a slight increase in sales volume from approximately 3,008 tonnes in 2004 to approximately 3,144 tonnes in 2005.

Turnover from raw copper increased by approximately 70.2% from approximately RMB17.5 million in 2004 to approximately RMB29.8 million. This increase in turnover of raw copper was primarily due to an increase in sales volume and average selling price from approximately 780.5 tonnes and approximately RMB22,453 per tonne in 2004 to approximately 1,211 tonnes and approximately RMB24,632 per tonne in 2005, respectively. This represented an increase of approximately 55.2% and 9.7% in sales volume and average selling price, respectively.

Turnover from copper concentrate decreased by approximately 91.3% from approximately RMB16.0 million in 2004 to approximately RMB1.4 million in 2005. This significant decrease in turnover of copper concentrate was primarily due to a decrease in sales volume from approximately 3,883 tonnes in 2004 to approximately 188 tonnes in 2005. This decrease was partially offset by an increase in average selling price of RMB4,132 per tonne in 2004 to RMB7,447 per tonne in 2005. This represented a 95.2% decrease in sales volume and 80.2% increase in average selling price, respectively. Due to the then prevailing market conditions, instead of selling copper concentrate, we used a substantial part of our copper concentrate to produce raw copper in 2005 when it was more profitable to sell raw copper.

Turnover from other products decreased by approximately 48.8% from approximately RMB24.6 million in 2004 to approximately RMB12.6 million in 2005. This decrease in turnover of other products was primarily due to the decrease in the sales volume and the average selling price of one of our cobalt products, namely oxidised cobalt, from approximately 45 tonnes and approximately RMB232,036 per tonne, respectively in 2004 to approximately 4.4 tonnes and approximately RMB190,978 per tonne, respectively in 2005 as the prices of cobalt products were not favourable in 2005.

Cost of sales

Cost of sales increased by approximately 19.6% from approximately RMB226.4 million in 2004 to approximately RMB270.7 million in 2005. The increase in cost of sales was primarily due to an increase in sales volume and outside purchase of direct material which incurred higher unit costs than that supplied internally by our Kalatongke Mine, commencing from April 2005. The increase in cost of sales was also due to the first-time inclusion of amortisation expenses in our mining rights in 2005. No amortisation expense was recorded prior to the Reorganisation upon which the mining rights were acquired by us. Prior to such acquisition, our predecessor company (being Xinjiang Non-ferrous Kalatongke Mine) was entitled to use the mining rights at no cost. The following table sets forth the respective unit cost of sales of our major products in 2004 and 2005:

	2004	**2005**	**Percentage change**
	(RMB per tonne)	*(RMB per tonne)*	
Unit cost of sales:			
Nickel cathode	57,229	61,631	7.7%
Copper cathode	12,739	14,097	10.7%
Raw copper	10,589	10,864	2.6%
Copper concentrate	1,398	1,424	1.9%

The unit cost of sales of nickel cathode increased by approximately 7.7% from approximately RMB57,229 per tonne in 2004 to approximately RMB61,631 per tonne in 2005. The unit cost of sales of copper cathode increased by approximately 10.7% from approximately RMB12,739 per tonne in 2004 to RMB14,097 per tonne in 2005. These increases were mainly due to the commencement of procurement of nickel concentrate and sulphite matte from external sources in April 2005 in order to utilise the increased production capacity of our Kalatongke Mine and Fukang Refinery. Cost of electricity and fuel also increased from approximately RMB42.3 million in 2004 to approximately RMB53.4 million in 2005 as a result of the increased production capacity of our Kalatongke Mine and Fukang Refinery.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by approximately 28.5% from approximately RMB213.3 million in 2004 to approximately RMB274.1 million in 2005. The gross profit margin in 2005 was approximately 50.3%, representing an increase of approximately 1.8% compared with approximately 48.5% in 2004.

Selling and marketing expenses

Our selling and marketing expenses decreased by approximately 5.6% from approximately RMB3.6 million in 2004 to approximately RMB3.4 million in 2005. This slight decrease in selling and marketing expenses was primarily due to the decrease in entertainment expenses.

Administrative expenses

Our administrative expenses increased by approximately 92.2% from approximately RMB37.3 million in 2004 to approximately RMB71.7 million in 2005. This increase in administrative expenses was primarily due to an increase in the management fees payable by Xinjiang Non-ferrous Kalatongke Mine and Xinjiang Non-ferrous Fukang Plant to Xinjiang Non-ferrous of approximately RMB15.3 million, and an increase in staff cost of approximately RMB15.5 million as a result of business expansion.

Other losses — net

Other net losses increased from approximately RMB1.0 million in 2004 to approximately RMB2.4 million in 2005. The increase in other net losses was primarily due to an increase in impairment of property, plant and equipment.

Finance costs

Our finance costs increased by approximately 33.0% from approximately RMB4.2 million in 2004 to approximately RMB5.6 million in 2005. This increase was primarily due to an increase of non-cash interest expense related to the interest-free mining rights payable using the effective interest method. This non-cash interest expense is to accrete the carrying amount of mining rights payable recognised in the balance sheet to the present value of the estimated future cash flows expected to be required for their settlement in the future in 2005.

Income tax expense

Our income tax expense decreased significantly from approximately RMB57.5 million in 2004 to approximately RMB366,000 in 2005 because we, apart from the Shanghai Branch which was subject to an income tax rate of 15% in 2004 and 2005, were exempted from paying PRC enterprise income tax in 2005. Income tax for 2004 was provided at a statutory rate of 33% of the Group's assessable profits.

Net profit for the year and net profit margin

Our Group's net profit increased by approximately 72.0% from approximately RMB112.6 million in 2004 to approximately RMB193.7 million in 2005. Net profit margin in 2004 was approximately 25.6% as compared to the net profit margin of approximately 35.6% in 2005.

Liquidity and capital resources

Our cash needs are primarily due to property, plant and equipment purchases, costs and expenses relating to operating activities and bank loans repayment. We have historically received our cash resources from short-term and long-term bank loans, operating activities and capital contribution from equity holders. We have generated net inflow of cash of RMB98.5 million, RMB171.8 million and RMB235.0 million in 2004, 2005 and 2006, respectively. For the three months ended 31 March 2007, we have spent a net cash outflow of RMB228.0 million.

Our debt primarily consists of bank loans and long-term payable mainly relating to mining rights. As at 31 March 2007, our short-term debt balance was RMB44.8 million and the current portion of long-term debt was RMB15.6 million which, when combined, accounted for 26.0% of our total debt. The annual interest rate for our debt is between 6.12% and 7.11%.

Taking into account our credit status and available capital in China, we believe we will continue to have adequate sources for additional bank loans. We plan to fund the capital expenditures and related expenses described in this prospectus with cash from operating activities, the net proceeds from the Global Offering and short-term and long-term loans. We believe we have sufficient working capital to meet our present needs.

Cash flows

The following table sets forth certain information regarding our consolidated cash flows for the periods indicated:

	For the year ended 31 December			For the three months ended 31 March	
	2004	**2005**	**2006**	**2006**	**2007**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)* (unaudited)	*(RMB'000)*
Net cash inflows from operating activities	223,969	190,862	459,046	92,729	211,791
Net cash outflows from investing activities	(27,044)	(43,284)	(207,793)	(19,774)	(41,656)
Net cash inflows/(outflows) from financing activities	(98,422)	24,223	(16,239)	(105,205)	(398,165)
Net increase/(decrease) in cash and bank balances	98,503	171,801	235,014	(32,250)	(228,030)
Cash and bank balances at beginning of year/period	57,164	155,667	327,468	327,468	562,482
Cash and bank balances at end of year/period	155,667	327,468	562,482	295,218	334,452

Net cash flows from operating activities

Our principal source of liquidity is cash generated from operating activities. Net cash inflows from operating activities increased by approximately RMB119.1 million from approximately RMB92.7 million for the three months ended 31 March 2006 to approximately RMB211.8 million for the same period in 2007. This significant increase was mainly due to a year-on-year increase of RMB108.9 million in operating profit before working capital changes for the three months ended 31 March 2007 as a result of increased sales price and volume of nickel cathode.

Net cash inflows from operating activities increased by approximately RMB268.1 million from approximately RMB190.9 million in 2005 to approximately RMB459.0 million in 2006. Such increase was mainly due to an approximate RMB256.2 million increase in operating profit before working capital changes from approximately RMB228.9 million in 2005 to approximately RMB485.1 million in 2006 as a result of increased sales price of our products. In addition, the increase was also due to a decrease in accounts and bills receivable amounting to approximately RMB21.7 million in 2006, as compared to approximately RMB6.8 million increase in accounts and bills receivables in 2005 resulting from more stringent debtor management policy.

Net cash inflows from operating activities decreased by approximately RMB33.1 million from approximately RMB224.0 million in 2004 to approximately RMB190.9 million in 2005. This was mainly due to (i) an increase in inventories amounting to approximately RMB39.3 million in 2005, as compared to approximately RMB9.5 million decrease in inventories in 2004 resulting from the change in demand and price outlook for nickel and copper products; (ii) a decrease in other receivables amounting to approximately RMB13.9 million in 2005, as compared to approximately

RMB108.4 million decrease in other receivables in 2004 resulting from the decrease in the amount due from Xinjiang Non-ferrous. This was partly offset by (i) an approximately RMB29.2 million increase in operating profit before working capital changes from approximately RMB199.7 million in 2004 to approximately RMB228.9 million in 2005 as a result of increased sales price and volume of our products; (ii) a decrease in income tax paid amounting to approximately RMB1.0 million in 2005, as compared to approximately RMB54.2 million in 2004; and (iii) a decrease in payable of RMB2.2 million in 2005 as compared to approximately RMB34.0 million decrease in payable in 2004.

Net cash flows from investing activities

Our net cash used in investing activities was primarily affected by our purchase on property, plant and equipment and construction in progress.

Net cash spent in investing activities increased by approximately RMB21.9 million from approximately RMB19.8 million for the three months ended 31 March 2006 to approximately RMB41.7 million for the same period ended 2007. This was mainly due to an increase in cash used for purchase of property, plant and equipment from approximately RMB20.0 million for the three months ended 31 March 2006 to approximately RMB44.7 million for the three months ended 31 March 2007 as a result of the technical improvement projects to expand existing nickel production capacity.

Net cash spent in investing activities increased by approximately RMB164.5 million from approximately RMB43.3 million in 2005 to approximately RMB207.8 million in 2006. This was mainly due to an increase in cash spent in payments of approximately RMB133.6 million for construction in progress of Fukang Refinery and Kalatongke Mine regarding the technical improvement projects for nickel production capacity and approximately RMB67.0 million for construction in progress of Zhongxin Mining.

Net cash spent in investing activities increased by approximately RMB16.3 million from approximately RMB27.0 million in 2004 to approximately RMB43.3 million in 2005. This was mainly due to the cash from disposal of subsidiaries and associates totalling RMB20.0 million in 2004 while there was none for 2005.

Net cash flows from financing activities

Our cash flows from financing activities was primarily affected by capital injections, profit distribution to Xinjiang Non-ferrous, dividends paid and bank loans. Net cash outflows to financing activities was approximately RMB105.2 million for the three months ended 31 March 2006 while the net outflows was approximately RMB398.2 million for the same period in 2007. This was mainly due to a dividend paid in the amount of approximately RMB385.0 million for the three months ended 31 March 2007 which was partly offset by a decrease in profit distribution to Xinjiang Non-ferrous of approximately RMB110.6 million, from RMB123.6 million for the three months ended 31 March 2006 to RMB13.0 million for the same period in 2007.

Net cash flows from financing activities decreased by approximately RMB40.4 million from a net inflows of approximately RMB24.2 million in 2005 to a net outflows of approximately RMB16.2 million in 2006. This was mainly due to (i) the profit distribution to Xinjiang Non-ferrous of RMB123.6 million paid in 2006 as compared with RMB84.0 million in 2005; and (ii) capital contribution from shareholders of RMB29.0 million and capital contribution from minority shareholders in Zhongxin Mining of RMB28.4 million in 2006 as compared with capital contribution from shareholders of RMB154.2 million in 2005 but partly offset by net proceeds from borrowings of RMB50.0 million in 2006 as compared with net repayments to borrowings of RMB46.0 million in 2005.

Net cash flows from financing activities increased by approximately RMB122.6 million from a net outflows of approximately RMB98.4 million in 2004 to net inflows of approximately RMB24.2 million in 2005. This was mainly due to the cash contribution of RMB154.2 million by shareholders of our Company at the time of its establishment in September 2005, which was partially offset by the increase in net bank loan repayments amounting to approximately RMB36.0 million in 2005 as compared with that in 2004.

Analysis of inventories

Our inventories included raw materials such as nickel concentrate and other chemicals (worth approximately RMB10.9 million, RMB25.1 million, RMB36.0 million and RMB27.8 million), work-in-progress and semi-finished goods such as nickel matte, regular ore and high grade ore (worth approximately RMB34.5 million, RMB51.5 million, RMB82.4 million and RMB75.9 million) and finished goods such as nickel cathode and copper cathode (worth approximately RMB19.3 million, RMB26.2 million, RMB45.0 million and RMB27.0 million), for the three years ended 31 December 2006 and the three months ended 31 March 2007, respectively.

The following table shows a summary of the average inventory turnover days for the respective year/period as shown below.

	For the year ended 31 December			**For the three months ended 31 March**
	2004	**2005**	**2006**	**2007**
	(days)	*(days)*	*(days)*	*(days)*
Inventory turnover days *(Note)*	107	113	139	110

Note: Inventory turnover days equal average inventory divided by costs of sales and multiplied by 365 days or the numbers of days for the period generating the sales. Average inventory equals the sum of inventory at the beginning of the year/period and inventory at the end of the year/period divided by two.

Our inventory turnover days ranged from 107 days to 113 days throughout the Track Record Period except inventory turnover for the year ended 31 December 2006 increased to 139 days which was mainly due to the increase in inventory values as a result of (i) increase in purchase price of the direct material; and (ii) increase of our order of these direct materials in anticipation of the upward price trend of nickel and copper towards the end of 2006.

Analysis of trade receivables and trade payables

Our trade receivables represent receivables from the sale of products, and our trade payables represent the payables from the purchase of direct material from different suppliers. The following table shows our turnover of average trade receivables and average trade payables:

	For the year ended 31 December			For the three months ended 31 March
	2004	**2005**	**2006**	**2007**
	(days)	*(days)*	*(days)*	*(days)*
Trade receivables' turnover days *(Note 1)*	12.8	12.5	4.9	0.4
Trade payables' turnover days *(Note 2)*	53.9	45.9	51.1	38.3

Notes:

(1) Trade receivables' turnover days equal average trade receivables divided by turnover and multiplied by 365 days or the numbers of days for the period generating the sales. Average trade receivables equal the sum of trade receivables at the beginning of the year/period and trade receivables at the end of the year/period divided by two.

(2) Trade payables' turnover days equal average trade payables divided by cost of sales and multiplied by 365 days or the numbers of days for the period generating the sales. Average trade payables equal the sum of trade payables at the beginning of the year/period and trade payables at the end of the year/period divided by two.

Our customers are generally required to pay us in full before delivery of our products. But we have a small number of long-term customers who occasionally requested us to grant a credit period up to approximately a week which resulted in the existence of trade receivables.

Our trade receivables' turnover days decreased over the Track Record Period, from 12.8 days in 2004 to 0.4 days in the first three months of 2007. The decrease from 12.8 days in 2004 to 12.5 days in 2005 to 4.9 days in 2006 and further to 0.4 days for the three months ended 31 March 2007 was mainly due to the robust demand of our finished goods, which gave us stronger bargaining power to request immediate cash settlements from more of our customers.

Our creditors' turnover days ranged from 53.9 days in 2004 to 45.9 days in 2005 and to 51.1 days in 2006. Such range only varied within few days and was considered in line with our payment pattern. For the three months ended 31 March 2007, the creditors' turnover days reduced to 38.3 days mainly due to seasonal payments to certain suppliers before Chinese New Year.

The impairment provisions of accounts receivable for the three years ended December 2006 and three months ended March 2007 were RMB3.5 million, RMB4.1 million, RMB3.5 million and RMB3.7 million, respectively.

OTHER RECEIVABLES, PREPAYMENTS AND OTHER CURRENT ASSETS

Our bills receivable in 2007 mainly comprised bank-accepted bills endorsed by Xinhao, our largest customer throughout the Track Record Period. In anticipation of its expanded transaction volume in 2007, Xinhao made use of its good credit track record to arrange bank-accepted bills (which were fully backed by the State-owned banks) to pay us. We accepted such bank-accepted bills due to our long-term relationship with Xinhao and the risk-free nature of such bank-accepted bills. As at the Latest Practicable Date, all bills receivable have been fully settled.

Other receivables mainly comprised interest-free advances to, or temporary payments made on behalf of, fellow subsidiary companies prior to the Reorganisation. Other receivables decreased significantly from RMB32.4 million in 2004 to RMB17.5 million in 2005 and further decreased to RMB0.6 million in 2006. This was due to the progressive settlements of other receivables by related parties in 2005 and 2006 after the Reorganisation. Other receivables increased from RMB0.6 million in 2006 to RMB1.7 million in March 2007, mainly due to an increase in other receivables from the independent third parties. Advances to suppliers increased significantly in 2007 primarily due to increase in raw material prepayments made to the independent third party suppliers including Hami Jiatai Mining Resources Development Co., Ltd. (哈密佳泰礦產資源開發有限公司) and Hunan Xiangtan Municipality Yangguang Metals Co., Ltd (湖南湘潭縣陽光金屬有限公司).

EFFECTS OF THE NEW MINING RIGHTS TRANSFER AGREEMENT

On 25 July 2007, our Company entered into the New Mining Rights Transfer Agreement with Xinjiang LRD which details are set out in the paragraph headed “Mining rights” in the “Business” section. Assuming the New Mining Rights Transfer Agreement was entered in September 2005 (being the month in which our Company entered into the Mining Rights Transfer Agreement with Xinjiang Non-ferrous), (i) the finance costs of the Group would have increased by RMB2,813,000, RMB8,214,000 and RMB2,146,000 for the two years ended 31 December 2006 and the three months ended 31 March 2007, respectively; (ii) the long-term mining rights payable would have increased by RMB118,699,000, RMB113,699,000 and RMB115,845,000 as at 31 December 2005 and 2006 and 31 March 2007, respectively; and (iii) the net assets would have decreased by RMB178,472,000, RMB186,675,000 and RMB188,818,000 as at 31 December 2005 and 2006 and 31 March 2007, respectively. Nevertheless, the carrying value of the mining rights and the related amortisation expenses would not have any significant difference.

ACCRUED TAXES OTHER THAN INCOME TAX

Accrued taxes other than income tax mainly comprised payables relating to value added tax, city construction tax, individual income tax and others. Accrued taxes other than income tax for the three years ended 31 December 2006 and three months ended 31 March 2007 were RMB26.9 million, RMB2.1 million, RMB8.9 million and RMB28.5 million, respectively. During the same period as above, value added tax accounted for approximately 93.5%, nil, 54.5% and 76.9% of accrued taxes other than income tax.

The fluctuation in accrued taxes other than income tax during the Track Record Period was primarily due to the fluctuation in the value added tax payable. The fluctuation in the value added tax payable was resulted from sales and purchase in the year end or period end.

RESOURCE TAX

For the Track Record Period, we have paid resource tax, accounted for approximately RMB261,000, RMB318,000, RMB457,000 and RMB55,000, respectively. The MOF and the State Administration of Taxation of the PRC issued a new notice on 5 July 2007 to increase the resource tax rates of non-ferrous metal ore. Pursuant to the new notice, which has been effective since 1 August 2007, resource tax for our mine has increased by RMB4.2 per tonne of ore. Based on our estimated annual mining capacity of 300,000 tonnes in 2007 (assuming 1,000 tonnes per day for 300 days), the maximum net increase of resource tax that would have been paid due to the increase of resource tax rate, amounts to RMB1.26 million. The Directors consider that such increase does not have any significant impact to our financials.

GOVERNMENT GRANTS

During the Track Record Period, we received certain government grants for the following projects. Details of such grants are as follows:

Project	Department of Approval
In-depth exploration project of West Section of Area One Bed No.2	Land and Resources Department of Autonomous Region Treasury Depart of Autonomous Region
Exploration project of mine replacement resources	The Management Office of Resources Replacement and Mine Finding in Mines with Crisis of State (全國危機礦山接替資源找礦項目管理辦公室)
Technical innovation fund	Finance Department under Economic and Trade Committee of Autonomous Region

As at 31 March 2007, all these projects were still in progress. The Directors confirmed that our Company has fulfilled all the conditions for the entitlement of such grants. These government grants are considered and approved on a project basis and not a continuing basis. These government grants were included in non-current liabilities as deferred income and will be credited to income statement on a straight-line basis over the expected lives of the related asset or when the project completed.

GEARING RATIO

The following table sets out a summary of our gearing ratio for the Track Record Period:

	As at 31 December			As at 31 March
	2004	**2005**	**2006**	**2007**
	(%)	*(%)*	*(%)*	*(%)*
Gearing ratio *(Note 1)*	18.6	5.3	6.7	7.7 *(Note 2)*

Note 1: Gearing ratio equals total bank loans and other loans divided by total assets multiplied by 100%.

Note 2: Represented a RMB60 million long-term bank loan (of which RMB10 million was the current portion) to Zhongxin Mining, which was previously a subsidiary of our Company and subsequently disposed of by our Company pursuant to the equity transfer agreement signed with an Independent Third Party on 30 April 2007.

The decrease in gearing ratio from 18.6% in 2004 to 5.3% in 2005 was mainly due to the increase in total assets resulting from the acquisition of the mining rights of approximately RMB297.3 million in 2005 and an increase in cash and bank balance arising from increase in operating profit. Our gearing ratios remained extremely low throughout the rest of the Track Record Period as our Company incurred low level of bank and other indebtedness.

WORKING CAPITAL

Taking into account the financial resources available to our Company, including internally-generated funds, the available banking facilities and the estimated net proceeds of the Global Offering, and in the absence of unforeseen circumstances, our Directors are of the opinion that our Company has sufficient working capital for our present requirements and for the period ending 12 months from the date of this prospectus.

INDEBTEDNESS

As at 31 December 2006, we were indebted to China Huarong Asset Management Co., Ltd. Urumqi Branch ("Huarong") and China Cinda Asset Management Co., Ltd. Urumqi Branch ("Cinda") for the sum of RMB22,450,000 ("Huarong Loan") and RMB22,350,000 ("Cinda Loan"), respectively. The Huarong Loan and the Cinda Loan were previously owed by Xinjiang Non-ferrous Kalatongke Mine to the Industrial and Commercial Bank of China Xinjiang Branch ("ICBC") and the China Construction Bank Fuyun County Branch ("CCB"), respectively. In 2002, ICBC and CCB assigned the Huarong Loan and the Cinda Loan to Huarong and Cinda, respectively. The Xinjiang Non-ferrous Group provided a guarantee ("Huarong Guarantee") amounting to RMB5,000,000 for securing Huarong Loan. In 2002, Xinjiang Non-ferrous entered into certain debt restructuring arrangements with its lenders including Huarong and Cinda. Pursuant to such arrangements, Huarong and Cinda had the right to convert loans owed to them by the Xinjiang Non-ferrous Group (including the Huarong Loan and the Cinda Loan) into equity of Xinjiang Non-ferrous (the "debt-to-equity arrangement') and as a result, the interest on the Huarong Loan and the Cinda Loan had been suspended since March 2002. Such right of conversion under the debt-to-equity arrangement has never been exercised by Huarong and Cinda. In 2005, Xinjiang Non-ferrous injected its assets and liabilities including the Huarong Loan and the Cinda Loan into us in connection with the Reorganisation. We therefore assumed the Huarong Loan and the Cinda Loan. In May 2007, SASAC, MOF and the China Banking Regulatory Commission jointly consented to the cessation of the debt-to equity arrangement. Pursuant to the debt restructuring agreement entered into between our Company, Xinjiang Non-ferrous and Huarong on 23 July 2007, the Huarong Loan was transferred by us to Xinjiang Non-ferrous at face value of the loans and the Huarong Guarantee was released at the same time. The Cinda Loan was transferred by us to Xinjiang Non-ferrous on 24 July 2007 at face value of the loans. In return, we paid Xinjiang Non-ferrous RMB44,800,000 on 25 July 2007.

As at 31 March 2007, our Company provided guarantees in favour of the Xinjiang Non-ferrous Group for the sum of RMB57,790,000, representing previous guarantees granted by Xinjiang Non-ferrous Kalatongke Mine and Xinjiang Non-ferrous Fukang Plant for the debt owed by Xinjiang Non-ferrous Group to Huarong. Pursuant to the aforementioned debt restructuring agreement, the guarantees provided by our Company to the Xinjiang Non-ferrous Group were also released on 23 July 2007. See Notes 18 and 38 of Appendix I — Accountants' Report for further details.

The following table sets forth our indebtedness as of the dates presented:

	As at 31 December			As at 31 March	As at 31 July
	2004	**2005**	**2006**	**2007**	**2007**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*	*(RMB'000)* (unaudited)
Short-term borrowings					
— Bank loans	56,000	10,000	10,000	10,000	—
— Other loans	44,800	44,800	44,800	44,800	—
Long-term borrowings					
— Bank loans	—	—	50,000	50,000	—
Total	100,800	54,800	104,800	104,800	—

We did not have, at the close of business on 31 July 2007, any loan capital or debt securities issued or agreed to be issued, outstanding bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits, finance leases or hire purchase commitments or guarantees or material contingent liabilities.

The Directors have confirmed that our Company did not have any unutilised banking facilities as at the Latest Practicable Date. The Directors believe that, in view of the strong financial position, our Company is able to conveniently secure external funding should the need arise.

The Directors have confirmed that there have been no material changes in our indebtedness since 31 July 2007.

CONTINGENT LIABILITIES

	As at 31 March 2007	As at 31 July 2007
	(RMB'000)	*(RMB'000)* (unaudited)
Guarantee provided to Xinjiang Non-ferrous Group	57,790	—

This guarantee was discharged on 23 July 2007. The Directors have confirmed that there has no material change in our contingent liabilities since 31 July 2007.

CAPITAL COMMITMENTS

As at 31 March 2007 and 31 July 2007, the capital commitments of our Company and its subsidiary are as follows:

	As at 31 March 2007 *(RMB'000)*	As at 31 July 2007 *(RMB'000)* (Unaudited)
Contracted but no provided for:		
— acquisition of property, plant and equipment	50,608	53,694
Authorised but not contracted for:		
— acquisition of property, plant and equipment	942,463	845,879
	993,071	899,573

The following table sets out a breakdown of the capital commitments (authorised but not contracted for) for the acquisition of property, plant and equipment:

	As at 31 March 2007			As at 31 July 2007		
	Buildings *(RMB'000)*	Machinery and equipment *(RMB'000)*	Total *(RMB'000)*	Buildings *(RMB'000)* (Unaudited)	Machinery and equipment *(RMB'000)* (Unaudited)	Total *(RMB'000)* (Unaudited)
Kalatongke Mine	379,324	434,257	813,581	29,231	367,892	397,123
Fukang Refinery	42,306	23,812	66,118	13,139	435,617	448,756
Zhongxin Mining	14,785	47,979	62,764	—	—	—
Total	436,415	506,048	942,463	42,370	803,509	845,879

Of the total of RMB942,463,000, approximately 86.3% or RMB813,581,000 was related to the technical improvement project (in particular, the capacity expansion of ore processing and smelting operation) at Kalatongke Mine. Approximately 6.7% or RMB62,764,000 was related to Zhongxin Mining which was subsequently disposed of by our Company pursuant to the equity transfer agreement signed with an Independent Third Party on 30 April 2007.

We plan to fund our capital commitments with cash from operating activities, proceeds from the Global Offering and short-term and long-term indebtedness. Of the above capital commitments, approximately RMB60.1 million have been financed by internal cash resources prior to the completion of the Global Offering and the rest will be financed by proceeds from the Global Offering. The Directors confirmed that our Company will have sufficient resources to fund our capital commitments.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We are, in the normal course of business, exposed to market risks relating primarily to fluctuations in commodity prices, as well as credit risks and interest rate risks. Our risk management strategy aims to minimise the adverse effects of these risks on our financial performance.

Commodity price risk

The prices of our products are impacted by international and domestic market prices and changes in global supply and demand for such products. Fluctuations in both global and domestic prices and demand for our products are beyond our control. Price volatility of non-ferrous metals is also affected by the global and PRC economic cycles as well as the fluctuations of the global currency markets. As the pricing of our products correlates with global and domestic non-ferrous metal prices, any significant decrease in non-ferrous metal prices may materially and adversely affect our financial condition and results of operations.

Raw material price risk

We face raw materials price risk as prices of raw materials such as nickel concentrate and sulphite matte may fluctuate, depending on the demand and supply of these raw materials. The quantity of raw materials purchased is affected by the purchase price and our relationship with suppliers. Our Directors believe that we have a good long-term business relationship with our suppliers which facilitates stable supply of these raw materials.

Interest rate risk

We are exposed to risks resulting from fluctuations in interest rates on our debt. We undertake debt obligations to support general corporate purposes, including capital expenditures and working capital needs. Our bank loans bear interest rates that are subject to adjustment by our lenders in accordance with changes to the relevant PBOC regulations. If the PBOC increases interest rates, our finance cost will be increased. In addition, to the extent that we may need to raise debt financing in the future, upward fluctuations in interest rates will increase the cost of new debt. To date, we have not entered into any type of interest rate agreements or derivatives to hedge against interest rate changes.

Foreign exchange risk

The transactions of our Company's products are all denominated in Renminbi. Therefore, fluctuations in exchange rates may affect the international and domestic non-ferrous metal prices, which may impact our results of operation. The conversion of Renminbi into foreign currencies, including the U.S. dollar and the Hong Kong dollar, has been based on rates set by the PBOC. On 21 July 2005, the PRC government changed its decade-old policy of pegging the value of Renminbi to the U.S. dollar. Under the new policy, Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. While the international reaction to the Renminbi revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of Renminbi against the U.S. dollar and Hong Kong dollar which is pegged with the U.S. dollar. Fluctuations in exchange rates may adversely affect the value, translated or converted into Hong Kong dollars, of our net assets, earnings and any dividends we declare. Please refer to the paragraph headed "Changes in foreign exchange regulations in the PRC may adversely affect our results of operations" in the section headed "Risk Factors" of this prospectus.

Inflation risk

In recent years, the PRC has not experienced significant inflation, and thus inflation has not had a significant effect on our business during the Track Record Period. According to the National Bureau of Statistics of the PRC, the changes in the consumer price index in the PRC were 3.9%, 1.8% and 1.5% for the years 2004, 2005 and 2006 respectively. We have not been materially and adversely affected by the recent inflationary and deflationary pressures in the PRC.

HISTORICAL AND PLANNED CAPITAL EXPENDITURE

Our principal capital expenditure relates to the provision of construction work, purchases of equipment and materials with regard to our development and expansion projects. The following table sets forth our historical capital expenditure for the Track Record Period.

	For the year ended			For the three months ended 31 March
	2004	**2005**	**2006**	**2007**
	(RMB'000)	*(RMB'000)*	*(RMB'000)*	*(RMB'000)*
Mining, ore processing and smelting operations in the Kalatongke Mine	25,189	34,472	73,526	16,945
Refining operation in the Fukang Refinery	29,520	11,548	82,706	12,158
Smelting operations in Hami[Note]	—	—	77,072	5,364
Total	54,709	46,020	233,304	34,467

Note: We completed the disposal of Zhongxin Mining on 25 May 2007.

Our total capital expenditure decreased by 18.9%, from RMB54.7 million in 2004 to RMB46.0 million in 2005, and increased by approximately four times to RMB233.3 million in 2006. We used our capital expenditure primarily to expand our production capacities and to improve our mining and processing technology, including, among others, exploration in the surrounding area of Kalatongke Mine. In the first three months ended 31 March 2007, we further spent approximately RMB17 million in Kalatongke Mine, approximately RMB12.2 million for the expansion of the refinery operation in the Fukang Refinery and approximately RMB5.4 million in the smelting operation in Hami. We completed the disposal of Zhongxin Mining on 25 May 2007.

We plan to expend approximately RMB868.9 million on our mining and ore processing, smelting and refining operations up to the end of 2009:

Capital expenditure	For the year ending 31 December 2007		2008		2009		Total	
	(RMB million)	*(%)*	*(RMB million)*	*(%)*	*(RMB million)*	*(%)*	*(RMB million) (Note)*	*(%)*
Mining and ore processing operations	164.0	77.1	137.1	29.2	80.6	43.2	381.7	43.9
Smelting operation	5.0	2.3	293.1	62.5	96.2	51.5	394.3	45.4
Refining operation	43.8	20.6	39.1	8.3	10.0	5.4	92.9	10.7
Total	212.8	100.0	469.3	100.0	186.8	100.0	868.9	100.0

Note: Of these expenditure for our mining and ore processing, smelting, and refining operations, we plan to expend approximately RMB78.1 million, RMB200.3 million, and RMB32.5 million, respectively, during the three years ending 31 December 2009 for the purchase of production equipment and the construction of production facilities which are environment-friendly and which we believe will enhance the health and safety of our employees.

We plan to finance such capital expenditure out of the net proceeds available to us from the Global Offering, our cash and cash equivalents on hand, available banking facilities and cash generated from future operations. Please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus.

Our current plan with respect to future capital expenditure is subject to change based upon the evolution of our business plan, including potential acquisitions, the progress of our capital projects, market conditions and our outlook on future business conditions. Other than as required by law and the Listing Rules, we do not undertake any obligation to publish updates of our capital expenditure plans.

DISTRIBUTABLE RESERVES

In accordance with the Articles of Association, upon the listing of the H Shares, our Company declares dividends based on the lower of retained profits as reported in accordance with PRC accounting principles and that reported in accordance with the HKFRS after deduction of the current year's appropriations to the statutory reserves. According to the statutory financial statements prepared in accordance with PRC accounting principles and the financial statements prepared in accordance with the HKFRS, the retained profits available for distribution as of 31 March 2007 amounted to approximately RMB235.6 million and RMB242.8 million, respectively.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and unaudited pro forma statement of adjusted net tangible assets of the Group which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 31 March 2007. The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as at 31 March 2007 or any future date.

	Audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 March 2007	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted net tangible assets of the Group	Unaudited pro forma adjusted net tangible assets per Share	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
	(note 1)	*(note 2)*		*(note 3)*	*(note 4)*
Based on an offer price of HK$6.50 per Share	924,138	3,607,248	4,531,386	2.14	2.21
Based on an offer price of HK$4.80 per Share	924,138	2,647,619	3,571,757	1.68	1.73

Notes:

(1) The audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 March 2007 is extracted from the accountants' report as set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group as at 31 March 2007 of RMB924,232,000 with an adjustment for the intangible assets as at 31 March 2007 of RMB94,000 respectively.

(2) The estimated net proceeds from the Global Offering are based on indicative offer prices of HK$6.50 and HK$4.80 per Share respectively, after deduction of the underwriting fees and other related expenses payable by the Company and takes no account of any Shares which may fall to be issued upon the exercise of the over-allotment option.

(3) The unaudited pro forma net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that a total of 2,120,000,000 Shares were in issue assuming that the Global Offering have been completed on 31 March 2007 but takes no account of any Shares which may fall to be issued upon the exercise of the over-allotment option.

(4) The translation of Renminbi into Hong Kong dollars has been made at the rate of RMB0.97 to HK$1.00. No representation is made that the Renminbi amounts have been, could have been or could be converted to Hong Kong dollar, or vice versa, at that rate, or at any other rate or at all.

(5) At the extraordinary general meetings held on 11 May 2007 and 13 September 2007, the Company resolved to make a special dividend to the Promoters in an amount equals to the distributable profits of the Company as at 31 December 2006 after deducting the dividend of RMB400,000,000 and profit distribution of RMB13,045,000 declared in March 2007 and the distributable profits of the Company for the period from 1 January 2007 to 30 June 2007 after making allocations for the required statutory and discretionary surplus reserve funds (the "Special Dividend"). The amount of the Special Dividend will be determined based on the audited financial statements prepared in accordance with PRC GAAP or HKFRS, whichever is lower.

The Directors estimate that the Special Dividend will be approximately RMB471 million.

The unaudited pro forma adjusted net tangible assets and the unaudited pro forma adjusted net tangible assets per Share have not taken into account the effect of the Special Dividend. After taking into account the aforementioned Special Dividend, the unaudited pro forma adjusted net tangible assets and the unaudited pro forma adjusted net tangible assets per Share would be reduced.

(6) As set out on page I-66 of the Accountants' Report in Appendix I to this prospectus, on 25 July 2007, the Company entered into an agreement with Xinjiang Non-ferrous to terminate the Mining Rights Transfer Agreement. On the same date, the Company entered into an agreement with the Land and Resources Department of Xinjiang ("Xinjiang LRD") to acquire the mining rights at Kalatongke Mine at a consideration of RMB297,021,000. The directors estimated the financial impact resulted from the termination of the Mining Rights Transfer Agreement and purchase of the mining rights from Xinjiang LRD will decrease the net assets of the Group by RMB140,269,000.

The unaudited pro forma adjusted net tangible assets and the unaudited pro forma adjusted net tangible assets per Share have not taken into account the effect of the above transactions. After taking into account the above transactions, the unaudited pro forma adjusted net tangible assets and the unaudited pro forma adjusted net tangible assets per Share would be reduced.

(7) As of 30 June 2007, the Group's properties were revalued by Sallmanns (Far East) Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix IV — Property Valuation. The net revaluation surplus of such properties classified under the captions "Property, plant and equipment", "Leasehold land and land use rights" and "Investment properties" in the accountants' report set out in Appendix I, representing the excess of market values of the properties over their book values, is approximately RMB172,600,000. In accordance with the Group's accounting policies, such properties are stated at historical cost less accumulated depreciation/amortisation and impairment. As such, the net revaluation surplus arising from the valuation of properties will not be included in the Group's consolidated financial statements for the year ending 31 December 2007 nor the calculation of the above unaudited pro forma adjusted net tangible assets of the Group. Had these properties been stated at such valuation, an additional depreciation/amortisation of approximately RMB4,891,000 per annum in the aggregate would have been incurred.

(8) No adjustment has been made to reflect any of our trading results or other transactions entered into subsequent to 31 March 2007.

DIRECTORS' CONFIRMATION ON NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial or trading position or our prospects since 31 March 2007, the date on which the latest audited financial statements were published.

Our Directors confirm that they have performed sufficient due diligence on the Group to ensure the financial and operational conditions or prospects did not have material adverse changes from 31 March 2007 (the balance sheet date that we published the latest audited financial statements) to the date of this prospectus. Since 31 March 2007, there are no events which would materially affect the information stated in the Accountants' Report attached hereto as Appendix I of this prospectus.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that as at the Latest Practicable Date there were no circumstances that would give rise to a disclosure requirement under Rule 13.13 to Rule 13.19 of the Listing Rules.

PROFIT ESTIMATE FOR THE SIX MONTHS ENDED 30 JUNE 2007

Estimated consolidated profit attributable to the equity holders of our Company . . . . not less than RMB466 million (about HK$480 million)

We have prepared our estimated consolidated profit attributable to equity holders of our Company for the six months ended 30 June 2007 based on the audited accounts of our Company for the three months ended 31 March 2007 and the unaudited results based on management accounts for the three months ended 30 June 2007. The principal accounting policies adopted by the Directors in preparing the profit estimate are consistent, in all material aspects, with those summarised in the Accountants' Report as set out in Appendix I of this prospectus. The basis on which we prepared our profit estimate are set out in Appendix III to this prospectus. As the deadline for publishing the interim results announcement in respect of the six months ended 30 June 2007 falls on a date (i.e. 30 September 2007) before the Dealing Date of which is expected to be on Friday, 12 October 2007, the Company is not required to issue an interim report for the aforesaid period pursuant to Practice Note 10 of the Listing Rules. Nevertheless, the Company will issue an announcement for its audited interim results for the six months ended 30 June 2007 which announcement is currently expected to the published in November 2007.

PROPERTY VALUATION

Sallmanns (Far East) Limited, an independent property valuer, has valued our property interests as at 30 June 2007 and is of the opinion that the value of our property interests is an aggregate amount of RMB410.8 million as at 30 June 2007. The full text of the letter, summary of values and valuation certificates with regard to such property interests are set forth in Appendix IV to this prospectus.

The table below sets forth (i) the reconciliation of our properties interests from our audited consolidated financial statements as at 31 March 2007 to the unaudited net book value of our property interests as at 30 June 2007; and (ii) the reconciliation of the unaudited net book value of our property interests and the valuation of such property interests as at 30 June 2007:

	Buildings	**Construction in progress**	**Land use rights**	**Total**
	RMB million	*RMB million*	*RMB million*	*RMB million*
Net book value as at 31 March 2007 as set out in pages I-22 & 26 of Appendix I	133.0	266.9	89.7	489.6
Less: mining structures and machinery and equipment not relating to property interest	(6.7)	(191.8)	–	(198.5)
Net book value of our property interests as at 31 March 2007	126.3	75.1	89.7	291.1
Movements for the three months ended 30 June 2007				
Additions				10.7
Depreciation and amortisation				(3.1)
Disposal of properties				(0.5)
Disposal of Zhongxin Mining				(60.0)
Unaudited net book value as at 30 June 2007				238.2
Valuation surplus as at 30 June 2007				172.6
Valuation as at 30 June 2007 per Appendix IV				410.8

Our Board may propose the payment of dividends, if any, with respect to our Shares on a per Share basis. Any dividend for a financial year shall be subject to shareholders' approval. Under the Company Law and our Articles of Association, all of our shareholders have equal rights to dividends and distributions. The declaration of dividends is subject to the discretion of our Board, which we expect will take into account the following factors when considering the payment of dividends:

- our financial results;
- our shareholders' interests;
- general business conditions and strategies;
- our capital requirements;
- contractual restrictions on the payment of dividends by us to our shareholders or by our subsidiaries to us;
- taxation considerations;
- possible effects on our creditworthiness;
- statutory and regulatory restrictions; and
- any other factors our Board may deem relevant.

For holders of our H Shares, cash dividend payments, if any, will be proposed by our Board in Renminbi and paid in Hong Kong dollars. Our Directors are of the view that we will have sufficient Hong Kong dollars to pay any cash dividend payments as they become due. For holders of our Domestic Shares, cash dividends payments, if any, will be declared by our Board and paid in Renminbi.

In addition to cash, dividends may be distributed in the form of Shares. Any distribution of Shares, however, must be approved by a special resolution of the shareholders. For holders of our Domestic Shares, dividends in the form of Shares will be distributed in the form of additional Domestic Shares.

In accordance with the applicable requirements of the Company Law and our Articles of Association, we may only distribute dividends after:

- recovery of accumulated losses, if any;
- allocations to statutory surplus reserves of 10% of our after-tax income, as determined according to the PRC accounting rules and regulations; and
- allocations to a discretionary surplus reserve fund as approved by our shareholders in a shareholders' meeting.

Pursuant to our Articles of Association, when the accumulated allocations to statutory surplus reserves reach 50% of our registered capital, we will no longer be required to make allowances for allocation to such statutory funds.

Upon Listing, under the PRC law, dividends may be paid only out of distributable profits, which are our retained earnings as determined in accordance with PRC GAAP or HKFRS, whichever is lower, less allocations to the statutory and discretionary surplus reserve funds. We will not ordinarily pay any dividends in a year for which we do not have any distributable profits.

We cannot assure you that any dividends will be paid. You should consider the assumptions underlying our estimate contained in “Profit Estimate” set out in Appendix III to this prospectus and the risk factors contained in the section headed “Risk Factors — We may be unable to pay any dividends on our Shares and the actual amount of the Special Dividend to be distributed to our Promoters could be greater than the estimated amount disclosed in this prospectus”.

As at 31 December 2006, the audited distributable profits of our Company were approximately RMB465 million (determined in accordance with the HKFRS). Pursuant to a special resolution passed on 22 March 2007, we declared out of the distributable reserve as at 31 December 2006 a dividend in the amount of RMB400 million (in relation to our distributable profits for the period from 1 September 2005 to 31 December 2006) which was paid to our Promoters (the “First Dividend”). The First Dividend was fully paid by 3 April 2007 and was financed by our Company’s internal cash resources. No governmental approval was required in relation to the declaration and payment of the First Dividend to our Promoters. The First Dividend was paid to our Promoters to provide returns on their respective investments. The amount of the First Dividend was determined taking into account our financial performance, business prospects, immediate anticipated capital requirements, shareholders’ needs and the amount of distributable profits available at the relevant time. In addition, we paid a cash amount of RMB13,045,000 to Xinjiang Non-ferrous as profit distribution (the “Profit Distribution”). The amount of RMB13,045,000 represented the value of net assets (contributed by Xinjiang Non-ferrous at the time of establishing our Company on 1 September 2005) that was in excess of the net assets value approved by the SASAC of Xinjiang. The Profit Distribution was approved by our Directors on 7 March 2007 and subsequently approved by our Promoters on 22 March 2007. After the distribution of the First Dividend and the Profit Distribution, the balance of the distributable profits of our Company as at 31 December 2006 was approximately RMB52 million (the “Distributable Profits Balance”).

At the extraordinary general meetings held on 11 May 2007 and 13 September 2007, we resolved to distribute to our Promoters all the cumulative distributable profits of our Company as at 30 June 2007 (the “Special Dividend”). We intend such Special Dividend to be declared and paid after our Listing.

The distributable profits for the period from 1 January 2007 to 30 June 2007 will be determined based on the distributable profits of our Company as reflected in the audited financial statements prepared in accordance with the PRC GAAP or HKFRS, whichever is lower, after making allocations for the required statutory and discretionary surplus reserve funds. In this connection, we have engaged PricewaterhouseCoopers to perform a special audit (the “Special Audit”) of our accounts for the period from 1 January 2007 to 30 June 2007.

We estimate that the Special Dividend will be approximately RMB471 million, being the sum of the Distributable Profits Balance of RMB52 million and the distributable profits of our Company for the period from 1 January 2007 to 30 June 2007 of approximately RMB419 million which is calculated based on the Profit Estimate for the six months ended 30 June 2007 and after making 10% allocations for the statutory reserves. We will only declare and pay the Special Dividend after completion of the Special Audit, which is currently expected to be completed by November 2007, following which we will publish an audited interim results announcement and the actual amount of the Special Dividend. The Special Dividend will be declared to provide returns to our Promoters on their investment after taking into account our capital needs. The actual amount of the Special Dividend to be distributed to our Promoters depends on the results of the Special Audit and could be greater than the estimated amount disclosed in this prospectus. For further information, see the section headed "Risk Factor — We may be unable to pay any dividends on our Shares and the actual amount of the Special Dividend to be distributed to our Promoters could be greater than the estimated amount disclosed in this prospectus".

Although the Special Dividend will only be paid after Listing, our Directors consider the cash resources prior to the Dealing Date to be sufficient to cover the full payment of the Special Dividend. We have sufficient cash surplus to finance our operations from internally generated cashflow and to maintain a satisfactory financial position derived from the steady growth of our business. As at 30 June 2007, our Company's total unaudited balance of cash and cash equivalents (including cash and bank balances) were approximately RMB475 million, after the payment of the First Dividend of RMB400 million. In addition, our Directors estimate that our consolidated profit attributable to our shareholders for the six months ended 30 June 2007 will not be less than RMB466 million. In light of the above, our Directors are of the view that we have, and will have, sufficient funds to make payment of the Special Dividend, and we will continue to have sufficient working capital upon the full payment of the Special Dividend without using any of the net proceeds from the Global Offering. Our Directors further confirm that the payment of the Special Dividend will not adversely affect our financial position taken as a whole, having regard to our strong operating cash flow and the expected timing of the payment.

The audited interim results announcement in relation to the Special Audit will contain, inter alia, a statement of the balance of the distributable profits of our Company as at 31 December 2006, the distributable profits of our Company from 1 January 2007 to 30 June 2007, the amount of Special Dividend, and the total balance of cash and cash balances as at the closest practicable date at the time of the audited interim results announcement.

Investors in the Global Offering should note that they will not be entitled to the Special Dividend and therefore any distributable profits for the year ending 31 December 2007 available for distribution to the shareholders of our Company after the Global Offering will exclude the amount of the Special Dividend to be paid to our Promoters.

Under our current policy, we intend (subject to the arrangements for the Special Dividend described above as applicable to the year ending 31 December 2007) to distribute not less than 25% of our consolidated net profits attributable to shareholders of our Company in each financial year. In respect of the year 2007, we expect that dividend will be distributed only in respect of the period commencing 1 July 2007 and ending 31 December 2007. The actual amount distributed will be subject to the applicable requirements of the Company Law and our Articles of Association in relation to distribution of dividends and will depend upon our earnings and financial condition, operating requirements and capital requirements, amount of available distributable profits and approval of our shareholders. You should not view the extent of the Special Dividend as an indication of the amount of dividends that we may declare or pay in the future.

FUTURE PLANS

We aim to become one of the most resource-rich, efficient and profitable integrated nickel and non-ferrous metal producers in the PRC. In achieving this goal, we intend to focus our capital expenditure on the following business plans:

Increase our exploration and mining rights in areas with abundant mineral reserves and/or resources

To further strengthen our mineral reserves and resources, we intend to acquire additional mining rights in mines with proven mineral reserves and/or exploration rights in areas with apparent and substantial mineral resources and/or acquire equity interests in the holders of such mining rights and exploration rights. The Directors believe that the criteria for selecting the acquisition targets mainly includes: (a) scale-measured by the amount of estimated resources; and (b) whether the reported resources are supported by a completed feasibility study and have been approved by MLR. The Directors confirmed that no specific target has been identified so far. In this respect, we may also consider diversifying our mineral reserves and resources to include metals other than nickel and copper should suitable opportunities arise in the long run. We believe this strategy would enable us to achieve a long-term sustainable growth.

Implement technical improvement projects

With our planned increase in mineral reserves and resources, we intend to implement technical improvement projects in our Kalatongke Mine and Fukang Refinery which will increase our production capacity and enhance efficiency of our mining and processing operations, thereby reducing our products' average costs and increasing the volume of our saleable products.

The technical improvement projects in Kalatongke Mine involve expansion of our mining and ore processing capacity which will raise the production capacity of our mining operation to 3,400 tonnes of mineral ores per day in 2009 from 1,000 tonnes of mineral ores per day in 2006 and raise the production capacity of our ore processing operation to 3,000 tonnes of mineral ores per day in 2009 from 1,000 tonnes of mineral ores per day in 2006. We also intend to increase the production capacity of our smelting operation to 7,000 tonnes per year in 2009 from 3,600 tonnes per year in 2006 by increasing the use of oxygen-rich smelters.

As an integrated nickel producer and in light of our planned increase in production capacity in our Kalatongke Mine, we will correspondingly expand our refining capacity by undertaking technical improvement projects which involve re-engineering of our ancillary facilities, installation of new equipment and facilities, construction of new plant and workshops. Through these projects and the improvement of our oxygen-rich floating techniques, the production capacity of our refining operating will gradually increase from 3,000 tonnes per year in 2006 to 5,000 tonnes per year, 8,000 tonnes per year and 13,000 tonnes per year in 2007, 2008 and 2009 respectively.

The above improvement projects are expected to be completed by the end of 2009.

Further in-depth exploration in our existing sites

We believe having secured abundant mineral reserves is one of the critical factors to enhance our position as one of the largest integrated nickel producer in the PRC. With our four existing exploration rights in Fuyun County covering an area of 159.91 square kilometers, we intend to carry out more in-depth exploration through Independent Third Parties with a view to increasing our nickel and copper reserves and to expand our exploration to other deposits in Kalatongke likely to contain abundant mineral resources.

USE OF PROCEEDS

The net proceeds of the Global Offering after deducting underwriting fees and expenses payable by our Company in relation to the Global Offering, assuming an Offer Price of HK$5.65 per H Shares (being the mid-point of the proposed range of the Offer Price between HK$4.80 and HK$6.50) and the Over-allotment Option is not exercised at all, are estimated to be approximately HK$3,224.2 million (or HK$3,717.4 million if the Over-allotment Option is exercised in full).

To effect our future plans (details of which are more particularly set out in the paragraph headed "Future plans" in this section), we currently intend to apply the net proceeds as follows (based on the mid-point of the aforesaid proposed Offer Price range and assuming the Over-allotment Option is not exercised at all):

(1) up to approximately 63.2% or approximately RMB1,977.1 million (equivalent to approximately HK$2,038.3 million) of the net proceeds will be used in relation to the acquisition of mining rights in mines with sizeable proved mineral reserves (that are supported by completed feasibility studies and the reported reserves or resources have been approved by the MLR or its local branch) and/or the acquisition of exploration rights in areas with more apparent substantial mineral resources (that are supported by completed feasibility studies and the reported reserves or resources have been approved by the MLR or its local branch) and/or the acquisition of equity interest in the holders of such mining rights and exploration rights;

(2) up to approximately 4.8% or approximately RMB150.0 million (equivalent to approximately HK$154.6 million) of the net proceeds will be used in relation to the further exploration of areas in which we currently have mining rights and exploration rights as well as exploration in areas mentioned in (1) above;

(3) up to approximately 9.6% or approximately RMB300.0 million (equivalent to approximately HK$309.3 million) of the net proceeds will be used in relation to the expansion of the mining and ore processing of our Kalatongke Mine;

(4) up to approximately 4.8% or approximately RMB150.0 million (equivalent to approximately HK$154.6 million) of the net proceeds will be used in relation to the expansion of the refining capacity of our Fukang Refinery;

(5) up to approximately 7.6% or approximately RMB237.6 million (equivalent to approximately HK$244.9 million) of the net proceeds will be used to pay the remaining balance of the consideration (representing approximately 80% of the total consideration) for the transfer of mining rights of the Kalatongke Mine payable to the Xinjiang LRD under the New Mining Rights Transfer Agreement; and

(6) the balance for the working capital of our Company.

Further information in respect of (3) and (4) is set out in the section headed "Financial Information – Historical and Planned Capital Expenditure".

In the event that the Offer Price per Share is not finally determined to be HK$5.65 (which is the mid-point of the proposed Offer Price range of HK$4.80 to HK$6.50 per H Share), the amount of net proceeds applied for the acquisition of mining rights and/or exploration rights and/or equity interest in the holders of such mining rights and exploration rights as set out above will be increased or decreased, as the case may be.

In the event that the Over-allotment Option is exercised in full, the additional net proceeds of approximately HK$443.9 million will be applied by us for the acquisition of mining rights and/or exploration rights and/or equity interest in the holders of such mining rights and exploration rights. The remaining balance of approximately HK$49.3 million will be used as our general working capital. To the extent that the net proceeds of the Global Offering are not immediately required for the above purposes, the Directors intend that such proceeds, to the extent permitted by the relevant PRC laws and regulations, will be placed on short-term deposits with financial institutions in the PRC.

HONG KONG UNDERWRITERS

Sole Lead Manager

BOCI Asia Limited

Co-Lead Managers

BOCOM International Holdings Limited
Guotai Junan Securities (Hong Kong) Limited

Co-Managers

First Shanghai Securities Limited
Taifook Securities Company Limited
Wintech Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Underwriting Agreement

Pursuant to the Underwriting Agreement, we are offering the Public Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions set forth in this prospectus and the Application Forms. Subject to the Listing Committee granting listing of, and permission to deal in, the H Shares to be offered as mentioned herein and to certain other conditions set out in the Underwriting Agreement, the Hong Kong Underwriters have agreed severally, and not jointly, to subscribe or procure subscribers for their respective applicable proportions of the Public Offer Shares now being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions set forth in this prospectus, the Application Forms and the Underwriting Agreement.

Grounds for termination

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may in its absolute discretion, upon giving notice in writing to us, terminate the Underwriting Agreement with immediate effect at any time prior to 8:00 a.m. on the Dealing Date if:

(a) there shall develop, occur, exist or come into effect:

(i) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong or the PRC; or

(ii) any change or development involving a prospective change in, or any event or series of events resulting or likely to result in any change in local, national or international financial, political, military, industrial, economic, currency, market, legal, fiscal or regulatory conditions (including but not limited to a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Renminbi against any foreign currency) in Hong Kong, the PRC, the United States, any member of the European Union and/or Japan; or

(iii) trading generally on the Stock Exchange has been suspended or limited, or there has occurred a general banking moratorium or disruption in commercial banking or securities settlement or clearance services or procedures in Hong Kong, the PRC or London; or

(iv) a change or development occurs involving a prospective change in taxation, exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment regulations in Hong Kong or the PRC; or

(v) any adverse change or prospective adverse change in the conditions, financial or otherwise, in the business affairs, business prospects or trading position of the Company; or

(vi) any litigation, action or claim of material importance being threatened or instigated against the Company; or

(vii) any event of force majeure affecting Hong Kong, the PRC, the United States, any member of the European Union and/or Japan, including, without limitation, act of God, war or declaration of war, outbreak or escalation of terrorism or hostilities (whether or not war is or has been declared), riot, public disorder, civil commotion, declaration of a national emergency, fire, flood, explosion, disease, outbreaks of disease or epidemics including but not limited to SARS and avian flu, lockdown of airspace and other modes of transportation, labor dispute, strike or lock-out or any other state of emergency or calamity or crisis,

which, in the sole opinion of the Sole Global Coordinator (for itself and on behalf of the Underwriters):

(A) is or will be or is likely to be materially adverse to the business, financial or other condition or prospects of the Company or, in the case of paragraph (iv) above, to any present or prospective shareholder of the Company in his/her/its capacity as such; or

(B) has or will have or is likely to have a material adverse effect on the success of the Global Offering or the full subscription of Offer Shares being applied for or accepted or the distribution of Offer Shares and/or make it impracticable or inadvisable for any material part of the Underwriting Agreement, the Hong Kong Public Offering or International Placing to be performed pursuant to the terms hereof; or

(C) makes it inadvisable or impracticable to proceed with the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus; or

(b) there comes to the notice of the Sole Global Coordinator any matter or event showing any of the warranties given by the Company and Xinjiang Non-Ferrous in the Underwriting Agreement to be incorrect, untrue or misleading in any material respect; or

(c) there comes to the notice of the Sole Global Coordinator or any material breach on the part of the Company or the Covenanting Shareholders of any provision of the Underwriting Agreement; or

(d) any matter has arisen or has been discovered which would, had it arisen immediately before the date of this prospectus and not having been disclosed in this prospectus, constitute in the sole opinion of the Sole Global Coordinator a material omission therefrom; or

(e) any statement contained in the preliminary offering circular, this prospectus and the Application Forms has become or been discovered to be untrue, incorrect or misleading in any material respect; or

(f) there shall have occurred any event, act or omission which gives or is likely to give rise to any material liability of the indemnitors pursuant to the indemnities contained in Clause 16 of the Underwriting Agreement.

Undertakings

We have undertaken to the Sole Global Coordinator and the Underwriters that we will not and Xinjiang Non-Ferrous has undertaken to the Sole Global Coordinator and the Underwriters that it shall procure that we shall not, except pursuant to the Global Offering and the exercise of the Over-allotment Option and as disclosed in this prospectus, at any time from the date of the Underwriting Agreement until the date falling six months after Dealing Date (the "Underwriting Six Month Period") without the prior written consent of the Sole Global Coordinator and unless in compliance with the Listing Rules (a) offer, allot, issue, sell, contract to allot, issue or sell, sell or grant any option or contract to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, any of our Shares or securities convertible into or exercisable or exchangeable for, or that represent the right to receive, any of our Shares, or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of our Shares, whether any of the foregoing transactions is to be settled by delivery of our Shares or other of our securities, in cash or otherwise, and further that, in the event of an issue or disposal of any of our Shares or other of our securities or interest therein within the six months after the expiration of the Underwriting Six Month Period, we will, and Xinjiang Non-Ferrous shall procure that we will, take all reasonable steps to ensure that such issue or disposal will not create a disorderly or false market for our H Shares or other of our securities.

Pursuant to Rule 10.07 of the Listing Rules, Xinjiang Non-ferrous has irrevocably and unconditionally undertaken to the Stock Exchange that it will not:

(a) for a period commencing on the date of this prospectus and ending on the date which is six months from the Dealing Date (the "Stock Exchange Six-Month Period"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it is shown by this prospectus to be the beneficial owner; and

(b) for a period of six months commencing on the date on which the Stock Exchange Six-Month Period expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it is shown by this prospectus to be the beneficial owner, if immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be our Controlling Shareholder.

Xinjiang Non-ferrous has also unconditionally and irrevocably undertaken to the Stock Exchange that within a period of 12 months from the Dealing Date, it will:

(a) when it pledges or charges any Shares which it is shown by this prospectus to be the beneficial owner in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong), immediately inform us in writing of such pledge or charge together with the number of Shares so pledged or charged; and

(b) on receipt of indications, whether verbal or written, from the pledgee or chargee that any of the pledged or charged Shares will be disposed of, immediately inform us in writing of such indications.

Each of the Covenanting Shareholders has undertaken with the Company and the Sole Global Coordinator and the Underwriters that except pursuant to the Global Offering and the exercise of the Over-allotment Option during the Underwriting Six Month Period, it will not, without the prior written consent of the Sole Global Coordinator (on behalf of the Underwriters) and unless in compliance with the Listing Rules (a) offer, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally any of our Shares or other of our securities held by it or any interest therein including but not limited to securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any of our Shares or other securities or interest or (B) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of our Shares or securities or interest, whether any of the foregoing transactions is to be settled by delivery of our Shares or other of our securities, in cash or otherwise or (C) announce any intention to do so.

Xinjiang Non-Ferrous has further undertaken with the Company and the Sole Global Coordinator and the Underwriters that, in the six months after the expiration of the Underwriting Six Month Period, it will not do any of the acts set out above such that it ceases to be our Controlling Shareholder and that if it does any such act which does not cause it to cease to be our Controlling Shareholder it will take all reasonable steps to ensure that such act will not create a disorderly or false market for our Shares or other of our securities.

The International Placing

Pursuant to the Underwriting Agreement, the International Underwriters severally agree to subscribe or procure subscription for the International Placing Shares.

We have granted to the International Underwriters the Over-allotment Option, exercisable by the Sole Global Coordinator on behalf of the International Underwriters at any time from the day on which dealings in the H Shares commence on the Stock Exchange until 30 days after the last day for the lodging of applications under the Hong Kong Public Offering, to require us to allot and issue up to an aggregate of 90,000,000 additional H Shares representing approximately 15% of the initial Offer Shares, at the same price per H Share under the International Placing, to cover over-allocations (if any) in the International Placing.

Total Commission and Expenses

The Hong Kong Underwriters will receive an underwriting commission of 3.0% on the Offer Price of the Public Offer Shares initially offered under the Hong Kong Public Offering, out of which they will pay any sub-underwriting commission. For unsubscribed Public Offer Shares reallocated to the International Placing, we will pay an underwriting commission at the rate applicable to the International Placing and such commission will be paid to the Sole Global Coordinator and the relevant International Underwriters (but not the Hong Kong Underwriters). The Sole Sponsor will receive a documentation fee and may in the discretion of the Company receive an incentive fee in relation to the Global Offering.

The aggregate commissions and estimated expenses, together with listing fees, SFC transaction levy, Stock Exchange trading fee, legal and other professional fees and printing and other expenses relating to the Global Offering are estimated to amount to approximately HK$150.5 million to HK$181.2 million (assuming the Over-allotment Option is not exercised and Offer Price ranging from HK$4.80 to HK$6.50 per H Share) and are payable by our Company in proportion to the amount of H Shares sold by our Company in the Global Offering.

HONG KONG UNDERWRITERS' INTERESTS IN US

The International Placing Underwriters and the Hong Kong Public Offer Underwriters will receive an underwriting commission. Particulars of these underwriting commissions and expenses are set forth under "Total commission and expenses" above. The Sole Sponsor will receive a documentation fee and may in the discretion of the Company receive an incentive fee in relation to the Global Offering.

We expect to appoint BOCI Asia as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. The term of the appointment will commence on the Dealing Date and end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year after the Dealing Date (i.e., the date of dispatch of the annual reports of our Company in respect of our results for the financial year ending 31 December 2007).

Save as disclosed in this prospectus and save for its obligations under the Underwriting Agreement, none of the Hong Kong Underwriters has any shareholding interests in us or the right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in our Company or any other member of the Xinjiang Non-ferrous Group.

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

(i) the Hong Kong Public Offering of 60,000,000 H Shares (subject to adjustment as mentioned below) in Hong Kong as described below in the section headed "Structure of the Global Offering — The Hong Kong Public Offering"; and

(ii) the International Placing of an aggregate of 540,000,000 H Shares (subject to adjustment as mentioned below and the Over-allotment Option) outside the United States (including an offering to professional and institutional investors within Hong Kong) in reliance on Regulation S.

The Offer Shares will represent approximately 28.3% of our registered share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. BOCI Asia is the Sole Global Coordinator, Sole Bookrunner, Sole Sponsor and Sole Lead Manager of the Global Offering. The underwriting arrangements, and the respective Underwriting Agreements, are summarised in the section headed "Underwriting."

Investors may apply for our H Shares under the Hong Kong Public Offering or apply for or indicate an interest for our H Shares under the International Placing, but may not do both.

The requisite PRC governmental approvals, including the approval of the CSRC, in respect of the Global Offering have been obtained.

THE HONG KONG PUBLIC OFFERING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Underwriting Agreement and is subject to us and the Sole Global Coordinator, on behalf of the Underwriters, agreeing on the Offer Price.

Number of H Shares initially offered

We are initially offering 60,000,000 H Shares for subscription by the public in Hong Kong at the Offer Price, representing approximately 10% of the total number of H Shares initially available under the Global Offering.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set out in the section below entitled "— Conditions of the Hong Kong Public Offering."

Allocation

Allocation of H Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

The total number of H Shares available under the Hong Kong Public Offering is to be divided into two pools for allocation purposes (subject to any adjustment in the number of Offer Shares allocated between the International Placing and the Hong Kong Public Offering): 30,000,000 H Shares for pool A and 30,000,000 H Shares for pool B. The H Shares in pool A will be allocated on an equitable basis to applicants who have applied for H Shares with an aggregate subscription price of HK$5 million or less (excluding the brokerage fee, SFC transaction levy and Stock Exchange trading fee payable). The H Shares in pool B will be allocated on an equitable basis to applicants who have applied for our H Shares with an aggregate subscription price of more than HK$5 million (excluding the brokerage fee, SFC transaction levy and Stock Exchange trading fee payable). Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If H Shares in one (but not both) of the pools are undersubscribed, the surplus H Shares will be transferred to the other pool to satisfy demand in this other pool and be allocated accordingly. For the purpose of this paragraph only, the "price" for H Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of H Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 30,000,000 Public Offer Shares in pool A or 30,000,000 Public Offer Shares in pool B will be rejected.

Reallocation

The allocation of the H Shares between the Hong Kong Public Offering and the International Placing is subject to adjustment. If the number of H Shares validly applied for under the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, or (iii) 100 times or more of the number of H Shares initially available under the Hong Kong Public Offering, then H Shares will be reallocated to the Hong Kong Public Offering from the International Placing, such that the total number of H Shares available under the Hong Kong Public Offering will be increased to 180,000,000 H Shares (in the case of (i)), 240,000,000 H Shares (in the case of (ii)) and 300,000,000 H Shares (in the case of (iii)) representing approximately 30%, 40% and 50% of the H Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option). In each case, the additional H Shares reallocated to the Hong Kong Public Offering will be allocated equally between pool A and pool B and the number of H Shares allocated to the International Placing will be correspondingly reduced in such manner as the Sole Global Coordinator deem appropriate. In addition, the Sole Global Coordinator may allocate H Shares from the International Placing to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offering is not fully subscribed for, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Public Offer Shares to the International Placing, in such proportions as the Sole Global Coordinator deems appropriate.

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any H Shares under the International Placing, and such applicant's application may be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or he has been or will be placed or allocated H Shares under the International Placing.

The listing of our H Shares on the Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK$6.50 per H Share in addition to any brokerage fee, SFC transaction levy and Stock Exchange trading fee payable on each H Share. If the Offer Price, as finally determined in the manner described in the section headed "Pricing of the Global Offering" below, is less than the maximum price of HK$6.50 per H Share, appropriate refund payments (including the brokerage fee, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section headed "How to Apply For the Public Offer Shares."

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL PLACING

We have entered into the Underwriting Agreement with the International Underwriters relating to the International Placing.

Number of H Shares offered

Subject to reallocation as described above, the International Placing will consist of an aggregate of 540,000,000 H Shares.

Allocation

The International Placing will include selective marketing of our H Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such H Shares in Hong Kong and other jurisdictions outside the United States in offshore transactions in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of International Placing Shares will be effected in accordance with the "book-building" process described in the section headed "Structure of the Global Offering — Pricing of the Global Offering" below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further H Shares, and/or hold or sell its H Shares, after the listing of our H Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the H Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to our benefit and that of our shareholders as a whole.

The Sole Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered our International Placing Shares, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Sole Global Coordinator so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application of H Shares under the Hong Kong Public Offering.

PLACEMENT TO CORPORATE INVESTORS

As part of the International Offering, each of our corporate investors, Center Bright Limited, China Life Insurance (Group) Company, Fidelity Insurance Co., Ltd, Grahamstowe Investments Limited, Li Ka Shing Foundation Limited, New World Strategic Investment Limited and Sinotrans (HK) Holdings Limited, will purchase the number of our H Shares that can be purchased for HK$628 million at the Offer Price. The H Shares purchased by the corporate investors will not be subject to the reallocation or clawback of H Shares between the International Offering and the Hong Kong Public Offering in the event the Hong Kong Public Offering is oversubscribed. These shares will also be subject to lock-up arrangements, as described in "Our Corporate Investors".

OVER-ALLOTMENT OPTION

In connection with the Global Offering, we have granted an Over-allotment Option to the International Underwriters exercisable by the Sole Global Coordinator on behalf of the International Underwriters.

Pursuant to the Over-allotment Option, the Sole Global Coordinator has the right, exercisable at any time from the day on which trading of our H Shares commences on the Stock Exchange until 30 days after the last day for lodging of applications under the Hong Kong Public Offering, to require us to allot and issue up to 90,000,000 additional H Shares, representing approximately 15% of the initial Offer Shares, at the same price per H Share at which H Shares were initially offered under the International Placing, to cover over-allocations in the International Placing, if any. If the Over-allotment Option is exercised in full, the additional H Shares will represent approximately 4.1% of our enlarged share capital immediately following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a press announcement will be made.

DISPOSAL OF STATE-OWNED SHARES

In accordance with relevant PRC regulations regarding disposal of state-owned shares, the Xinjiang Non-ferrous is required to transfer to NSSF such number of Domestic Shares as in aggregate equivalent to 10% of the number of the Offer Shares (taking into account any additional H Shares issued and allotted pursuant to the exercise of the Over-allotment Option). At the time of the listing of our H Shares on the Stock Exchange, such Domestic Shares will be converted into H Shares on a one for one basis. These H Shares will not constitute any part of the Offer Shares. Neither Xinjiang Non-ferrous nor us will receive any proceeds from the transfer by the Xinjiang Non-ferrous to NSSF or any subsequent disposal of such H Shares by NSSF.

The transfer of state-owned shares by the Xinjiang Non-ferrous to NSSF has been approved by SASAC on 30 June 2006 and subsequently approved by NSSF on 10 July 2006. The conversion of those shares into H Shares has been approved by CSRC on 29 August 2007. We have been advised that both the aforementioned transfer and the conversion, and the holding of H Shares by NSSF following such transfer and conversion, have been approved by the relevant authorities and are legal under PRC law.

PRICING OF THE GLOBAL OFFERING

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring International Placing Shares. Prospective professional and institutional investors will be required to specify the number of International Placing Shares they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building," is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

Pricing for our H Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around Thursday, 4 October 2007, and in any event on or before Wednesday, 10 October 2007, by agreement between the Sole Global Coordinator, on behalf of the Underwriters, and us and the number of H Shares to be allocated under various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK$6.50 per H Share and is expected to be not less than HK$4.80 per H Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Applicants under the Global Offering should pay, on application, the maximum price of HK$6.50 per H Share plus 1% brokerage fee, 0.004% SFC transaction levy and 0.005% Stock Exchange trading fee amounting to a total of HK$6,565.59 per board lot of 1,000 H Shares. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative offer price range stated in this prospectus.** If the Offer Price, as finally determined in the manner described below, is lower than HK$6.50, being the maximum price, we will refund the respective difference (including the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus monies) to successful applicants, without interest. Further details are set forth in the section headed "How to Apply for the Public Offer Shares."

The Sole Global Coordinator, on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with our consent, reduce the number of Public Offer Shares and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In case of such a reduction, we will, as soon as practicable following the decision to make the reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on our website at **www.xjxxky.com.cn** notices of the reduction in the number of Public Offer Shares and/or the indicative Offer Price range. Upon issue of these notices, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Sole Global Coordinator, on behalf of the Underwriters, and us, will be fixed within this revised Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Public Offer Shares and/or the indicative Offer Price range may not be made until the last day for lodging applications under the Hong Kong Public Offering. The notices will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of such reduction. **Applicants under the Hong Kong Public Offering should note that in no circumstances can applications be withdrawn once they are submitted, even if the number of Public Offer Shares and/or the Offer Price range is reduced as described in this paragraph.** In the absence of any notice of reduction published as described in this paragraph, the Offer Price, if agreed upon between us and the Sole Global Coordinator, on behalf of the Underwriters, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

The net proceeds of the Global Offering accruing to us (after deduction of underwriting fees and estimated expenses payable by us in relation to the Global Offering, assuming the Over-allotment Option is not exercised) are estimated to be approximately HK$2.7 billion, assuming an Offer Price of HK$4.80 per H Share, or approximately HK$3.7 billion, assuming an Offer Price of HK$6.50 per H Share (or if the Over-allotment Option is exercised in full, approximately HK$3.1 billion, assuming an Offer Price of HK$4.80 per H Share, or approximately HK$4.3 billion, assuming an Offer Price of HK$6.50 per H Share).

The final Offer Price, the indications of interest in the Global Offering, the results of applications and the basis of allotment of H Shares available under the Hong Kong Public Offering, are expected to be announced on Thursday, 11 October 2007 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on our website at **www.xjxxky.com.cn**.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to minimise and, if possible, prevent a decline in the market price of the securities below the offer price. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Sole Global Coordinator, as stabilizing manager, its affiliates or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilizing or maintaining the market price of our H Shares at a level higher than that which might otherwise prevail for a limited period commencing from the Dealing Date.

Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the stabilizing manager, its affiliates or any person acting for it to do this. Such stabilization, if commenced, will be conducted at the absolute discretion of the stabilizing manager, its affiliates or any person acting for it and may be discontinued at any time, and must be brought to an end after a limited period. The number of our H Shares that may be over-allocated will not be greater than the number of our H Shares which may be sold upon exercise of the Over-allotment Option, being 90,000,000 Shares, which is approximately 15% of the H Shares initially available under the Global Offering.

The stabilizing manager, its affiliates or any person acting for it may take all or any of the following stabilizing actions in Hong Kong during the stabilization period:

(i) purchase, or agree to purchase, any of our H Shares or offer or attempt to do so for the sole purpose of preventing or minimising any reduction in the market price of our H Shares; and/or

(ii) in connection with any action described in paragraph (i) above:

(A) (1) over-allocate our H Shares; or

(2) sell or agree to sell our H Shares so as to establish a short position in them, for the sole purpose of preventing or minimising any reduction in the market price of our H Shares;

(B) exercise the Over-allotment Option and purchase or subscribe for or agree to purchase or subscribe for our H Shares in order to close out any position established under paragraph (A) above;

(C) sell or agree to sell any of our H Shares acquired by it in the course of the stabilizing action referred to in paragraph (i) above in order to liquidate any position that has been established by such action; and/or

(D) offer or attempt to do anything as described in paragraph (ii)(A)(2), (ii)(B) or (ii)(C) above.

The stabilizing manager, its affiliates or any person acting for it, may, in connection with the stabilizing action, maintain a long position in the Shares, and there is no certainty as to the extent to which and the time period for which it will maintain such a position. Investors should be warned of the possible impact of any liquidation of the long position by the stabilizing manager, its affiliates or any person acting for it, which may include a decline in the market price of our H Shares.

Stabilization cannot be used to support the price of our H Shares for longer than the stabilization period, which begins on the day on which dealings in our H Shares commence on the Stock Exchange and ends on the thirtieth day after the last day for the lodging of applications under the Hong Kong Public Offering. The stabilization period is expected to expire on the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilizing action may be taken, demand for our H Shares, and therefore their market price, could fall.

Any stabilizing action taken by the stabilizing manager, its affiliates or any person acting for it, may not necessarily result in the market price of our H Shares staying at or above the Offer Price either during or after the stabilization period. Stabilization bids or market purchases effected in the course of the stabilization action may be made at any price at or below the Offer Price and can therefore be done at a price below the price investors have paid in acquiring our H Shares.

DEALING

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, 12 October 2007, it is expected that dealings in our H Shares on the Stock Exchange will commence at 9:30 a.m. on Friday, 12 October 2007.

CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for our H Shares pursuant to the Hong Kong Public Offering will be conditional on:

(i) the Listing Committee granting listing of, and permission to deal in, our H Shares being offered pursuant to the Global Offering (including the additional H Shares which may be made available pursuant to the exercise of the Over-allotment Option) (subject only to allotment), and such listing and permission not having been revoked prior to the commencement of dealings in H Shares on the Stock Exchange; and

(ii) the Offer Price having been duly determined on or around the Price Determination Date; and

(iii) the obligations of the Underwriters under the Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with its terms,

in each case on or before the dates and times specified in the Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date 30 days after the date of this prospectus or, if that is not a business day, the business day immediately before such date.

If, for any reason, the Offer Price is not agreed between us and the Sole Global Coordinator (on behalf of the Underwriters), the Global Offering will not proceed.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will publish notice of the lapse of the Hong Kong Public Offering in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), or in our website at **www.xjxxky.com.cn** on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed "How to Apply for the Public Offer Shares." In the meantime, all application monies will be held in (a) separate bank account(s) with the receiving banker or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

H Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. on Friday, 12 October 2007 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for termination" has not been exercised.

1. METHODS OF APPLYING FOR THE PUBLIC OFFER SHARES

There are three ways to make an application for the Public Offer Shares. You may either (i) use an Application Form; (ii) apply online through the designated website of the White Form eIPO Service Provider, referred to here in as the "**White Form eIPO**" service; or (iii) **electronically** instruct HKSCC to cause HKSCC Nominees to apply for the Public Offer Shares on your behalf.

Except where you are a nominee and provide the required information in your application, you or you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **white** and **yellow** Application Forms or applying online through **White Form eIPO** service or by giving **electronic application instructions** to HKSCC.

2. HOW TO APPLY THROUGH WHITE FORM EIPO

(a) If you are an individual, you may apply through **White Form eIPO** by submitting an application through designated website at **www.eipo.com.hk**. If you apply through **White Form eIPO**, the Shares will be issued in your own name.

(b) Detailed instructions for application through the **White Form eIPO** service are set out in the designated website at **www.eipo.com.hk**. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the White Form eIPO Service Provider and may not be submitted to our Company.

(c) In addition to the terms and conditions set out in this prospectus, the White Form eIPO Service Provider may impose additional terms and conditions upon you for the use of the **White Form eIPO** service. Such terms and conditions are set out on the designated website at **www.eipo.com.hk**. You should read, understand and agree to such terms and conditions in full prior to making any application.

(d) By submitting an application to the designated White Form eIPO Service Provider through the **White Form eIPO** service, you are deemed to have authorised the White Form eIPO Service Provider to transfer the details of your application to our Company and our Hong Kong H Share registrar.

(e) You may submit an application through the **White Form eIPO** service in respect of a minimum of 1,000 Public Offer Shares. Each **electronic application instruction** in respect of more than 1,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at **www.eipo.com.hk**.

(f) You should give **electronic application instructions** through **White Form eIPO** at the times set out in paragraph (b) of the section headed "Time for Applying for Public Offer Shares".

(g) You should make payment for your application made by **White Form eIPO** service in accordance with the methods and instructions set out in the designated website at **www.eipo.com.hk**. If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Wednesday, 3 October 2007, or such later time as described under the section headed "Time for Applying for the Public Offer Shares — Effects of Bad Weather on the Opening of the Application Lists", the White Form eIPO Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at **www.eipo.com.hk**.

(h) **Warning:** The application for Public Offer Shares through the **White Form eIPO** service is only a facility provided by the White Form eIPO Service Provider to public investors. Our Company, our Directors, the Sole Global Coordinator and the Underwriters take no responsibility for such applications, and provide no assurance that applications through the **White Form eIPO** service will be submitted to our Company or that you will be allotted any Public Offer Shares.

Please note that Internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the **White Form eIPO** service, you are advised not to wait until the last day for submitting applications in the Hong Kong Public Offering to submit your **electronic application instructions**. In the event that you have problems connecting to the designated website for the **White Form eIPO** service, you should submit the **white** Application Form. However, once you have submitted **electronic application instructions** and completed payment in full using the application reference number provided to you on the designated website, you will be deemed to have made an actual application and you should not submit a **white** Application Form. See "How Many Applications You May Make" below.

3. APPLYING BY USING A WHITE OR YELLOW APPLICATION FORM

Which Application Form to Use

Use a **white** Application Form if you want the Public Offer Shares to be issued in your own name.

Use a **yellow** Application Form if you want the Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

Note: The Public Offer Shares are not available to existing beneficial owners of our Shares, the Directors, Supervisors or the Chief Executive of our Company or any of our subsidiaries, connected persons of our Company, or Associates of any of them or to legal or natural persons of the PRC or U.S. persons (as defined in Regulation S) or persons who do not have a Hong Kong address.

Where to Collect the Application Forms

You can collect a **white** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, 27 September 2007 until 12:00 noon on Wednesday, 3 October 2007 from:

Any of the following addresses of the Hong Kong Underwriters:

BOCI Asia Limited
26th Floor, Bank of China Tower
1 Garden Road
Central
Hong Kong

or

Guotai Junan Securities (Hong Kong) Limited
27/F, Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

or

BOCOM International Holdings Company Limited
3rd Floor, Far East Consortium Building
121 Des Voeux Road Central
Hong Kong

or

First Shanghai Securities Limited
19/F, Wing On House
71 Des Voeux Road Central
Hong Kong

or

Taifook Securities Company Limited
25/F, New World Tower
16-18 Queen's Road Central
Hong Kong

or

Wintech Securities Limited
1701 Hang Seng Building
77 Des Voeux Road Central
Hong Kong

or any of the following branches of **Bank of China (Hong Kong) Limited**:

Hong Kong Island:	Bank of China Tower Branch	3/F, 1 Garden Road
	Central District (Wing On House) Branch	71 Des Voeux Road Central
	Causeway Bay Branch	18 Percival Street, Causeway Bay, Hong Kong
	North Point (Kiu Fai Mansion) Branch	413-415 King's Road, North Point
	Wan Tsui Road Branch	4 Lin Shing Road, Chai Wan
Kowloon:	Kwun Tong Branch	20-24 Yue Man Square, Kwun Tong
	Humphrey's Avenue Branch	4-4A Humphrey's Avenue, Tsim Sha Tsui
	Diamond Hill Branch	G107, Plaza Hollywood, Diamond Hill
	Whampoa Garden Branch	Shop G8B, Site 1, Whampoa Garden, Hung Hom
	To Kwa Wan Branch	80N To Kwa Wan Road, To Kwa Wan
	Mong Kok Branch	589 Nathan Road, Mong Kok
New Territories:	Lucky Plaza Branch	Lucky Plaza, Wang Pok Street, Shatin
	Metro City Branch	Shop 209, Level 2, Metro City Phase 1, Tseung Kwan O
	Castle Peak Road (Tsuen Wan) Wealth Management Centre	167 Castle Peak Road, Tsuen Wan
	Kau Yuk Road Branch	18-24 Kau Yuk Road, Yuen Long

or any of the following branches of **The Bank of East Asia, Limited**:

Hong Kong Island:	Main Branch	10 Des Voeux Road Central, Hong Kong
	Wanchai Branch	Shop A-C, G/F, Easey Commercial Building, 253-261 Hennessy Road, Wanchai
Kowloon:	Mongkok Branch	638-640 Nathan Road
	Tsim Sha Tsui Branch	Shop A & B, Milton Mansion, 96 Nathan Road
New Territories:	Ha Kwai Chung Branch	202 Hing Fong Road
	Tai Wai Branch	16-18 Tai Wai Road, Cheung Fung Mansion, Shatin

You can collect a **yellow** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, 27 September 2007 until 12:00 noon on Wednesday, 3 October 2007 from:

(1) the Depository Counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; or

(2) your stockbroker, who may have such Application Forms and this prospectus available.

How to Complete the Application Form

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected and returned by ordinary post together with the accompanying check or banker's cashier order to you (or the first-named applicant in the case of joint applicants) at your own risk at the address stated in the Application Form.

You should note that by completing and submitting the Application Form, among other things, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee:

(i) agree with us, for our benefit and for the benefit of each of our shareholders, so that we will be deemed by our acceptance in whole or in part of the application, including applications made by HKSCC Nominees, to have agreed, on our own behalf and on behalf of each of our shareholders, to observe and comply with the Company Law, the Special Regulations and the Articles of Association;

(ii) agree with us, each of our shareholders, Directors, Supervisors, managers and officers, and we, acting for ourselves and for each of our Directors, Supervisors, managers and officers, agree with each shareholder to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award, which arbitration shall be final and conclusive;

(iii) agree with us and each of our shareholders that our H Shares are freely transferable by their respective holders;

(iv) authorise us to enter into a contract on your behalf with each of our Directors, Supervisors and officers whereby each such Director, Supervisor and officer undertakes to observe and comply with his obligations to shareholders as stipulated in our Articles of Association;

(v) confirm that you have only relied on the information and representations in this prospectus in making your application and will not rely on any other information and representations save as set out in any supplement to this prospectus;

(vi) agree that we, our Directors, the Sole Global Coordinator, the Underwriters, any other parties involved in the Global Offering and any of their respective directors, officers, employees, partners, agents or advisers are liable only for the information and representations contained in this prospectus, the Application Forms and any supplement to this prospectus;

(vii) undertake and confirm that, you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Placing Shares;

(viii) agree to disclose to us, our registrar, receiving banker, the Sole Global Coordinator and their respective advisers and agents personal data and any information which they require about you or the person(s) for whose benefit you have made the application;

(ix) instruct and authorise us and/or the Sole Global Coordinator as agents for us (or their respective agents or nominees) to do on your behalf all things necessary to give effect to the arrangements described in this prospectus and the Application Form;

(x) represent, warrant and undertake that you are not, and none of the other person(s) for whose benefit you are applying is, a U.S. person (as defined in Regulation S);

(xi) represent and warrant that you understand that the Public Offer Shares have not been and will not be registered under the Securities Act and you are outside the United Sates (as defined in Regulation S) when completing the Application Form or are a person described in paragraph (h)(3) or Rule 902 of Regulation S;

(xii) agree (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(xiii) warrant the truth and accuracy of the information contained in your application;

(xiv) agree to disclose to us, the Sole Global Coordinator and their respective agents any information which they require about you or the person(s) for whose benefit you have made the application;

(xv) agree that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;

(xvi) undertake and agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;

(xvii) if the laws of any place outside Hong Kong are applicable to your application, agree and warrant that you have complied with all such laws and none of us, the Sole Global Coordinator and the Hong Kong Underwriters nor any of our or their respective officers or advisers will infringe any laws outside Hong Kong as a result of the acceptance of your offer to subscribe, or any actions arising from your rights and obligations under the terms and conditions contained in this prospectus; and

(xviii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and the Application Form and agree to be bound by them.

In order for the **yellow** Application Forms to be valid:

(i) **If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):**

(a) the designated CCASS Participant or its authorised signatories must sign in the appropriate box; and

(b) the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box.

(ii) **If the application is made by an individual CCASS Investor Participant:**

(a) the Application Form must contain the CCASS Investor Participant's name and Hong Kong Identity Card Number; and

(b) the CCASS Investor Participant must insert its participant I.D. and sign in the appropriate box in the Application Form.

(iii) **If the application is made by a joint individual CCASS Investor Participant:**

(a) the Application Form must contain all joint CCASS Investor Participants' names and the Hong Kong Identity Card Numbers of all joint CCASS Investor Participants; and

(b) the participant I.D. must be inserted and the authorised signatory(ies) of the CCASS Investor Participant's stock account must sign in the appropriate box in the Application Form.

(iv) **If the application is made by a corporate CCASS Investor Participant:**

(a) the Application Form must contain the Company's name and Hong Kong business registration number; and

(b) the participant I.D. and company chop (bearing its company name) endorsed by its authorised signatory(ies) must be inserted in the appropriate box in the Application Form.

Signature(s), number of signatories and form of chop, where appropriate, should match the records kept by HKSCC. Incorrect or incomplete details of the CCASS Participant or the omission or inadequacy of authorised signatory(ies) (if applicable), participant I.D. or other similar matters may render the application invalid.

If your application is made through a duly authorised attorney, we and the Sole Global Coordinator (or their respective agents and nominees) as our agents may accept it at our/their discretion, and subject to any conditions we/they think fit, including evidence of the authority of your attorney. We and the Sole Global Coordinator, in their capacity as our agents, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

How to Make Payment for the Application

Each completed **white** or **yellow** Application Form must be accompanied by either one check or one banker's cashier order, which must be stapled to the top left hand corner of the Application Form.

If you pay by check, the check must:

- be in Hong Kong dollars;
- be drawn on your Hong Kong dollar bank account in Hong Kong;
- bear an account name (or, in the case of joint applicants, the name of the first-named applicant) (either pre-printed on the check or endorsed on the reverse of the check by an authorised signatory of the bank on which it is drawn), which must be the same as the name on your Application Form (or, in the case of joint applicants, the name of the first-named applicant). If the check is drawn on a joint account, one of the joint account names must be the same as the name of the first-named applicant);
- be made payable to "**Bank of China (Hong Kong) Nominees Limited — Xinjiang Xinxin Mining Public Offer**";
- be crossed "**Account Payee Only**"; and
- not be post dated.

Your application may be rejected if your check does not meet all of these requirements or is dishonored on first presentation.

If you pay by banker's cashier order, the banker's cashier order must:

- be in Hong Kong dollars;
- be issued by a licensed bank in Hong Kong and have your name certified on the reverse of the banker's cashier order by an authorised signatory of the bank on which it is drawn. The name on the back of the banker's cashier order and the name on the Application Form must be the same. If the application is a joint application, the name on the back of the banker's cashier order must be the same as the name of the first-named applicant;
- be made payable to "**Bank of China (Hong Kong) Nominees Limited — Xinjiang Xinxin Mining Public Offer**";
- be crossed "**Account Payee Only**"; and
- not be post dated.

Your application may be rejected if your banker's cashier order does not meet all of these requirements.

The right is reserved to present all or any remittance for payment. However, your check or banker's cashier order will not be presented for payment before 12:00 noon on Wednesday, 3 October 2007. Our Company will not give you a receipt for your payment. Our Company will keep any interest accrued on your application monies (up until, in the case of monies to be refunded, the date of dispatch of refund checks). The right is also reserved to retain any share certificates and/or any surplus application monies or refunds pending clearance of your check or banker's cashier order.

How Many Applications You May Make

You may make more than one application for Public Offer Shares if and only if:

You are a **nominee**, in which case you may make an application by: (i) giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Participant) or (ii) using a **white** or **yellow** Application Form, and lodge more than one Application Form in your own name if each application is made on behalf of different beneficial owners. In the box on the Application Form marked "For nominees" you must include:

- an account number; or

- some other identification code

for each beneficial owner or, in the case of joint beneficial owners, for each such beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

Otherwise, multiple applications are not allowed.

It will be a term and condition of all applications that by completing and delivering an Application Form, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee:

- (if the application is made for your own benefit) warrant that this is the only application which will be made for your benefit on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the White Form eIPO Service Provider via **White Form eIPO** service; or

- (if you are an agent for another person) warrant that reasonable inquiries have been made of that other person that this is the only application which will be or has been made for the benefit of that other person on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the designated White Form eIPO Service Provider via **White Form eIPO** service and that you are duly authorised to sign the Application Form as that other person's agent.

Except where you are a nominee and provide the information required to be provided in your application, all of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly) on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the designated White Form eIPO Service Provider via **White Form eIPO** service;

- both apply (whether individually or jointly) on one **white** Application Form and one **yellow** Application Form or on one **white** or **yellow** Application Form and give **electronic application instructions** to HKSCC via CCASS or to the designated White Form eIPO Service Provider via **White Form eIPO** service;

- apply (whether individually or jointly) on one **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or to the designated White Form eIPO Service Provider via **White Form eIPO** service or applying through a CCASS Broker or Custodian Participant) for more than 30,000,000 Public Offer Shares in pool A or 30,000,000 Public Offer Shares in pool B as more particularly described in "Structure of the Global Offering — The Hong Kong Public Offering"; or

- have applied for or taken up, or indicated an interest in, or have been or will be placed (including conditionally and/or provisionally) International Placing Shares under the International Placing or otherwise have participated or will participate in the International Placing.

Save as disclosed above, **all** of your applications will also be rejected as multiple applications if more than one application is made for **your benefit** (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and

- you exercise statutory control over that company,

then the application will be treated as being made for your benefit.

Unlisted company means a company with no equity securities listed on the Stock Exchange.

Statutory control means you:

- control the composition of the board of directors of that company;

- control more than half of the voting power of that company; or

- hold more than half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit to the White Form eIPO Service Provider to make an application for Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service by giving electronic application instructions through the designated website at **www.eipo.com.hk** and completing payment in respect of such electronic application instructions, or of submitting one application through the **White Form eIPO** service and one or more applications by any other means, all of your applications are liable to be rejected.

Members of the Public — Time for Applying for Public Offer Shares

Completed **white** or **yellow** Application Forms, together with payment attached, must be lodged by 12:00 noon on Wednesday, 3 October 2007, or, if the application lists are not open on that day, by the time and date stated in the sub-paragraph entitled "Effect of Bad Weather on the Opening of the Application Lists" below.

Your completed Application Form, together with payment attached, should be deposited in the special collection boxes provided at any of the branches of Bank of China (Hong Kong) Limited listed under the section headed "Where to collect the Application Forms" above at the following times:

Thursday, 27 September 2007	**—**	**9:00 a.m. to 5:00 p.m.**
Friday, 28 September 2007	**—**	**9:00 a.m. to 5:00 p.m.**
Saturday, 29 September 2007	**—**	**9:00 a.m. to 1:00 p.m.**
Tuesday, 2 October 2007	**—**	**9:00 a.m. to 5:00 p.m.**
Wednesday, 3 October 2007	**—**	**9:00 a.m. to 12:00 noon**

The application lists will be open **between 11:45 a.m. and 12:00 noon** on Wednesday, 3 October 2007.

No proceedings will be taken on applications for our H Shares and no allotment of any such H Shares will be made until after the closing of the application lists. No allotment of any of our Public Offer Shares will be made later than Friday, 26 October 2007.

White Form eIPO

You may submit your application to the designated White Form eIPO Service Provider through the designated website at **www.eipo.com.hk** from 9:00 a.m. on Thursday, 27 September 2007 until 11:30 a.m. on Wednesday, 3 October 2007 or such later time as described under the sub-paragraph headed "Effects of Bad Weather Conditions on the Opening of the Applications Lists" below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, 3 October 2007, the last application day, or, if the application lists are not open on that day, then by the time and date stated in the subparagraph headed "Effects of Bad Weather on the Opening of the Application Lists" below.

You will not be permitted to submit your application to the designated White Form eIPO Service Provider through the designated website at **www.eipo.com.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

Effect of Bad Weather on the Opening of the Application Lists

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above, or

- a "black" rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 3 October 2007. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

Business day means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

Publication of Results

We expect to announce the basis of allotment and the level of applications under the Hong Kong Public Offering on Thursday, 11 October 2007 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), and on our website at **www.xjxxky.com.cn**.

The results of allocations and the Hong Kong Identity Card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- Results of allocations for the Hong Kong Public Offering will be available from our Company's website at **www.xjxxky.com.cn** and the website of the Hong Kong Stock Exchange at **www.hkex.com.hk** on Thursday, 11 October 2007.

- Results of allocations for the Hong Kong Public Offering will be available from our designated results of allocations website at **www.iporesults.com.hk** on a 24-hour basis from 8:00 a.m. on Thursday, 11 October 2007 to 12:00 midnight on Wednesday, 17 October 2007. Search by ID function will be available on our Hong Kong Public Offering results of allocations website at **www.iporesults.com.hk**, or via a hyperlink from our website at **www.xjxxky.com.cn** to our Hong Kong Public Offering results of allocations website at **www.iporesults.com.hk**. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its Application Form to search for his/her/its own allocation result;

- Results of allocations will be available from our Hong Kong Public Offering allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Public Offer Shares allocated to them, if any, by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Thursday, 11 October 2007 to Sunday, 14 October 2007;

- Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches from Thursday, 11 October 2007 to Saturday, 13 October 2007 at all the receiving bank branches and sub-branches at the addresses set out in the section headed "How to Apply for the Public Offer Shares — Where to Collect the Application Forms".

Dispatch/Collection of H Share Certificates and Refund Checks

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the offer price of HK$6.50 per H Share (excluding brokerage fee, SFC transaction levy and Stock Exchange trading fee thereon) initially paid on application, or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed "Structure of the Global Offering — Conditions of the Hong Kong Public Offering" or if any application is revoked or any allotment pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage fee, SFC transaction levy and Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

You will receive one share certificate for all the Public Offer Shares issued to you under the Hong Kong Public Offering (except pursuant to applications made on **yellow** Application Forms or by **electronic application instructions** to HKSCC where share certificates will be deposited into CCASS as described below).

No temporary documents of title will be issued in respect of our H Shares. No receipt will be issued for sums paid on application but, subject to personal collection as mentioned below, in due course there will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on your Application Form:

(a) for applications on **white** Application Forms: (i) H Share certificate(s) for all the Public Offer Shares applied for, if the application is wholly successful; or (ii) H Share certificate(s) for the number of Public Offer Shares successfully applied for, if the application is partially successful (for wholly successful and partially successful applicants on **yellow** Application Forms: H Share certificates for their H Shares successfully applied for will be deposited into CCASS as described below); and/or

(b) for applications on **white** or **yellow** Application Forms, refund check(s) crossed "Account Payee Only" in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Public Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the maximum offer price per H Share paid on application in the event that the Offer Price is less than the offer price per H Share initially paid on application, in each case including the brokerage fee of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, attributable to such refund/surplus monies but without interest. Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund check, if any. Such data would also be transferred to a third party for refund purposes. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund check. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of, or may invalidate, your refund check.

Subject to personal collection as mentioned below, refund checks for surplus application monies (if any) in respect of wholly and partially unsuccessful applications and the difference between the Offer Price and the offer price per H Share initially paid on application (if any) under **white** or **yellow** Application Forms; and H Share certificates for wholly and partially successful applicants under **white** Application Forms are expected to be posted on or around Thursday, 11 October 2007. The right is reserved to retain any H Share certificate(s) and any surplus application monies pending clearance of check(s).

H Share certificates will only become valid certificates of title at 8:00 a.m. on Friday, 12 October 2007 provided that the Hong Kong Public Offering has become unconditional in all respects and the right of termination described in the section headed "Underwriting — Underwriting Arrangement and Expenses — Hong Kong Public Offering — Grounds for termination" has not been exercised.

(a) If you apply using a white Application Form:

If you apply for 1,000,000 Public Offer Shares or more on a **white** Application Form and have indicated your intention in your Application Form to collect your refund check(s) (where applicable) and/or H Share certificate(s) (where applicable) from Computershare Hong Kong Investor Services Limited and have provided all information required by your Application Form, you may collect your refund check(s) (where applicable) and H Share certificate(s) (where applicable) from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, 11 October 2007 or such other date as notified by us in the newspapers as the date of collection/dispatch of refund checks/H Share certificates. If you are an individual who opts for personal collection, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, you must attend by your authorised representative bearing a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. If you do not collect your refund check(s) (where applicable) and/or H Share certificate(s) (where applicable) personally within the time specified for collection, they will be sent to the address as specified in your Application Form promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Public Offer Shares or if you apply for 1,000,000 Public Offer Shares or more but have not indicated on your Application Form that you will collect your refund check(s) (where applicable) and/or H Share certificate(s) (where applicable) in person, your refund check(s) (where applicable) and/or H Share certificate(s) (where applicable) will be sent to the address on your Application Form on Thursday, 11 October 2007, by ordinary post and at your own risk.

(b) If you apply using a yellow Application Form:

If you apply for 1,000,000 Public Offer Shares or more and you have elected on your **yellow** Application Form to collect your refund check (where applicable) in person, please follow the same instructions as those for **white** Application Form applicants as described above.

If you apply for less than 1,000,000 Public Offer Shares or if you have applied for more than 1,000,000 Public Offer Shares or more but have not indicated on your Application Form that you wish to collect your refund check(s) (where applicable) in person, your refund check(s) (where applicable) will be sent to the address on your Application Form on Thursday, 11 October 2007, by ordinary post at your own risk.

If you apply for Public Offer Shares using a **yellow** Application Form and your application is wholly or partially successful, your H Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form at the close of business on Thursday, 11 October 2007, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant) for Public Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Public Offer Shares allocated to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant, we expect to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the South China Morning Post (in English) or in the Hong Kong Economic Times (in Chinese) or on our website at **www.xjxxky.com.cn** on Thursday, 11 October 2007. You should check the announcement we publish and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 11 October 2007 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your stock account.

(c) If you apply through White Form eIPO:

If you apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service by submitting an electronic application to the White Form eIPO Service Provider through the designated website at **www.eipo.com.hk** and your application is wholly or partially successful, you may collect your Share certificate(s) and/or refund cheque(s) (where applicable) in person from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 11 October 2007, or such other date as notified by our company in the newspapers as the date of dispatch/collection of H Share certificates/refund cheques.

If you do not collect your H Share certificate(s) and/or refund cheque(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the White Form eIPO Service Provider promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your H Share certificate(s) and/or refund cheque(s) (where applicable) will be sent to the address specified in your application instructions to the White Form eIPO Service Provider through the designated website at **www.eipo.com.hk** on Thursday, 11 October 2007 by ordinary post and at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the White Form eIPO Service Provider set out below in "Additional Information for Applicants Applying Through White Form eIPO."

4. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

General

CCASS Participants may give **electronic application instructions** to HKSCC to apply for the Public Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (**https://ip.ccass.com**) (using the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
2nd Floor
Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to us and our registrars.

Giving Electronic Application Instructions to HKSCC to Apply for Public Offer Shares by HKSCC Nominees On Your Behalf

Where a **white** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Public Offer Shares:

(i) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **white** Application Form or this prospectus; and

(ii) on behalf of each such person, HKSCC Nominees;

- agrees that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;

- undertakes and agrees to accept the Public Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;

- represents, warrants and undertakes that the person is not, and none of the other person(s) for whose benefit the person is applying is, a U.S. person (as defined in Regulation S);

- represents and warrants that the person understands that the Public Offer Shares have not been and will not be registered under the Securities Act and that the person is outside the United States (as defined in Regulation S) when completing the **electronic application instructions** or are is a person described in paragraph (h)(3) or Rule 902 of Regulation S;

- undertakes and confirms that that person has not applied for or taken up or indicated an interest in, and will not apply for or take up or indicate any interest in any International Placing Shares under the International Placing nor otherwise participated or will participate in the International Placing;

- (if the **electronic application instructions** are given for that person's own benefit) declares that only one set of **electronic application instructions** has been given for that person's benefit;

- (if that person is an agent for another person) declares that that person has only given one set of **electronic application instructions** for the benefit of that other person and that that person is duly authorised to give those instructions as that other person's agent;

- understands that the above declaration will be relied upon by us, our Directors and the Sole Global Coordinator in deciding whether or not to make any allotment of Public Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;

- authorises us to place the name of HKSCC Nominees on our register of members as the holder of the Public Offer Shares allotted in respect of that person's **electronic application instructions** and to send H Share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between us and HKSCC;

- confirms that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;

- confirms that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf;

- agrees that we and the Directors are liable only for the information and representations contained in this prospectus, the Application Forms and any supplements to this prospectus;

- agrees to disclose that person's personal data to us, the Sole Global Coordinator, the Share Registrar, receiving bankers, the Underwriters and their respective advisers and agents and any information which they may require about that person;

- agrees (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation and you may not revoke it other than as provided in this prospectus;

- agrees that any application made by HKSCC Nominees on behalf of that person pursuant to **electronic application instructions** given by that person is irrevocable before Friday, 26 October 2007, such agreement to take effect as a collateral contract with us and to become binding when that person gives the instructions and such collateral contract to be in consideration of our agreeing that we will not offer any Public Offer Shares to any person before Friday, 26 October 2007, except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before Friday, 26 October 2007 if a person responsible for this prospectus under Section 40 of the Companies Ordinance (applied pursuant to Section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;

- agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering published by us;

- agrees to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Public Offer Shares;

- agrees with us, for ourselves and for the benefit of each of our shareholders (and so that we will be deemed by our acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for ourselves and on behalf of each of our shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Company Law, the Special Regulations and our Articles of Association;

- agrees with us and each of our shareholders, Directors, Supervisors, managers and officers, and we agree, for our benefit and for the benefit of each of our Directors, Supervisors, managers and officers, with each of our shareholders to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by Company Law or other relevant laws and administrative regulations concerning its affairs to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award, which arbitration shall be final and conclusive;

- agrees with us (for ourselves and for the benefit of each of our shareholders) that our H Shares are freely transferable by the holders thereof;

- authorises us to enter into a contract on your behalf with each of our Directors, Supervisors and officers whereby each such Director, Supervisor and officer undertakes to observe and comply with his obligations to shareholders stipulated in the Articles of Association; and

- agrees that that person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to us or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;

- instructed and authorised HKSCC to arrange payment of the maximum offer price, brokerage fee, SFC transaction levy and Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or the Offer Price is less than the offer price per H Share initially paid on application, refund of the application monies, in each case including brokerage fee, SFC transaction levy and Stock Exchange trading fee, by crediting your designated bank account; and

- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **white** Application Form.

Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purpose of considering whether multiple applications have been made.

Minimum Subscription Amount and Permitted Multiples

You may give or cause your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 1,000 Public Offer Shares. Such instructions in respect of more than 1,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

Those who are not CCASS Investor Participants can instruct their brokers or custodians who are CCASS Broker Participants or CCASS Custodian Participants to give **electronic application instructions** to HKSCC via CCASS terminals to apply for Public Offer Shares on their behalf.

CCASS Broker/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Thursday, 27 September 2007	**—**	**9:00 a.m. to 8:30 p.m.**(1)
Friday, 28 September 2007	**—**	**8:00 a.m. to 8:30 p.m.**(1)
Saturday, 29 September 2007	**—**	**8:00 a.m. to 1:00 p.m.**(1)
Tuesday, 2 October 2007	**—**	**8:00 a.m. to 8:30 p.m.**(1)
Wednesday, 3 October 2007	**—**	**8:00 a.m.**(1) **to 12:00 noon**

Note:

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Broker/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Thursday, 27 September 2007 until 12:00 noon on Wednesday, 3 October 2007. (24 hours daily, except the last application day).

Allocation of Public Offer Shares

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit such instruction is given will be treated as an applicant.

Deposit of H Share Certificates into CCASS and Refund of Application Monies

- No temporary document of title will be issued. No receipt will be issued for application monies received.

- If your application is wholly or partially successful, your H Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock account at the close of business on Thursday, 11 October 2007, or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.

- We expect to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, we will include information relating to the relevant beneficial owner), your Hong Kong Identity Card/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the South China Morning Post (in English) or in the Hong Kong Economic Times (in Chinese) or on our website at **www.xjxxky.com.cn** on Thursday, 11 October 2007. You should check the announcement we publish and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 11 October 2007 or such other date as shall be determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, 11 October 2007. HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the offer price per H Share initially paid on application, in each case including brokerage fee of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, 11 October 2007. No interest will be paid thereon.

Section 40 of the Companies Ordinance

For the avoidance of doubt, we and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies Ordinance as applied by Section 342E of the Companies Ordinance.

Personal Data

The section of the Application Form entitled "Personal Data" applies to any personal data held by us and our Hong Kong H Share registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

Warning

The subscription of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. We, our Directors, the Sole Sponsor, the Sole Global Coordinator and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions** to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions**, they should either: (i) submit a **white** or **yellow** Application Form; or (ii) go to HKSCC's Customer Service Center to complete an input request form for **electronic application instructions** before 12:00 noon on Wednesday, 3 October 2007.

5. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES

Full details of the circumstances in which you will not be allotted the Public Offer Shares are set out in the notes attached to the Application Forms (whether you are making your application by an Application Form or electronically instructing HKSCC to cause HKSCC Nominees to apply on your behalf), and you should read them carefully. You should note in particular the following situations in which Public Offer Shares will not be allotted to you:

- If your application is revoked or withdrawn:

By completing and submitting an Application Form or **electronic application instructions** to HKSCC you agree that your application or the application made by HKSCC Nominees on your behalf may not be revoked on or before Friday, 26 October 2007. This agreement will take effect as a collateral contract with us, and will become binding when you lodge your Application Form or submit your **electronic application instructions** to HKSCC or to the White Form eIPO Service Provider via **White Form eIPO** service. This collateral contract will be in consideration of our agreeing that we will not offer any Public Offer Shares to any person before Friday, 26 October 2007 except by means of one of the procedures referred to in this prospectus.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before Friday, 26 October 2007 if a person responsible for this prospectus under Section 40 of the Companies Ordinance (as applied by Section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the announcement of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or the results of the ballot respectively.

- Full discretion of our company or our agents to reject or accept your application:

We and the Sole Global Coordinator, in their capacity as our agents, and our or their agents and nominees, have full discretion to reject or accept any application, or to accept only part of any application.

We, the Sole Global Coordinator and the Hong Kong Underwriter(s), in their capacity as our agents, and our or their agents and nominees do not have to give any reason for any rejection or acceptance.

- If the allotment of Public Offer Shares is void:

The allotment of Public Offer Shares to you or to HKSCC Nominees (if you give **electronic application instructions** or apply by a **yellow** Application Form) will be void if the Listing Committee of the Stock Exchange does not grant permission to list our H Shares either:

  - within three weeks from the closing of the application lists; or
  - within a longer period of up to six weeks if the Listing Committee of the Stock Exchange notifies us of that longer period within three weeks of the closing date of the application lists.

- You will not receive any allotment if:

  - you make multiple applications or suspected multiple applications;
  - you or the person for whose benefits you apply for have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) our Public Offer Shares and/or our International Placing Shares. By filling in any of the Application Forms or applying by giving **electronic application instructions** to HKSCC or to the White Form eIPO Service Provider via **White Form eIPO** service, you agree not to apply for our Public Offer Shares as well as our International Placing Shares. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received our International Placing Shares, and to identify and reject indications of interest in the International Placing from investors who have received our Public Offer Shares in the Hong Kong Public Offering;

- your payment is not made correctly or you pay by check or banker's cashier order and the check or banker's cashier order is dishonored upon its first presentation;
- your Application Form is not completed in accordance with the instructions as stated in the Application Form (if you apply by an Application Form);
- the Underwriting Agreements do not become unconditional; or
- the Underwriting Agreements are terminated in accordance with their respective terms.

You should also note that you may apply for our H Shares under the Hong Kong Public Offering or indicate an interest for our H Shares under the International Placing, but may not do both.

6. HOW MUCH ARE THE PUBLIC OFFER SHARES

The maximum offer price is HK$6.50 per H Share. You must also pay brokerage fee of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005% in full. This means that for every board lot of 1,000 H Shares you will pay approximately HK$6,565.59. The Application Forms have tables showing the exact amount payable for certain numbers of H Shares up to 30,000,000 H Shares.

You must pay the amount payable upon application for our H Shares by one check or one banker's cashier order in accordance with the terms set out in the Application Form (if you apply by an Application Form).

If your application is successful, brokerage fee is paid to participants of the Stock Exchange or the Stock Exchange (as the case may be), the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected on behalf of the SFC).

7. REFUND OF APPLICATION MONIES

If you do not receive any Public Offer Shares for any reason, we will refund your application monies, including brokerage fee of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%. No interest will be paid thereon. All interest accrued on such monies prior to the date of dispatch of refund checks will be retained for our benefit.

If your application is accepted only in part, we will refund the appropriate portion of your application monies, including the related brokerage fee of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, without interest.

If the Offer Price as finally determined is less than the maximum Offer Price of HK$6.50 per H Share paid on application, appropriate refund payments (including the brokerage of 1%, SFC transaction levy of 0.004% and Hong Kong Stock Exchange trading fee of 0.005% attributable to the surplus application monies) will be made to successful applicants, without interest. Details of the procedure for refund are set out above in the section headed "Dispatch/Collection of H Share Certificates and Refund Check."

In a contingency situation involving a substantial over-subscription, at the discretion of us and the Sole Global Coordinator, checks for applications for certain small denominations of Public Offer Shares (apart from successful applications) may not be cleared.

Refund of your application monies (if any) will be made on Thursday, 11 October 2007 in accordance with the various arrangements as described above.

Additional Information for Applicants Applying Through White Form eIPO

For the purposes of allocating Public Offer Shares, each applicant giving electronic application instructions through the **White Form eIPO** service to the White Form eIPO Service Provider through the designated website at **www.eipo.com.hk** will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Public Offer Shares for which you have applied, or if your application is otherwise rejected by the White Form eIPO Service Provider, the White Form eIPO Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the White Form eIPO Service Provider on the designated website at **www.eipo.com.hk**.

Otherwise, any monies payable to you due to a refund for any of the reasons set out above in “Refund of Application Monies” shall be made pursuant to the arrangements described above in “If your application for Public Offer Shares is successful (in whole or in part) — If you apply through White Form eIPO.”

8. DEALINGS AND SETTLEMENT

Commencement of Dealings in the H Shares

Dealings in our H Shares on the Stock Exchange are expected to commence on Friday, 12 October 2007.

Our H Shares will be traded in board lots of 1,000 H Shares each. The stock code of our H Shares is 3833.

H Shares will be Eligible for Admission into CCASS

If the Stock Exchange grants the listing of, and permission to deal in, our H Shares and we comply with the stock admission requirements of HKSCC, our H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our H Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling our H Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of inclusion in this prospectus, received from the reporting accountants of the Company, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

27 September 2007

The Directors
Xinjiang Xinxin Mining Industry Co., Ltd.
BOCI Asia Limited

Dear Sirs,

We set out below our report on the financial information relating to Xinjiang Xinxin Mining Industry Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the years ended 31 December 2004, 2005 and 2006 and each of the three months ended 31 March 2006 and 2007 (the "Relevant Periods") for inclusion in the prospectus of the Company dated 27 September 2007 (the "Prospectus") in connection with the initial public offering of the shares of the Company and listing of the shares of the Company on the Main Board of the Stock Exchange of Hong Kong Limited.

The Company was incorporated in Xinjiang Uygur Autonomous Region, the People's Republic of China (the "PRC") on 1 September 2005 as a joint stock company with limited liability under the Company Law of the PRC. Pursuant to a group reorganisation as described in Note 1 of Section II below, which was completed on 1 September 2005 (the "Reorganisation"), the Company took over the business, assets and employees relating to mining, ore processing, smelting, refining and sales of nickel, copper and other non-ferrous metal products (the "Relevant Business"), respectively from Xinjiang Non-ferrous Industry Co. Kalatongke Nickel and Copper Mine (the "Kalatongke Mine") and Xinjiang Non-ferrous Industry Co. Fukang Refinery (the "Fukang Refinery"), both of which were wholly owned subsidiaries of Xinjiang Non-ferrous Metal Industry (Group) Ltd. ("Xinjiang Non-ferrous" or the "Holding Company"), a state-owned enterprise established in the PRC. As at 31 March 2007, the Company had direct interest in a subsidiary, Xinjiang Zhongxin Mining Co., Ltd. ("Zhongxin Mining") set out in Note 10 of Section II below.

The statutory financial statements of the Company for the period from 1 September 2005 to 31 December 2005 were audited by 天津五洲聯合會計師事務所有限公司 (Tianjin Wuzhou Certified Public Accountants Co., Ltd.). The statutory financial statements of the Company for the year ended 31 December 2006 were audited by 普華永道中天會計師事務所有限公司 (PricewaterhouseCoopers Zhong Tian CPAs Limited Company).The statutory financial statements of the Company were prepared in accordance with the relevant accounting principles and financial regulations applicable to the PRC enterprises (the "PRC GAAP"). The statutory financial statements of Zhongxin Mining for the period from 24 January 2006 (date of establishment) to 31 December 2006 were audited by 新疆馳遠天合有限責任會計師事務所哈密鴻遠分所 (Xinjiang Chiyuantianhe Certified Public Accountants Company Limited Hamihongyuan Branch).

For the purpose of the listing, the directors of the Company have prepared the consolidated financial statements of the Group for each of the years ended 31 December 2004, 2005 and 2006 in accordance with the PRC GAAP (the "PRC GAAP Financial Statements"). The PRC GAAP Financial Statements were audited by 普華永道中天會計師事務所有限公司 (PricewaterhouseCoopers Zhong Tian Certified Public Accountants Limited Company).

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The financial information as set out in Sections I to III below (the "Financial Information") has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") based on the audited PRC GAAP Financial Statements and the unaudited consolidated financial statements of the Group prepared under PRC GAAP for each of the three months ended 31 March 2006 and 2007, on the basis set out in Note 2 of Section II below, after making such adjustments as are appropriate.

The directors of respective companies comprising the Group, during the Relevant Periods, are responsible for preparing the respective financial statements which give a true and fair view. In preparing the financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. The directors of the Company are responsible for the Financial Information which gives a true and fair view.

For the financial information for each of the years ended 31 December 2004, 2005 and 2006 and the three months ended 31 March 2007, it is our responsibility to express an independent opinion, based on our examination, on the Financial Information and to report our opinion to you.

For the financial information for the three months ended 31 March 2006, it is our responsibility to form an independent conclusion, based on our review, on the financial information and to report our conclusion to you.

BASIS OF OPINION AND REVIEW WORK PERFORMED

For the financial information for each of the years ended 31 December 2004, 2005 and 2006 and the three months ended 31 March 2007, we examined the financial information and carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

For the financial information for the three months ended 31 March 2006, we conducted our review on the financial information in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the HKICPA. A review consists principally of making enquiries of the Group's management and applying analytical procedures to the financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information for the three months ended 31 March 2006.

OPINION AND REVIEW CONCLUSION

In our opinion, the financial information for each of the years ended 31 December 2004, 2005 and 2006 and the three months ended 31 March 2007, for the purpose of this report, and prepared on the basis set out in Note 2 of Section II below, gives a true and fair view of the state of affairs of the Company as at 31 December 2005 and 2006 and 31 March 2007 and of the Group as at 31 December 2004, 2005 and 2006 and 31 March 2007 and of the Group's results and cash flows for the years/period then ended.

On the basis of our review which does not constitute an audit, for the purpose of this report and on the basis set out in Note 2 of Section II below, we are not aware of any material modifications that should be made to the financial information for the three months ended 31 March 2006.

I. FINANCIAL INFORMATION OF THE GROUP

The following is the financial information of the Group and the Company for the Relevant Periods, prepared on the basis as set out in Note 1 of Section II below, after making such adjustments as are appropriate.

(a) Consolidated balance sheets

	Section II Note	As at 31 December **2004** *RMB'000*	**2005** *RMB'000*	**2006** *RMB'000*	As at 31 March **2007** *RMB'000*
ASSETS					
Non-current assets					
Property, plant and equipment	*7*	268,871	260,191	468,028	496,418
Mining rights	*8*	–	294,028	284,117	281,639
Land use rights	*9*	–	–	77,995	89,736
Intangible assets		28	22	94	94
		268,899	554,241	830,234	867,887
Current assets					
Inventories	*11*	64,649	102,787	163,299	130,710
Accounts and bills receivable	*12*	15,979	22,185	1,099	12,787
Other receivables, prepayments and other current assets	*13*	35,409	22,136	6,871	19,758
Cash and bank balances	*14*	155,667	327,468	562,482	334,452
		271,704	474,576	733,751	497,707
Total assets		540,603	1,028,817	1,563,985	1,365,594
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	*15*	180,000	300,000	380,000	380,000
Capital reserve	*16*	28,539	62,712	90,750	90,750
Other reserves	*17*	–	175,663	214,749	213,197
Retained earnings					
– Proposed profit distribution	*33*	–	–	13,045	–
– Proposed dividend	*34*	–	–	400,000	–
– Others		111,364	70,264	50,144	240,285
		319,903	608,639	1,148,688	924,232
Minority interests		–	–	23,613	23,056
Total equity		319,903	608,639	1,172,301	947,288

	Section II Note	As at 31 December 2004 RMB'000	2005 RMB'000	2006 RMB'000	As at 31 March 2007 RMB'000
LIABILITIES					
Non-current liabilities					
Long-term borrowings	18	–	–	50,000	50,000
Long-term payables	19	4,364	126,012	122,002	122,056
Provision for close down, restoration and environmental costs	20	3,567	3,821	4,092	4,164
Deferred income	21	5,780	7,080	13,360	23,849
		13,711	136,913	189,454	200,069
Current liabilities					
Short-term borrowings	18	88,800	54,800	44,800	44,800
Current portion of long-term borrowings	18	12,000	–	10,000	10,000
Current portion of long-term payables	19	1,537	6,616	4,011	5,622
Trade payables	22	30,844	37,191	60,390	42,407
Other payables and accruals	23	73,207	184,658	82,910	115,408
Income tax payable		601	–	119	–
		206,989	283,265	202,230	218,237
Total liabilities		220,700	420,178	391,684	418,306
Total equity and liabilities		540,603	1,028,817	1,563,985	1,365,594
Net current assets		64,715	191,311	531,521	279,470
Total assets less current liabilities		333,614	745,552	1,361,755	1,147,357

(b) Balance sheets

	Section II Note	As at 31 December 2005 RMB'000	As at 31 December 2006 RMB'000	As at 31 March 2007 RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	7	260,191	391,008	414,058
Mining rights	8	294,028	284,117	281,639
Land use rights	9	–	77,995	78,895
Intangible assets		22	79	79
Investment in a subsidiary	10	–	33,060	33,060
		554,241	786,259	807,731
Current assets				
Inventories	11	102,787	161,544	128,831
Accounts and bills receivable	12	22,185	1,099	12,787
Other receivables, prepayments and other current assets	13	22,136	6,762	18,944
Cash and bank balances	14	327,468	515,214	296,046
		474,576	684,619	456,608
Total assets		1,028,817	1,470,878	1,264,339
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital	15	300,000	380,000	380,000
Capital reserve	16	62,712	90,750	90,750
Other reserves	17	175,663	214,749	213,197
Retained earnings	17			
– Proposed profit distribution	33	–	13,045	–
– Proposed dividend	34	–	400,000	–
– Others		70,264	51,904	242,783
Total equity		608,639	1,150,448	926,730

	Section II Note	As at 31 December 2005 RMB'000	2006 RMB'000	As at 31 March 2007 RMB'000
LIABILITIES				
Non-current liabilities				
Long-term payables	*19*	126,012	122,002	122,056
Provision for close down, restoration and environmental costs	*20*	3,821	4,092	4,164
Deferred income	*21*	7,080	13,360	13,360
		136,913	139,454	139,580
Current liabilities				
Short-term borrowings	*18*	54,800	44,800	44,800
Current portion of long-term payables	*19*	6,616	4,011	5,622
Trade payables	*22*	37,191	50,494	32,932
Other payables and accruals	*23*	184,658	81,552	114,675
Income tax payable		–	119	–
		283,265	180,976	198,029
Total liabilities		420,178	320,430	337,609
Total equity and liabilities		1,028,817	1,470,878	1,264,339
Net current assets		191,311	503,643	258,579
Total assets less current liabilities		745,552	1,289,902	1,066,310

(c) Consolidated income statements

	Section II Note	Year ended 31 December 2004 RMB'000	2005 RMB'000	2006 RMB'000	Three months ended 31 March 2006 RMB'000 (Unaudited)	2007 RMB'000
Revenue	24	439,669	544,741	869,068	161,526	326,346
Cost of sales	25	(226,387)	(270,664)	(348,419)	(67,661)	(122,301)
Gross profit		213,282	274,077	520,649	93,865	204,045
Selling and marketing expenses	25	(3,633)	(3,368)	(7,494)	(3,246)	(1,218)
Administrative expenses	25	(37,308)	(71,653)	(65,496)	(11,773)	(14,403)
Other income	27	3,058	3,037	5,208	1,189	3,531
Other (losses)/gains – net	28	(1,041)	(2,387)	51	338	362
Operating profit		174,358	199,706	452,918	80,373	192,317
Finance costs	29	(4,243)	(5,644)	(10,122)	(2,510)	(2,733)
Profit before income tax		170,115	194,062	442,796	77,863	189,584
Income tax expense	30	(57,520)	(366)	(119)	–	–
Profit for the year/period		112,595	193,696	442,677	77,863	189,584
Attributable to:						
Equity holders of the Company		112,728	193,696	444,004	77,943	190,141
Minority interests		(133)	–	(1,327)	(80)	(557)
		112,595	193,696	442,677	77,863	189,584
Earnings per share for profit attributable to the equity holders of the Company during the year/period (expressed in Renminbi per share) – basic and diluted	32	0.157	0.220	0.318	0.065	0.125
Profit distribution to Holding Company	33	88,472	207,575	13,045	–	–
Dividend	34	–	–	400,000	–	–

(d) Consolidated statements of changes in equity

	Section II Note	Share capital RMB'000	Capital reserve RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Minority interests RMB'000	Total RMB'000
		Attributable to equity holders of the Company					
At 1 January 2004		180,000	28,539	–	87,108	3,013	298,660
Profit for the year		–	–	–	112,728	(133)	112,595
Profit distribution	33	–	–	–	(88,472)	–	(88,472)
Acquisition of equity interests in a subsidiary from minority interests		–	–	–	–	(467)	(467)
Disposal of subsidiaries	35(c)	–	–	–	–	(2,413)	(2,413)
At 31 December 2004		180,000	28,539	–	111,364	–	319,903
Profit for the year		–	–	–	193,696	–	193,696
Profit distribution	33	–	–	–	(207,575)	–	(207,575)
Non-operating assets retained by the Holding Company pursuant to the Reorganisation		–	–	–	(27,221)	–	(27,221)
Contributions from equity holders of the Company	15, 17	120,000	34,173	175,663	–	–	329,836
At 31 December 2005		300,000	62,712	175,663	70,264	–	608,639
Profit for the year		–	–	–	444,004	(1,327)	442,677
Appropriation to statutory reserve	17	–	–	51,079	(51,079)	–	–
Expenses related to proposed issue of shares charged to other reserves	17	–	–	(11,993)	–	–	(11,993)
Contributions from equity holders of the Company	15	80,000	28,038	–	–	–	108,038
Contribution from minority interests		–	–	–	–	28,420	28,420
Acquisition of equity interest in a subsidiary from minority interests		–	–	–	–	(3,480)	(3,480)
At 31 December 2006		380,000	90,750	214,749	463,189	23,613	1,172,301
Profit for the period		–	–	–	190,141	(557)	189,584
Profit distribution	33	–	–	–	(13,045)	–	(13,045)
Dividend	34	–	–	–	(400,000)	–	(400,000)
Expenses related to proposed issue of shares charged to other reserves	17	–	–	(1,552)	–	–	(1,552)
At 31 March 2007		380,000	90,750	213,197	240,285	23,056	947,288
For the three months ended 31 March 2006 (Unaudited)							
At 1 January 2006		300,000	62,712	175,663	70,264	–	608,639
Profit for the period		–	–	–	77,943	(80)	77,863
Contribution from minority interests		–	–	–	–	28,420	28,420
At 31 March 2006		300,000	62,712	175,663	148,207	28,340	714,922

(e) Consolidated cash flow statements

	Section II Note	Year ended 31 December 2004 RMB'000	2005 RMB'000	2006 RMB'000	Three months ended 31 March 2006 RMB'000 (Unaudited)	2007 RMB'000
Cash flows from operating activities						
Cash generated from operations	*35(a)*	282,189	194,402	472,270	95,171	212,987
Interest paid		(4,006)	(2,573)	(13,224)	(2,442)	(1,077)
Income tax paid		(54,214)	(967)	–	–	(119)
Net cash generated from operating activities		223,969	190,862	459,046	92,729	211,791
Cash flows from investing activities						
Acquisition of subsidiaries, net of cash acquired	*35(b)*	(5,905)	–	–	–	–
Purchase of property, plant and equipment		(47,406)	(46,084)	(207,707)	(19,956)	(44,651)
Purchase of intangible assets		(29)	–	(95)	–	–
Purchase of land use rights		–	–	–	–	(352)
Proceeds from disposal of available-for-sale financial assets		548	–	–	–	–
Instalment payment of mining rights		–	–	(1,721)	(1,007)	–
Increase in investment in subsidiaries		(341)	–	(3,480)	–	–
Proceeds from disposal of subsidiaries	*35(c)*	4,419	–	–	–	–
Proceeds from disposal of property, plant and equipment	*35(d)*	5,025	931	1,347	–	–
Proceeds from disposal of associates	*35(e)*	15,551	–	–	–	–
Interest received		1,094	1,869	3,863	1,189	3,347
Net cash used in investing activities		(27,044)	(43,284)	(207,793)	(19,774)	(41,656)
Cash flow from financing activities						
Profit distribution to Holding Company		(88,472)	(83,950)	(123,625)	(123,625)	(13,045)
Dividend paid		–	–	–	–	(385,120)
Proceeds of capital contribution from equity holders		–	154,173	28,966	–	–
Capital contribution from minority shareholders in a subsidiary		–	–	28,420	28,420	–
Proceeds from borrowings		44,000	10,000	60,000	–	–
Repayment of borrowings		(53,950)	(56,000)	(10,000)	(10,000)	–
Net cash (used in) from financing activities		(98,422)	24,223	(16,239)	(105,205)	(398,165)
Net increase/(decrease) in cash and bank balances		98,503	171,801	235,014	(32,250)	(228,030)
Cash and bank balances at beginning of the year/period		57,164	155,667	327,468	327,468	562,482
Cash and bank balances at end of the year/period		155,667	327,468	562,482	295,218	334,452

For major non-cash transactions, please refer to Note 35(f) in Section II.

II. NOTES TO THE FINANCIAL INFORMATION

1. ORGANISATION, REORGANISATION AND PRINCIPAL ACTIVITIES

The Company was incorporated in the PRC on 1 September 2005 as a joint stock company with limited liability. The address of the Company's office is No.4, North Youhao Street, Urumqi City, Xinjiang Uygur Autonomous Region of the PRC.

The Group is principally engaged in the mining, ore processing, smelting, refining and sales of nickel, copper and other non-ferrous metal products.

Pursuant to the Reorganisation, the Company took over the Relevant Business respectively from the Kalatongke Mine and the Fukang Refinery, both of which were wholly owned subsidiaries of Xinjiang Non-ferrous. Subsequent to the Reorganisation, the Kalatongke Mine and the Fukang Refinery became branches of the Company.

According to the Reorganisation Agreement, which became effective on 1 September 2005, Xinjiang Non-ferrous transferred the Relevant Business together with all the corresponding operational assets into the Company as the capital contribution for the sum of approximately RMB231,260,000 (including assets revaluation surplus of approximately RMB22,721,000) to the Company and in return the Company allotted and issued 180,000,000 shares of RMB1 each to Xinjiang Non-ferrous. In addition, on 1 September 2005, the Company issued an aggregate of 120,000,000 shares of RMB1 each, for capital contribution of cash at approximately RMB154,173,000 to certain third party investors. On 3 September 2005, the Company entered into the Mining Rights Transfer Agreement with Xinjiang Non-ferrous pursuant to which the Company acquired the mining rights (Note 8).

The assets and liabilities injected into the Company did not include non-operating assets (the "Non-operating Assets") which were fixed assets such as schools, hospitals and staff quarters and were retained by Xinjiang Non-ferrous.

In May 2006, the Company increased its registered capital from RMB300,000,000 to RMB380,000,000 by creation of 80,000,000 new shares of RMB1 each. 58,551,000 shares of RMB1 each were issued to Xinjiang Non-ferrous for the acquisition of land use rights in respect of certain parcels of land in the Kalatongke Mine and the Fukang Refinery valued at approximately RMB79,072,000 and 21,449,000 shares of RMB1 each were issued to the third party investors for capital contribution of cash of approximately RMB28,966,000 respectively. Upon completion of the above allotment and issuance of new shares, Xinjiang Non-ferrous (the "Holding Company") owned 62.78% of the equity interest in the Company.

The directors of the Company consider Xinjiang Non-ferrous to be the ultimate holding company of the Company.

2. BASIS OF PRESENTATION

Prior to and following the Reorganisation, the Relevant Business is directly or indirectly controlled by Xinjiang Non-ferrous. Accordingly, the Financial Information have been prepared using the principles of merger accounting, as prescribed in the Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA. The Financial Information includes the financial positions, results and cash flows of the companies now comprise the Group as if the Relevant Business was transferred to the Company by Xinjiang Non-ferrous on 1 January 2004, the beginning of the earliest period presented or when such businesses were established or acquired by Xinjiang Non-ferrous, whichever is the shorter period.

Since the Non-operating Assets were controlled by the management of the Relevant Business prior to the Reorganisation, the Non-operating Assets and their operating results are included in the Financial Information until 31 August 2005 despite they were retained by Xinjiang Non-ferrous after the Reorganisation. The net book value of the Non-operating Assets at the date of Reorganisation was stated at their costs less accumulated depreciation, approximately RMB27,221,000. The breakdown of the net book value of the Non-operating Assets were as follows:

	Net book value as at 1 September 2005
	RMB'000
Staff quarters	18,790
Schools	2,355
Hospitals	1,981
Others	4,095
	27,221

The expenses related to the Non-operating Assets that are included in the Financial Information are as follows:

	Year ended 31 December	
	2004	2005
	RMB'000	*RMB'000*
Depreciation	1,180	787
Operating expenses	1,293	757
Compensation paid according to the Reorganisation Agreement	–	2,000
	2,473	3,544

Upon the completion of the Reorganisation, the Non-operating Assets retained by Xinjiang Non-ferrous was reflected as a distribution to the Holding Company in the consolidated statements of changes in equity.

In 2004, the Group acquired two subsidiaries from third parties (Note 35(b)) and acquired additional interest from minority interests in a subsidiary. These subsidiaries were subsequently de-registered and became part of the operation of the Group. In April 2004, the Group disposed interests in several subsidiaries which engaged in different businesses to Xinjiang Non-ferrous (Note 35(c)). The financial figures of aforementioned subsidiaries are insignificant to the Group.

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to the Relevant Periods, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The Financial Information has been prepared in accordance with HKFRS. The Group also applied HKFRS 1, "First-time Adoption of Hong Kong Financial Reporting Standards" in preparing the Financial Information. The Financial Information is the first set of the Group's financial statements prepared in accordance with HKFRS.

Reconciliations and descriptions of the effect of the transition from PRC GAAP to HKFRS on the Group's total equity and net profit are set out in Note 39.

The Financial Information has been prepared under the historical cost convention except that certain financial assets and financial liabilities at fair value as appropriate.

The preparation of Financial Information in conformity with HKFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The following new standards, amendments to existing standards and interpretations to existing standards have been published that are mandatory for the Group's accounting period beginning on or after 1 March 2007 or later periods that the Group has not early adopted:

- HKFRS 8, "Operating Segments", effective for annual periods beginning on or after 1 January 2009. This requires the disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates and its major customers. Management is currently assessing the impact of HKFRS 8.

- HK(IFRIC)-Int 11, "HKFRS 2-Group and Treasury Share Transactions" effective for annual periods beginning on or after 1 March 2007. Management believes that this interpretation should not have a significant impact to the Group; and

- HK(IFRIC)-Int 12, "Service Concession Arrangements", effective for annual periods beginning on or after 1 January 2008. Management believes that this interpretation should not have a significant impact to the Group.

3.2 Consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying an equity holding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

Inter-company transactions, balances and unrealised gains on transactions between group companies, if any, are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

In the Company's balance sheet, investment in subsidiary is stated at cost less provision for impairment loss. The result of subsidiary is accounted by the Company on the basis of dividend received and receivable.

(ii) Merger accounting for common control combination

The Financial Information incorporates the financial positions and results of the businesses in which the common control combination occurs as if they had been combined from the date when the combining businesses first came under the control of the controlling party.

The net assets of the businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The Financial Information includes the results of each of the combining businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

(iii) Transactions and minority interests

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

(iv) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying an equity holding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

3.3 Segment reporting

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

3.4 Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

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

3.5 Property, plant and equipment

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

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

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

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.8).

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

3.6 Land use rights

Land use rights are stated at cost less accumulated amortisation and impairment losses. Cost represents consideration paid for the rights to use the land and expenditure that is directly attributable to the acquisition. Amortisation of land use rights is calculated on a straight-line basis over the period of the land use rights varying from 38 to 48 years.

3.7 Mining rights and exploration rights

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

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

3.8 Impairment of non-financial assets

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

3.9 Financial assets

The Group classifies its financial assets in the following categories: fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. The Group did not have fair value through profit or loss nor available-for-sale financial assets.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheets (Note 3.11).

3.10 Inventories

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

3.11 Accounts and bills receivable

Accounts and bills receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision made for impairment of these receivables. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of debtor, probability that debtor will enter bankruptcy or financial reorganisation, and deficit or delinquency in payments are considered as indicators that trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

3.12 Cash and cash equivalents

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

3.13 Share capital

Ordinary shares are classified as equity.

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

3.14 Trade and other payables

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

3.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statements over the year of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being attributable to the construction of an asset which necessarily takes a period of time to get ready for its intended use. Interest expense on borrowings is calculated using the effective interest rate method.

3.16 Deferred income tax

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

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

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

3.17 Employee benefits

(i) Pension obligations

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

(ii) Housing benefits

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

(iii) Early retirement benefits

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

3.18 Provisions

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

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

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

3.19 Revenue recognition

Revenue comprises the fair value of consideration received or receivable for the sales of goods, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(i) Sales of goods

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

(ii) Interest income

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

3.20 Government grants

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

Grants relating to the exploration and construction of mineral projects are included in non-current liabilities as deferred income and are credited to the income statement on a straight line basis.

3.21 Dividend/profit distribution

Dividend/profit distribution is recognised as a liability in the period which they are approved by the shareholders of the Company.

3.22 Related parties

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

3.23 Operating leases

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

3.24 Exploration and evaluation expenditure

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

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

3.25 Contingent liability

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

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

3.26 Share-based payment transaction

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

4. FINANCIAL RISK MANAGEMENT

(i) Financial risk factors

The Group's activities expose it to a variety of financial risk: commodity price risk, credit risk, cash flow and fair value interest-rate risk, liquidity risk, and concentration risk. The Group historically has not used derivative instruments for hedging or trading purposes. Substantially all of the financial instruments the Group holds are for purposes other than trading.

(a) Commodity price risk

The Group is principally engaged in the mining, ore processing, smelting, refining and sales of nickel, copper and other non-ferrous metal products. Non-ferrous metal markets are influenced by global as well as regional supply and demand conditions. A decline in prices of copper/nickel could adversely affect the Group's financial performance. Also the Group uses a significant amount of coke in the production process. The Group historically has not used commodity derivative instruments to hedge the potential price fluctuations of coke. Therefore, the Group is exposed to the general price fluctuations of coke.

(b) Credit risk

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

(c) Cash flow and fair value interest-rate risk

The Group is exposed to the cash flow and fair value interest-rate risk arises from its borrowings. The borrowings from bank are issued at floating rates, which expose the Group to cash flow and fair value interest-rate risk. Management believes that such risk would not have a significant impact on the Group's financial position and operating results.

(d) Liquidity risk

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

The table below analyses the Group's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
At 31 December 2004				
Borrowings *(Note 18)*	100,800	–	–	–
Long-term payables *(Note 19)*	1,957	1,634	2,729	1,068
Trade and other payables *(Note 22, 23)*	104,051	–	–	–
At 31 December 2005				
Borrowings *(Note 18)*	54,800	–	–	–
Long-term payables *(Note 19)*	15,852	12,943	32,517	246,096
Trade and other payables *(Note 22, 23)*	221,849	–	–	–
At 31 December 2006				
Borrowings *(Note 18)*	54,800	15,000	35,000	–
Long-term payables *(Note 19)*	12,943	11,549	31,050	236,014
Trade and other payables *(Note 22, 23)*	143,300	–	–	–
At 31 March 2007				
Borrowings *(Note 18)*	54,800	15,000	35,000	–
Long-term payables *(Note 19)*	12,415	11,549	31,050	236,014
Trade and other payables *(Note 22, 23)*	157,815	–	–	–

(e) Concentration risk

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

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

(ii) Capital risk management

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

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as borrowings divided by total assets. The Group aims to maintain the gearing ratio at a reasonable level. The gearing ratios at 31 December 2004, 2005, 2006 and 31 March 2007 were as follows:

	As at 31 December			As at 31 March
	2004	**2005**	**2006**	**2007**
Borrowings *(Note 18)*	100,800	54,800	104,800	104,800
Total assets	540,603	1,028,817	1,563,985	1,365,594
Gearing ratio	18.6%	5.3%	6.7%	7.7%

(ii) Fair value estimate

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

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

5. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

(a) Carrying value of non-current assets

Non-current assets, including property, plant and equipment, land use rights, mining rights and intangible assets, are carried at cost less accumulated depreciation/amortisation. These carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In estimating the recoverable amounts of assets, various assumptions, including future cash flows to be associated with the non-current assets and discount rates, are made. If future events do not correspond to such assumptions, the recoverable amounts will need to be revised, and this may have an impact on the Group's results of operations or financial position.

(b) Useful lives of property, plant and equipment

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

(c) Mineral reserves

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

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

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

(d) PRC corporate income tax

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

As discussed in Note 30, the State Council of the PRC has yet to issue further detailed measures and regulations in relation to the new Corporate Income Tax Law which could affect the Group's corporate income tax rate.

6. SEGMENT INFORMATION

(a) Business segments

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

(b) Geographical segments

As all of the turnover and operating results of the Group for the Relevant Periods is derived in the PRC, an analysis of the turnover and operating results of the Group by business and geographic location is not presented.

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

7. PROPERTY, PLANT AND EQUIPMENT

	The Group						
	Buildings	Machinery and equipment	Electronic equipment and others	Motor vehicles	Mining structures	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2004							
Cost	274,959	146,830	3,160	16,574	9,335	11,657	462,515
Accumulated depreciation	(97,370)	(76,914)	(1,799)	(9,544)	(1,906)	–	(187,533)
Impairment	(1,937)	–	–	–	–	–	(1,937)
Net book amount	175,652	69,916	1,361	7,030	7,429	11,657	273,045
Year ended 31 December 2004							
Opening net book amount	175,652	69,916	1,361	7,030	7,429	11,657	273,045
Acquisition of subsidiaries *(Note 35(b))*	1,104	3,038	–	54	–	2,576	6,772
Additions	4,339	11,929	1,063	2,500	2,563	25,543	47,937
Transfer from construction in progress	8,466	18,525	75	–	3,415	(30,481)	–
Disposal of subsidiaries *(Note 35(c))*	(7,281)	(20,880)	–	(30)	–	(264)	(28,455)
Disposals	(1,065)	(3,457)	(6)	(246)	(690)	(475)	(5,939)
Depreciation	(10,973)	(9,821)	(351)	(1,296)	(644)	–	(23,085)
Impairment charge	(1,404)	–	–	–	–	–	(1,404)
Closing net book amount	168,838	69,250	2,142	8,012	12,073	8,556	268,871
At 31 December 2004							
Cost	279,687	148,493	4,292	17,555	14,082	8,556	472,665
Accumulated depreciation	(107,508)	(79,243)	(2,150)	(9,543)	(2,009)	–	(200,453)
Impairment	(3,341)	–	–	–	–	–	(3,341)
Net book amount	168,838	69,250	2,142	8,012	12,073	8,556	268,871
Year ended 31 December 2005							
Opening net book amount	168,838	69,250	2,142	8,012	12,073	8,556	268,871
Additions	3,251	2,875	1,090	2,302	50	36,452	46,020
Transfer from construction in progress	1,841	4,987	–	–	–	(6,828)	–
Disposals	(26)	(570)	(31)	(89)	(1,203)	(60)	(1,979)
Distribution to Holding Company in connection with the Reorganisation	(25,634)	(849)	(738)	–	–	–	(27,221)
Depreciation	(10,918)	(9,892)	(380)	(1,219)	(942)	–	(23,351)
Impairment charge	(490)	–	–	–	–	(1,659)	(2,149)
Closing net book amount	136,862	65,801	2,083	9,006	9,978	36,461	260,191
At 31 December 2005							
Cost	248,935	150,920	3,275	18,626	12,672	38,120	472,548
Accumulated depreciation	(108,242)	(85,119)	(1,192)	(9,620)	(2,694)	–	(206,867)
Impairment	(3,831)	–	–	–	–	(1,659)	(5,490)
Net book amount	136,862	65,801	2,083	9,006	9,978	36,461	260,191

	The Group						
	Buildings	**Machinery and equipment**	**Electronic equipment and others**	**Motor vehicles**	**Mining structures**	**Construction in progress**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2006							
Opening net book amount	136,862	65,801	2,083	9,006	9,978	36,461	260,191
Additions	863	1,610	1,661	2,823	512	225,835	233,304
Transfer from construction in progress	9,695	17,263	–	–	–	(26,958)	–
Disposals	(1,104)	(733)	(27)	(25)	–	(415)	(2,304)
Depreciation	(10,900)	(9,493)	(554)	(1,339)	(877)	–	(23,163)
Closing net book amount	135,416	74,448	3,163	10,465	9,613	234,923	468,028
At 31 December 2006							
Cost	256,826	165,508	4,754	21,098	13,184	234,923	696,293
Accumulated depreciation	(117,579)	(91,060)	(1,591)	(10,633)	(3,571)	–	(224,434)
Impairment	(3,831)	–	–	–	–	–	(3,831)
Net book amount	135,416	74,448	3,163	10,465	9,613	234,923	468,028
Three months ended 31 March 2007							
Opening net book amount	135,416	74,448	3,163	10,465	9,613	234,923	468,028
Additions	192	405	93	796	–	32,981	34,467
Transfer from construction in progress	191	807	–	–	–	(998)	–
Depreciation	(2,777)	(2,653)	(130)	(403)	(114)	–	(6,077)
Closing net book amount	133,022	73,007	3,126	10,858	9,499	266,906	496,418
At 31 March 2007							
Cost	257,209	166,719	4,847	21,893	13,184	266,906	730,758
Accumulated depreciation	(120,356)	(93,712)	(1,721)	(11,035)	(3,685)	–	(230,509)
Impairment	(3,831)	–	–	–	–	–	(3,831)
Net book amount	133,022	73,007	3,126	10,858	9,499	266,906	496,418

As at 31 December 2004, bank borrowing of RMB7,000,000 (Note 18) was secured by property, plant and equipment at the carrying amount of approximately RMB14,739,000. The security was fully released on 25 October 2005.

As at 31 December 2006 and 31 March 2007, bank borrowings of RMB60,000,000 (Note 18) were secured by construction in progress of the Group at the carrying amount of RMB3,510,000 and guarantee provided by Xinjiang Non-ferrous.

As of 31 December 2004, 2005 and 2006 and 31 March 2007, the capitalised exploration and valuation expenditure, recorded under category of construction in progress were RMB3,326,000, RMB6,703,000, RMB15,974,000 and RMB16,467,000 respectively.

The impairment loss provided for the construction in progress for the year ended 31 December 2005 represented the excess of the recoverable amount for the raw copper production facility which the installation has not been completed. In 2006, the management disposed the raw copper production facility. Accordingly, the impairment for construction in progress was written-off.

The impairment provided for the buildings mainly represented the impairment provided for the project of Hadebute Hydroelectric Power Station which was ceased in 2004.

Depreciation of property, plant and equipment has been charged to cost of sales, selling and marketing expenses and administrative expenses as follows:

	Year ended 31 December			Three months ended 31 March	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Cost of sales	20,887	20,449	19,563	4,845	5,267
Selling and marketing expenses	138	127	121	30	30
Administrative expenses	2,060	2,775	3,479	880	780
	23,085	23,351	23,163	5,755	6,077

During the year ended 31 December 2006 and the three months ended 31 March 2007, the Group had capitalised interest on borrowings in property, plant and equipment amounted to approximately RMB555,000 and RMB493,000 respectively.

The Company

	Buildings	Machinery and equipment	Electronic equipment and others	Motor vehicles	Mining structures	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
From 1 September 2005 (date of incorporation) to 31 December 2005							
As consideration for the issue of share capital	136,283	63,991	1,570	7,917	10,460	24,368	244,589
Additions	–	2,051	635	1,634	–	18,802	23,122
Transfer from construction in progress	2,556	2,494	–	–	–	(5,050)	–
Disposals	(6)	(768)	(36)	(154)	(167)	–	(1,131)
Depreciation	(1,971)	(1,967)	(86)	(391)	(315)	–	(4,730)
Impairment charge	–	–	–	–	–	(1,659)	(1,659)
Closing net book amount	136,862	65,801	2,083	9,006	9,978	36,461	260,191
At 31 December 2005							
Cost	248,935	150,920	3,275	18,626	12,672	38,120	472,548
Accumulated depreciation	(108,242)	(85,119)	(1,192)	(9,620)	(2,694)	–	(206,867)
Impairment	(3,831)	–	–	–	–	(1,659)	(5,490)
Net book amount	136,862	65,801	2,083	9,006	9,978	36,461	260,191
Year ended 31 December 2006							
Opening net book amount	136,862	65,801	2,083	9,006	9,978	36,461	260,191
Additions	863	1,567	1,543	2,139	512	149,607	156,231
Transfer from construction in progress	9,695	17,263	–	–	–	(26,958)	–
Disposals	(1,104)	(733)	(27)	(25)	–	(415)	(2,304)
Depreciation	(10,900)	(9,492)	(547)	(1,294)	(877)	–	(23,110)
Closing net book amount	135,416	74,406	3,052	9,826	9,613	158,695	391,008

	The Company						
	Buildings	**Machinery and equipment**	**Electronic equipment and others**	**Motor vehicles**	**Mining structures**	**Construction in progress**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2006							
Cost	256,826	165,465	4,636	20,414	13,185	158,695	619,221
Accumulated depreciation	(117,579)	(91,059)	(1,584)	(10,588)	(3,572)	–	(224,382)
Impairment	(3,831)	–	–	–	–	–	(3,831)
Net book amount	135,416	74,406	3,052	9,826	9,613	158,695	391,008
Three months ended 31 March 2007							
Opening net book amount	135,416	74,406	3,052	9,826	9,613	158,695	391,008
Additions	192	376	53	483	–	27,999	29,103
Transfer from construction in progress	191	807	–	–	–	(998)	–
Depreciation	(2,777)	(2,651)	(127)	(384)	(114)	–	(6,053)
Closing net book amount	133,022	72,938	2,978	9,925	9,499	185,696	414,058
At 31 March 2007							
Cost	257,209	166,648	4,689	20,897	13,184	185,696	648,323
Accumulated depreciation	(120,356)	(93,710)	(1,711)	(10,972)	(3,685)	–	(230,434)
Impairment	(3,831)	–	–	–	–	–	(3,831)
Net book amount	133,022	72,938	2,978	9,925	9,499	185,696	414,058

8. MINING RIGHTS

The Group and the Company

	RMB'000
Year ended 31 December 2005/for the period from 1 September 2005 (date of incorporation) to 31 December 2005	
Opening net book amount	–
Additions	297,332
Amortisation charge	(3,304)
Closing net book amount	294,028
At 31 December 2005	
Cost	297,332
Accumulated amortisation	(3,304)
Net book amount	294,028
Year ended 31 December 2006	
Opening net book amount	294,028
Amortisation charge	(9,911)
Closing net book amount	284,117
At 31 December 2006	
Cost	297,332
Accumulated amortisation	(13,215)
Net book amount	284,117
Three months ended 31 March 2007	
Opening net book amount	284,117
Amortisation charge	(2,478)
Closing net book amount	281,639
At 31 March 2007	
Cost	297,332
Accumulated amortisation	(15,693)
Net book amount	281,639

During the Relevant Periods, the Group obtained the mining rights permit for Kalatongke Mine from the PRC Government free of charge prior to the purchase of the mining rights from Xinjiang Non-ferrous in September 2005.

In May 2005, Xinjiang Non-ferrous acquired the mining rights of Kalatongke Mine at fair value of approximately RMB297,332,000 by way of issuance of additional State-owned capital to State-owned Assets Supervision and Administration Commission of Xinjiang Uygur Autonomous Region. The value of mining rights were valued by an independent professional valuer in the PRC and confirmed by the Ministry of Land and Resource of the PRC.

As part of reorganisation, the mining rights of Kalatongke Mine were transferred from Xinjiang Non-ferrous at a cash consideration of RMB297,332,000 pursuant to the Mining Rights Transfer Agreement on 3 September 2005. The consideration is to be paid by the Company in annual instalments of approximately RMB9,911,000 each year over the course of 30 years ending 2035 (Note 19(a)). The difference between the value of the mining rights and the discounted net present value of the long-term payable is recorded as contribution from Holding Company in equity (Note 17(b)).

On 25 July 2007, the Company entered into agreements with Xinjiang Non-ferrous and the Land and Resources Department of Xinjiang Uygur Autonomous Region (the "Xinjiang LRD") in connection with the mining rights of Kalatongke Mine (note 40(d)).

Xinjiang Non-ferrous acquired exploration rights at no cost and the rights were transferred to the Company at no cost after Reorganisation, therefore no costs have been recognised for exploration rights during the Relevant Periods.

9. LAND USE RIGHTS

The Group

	RMB'000
Year ended 31 December 2006	
Opening net book amount	–
Additions *(Note 15)*	79,072
Amortisation charge	(1,077)
Closing net book amount	77,995
At 31 December 2006	
Cost	79,072
Accumulated amortisation	(1,077)
Net book amount	77,995
Three months ended 31 March 2007	
Opening net book amount	77,995
Additions	12,144
Amortisation charge	(403)
Closing net book amount	89,736
At 31 March 2007	
Cost	91,216
Accumulated amortisation	(1,480)
Net book amount	89,736

The Company

	RMB'000
Year ended 31 December 2006	
Opening net book amount	–
Additions *(Note 15)*	79,072
Amortisation charge	(1,077)
Closing net book amount	77,995
At 31 December 2006	
Cost	79,072
Accumulated amortisation	(1,077)
Net book amount	77,995
Three months ended 31 March 2007	
Opening net book amount	77,995
Additions	1,303
Amortisation charge	(403)
Closing net book amount	78,895
At 31 March 2007	
Cost	80,375
Accumulated amortisation	(1,480)
Net book amount	78,895

10. INVESTMENT IN A SUBSIDIARY

The Company

	As at 31 December 2005	As at 31 December 2006	As at 31 March 2007
	RMB'000	*RMB'000*	*RMB'000*
Unlisted investment, at cost	–	33,060	33,060

The particulars of the subsidiary are as follows:

Company Name	Place of establishment and kind of legal entity	Registered and fully paid-up capital *RMB'000*	Interest held	Principal activities and place of operation
Zhongxin Mining	the PRC, limited liability company	58,000	57%	Production and sales of nickel matte, the PRC

The subsidiary was established on 24 January 2006 and had not commenced its operations as of 31 March 2007.

Zhongxin Mining was set up with paid-in capital of RMB58,000,000. The Company originally subscribed for 51% of the paid-in capital of Zhongxin Mining at a consideration of RMB29,580,000 on 5 January 2006. On 22 June 2006, Xinjiang Non-ferrous transferred its 6% equity interests in Zhongxin Mining to the Company at a consideration of RMB3,480,000. After the transfer, the Company owned 57% equity interest of Zhongxin Mining. Subsequently, the Company sold its 57% equity interest in Zhongxin Mining to an independent third party in May 2007 (Note 40(a)).

11. INVENTORIES

The Group

	As at 31 December 2004	As at 31 December 2005	As at 31 December 2006	As at 31 March 2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	10,902	25,074	35,934	27,775
Work-in-progress	9,847	14,336	12,240	10,208
Semi-finished goods	24,626	37,151	70,179	65,691
Finished goods	19,274	26,226	44,946	27,036
	64,649	102,787	163,299	130,710

The Company

	As at 31 December		As at 31 March
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	25,074	34,179	25,896
Work-in-progress	14,336	12,240	10,208
Semi-finished goods	37,151	70,179	65,691
Finished goods	26,226	44,946	27,036
	102,787	161,544	128,831

The cost of inventories recognised as expense and included in the cost of sales amounted to approximately RMB226,387,000, RMB270,664,000, RMB348,419,000 and RMB122,301,000 for the years ended 31 December 2004, 2005 and 2006 and the three months ended 31 March 2007 respectively.

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

12. ACCOUNTS AND BILLS RECEIVABLE

The Group

	As at 31 December			As at 31 March
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Accounts receivable *(Note (a))*	18,452	26,244	4,478	5,367
Bills receivable	1,000	–	80	11,080
Less: Impairment provision	(3,473)	(4,059)	(3,459)	(3,660)
	15,979	22,185	1,099	12,787

The Company

The balances of accounts and bills receivable of the Company as at 31 December 2005 and 2006 and 31 March 2007 are the same as the Group balance.

Notes:

(a) Accounts receivable is analysed as follows:

	As at 31 December			As at 31 March
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Accounts receivable				
– Fellow subsidiaries	2,241	2,390	1,907	1,507
– Other related parties	–	20,352	–	–
– Other state-owned enterprises	103	255	498	711
– Third parties	16,108	3,247	2,073	3,149
Accounts receivable, gross	18,452	26,244	4,478	5,367

Ageing analysis of the gross accounts receivable at the respective balance sheet date is as follows:

	As at 31 December			As at 31 March
	2004	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	15,472	22,231	233	1,532
1 year to 2 years	29	1,505	312	221
2 years to 3 years	653	29	1,447	109
Over 3 years	2,298	2,479	2,486	3,505
	18,452	26,244	4,478	5,367

(b) The credit period of accounts receivable is generally from 1 to 3 months.

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

(d) The carrying amounts of accounts and bills receivable approximate their fair values.

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

The Group

	Year ended 31 December			Three months ended 31 March
	2004	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Opening balance	4,108	3,473	4,059	3,459
(Write-back)/additional provision	(635)	586	(600)	201
Closing balance	3,473	4,059	3,459	3,660

13. OTHER RECEIVABLES, PREPAYMENTS AND OTHER CURRENT ASSETS

The Group

	As at 31 December			As at 31 March
	2004	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other receivables				
– Holding Company	300	754	–	51
– Fellow subsidiaries	30,925	15,394	120	120
– Other state-owned enterprises	725	942	3	52
– Third parties	3,063	2,401	2,567	3,542
Less: Impairment provision	(2,605)	(2,014)	(2,046)	(2,046)
	32,408	17,477	644	1,719
Advances to suppliers *(Note (a))*	2,736	2,749	6,227	18,039
Prepaid expenses	265	1,910	–	–
	35,409	22,136	6,871	19,758

The Company

	As at 31 December		As at 31 March
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Other receivables			
– Holding Company	754	–	51
– Fellow subsidiaries	15,394	120	120
– Other state-owned enterprises	942	3	52
– Third parties	2,401	2,458	3,330
Less: Impairment provision	(2,014)	(2,046)	(2,046)
	17,477	535	1,507
Advances to suppliers *(Note (a))*	2,749	6,227	17,437
Prepaid expenses	1,910	–	–
	22,136	6,762	18,944

Notes:

(a) Advances to suppliers are analysed as follows:

The Group

	As at 31 December			As at 31 March
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Advances to suppliers				
– Fellow subsidiaries	220	104	256	343
– Other state-owned enterprises	783	1,455	2,057	320
– Third parties	1,733	1,190	3,914	17,376
	2,736	2,749	6,227	18,039

The Company

	As at 31 December		As at 31 March
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Advances to suppliers			
– Fellow subsidiaries	104	256	343
– Other state-owned enterprises	1,455	2,057	320
– Third parties	1,190	3,914	16,774
	2,749	6,227	17,437

(b) Other receivables are unsecured, interest free and have no fixed repayment term.

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

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

14. CASH AND BANK BALANCES

The Group

	As at 31 December			As at 31 March
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash on hand	40	50	5	14
Current deposits with banks	155,627	327,418	562,477	334,438
	155,667	327,468	562,482	334,452

The Company

	As at 31 December		As at 31 March
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Cash on hand	50	5	14
Current deposits with banks	327,418	515,209	296,032
	327,468	515,214	296,046

All bank balances, which are denominated in Renminbi, are placed with banks in the PRC. The bank balances bear interests at floating rates based on daily bank deposit rates for each of the Relevant Periods. For the years ended 31 December 2004, 2005 and 2006 and three months ended 31 March 2007, the weighted average effective interest rate range on deposits was 0.72% to 1.71%, 0.72% to 1.71%, 0.72% to 1.71% and 0.72% to 1.98% per annum respectively.

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

15. SHARE CAPITAL

	Number of shares	**Ordinary shares**	**Capital reserve**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Capitalisation of assets injected from Holding Company upon incorporation of the Company	180,000	180,000	28,539	208,539
Capital contribution of cash from other equity holders of the Company	120,000	120,000	34,173	154,173
At 31 December 2005	300,000	300,000	62,712	362,712
Issue of new shares for the acquisition of land use rights from Holding Company	58,551	58,551	20,521	79,072
Capital contribution of cash from other equity holders of the Company	21,449	21,449	7,517	28,966
At 31 December 2006 and 31 March 2007	380,000	380,000	90,750	470,750

Xinjiang Non-ferrous owned and operated the Relevant Business prior to the Reorganisation. The Relevant Business together with the relevant assets were transferred to the Company on 1 September 2005 in exchange for 180,000,000 shares of RMB1 each. The other five founders of the Company, Shanghai Yilian Kuangneng Industry Co. Ltd., Zhongjin Investment (Group) Ltd., Xiamen Zijin High-tech Co., Ltd., Xinjiang Xinying New Material Co. Ltd. and Shaanxi Honghao Industry Co., Ltd., contributed cash totalling of approximately RMB154,173,000 to the Company in exchange for 120,000,000 shares of RMB1 each.

Pursuant to a resolution passed in the extraordinary shareholders meeting on 10 May 2006, the Company increased its registered capital from RMB300,000,000 to RMB380,000,000 by creation of 80,000,000 shares of RMB1 each. 58,551,000 shares of RMB1 each were issued to Xinjiang Non-ferrous for the acquisition of land use rights at fair value of approximately RMB79,072,000 contributed to the Company and 21,449,000 shares of RMB1 each were issued to the five founders for capital contribution of cash of approximately RMB28,966,000. The fair value of land use rights was determined by market price and valued by a qualified PRC valuer. The land use rights acquired from Xinjiang Non-ferrous were administratively authorised land. Xinjiang Non-ferrous confirmed that they would pay the charges to government if the Company transfers such land use rights to third party.

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

16. CAPITAL RESERVE

Capital reserve represents the difference between par value of the share issued and the fair value of net asset/consideration received by the Company.

Capital reserve can be used to increase share capital upon approval from the Board of Directors.

17. OTHER RESERVES

The Group and the Company

	IPO expenses	**Contribution from Holding Company**	**Statutory reserve**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(Note a)	*(Note b)*	*(Note c)*	
At 1 January 2005	–	–	–	–
Mining rights acquisition	–	175,663	–	175,663
At 31 December 2005	–	175,663	–	175,663
Professional fees incurred	(11,993)	–	–	(11,993)
Transferred from retained earnings	–	–	51,079	51,079
At 31 December 2006	(11,993)	175,663	51,079	214,749
Professional fees incurred	(1,552)	–	–	(1,552)
At 31 March 2007	(13,545)	175,663	51,079	213,197

(a) It represents the professional fees incurred in connection with the initial public offering ("IPO") of the Company's shares.

(b) It represents the difference between the fair value of mining rights acquired from Xinjiang Non-ferrous and the discounted net present value of long-term payable for the mining rights acquired (Note 19).

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

In accordance with the Company's articles of association and the PRC Company Law, the Company transferred approximately RMB51,079,000 from retained earnings to the statutory reserve on 31 December 2006.

The Company

	Retained earnings
	RMB'000
At 1 September 2005	–
Profit for the period	70,264
At 31 December 2005	70,264
Profit for the year	445,764
Appropriation to statutory reserve	(51,079)
At 31 December 2006	464,949
Profit for the period	190,879
Profit distribution	(13,045)
Dividend	(400,000)
At 31 March 2007	242,783

18. BORROWINGS

The Group

	As at 31 December			As at 31 March
	2004	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current				
Bank loans – secured and guaranteed *(Note 7)*	–	–	50,000	50,000
Current				
Current portion of long-term bank loans – unsecured but guaranteed	12,000	–	–	–
Current portion of long-term bank loans – secured and guaranteed *(Note 7)*	–	–	10,000	10,000
	12,000	–	10,000	10,000
Bank loans – unsecured but guaranteed	32,000	–	–	–
Bank loans – secured *(Note 7)*	7,000	–	–	–
Bank loans – unsecured	5,000	10,000	–	–
Other loans – unsecured but guaranteed	5,000	5,000	5,000	5,000
Other loans – unsecured	39,800	39,800	39,800	39,800
	88,800	54,800	44,800	44,800
Total	100,800	54,800	104,800	104,800

The Company

	As at 31 December		As at 31 March
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Current			
Bank loans – unsecured	10,000	–	–
Other loans – unsecured but guaranteed	5,000	5,000	5,000
Other loans – unsecured	39,800	39,800	39,800
	54,800	44,800	44,800

Note:

All loans are denominated in Renminbi.

The maturities of long-term loans are analysed as follows:

The Group

	As at 31 December			As at 31 March
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Between 1 to 2 years	–	–	15,000	15,000
Between 2 to 5 years	–	–	35,000	35,000
	–	–	50,000	50,000

The effective interest rates per annum at the respective balance sheet dates are as follows:

The Group

	As at 31 December			As at 31 March
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans	5.84%-6.37%	6.14%	6.12%	6.50%

The carrying amounts and fair value of non-current bank loans are as follows:

The Group

	As at 31 December			As at 31 March
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount	–	–	50,000	50,000
Fair values	–	–	46,701	46,642

The fair values of long-term borrowings at the respective balance sheet date are based on discounted cash flow approach using the prevailing market rates of interest available to the Group for financial investments with substantially the same terms and characteristics at the respective balance sheet dates. The carrying amounts of current portion of long-term borrowings and short-term borrowings approximate their fair values.

At 31 December 2004, bank loan of RMB7,000,000 was secured by the Company's property, plant and equipment, at the carrying amount of approximately RMB14,739,000. At 31 December 2006, bank loans of RMB60,000,000 were guaranteed by Xinjiang Non-ferrous and secured by the Group's construction in progress, at the carrying amount of RMB3,510,000 (Note 7).

Other loans represent the amounts due to China Huarong Asset Management Co., Ltd. ("China Huarong") and China Cinda Asset Management Co., Ltd. ("China Cinda") of RMB22,450,000 and RMB22,350,000 respectively. Included in the amounts due to China Huarong, RMB5,000,000 was guaranteed by Xinjiang Non-ferrous Industry Group Precious Metal Co., Ltd., a fellow subsidiary. China Huarong and China Cinda are companies controlled by Ministry of Finance of the PRC and are independent from the Group and Xinjiang Non-ferrous. In 2002, The Kalatongke Mine entered into debt reorganisation agreements with their original lenders to transfer the bank loans to China Huarong and China Cinda. The State-owned Assets Supervision and Administration Commission of the State Council (the "SASAC") and the State Economic and Trade Commission approved the debt reorganisation in January 2003. The interest of the other loans was suspended since March 2002 because these loans would be converted to the equity of Xinjiang Non-ferrous in accordance with the debt reorganisation.

On 23 May 2007, the SASAC, Ministry of Finance and China Banking Regulatory Commission jointly consented to the cessation of the debt reorganisation. Subsequently, the other loans due to China Huarong and China Cinda amounting to RMB22,450,000 and RMB22,350,000 respectively were transferred from the Company to Xinjiang Non-ferrous with effect from 23 July 2007 and 24 July 2007 respectively (Note 40(c)).

19. LONG-TERM PAYABLES

The Group

	As at 31 December			As at 31 March
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Mining rights payable *(Note (a))*	–	124,486	119,947	122,024
Early retirement benefit obligation *(Note (b))*	5,901	8,142	6,066	5,654
	5,901	132,628	126,013	127,678
Less: Amounts due within one year	(1,537)	(6,616)	(4,011)	(5,622)
	4,364	126,012	122,002	122,056

The Company

The balances of long-term payables of the Company as at 31 December 2005 and 2006 and 31 March 2007 are the same as the Group's balances.

(a) Mining rights payable

	As at 31 December			As at 31 March
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of the year/period	–	–	124,486	119,947
Additions	–	121,669	–	–
Interest cost *(Note 29)*	–	2,817	8,676	2,077
Repaid during the year/period	–	–	(13,215)	–
At end of the year/period	–	124,486	119,947	122,024
Analysis of mining rights payable				
Current	–	4,539	1,382	3,459
Non-current	–	119,947	118,565	118,565
At end of the year/period	–	124,486	119,947	122,024

The fair value of mining rights payable is estimated based on discounted future cash flow using applicable interest rates for loan facility offered to the Group with terms of the same maturities and characteristics.

In July 2007, the long-term mining rights payable to Holding Company ceased pursuant to the termination of the Mining Rights Transfer Agreement (Note 40(d)).

(b) Early retirement benefit obligation

	As at 31 December 2004	As at 31 December 2005	As at 31 December 2006	As at 31 March 2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of the year/period	6,709	5,901	8,142	6,066
Additional early retirees *(Note 26)*	648	3,805	–	–
Interest cost *(Note 29)*	477	420	559	105
Paid during the year/period	(1,933)	(1,984)	(2,635)	(517)
At end of the year/period	5,901	8,142	6,066	5,654
Analysis of early retirement benefit obligation				
Current	1,537	2,077	2,629	2,163
Non-current	4,364	6,065	3,437	3,491
At end of the year/period	5,901	8,142	6,066	5,654

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

20. PROVISION FOR CLOSE DOWN, RESTORATION AND ENVIRONMENTAL COSTS

The Group

	As at 31 December 2004	As at 31 December 2005	As at 31 December 2006	As at 31 March 2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of year/period	3,330	3,567	3,821	4,092
Unwinding of discount *(Note 29)*	237	254	271	72
At end of year/period	3,567	3,821	4,092	4,164

The Company

The balances of provision for close down, restoration and environmental costs of the Company as at 31 December 2005 and 2006 and 31 March 2007 are the same as the Group's balances.

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

21. DEFERRED INCOME

Deferred income as at 31 December 2004, 2005 and 2006 represents government grants received in respect of mining and exploration construction projects which would be recognised as income after the completion of the projects on a straight-line basis over the expected lives of the related assets. The Company has fulfilled all the conditions for the entitlement of such grants.

The addition of deferred income for the three months ended 31 March 2007 represented government grants received in respect of land use rights which would be recognised as income on a straight-line basis over the period of the land use rights.

The movements of deferred income during the Relevant Periods are as follows:

The Group

	As at 31 December			As at 31 March
	2004	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of year/period	4,549	5,780	7,080	13,360
Additions during the year/period	1,231	1,300	6,280	10,489
At end of year/period	5,780	7,080	13,360	23,849

The Company

	As at 31 December		As at 31 March
	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
At beginning of year/period	5,780	7,080	13,360
Additions during the year/period	1,300	6,280	–
At end of year/period	7,080	13,360	13,360

22. TRADE PAYABLES

Trade payables are analysed as follows:

The Group

	As at 31 December			As at 31 March
	2004	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables				
– Fellow subsidiaries	2,696	6,622	11,848	11,751
– Other state-owned enterprises	2,057	5,209	6,790	6,469
– Third parties	26,091	25,360	41,752	24,187
	30,844	37,191	60,390	42,407

The Company

	As at 31 December		As at 31 March
	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Trade payables			
– Fellow subsidiaries	6,622	6,699	7,008
– Other state-owned enterprises	5,209	6,790	5,824
– Third parties	25,360	37,005	20,100
	37,191	50,494	32,932

Ageing analysis of trade payables at the respective balance sheet dates is as follows:

The Group

	As at 31 December			As at 31 March
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	29,015	31,936	58,046	39,107
1 year to 2 years	1,079	3,881	652	1,381
2 years to 3 years	331	880	706	239
Over 3 years	419	494	986	1,680
	30,844	37,191	60,390	42,407

The Company

	As at 31 December		As at 31 March
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Within 1 year	31,936	48,150	29,632
1 year to 2 years	3,881	652	1,381
2 years to 3 years	880	706	239
Over 3 years	494	986	1,680
	37,191	50,494	32,932

Trade payables are repayable according to normal trade terms from 1 month to 6 months.

The carrying amounts of trade payable approximate their fair values.

23. OTHER PAYABLES AND ACCRUALS

The Group

	As at 31 December			As at 31 March
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other payables *(Note (a))*	15,267	13,004	16,409	13,962
Customer deposits and receipts in advance	594	5,236	1,630	14,192
Salary and welfare payables	28,279	39,524	49,208	34,938
Profit payable to Holding Company	–	123,625	–	–
Dividend payable	–	–	–	14,880
Other levies	2,198	3,814	6,804	8,980
Tax recoverable	–	(2,603)	–	–
Accrued taxes other than income tax *(Note (b))*	26,869	2,058	8,859	28,456
	73,207	184,658	82,910	115,408

The Company

	As at 31 December		As at 31 March
	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Other payables *(Note (a))*	13,004	15,381	13,561
Customer deposits and receipts in advance	5,236	1,630	14,191
Salary and welfare payables	39,524	48,747	34,363
Profit payable to Holding Company	123,625	–	–
Dividend payable	–	–	14,880
Other levies	3,814	6,804	8,980
Tax recoverable	(2,603)	–	–
Accrued taxes other than income tax *(Note (b))*	2,058	8,990	28,700
	184,658	81,552	114,675

Notes:

(a) **Other payables**

Other payables are analysed as follows:

The Group

	As at 31 December			As at 31 March
	2004	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other payables				
– Holding Company	2,269	1,888	527	551
– Fellow subsidiaries	3,343	3,009	3,472	1,458
– Other state-owned enterprises	2,206	811	365	541
– Third parties	7,449	7,296	12,045	11,412
	15,267	13,004	16,409	13,962

The Company

	As at 31 December		As at 31 March
	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*
Other payables			
– Holding Company	1,888	527	551
– Fellow subsidiaries	3,009	3,468	1,163
– Other state-owned enterprises	811	22	441
– Third parties	7,296	11,364	11,406
	13,004	15,381	13,561

The carrying amounts of other payables approximate their fair values.

(b) Accrued taxes other than income tax

Accrued taxes other than income tax are analysed as follows:

The Group

	As at 31 December			As at 31 March
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Valued added tax	25,126	–	4,829	21,892
City construction tax	1,034	1,354	2,489	3,913
Individual income tax	–	518	899	2,304
Others	709	186	642	347
	26,869	2,058	8,859	28,456

The Company

	As at 31 December		As at 31 March
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Valued added tax	–	4,966	22,136
City construction tax	1,354	2,489	3,913
Individual income tax	518	899	2,304
Others	186	636	347
	2,058	8,990	28,700

24. REVENUE

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

Revenue recognised during the Relevant Periods is analysed as follows:

	Year ended 31 December			Three months ended 31 March	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Nickel cathode	313,034	407,035	604,649	94,336	280,961
Copper cathode	68,481	93,884	161,874	34,355	33,949
Copper concentrate	16,043	1,403	48,437	29,730	–
Raw copper	17,525	29,832	33,792	–	–
Others	24,586	12,587	20,316	3,105	11,436
	439,669	544,741	869,068	161,526	326,346

25. EXPENSES BY NATURE

Expenses included in cost of sales, selling and marketing expenses and administrative expenses are analysed as follows:

	Year ended 31 December			Three months ended 31 March	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Depreciation *(Note 7)*	23,085	23,351	23,163	5,755	6,077
Amortisation *(Notes 8 and 9)*	1	3,310	11,010	2,479	2,881
Provision for/(reversal of) impairment of inventories	1,247	1,172	1,490	–	(1,353)
(Reversal of)/provision for impairment of accounts receivable	(637)	586	(600)	263	201
Provision for/(reversal of) impairment of other receivables	505	(591)	32	170	–
Staff costs *(Note 26)*	78,849	99,777	133,557	22,688	34,212
Changes in inventories of finished goods and work-in-progress	(203)	(25,143)	(51,142)	1,655	25,783
Raw materials and consumables used	59,050	104,028	176,758	20,636	38,835
Power and fuel consumed	42,340	53,437	57,758	14,759	14,173
Subcontracting expenses	19,786	21,516	21,863	4,046	3,615
Other manufacturing overheads	10,253	8,887	10,216	3,276	3,569
Transportation expenses	2,595	2,540	6,308	2,921	767
Sales tax levies	3,547	5,219	7,719	1,432	3,067
Management fees paid/payable to Holding Company *(Note 38)*	14,000	29,300	–	–	–
Auditors' remuneration	163	434	866	–	–
Resource compensation fees	1,310	2,844	4,748	837	1,385
Others	11,437	15,018	17,663	1,763	4,710
Total cost of sales, selling and marketing expenses and administrative expenses	267,328	345,685	421,409	82,680	137,922

26. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December			Three months ended 31 March	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Wages and salaries	58,520	68,771	100,138	14,052	20,568
Housing benefits *(Note a)*	3,852	4,911	5,835	1,518	1,565
Contributions to pension plans *(Note b)*	7,581	8,940	11,506	2,826	2,875
Welfare and other expenses	8,248	13,350	16,078	4,292	9,204
Early retirement benefit *(Note 19)*	648	3,805	–	–	–
	78,849	99,777	133,557	22,688	34,212

(a) These represent the Group's contributions to government-sponsored housing funds at rates ranging from 8% to 10% of the employees' basic salary for the Relevant Periods.

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

27. OTHER INCOME

	Year ended 31 December			Three months ended 31 March	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Interest income	1,094	1,869	3,863	1,189	3,347
Subsidy income	1,964	1,168	1,345	–	184
	3,058	3,037	5,208	1,189	3,531

28. OTHER (LOSSES)/GAINS – NET

	Year ended 31 December			Three months ended 31 March	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Scrap sales	1,057	1,668	935	260	307
Losses on disposal of property, plant and equipment	(914)	(1,048)	(957)	–	–
Impairment of property, plant and equipment	(1,404)	(2,149)	–	–	–
Others	220	(858)	73	78	55
	(1,041)	(2,387)	51	338	362

29. FINANCE COSTS

	Year ended 31 December			Three months ended 31 March	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Bank borrowings	3,529	2,153	616	145	479
Unwinding of discount *(Note 19 and 20)*	714	3,491	9,506	2,365	2,254
	4,243	5,644	10,122	2,510	2,733

30. INCOME TAX EXPENSE

	Year ended 31 December			Three months ended 31 March	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Current tax	54,225	366	119	–	–
Deferred tax	3,295	–	–	–	–
	57,520	366	119	–	–

The provision for PRC current income tax is calculated based on the statutory income tax rate of 33% of the assessable income of each of the companies/branches now comprising the Group determined in accordance with the relevant PRC income tax rules and regulations for the Relevant Periods, except for the sales branch in Shanghai, which was taxed at preferential rate of 15% for the years ended 31 December 2004 and 2005 based on the relevant PRC tax laws and regulations.

In accordance with the approvals from Xinjiang Uygur Autonomous Region Government and local tax bureau, Xinjiang Non-ferrous and its subsidiaries adopted the consolidated enterprise income tax filing in 2004. As a result, the income tax of Kalatongke Mine and Fukang Refinery amounting to approximately RMB54,161,000 which was calculated based on taxable income was included in the profit contribution to Xinjiang Non-ferrous in 2004. For the purpose of this report, the amount of approximately RMB54,160,000 is deemed as the income tax expenses in 2004.

The Company, except for its Shanghai branch, is exempted from enterprise income tax from 2005 to 2006 pursuant to the approval obtained from Xinjiang Uygur Autonomous Region Government. This tax exemption was further extended to 2010 pursuant to the approval and our Company will be reviewed annually to confirm the tax exemption for 2007 to 2010. The tax on profit in 2005 and 2006 mainly represents the tax for Shanghai branch.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the new "CIT Law"). The new CIT Law reduces (increases) the corporate income tax rate for domestic enterprises (foreign invested enterprises) from 33% (15% or 24%) to 25% with effect from 1 January 2008. The new CIT Law also provides for preferential tax rates, tax incentives for prescribed industries and activities, grandfathering provisions as well as determination of taxable profit. As at the date that these Financial Information is approved for issue, detailed measures concerning these items has yet to be issued by the State Council. Consequently, the Company is not in a position to assess the impact, if any, to the carrying value of deferred tax assets and liabilities as at 31 March 2007. The Company will continue to evaluate the impact as more detailed regulations are announced.

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

	Year ended 31 December			Three months ended 31 March	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Profit before tax	170,115	194,062	442,796	77,863	189,584
Tax calculated at statutory income tax rate of 33%	56,138	64,040	146,123	25,695	62,563
Effect of tax exemptions/ preferential tax rate	(430)	(63,674)	(146,004)	(25,695)	(62,563)
Expenses not deductible for tax purposes	1,812	–	–	–	–
Income tax expense	57,520	366	119	–	–

31. EMOLUMENTS FOR DIRECTORS, SUPERVISORS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' and supervisors' emoluments

The aggregate amounts of emoluments payable to directors and supervisors of the Company during the Relevant Periods are as follows:

	Year ended 31 December			Three months ended 31 March	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Fees	–	–	135	–	58
Basic salaries, allowances and other benefits	327	668	1,252	120	221
Contributions to retirement benefit schemes	48	63	46	9	11
Discretionary bonus	420	476	417	–	–
	795	1,207	1,850	129	290

The remuneration of each of the directors and supervisors for the year ended 31 December 2004 is set out below:

	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit schemes	Discretionary bonus	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Directors					
Mr. Shi Wenfeng	–	44	7	89	140
Mr. Zhang Guohua	–	75	7	78	160
Mr. Liu Jun	–	53	7	54	114
Mr. Wang Haibang	–	61	9	62	132
Supervisors	–	94	18	137	249
	–	327	48	420	795

The remuneration of each of the directors and supervisors for the year ended 31 December 2005 is set out below:

	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit schemes	Discretionary bonus	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Directors					
Mr. Shi Wenfeng	–	136	9	76	221
Mr. Zhang Guohua	–	136	11	99	246
Mr. Liu Jun	–	104	11	70	185
Mr. Wang Haibang	–	109	11	80	200
Supervisors	–	183	21	151	355
	–	668	63	476	1,207

The remuneration of each of the directors and supervisors for the year ended 31 December 2006 is set out below:

	Fees	Basic salaries, allowances and other benefits	Contributions to retirement benefit schemes	Discretionary bonus	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Directors					
Mr. Yuan Ze	–	175	–	–	175
Mr. Shi Wenfeng	–	254	9	100	363
Mr. Zhang Guohua	–	254	9	100	363
Mr. Liu Jun	–	204	9	80	293
Mr. Ou Yaojun	66	–	–	–	66
Mr. Chen Jianguo	23	–	–	–	23
Mr. Sun Baosheng	23	–	–	–	23
Supervisors	23	365	19	137	544
	135	1,252	46	417	1,850

The remuneration of each of the directors and supervisors for the three months ended 31 March 2007 is set out below:

	Fees	**Basic salaries, allowances and other benefits**	**Contributions to retirement benefit schemes**	**Discretionary bonus**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Directors					
Mr. Yuan Ze	–	88	–	–	88
Mr. Shi Wenfeng	–	32	2	–	34
Mr. Zhang Guohua	–	32	2	–	34
Mr. Liu Jun	–	26	2	–	28
Mr. Chen Jianguo	13	–	–	–	13
Mr. Sun Baosheng	13	–	–	–	13
Mr. Ng Yuk Keung	19	–	–	–	19
Supervisors	13	43	5	–	61
	58	221	11	–	290

During the Relevant Periods, the emoluments paid to each of the directors and supervisors did not exceed HK$1,000,000 (equivalent to RMB974,000).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the Relevant Periods were as follows:

	Year ended 31 December			**Three months ended 31 March**	
	2004	**2005**	**2006**	**2006**	**2007**
				(Unaudited)	
Directors	4	4	3	3	3
Non-director individuals	1	1	2	2	2
	5	5	5	5	5

The details of emoluments paid to five highest individuals who were directors of the Company during the Relevant Periods have been included in Note 30(a) above. Details of emoluments paid to the remaining non-director individuals are as follows:

	Year ended 31 December			**Three months ended 31 March**	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Basic salaries, allowances and other benefits	35	117	601	55	209
Contributions to retirement benefit schemes	7	7	15	4	5
Discretionary bonus	71	61	80	–	–
	113	185	696	59	214

During the Relevant Periods, the emoluments paid to each of the highest paid non-director individuals did not exceed HK$1,000,000 (equivalent to RMB974,000).

(c) During the Relevant Periods, no directors, supervisors of the Company or the five highest paid individuals of the Group waived any emoluments and no emoluments were paid by Group to any of the directors and supervisors of the Company or the five highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

32. EARNINGS PER SHARE

	Year ended 31 December			Three months ended 31 March	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Profit attributable to equity holders of the Company	112,728	193,696	444,004	77,943	190,141
Adjusted weighted average number of shares in issue *(thousand)*	720,000	879,124	1,398,136	1,200,000	1,520,000
Basic and diluted earnings per share *(RMB)*	0.157	0.220	0.318	0.065	0.125

Upon incorporation on 1 September 2005, the Company issued 300,000,000 shares at par value RMB1 each to Xinjiang Non-ferrous, Shanghai Yilian Kuangneng Industry Co., Ltd., Zhongjin Investment (Group) Co., Ltd., Xiamen Zijin High-tech Co., Ltd., Xinjiang Xinying New Co., Ltd. and Shaanxi Honghao Industry Co., Ltd..

The Company's weighted average number of shares in issue during the Relevant Periods used in the basic earnings per share calculation is determined on the assumption that the 180,000,000 shares at par value RMB1 each issued to Xinjiang Non-ferrous as a result of the Reorganisation had been in issue throughout the Relevant Periods. It is adjusted to add the 120,000,000 shares at par value RMB1 each issued to the other equity holders on 1 September 2005 upon the incorporation of the Company. The Company further on 19 May 2006 increased its paid-up capital from RMB300,000,000 to RMB380,000,000 by issuing of 80,000,000 new shares at per value of RMB1 each to existing equity holders of the Company. In addition, the weighted average number of shares in issue has been adjusted for the share split effective on the date of this report (Note 15).

Basic earnings per share for the year ended 31 December 2004, 2005 and 2006 and the three months ended 31 March 2006 and 2007 were computed by dividing the profit attributable to the equity holders of the Company by the adjusted weighted average numbers of shares in issue during the Relevant Periods. Diluted earnings per share is equal to basic earnings per share as there was no dilutive potential share outstanding for all periods presented.

33. PROFIT DISTRIBUTION

	Year ended 31 December			Three months ended 31 March	
	2004	2005	2006	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Profit distributed during the year/period	88,472	207,575	–	–	13,045
Proposed profit distribution	–	–	13,045	–	–

The profit distribution during the years ended 31 December 2004 and 2005 represents the payment of funds from the retained earnings of Kalatongke Mine and Fukang Refinery to Xinjiang Non-ferrous in accordance with normal practice of state-owned enterprises, relevant laws and regulations and the notice from Xinjiang Non-ferrous.

The net assets contributed by Xinjiang Non-ferrous as at 1 September 2005 was in excess of the net assets which was approved by the State-owned Assets Supervision and Administration Commission of Xinjiang Uygur Autonomous Region. The excessive net assets of RMB13,045,000 would be distributed to Xinjiang Non-ferrous according to the Reorganisation Plan. The distribution was approved by the directors on 7 March 2007 and subsequently approved by the Company's equity holders on 22 March 2007. The Company paid cash of RMB13,045,000 to Holding Company as profit distribution in March 2007.

34. DIVIDEND

	Year ended 31 December			Three months ended 31 March	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Dividend approved	–	–	–	–	400,000
Proposed dividend of RMB1.0526 per ordinary share	–	–	400,000	–	–

A dividend in respect of the period from 1 September 2005 (the date of incorporation of the Company) to 31 December 2006 of RMB1.0526 per share, amounting to a total dividend of RMB400,000,000, was proposed by the directors on 7 March 2007 and subsequently approved by the Company's equity holders on 22 March 2007. The Company paid cash of approximately RMB385,120,000 of dividend to its equity holders in March 2007.

35. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS

(a) Cash generated from operations

	Year ended 31 December			Three months ended 31 March	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Profit for the year/period	112,595	193,696	442,677	77,863	189,584
Adjustments for:					
Income tax expense	57,520	366	119	–	–
Depreciation of property, plant and equipment	23,085	23,351	23,163	5,755	6,077
Amortisation of mining rights	–	3,304	9,911	2,478	2,478
Amortisation of land use rights	–	–	1,077	–	403
Amortisation of intangible assets	1	6	22	1	–
Losses on disposal of property, plant and equipment	914	1,048	957	–	–
Impairment of property, plant and equipment	1,404	2,149	–	–	–
(Write-back)/Provision of impairment for receivables	(132)	(5)	(568)	433	201
Provision/(Write-back) impairment for inventories	1,247	1,172	1,490	–	(1,353)
Profit on disposal of available-for-sale financial assets	(48)	–	–	–	–
Interest income	(1,094)	(1,869)	(3,863)	(1,189)	(3,347)
Interest expense	4,243	5,644	10,122	2,510	2,733
Cash generated from operations before working capital changes	199,735	228,862	485,107	87,851	196,776
Changes in working capital:					
Decrease/(Increase) in inventories	9,538	(39,310)	(62,002)	10,989	33,942
(Increase)/Decrease in accounts and bills receivable	(1,482)	(6,792)	21,686	7,221	(13,441)
Decrease/(Increase) in other receivables, prepayments and other current assets	108,431	13,864	3,240	(6,314)	(12,887)
(Decrease)/Increase in payables	(34,033)	(2,222)	24,239	(4,576)	8,597
Cash generated from operations	282,189	194,402	472,270	95,171	212,987

(b) Acquisition of subsidiaries

During the year ended 31 December 2004, the Group acquired the Fuyun Huarui Copper Company Limited ("Huarui") and Fukang Xingye Industry Co., Ltd. ("Xingye") as follows:

Acquisition of Huarui

	Fair value *RMB'000*	**Acquiree's carrying amount** *RMB'000*
Property, plant and equipment	1,226	1,226
Inventories	2,585	1,320
Accounts and bills receivable	1,349	1,349
Other receivables, prepayments and other current assets	611	611
Trade and other payables	(1,257)	(1,257)
Taxation payable	(560)	(560)
Net identified assets and liabilities	3,954	2,689
Percentage of equity interest acquired	90%	
	3,559	
Purchase price paid in cash	(3,559)	
Net cash outflow in respect of the acquisition of Huarui	(3,559)	

Acquisition of Xingye

	Fair value *RMB'000*	**Acquiree's carrying amount** *RMB'000*
Property, plant and equipment	5,546	5,546
Inventories	7,309	4,718
Other receivables, prepayments and other current assets	5,197	5,197
Cash on hand and at bank	8,772	8,772
Trade and other payables	(10,711)	(10,711)
Net identified assets and liabilities	16,113	13,522
Percentage of equity interest acquired	69%	
	11,118	
Purchase price paid in cash	(11,118)	
Cash of the subsidiaries acquired	8,772	
Net cash outflow in respect of the acquisition of Xingye	(2,346)	

Huari and Xingye were de-registered and absorbed as part of operation of Kalatongke Mine and Fukang Refinery in 2004.

(c) Disposal of subsidiaries

During the year ended 31 December 2004, the Group disposed all of its equity interests in the Xinjiang Sangong Power Co., Ltd. ("Sangong"), the Yinlong Aluminum-plastics Compound Tube Company of Xinjiang ("Yinlong") and Fuyun Xingtong Service Co., Ltd. ("Xingtong") as follows:

The Group

	Sangong	**Yinlong**	**Xingtong**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment	25,728	2,496	231	28,455
Inventories	370	551	–	921
Accounts and bills receivable	3,461	–	–	3,461
Other receivables, prepayments and other current assets	219	341	2,503	3,063
Cash on hand and at bank	96	9	576	681
Trade and other payables	(19,101)	(629)	(2,980)	(22,710)
Taxation payable	(232)	–	–	(232)
Long-term borrowings	(6,000)	–	–	(6,000)
Net assets disposed	4,541	2,768	330	7,639
Percentage of equity interest disposed	64.22%	66.98%	100.00%	
Total consideration	2,916	1,854	330	5,100
Selling price received in cash	2,916	1,854	330	5,100
Cash of the subsidiaries disposed	(96)	(9)	(576)	(681)
Net cash inflow/(outflow) in respect of the disposal of subsidiaries	2,820	1,845	(246)	4,419

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

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

	Year ended 31 December			**Three months ended 31 March**	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Net book amount	5,939	1,979	2,304	–	–
Losses on disposal of property, plant and equipment	(914)	(1,048)	(957)	–	–
Proceeds from sale of property, plant and equipment	5,025	931	1,347	–	–

(e) Proceeds from disposal of associates

This represents the proceeds from the disposal of 34% interest in Fuyun Hengsheng Beryllium Industry Co., Ltd. and the disposal of 23.81% interest in Jinhui Real Estate Development Co., Ltd. to Xinjiang Non-ferrous in April 2004.

(f) Major non-cash transactions

	Year ended 31 December			Three months ended 31 March	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Acquisition of land use rights from Holding Company by issuing new shares *(Note 9)*	–	–	79,072	–	–
Contribution from Holding Company in respect of the acquisition of mining rights *(Note 17)*	–	175,663	–	–	–

36. CONTINGENCIES

(a) Loan guarantee provided to related parties

During the Relevant Periods, the Group provided the guarantee to bank loans and other loans borrowed by the related parties (Note 38(c)).

(b) Environmental contingencies

Historically, the Group has not incurred any significant expenditure for environmental remediation. Further, except as disclosed in Note 20, the Group is presently not involved in any environmental remediation and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislations, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, may move further towards the adoption of more stringent environmental standards.

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

(c) Insurance

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

37. **COMMITMENTS**

(a) **Capital commitments**

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

The Group

	As at 31 December			As at 31 March
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted but not provided for:				
– Buildings	5,370	49,765	18,920	15,195
– Machinery and equipment	2,425	8,000	8,435	35,413
	7,795	57,765	27,355	50,608
Authorised but not contracted for:				
– Buildings	16,225	494,596	403,884	436,415
– Machinery and equipment	8,737	475,241	563,216	506,048
	24,962	969,837	967,100	942,463
	32,757	1,027,602	994,455	993,071

The Company

	As at 31 December		As at 31 March
	2005	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*
Contracted but not provided for:			
– Buildings	49,765	18,920	15,195
– Machinery and equipment	8,000	8,435	35,413
	57,765	27,355	50,608
Authorised but not contracted for:			
– Buildings	494,596	393,287	421,630
– Machinery and equipment	475,241	506,066	458,068
	969,837	899,353	879,698
	1,027,602	926,708	930,306

(b) Operating lease commitments

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

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

The Group

	As at 31 December			As at 31 March
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
No later than 1 year	–	–	1,636	1,636
Later than 1 year and no later than 2 years	–	–	1,636	1,636
Later than 2 year and no later than 3 years	–	–	1,636	1,227
	–	–	4,908	4,499

The Company

The operating lease commitments of the Company as at 31 December 2005 and 2006 and 31 March 2007 are the same as the Group's balances.

38. RELATED PARTIES TRANSACTIONS

The Group is part of a larger group of companies under Xinjiang Non-ferrous and has extensive transactions and relationships with members of the Xinjiang Non-ferrous Group.

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

During the Relevant Periods, the Group's management are of the view that the following companies were related parties of the Group:

Name of related party	Relationship with the Group
Xinjiang Non-ferrous	Holding Company
Xinjiang Litha Factory	Fellow subsidiary
Xinjiang A'xi Gold Mine	Fellow subsidiary
Xinjiang Non-ferrous Gold Construction Company	Fellow subsidiary
Xinjiang Non-ferrous Metallurgy Transportation Company Co., Ltd.	Fellow subsidiary
Xinjiang Non-ferrous Metal Dibian Trade Company	Fellow subsidiary
China Non-ferrous Metal Import and Export Company of Xinjiang	Fellow subsidiary
Metallurgical Design Institute of Non-ferrous Metals of Urumqi	Fellow subsidiary
Xinjiang Non-ferrous Metallurgy Manufacture Factory	Fellow subsidiary
Xinjiang Non-ferrous Industry Group Precious Metal Co., Ltd.	Fellow subsidiary
Xinjiang Non-ferrous Metal Industrial Materials (Group) Co., Ltd.	Fellow subsidiary
Fukang Non-ferrous Development Co., Ltd.	Fellow subsidiary
Xinjiang Non-ferrous Fuyun Xingtong Service Co., Ltd.	Fellow subsidiary
Xinjiang Jinhui Real Estate Development Co., Ltd.	Fellow subsidiary
Urumqi Mingyuan Property Management Co., Ltd.	Fellow subsidiary
Yinlong Aluminum-plastics Compound Tube Company of Xinjiang	Fellow subsidiary
Xinjiang Sangong Power Co., Ltd.	Fellow subsidiary
Fuyun Hengsheng Beryllium Industry Co., Ltd.	Fellow subsidiary
Beijing Baodi Xindi Kemao Co., Ltd.	Fellow subsidiary
Shaanxi Xinhao Trade and Industry Co., Ltd	Shaanxi Xinhao Trade and Industry Co., Ltd. ("Shaanxi Xinhao") was the related party of Shaanxi Honghao Industry Co., Ltd. ("Shaanxi Honghao"), an investor of the Company by virtue of the fact that the controlling shareholder of Shaanxi Xinhao was related to the controlling shareholder of Shaanxi Honghao, as husband and wife. On 6 June 2006, the controlling shareholder of Shaanxi Honghao disposed all his equity interest in Shaanxi Xinhao to an independent third party.

In addition to the related party information shown elsewhere in the Financial Information, the following is a summary of significant related party transactions during the Relevant Periods and balances arising from those related party transactions at each of the balance sheet dates:

(a) Deposits and interest income

	As at 31 December			As at 31 March
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deposits placed with state-owned banks	155,627	327,418	562,477	334,438

	Year ended 31 December			Three months ended 31 March	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Interest income from state-owned banks	1,094	1,869	3,863	1,189	3,347

(b) **During the Relevant Periods, the Group had the following material transactions with related parties:**

Continuing

Transactions with the Holding Company

	Year ended 31 December			Three months ended 31 March	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Nature of transactions					
Building rental expense paid/payable to	–	100	1,018	75	409
Interest expense paid/payable to *(Note)*	–	2,817	8,676	2,156	2,077
Dividend paid	–	–	–	–	251,120

Note: The interest expense paid/payable to Holding Company represented the unwinding of discount of long-term mining rights payable to Holding Company (Note 19(a)).

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

Transactions with companies controlled by the Holding Company

Name of related parties	**Nature of transactions**	Year ended 31 December			Three months ended 31 March	
		2004	**2005**	**2006**	**2006**	**2007**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Purchases of raw materials from related parties						
– Xinjiang Lithia Factory	Purchase of chemical materials	928	794	601	–	–
– Xinjiang Non-ferrous Metallurgy Manufacture Factory	Purchase of equipment and fittings	967	618	1,315	131	641
– Xinjiang Non-ferrous Industry Group-Precious Metal Co., Ltd.	Purchase of equipment and fittings	213	237	959	111	57
– Xinjiang Non-ferrous Metal Dibian Trade Company	Purchase of raw materials	773	2,225	2,731	126	692
– Xinjiang Non-ferrous Metal Industrial Materials (Group) Co., Ltd.	Purchase of raw materials	2,012	–	254	52	153
– Fukang Non-ferrous Development Co., Ltd.	Purchase of raw materials and consumables	2,037	2,557	3,222	847	1,070
	Purchase of coal	–	–	1,794	175	–
		6,930	6,431	10,876	1,442	2,613

Services provided by related parties	Nature of transactions	Year ended 31 December 2004 RMB'000	2005 RMB'000	2006 RMB'000	Three months ended 31 March 2006 RMB'000 (Unaudited)	2007 RMB'000
– Xinjiang Non-ferrous Gold Construction Company	Provision of construction services	3,277	4,837	80,925	1,440	7,619
– Fukang Non-ferrous Development Co., Ltd.	Provision of transportation services	2,423	3,649	3,687	854	660
– Xinjiang Non-ferrous Metallurgy Transportation Company Co., Ltd	Provision of transportation services	988	1,195	181	21	8
– Xinjiang Non-ferrous Fuyun Xingtong Service Co., Ltd.	Provision of transportation services	193	281	271	–	–
	Provision of comprehensive supporting services	–	568	2,088	438	580
– Xinjiang Non-ferrous Metallurgy Manufacture Factory	Provision of manufacturing services	–	–	935	32	–
– Metallurgical Design Institute of Non-ferrous Metals of Urumqi	Provision of mining structure design services	240	236	1,040	285	–
		7,121	10,766	89,127	3,070	8,867

Sales of inventories to related parties	Nature of transactions	Year ended 31 December 2004 RMB'000	2005 RMB'000	2006 RMB'000	Three months ended 31 March 2006 RMB'000 (Unaudited)	2007 RMB'000
– Shaanxi Xinhao Trade and Industry Co., Ltd.	Sale of nickel cathode and copper cathode	–	95,286	155,609	81,566	–
– Fuyun Hengsheng Beryllium Industry Co., Ltd.	Sale of copper cathode	–	–	2,210	–	109
– Beijing Baodi Xindi Kemao Co., Ltd.	Sale of nickel cathode	9,943	14,892	17,380	7,035	1,158
– Xinjiang Lithia Factory	Sale of sulphuric acid	1,162	–	–	–	–
– Xinjiang Non-ferrous Metal Industrial Materials (Group) Co., Ltd.	Sale of nickel cathode and copper cathode	285	1,204	33	33	–
		11,390	111,382	175,232	88,634	1,267

Discontinued

Transactions with the Holding Company

	Year ended 31 December			Three months ended 31 March	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Nature of transactions					
Land rental expense paid/payable to	–	754	754	566	–
Management fee paid/payable to *(Note 1)*	14,000	29,300	–	–	–
Profit distribution	88,472	207,575	–	–	13,045
Purchase of mining rights	–	297,332	–	–	–

Note 1: Before the establishment of the Company, Xinjiang Non-ferrous allocated certain operating costs to its then wholly-owned subsidiaries, including Kalatongke Mine and Fukang Refinery, as a management fee. Such fee has no longer been charged since the incorporation of the Company.

Transactions with companies controlled by the Holding Company

Name of related parties	**Nature of transactions**	Year ended 31 December			Three months ended 31 March	
		2004	**2005**	**2006**	**2006**	**2007**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Purchases of raw materials from related parties						
– Xinjiang Non-ferrous Metal Dibian Trade Company	Purchase of coke	2,009	16,029	8,863	3,329	–
– Xinjiang Non-ferrous Metal Industrial Materials (Group) Co., Ltd.	Purchase of coke	7,100	–	–	–	–
		9,109	16,029	8,863	3,329	–
– Fukang Non-ferrous Development Co., Ltd.	Provision of heating	707	731	656	–	–
	Provision of property management services	500	500	–	–	–
		1,207	1,231	656	–	–

In the opinion of the directors, the transactions between the Group and the aforementioned related parties were conducted in the ordinary and usual course of business and on terms and conditions similar to those entered into with unrelated parties.

(c) Guarantee provided to Holding Company and related parties for securing related parties' bank loans

Discontinued

Name of related parties	As at 31 December 2004	As at 31 December 2005	As at 31 December 2006	As at 31 March 2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
– Xinjiang Non-ferrous	46,890	44,890	28,890	28,890
– Xinjiang A'xi Gold Mine	28,900	28,900	28,900	28,900
– Xinjiang Non-ferrous Metal Industrial Materials (Group) Co., Ltd.	6,000	7,000	–	–
– China Non-ferrous Metal Import and Export Company of Xinjiang	5,000	5,000	–	–
– Xinjiang Jinhui Real Estate Development Co., Ltd.	6,000	–	–	–
– Urumqi Mingyuan Property Management Co., Ltd.	15,300	–	–	–
– Xinjiang Non-ferrous Industry Group Precious Metal Co., Ltd.	–	3,000	–	–
– Fuyun Hengsheng Beryllium Industry Co., Ltd.	–	3,000	–	–
	108,090	91,790	57,790	57,790

Subsequently, the guarantees provided by the Company to Xinjiang Non-ferrous and Xinjiang A'xi Gold Mine for securing the related debt-to-equity borrowings amounting to RMB28,890,000 and RMB28,900,000, respectively, were ceased with effect from 23 July 2007 (Note 40(c)).

(d) Guarantee granted by Holding Company and related parties for securing the Group's bank loans

Discontinued

Name of related parties	As at 31 December 2004	As at 31 December 2005	As at 31 December 2006	As at 31 March 2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
– Xinjiang Non-ferrous	–	–	60,000	60,000
– Xinjiang Non-ferrous Industry Group Precious Metal Co., Ltd.	5,000	5,000	5,000	5,000
– Xinjiang A'xi Gold Mine	29,000	–	–	–
– China Non-ferrous Metal Import and Export Company of Xinjiang	10,000	–	–	–
	44,000	5,000	65,000	65,000

Subsequently, the guarantee granted by Xinjiang Non-ferrous Industry Group Precious Metal Co., Ltd. to the Company amounting to RMB5,000,000 for securing the other loan borrowed from China Huarong was ceased with effect from 23 July 2007 (Note 40(c)).

(e) **Balances due from or due to related parties**

	As at 31 December			As at 31 March
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Accounts receivable from fellow subsidiaries				
– Xinjiang Lithia Factory	2,203	1,869	1,869	1,469
– Xinjiang Non-ferrous Industry Group Precious Metal Co., Ltd.	38	38	38	38
– Beijing Baodi Xindi Kemao Co., Ltd.	–	483	–	–
	2,241	2,390	1,907	1,507
Accounts receivable from other related party				
– Shaanxi Xinhao Trade and Industry Co., Ltd.	–	20,352	–	–
Accounts receivable from other state-owned enterprises	103	255	498	711
	2,344	22,997	2,405	2,218
Other receivables from Holding Company				
– Xinjiang Non-ferrous	300	754	–	51
Other receivables from fellow subsidiaries				
– Xinjiang Lithia Factory	1,100	1,400	–	–
– Xinjiang Non-ferrous Gold Construction Company	919	514	20	20
– Xinjiang Non-ferrous Industry Group Precious Metal Co., Ltd.	5,281	5,000	–	–
– Xinjiang Non-ferrous Metal Industrial Materials (Group) Co., Ltd.	96	–	–	–
– Fukang Non-ferrous Development Co., Ltd.	11,000	–	–	–
– Xinjiang A'xi Gold Mine	5,000	–	–	–
– Yinlong Aluminum-plastics Compound Tube Company of Xinjiang	70	70	–	–
– Fukang Xingye Industry Co., Ltd.	–	–	–	–
– Xinjiang Sangong Power Co., Ltd.	2,408	2,500	100	100
– Fuyun Hengsheng Beryllium Industry Co., Ltd.	5,051	5,910	–	–
	30,925	15,394	120	120
Other receivables from other state-owned enterprises	725	942	3	52
	31,950	17,090	123	223

Other receivables from Holding Company and fellow subsidiaries were settled in August 2007.

	As at 31 December			As at 31 March
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Advances to fellow subsidiaries				
– Xinjiang Non-ferrous Metallurgy Manufacture Factory	181	65	201	129
– Xinjiang Non-ferrous Metal Industrial Materials (Group) Co., Ltd.	–	–	55	–
– China Non-ferrous Metal Import and Export Company of Xinjiang	39	39	–	–
– Xinjiang Non-ferrous Industry Group Precious Metal Co., Ltd.	–	–	–	53
– Metallurgical Design Institute of Non-ferrous Metals of Urumqi	–	–	–	50
– Xinjiang Non-ferrous Fuyun Xingtong Service Co., Ltd.	–	–	–	111
	220	104	256	343
Advances to other state-owned enterprises	783	1,455	2,057	320
	1,003	1,559	2,313	663
Trade payables to fellow subsidiaries				
– Xinjiang Non-ferrous Metallurgy Manufacture Factory	184	113	498	336
– Metallurgical Design Institute of Non-ferrous Metals of Urumqi	–	130	130	130
– Xinjiang Non-ferrous Industry Group Precious Metal Co., Ltd.	62	2	256	75
– Xinjiang Non-ferrous Metal Dibian Trade Company	452	5,169	733	499
– Xinjiang Lithia Factory	7	–	–	–
– Xinjiang Non-ferrous Industry Co., Ltd.	15	–	–	–
– Xinjiang Non-ferrous Metallurgy Transportation Company	94	20	–	7
– Fukang Non-ferrous Development Co., Ltd.	282	646	718	333
– Xinjiang Non-ferrous Gold Construction Company	180	512	9,429	10,208
– Xinjiang Non-ferrous Fuyun Xingtong Service Co., Ltd.	63	30	84	63
– Xinjiang Non-ferrous Metal Industrial Materials (Group) Co., Ltd.	1,357	–	–	100
	2,696	6,622	11,848	11,751
Trade payables to other state-owned enterprises	2,057	5,209	6,790	6,469
	4,753	11,831	18,638	18,220

	As at 31 December			As at 31 March
	2004	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Customer deposits and receipts in advance from fellow subsidiaries				
– Fuyun Hengsheng Beryllium Industry Co., Ltd.	–	–	–	13
Customer deposits and receipts in advance from other state-owned enterprises	334	178	15	1
	334	178	15	14
Other payables to Holding Company				
– Xinjiang Non-ferrous	2,269	1,888	527	551
Other payables to fellow subsidiaries				
– Fukang Non-ferrous Development Co., Ltd.	18	218	807	66
– Xinjiang Non-ferrous Gold Construction Company	1,851	100	809	489
– Xinjiang Non-ferrous Fuyun Xingtong Service Co., Ltd.	607	2,691	1,848	823
– Xinjiang Non-ferrous Metal Industrial Materials (Group) Co., Ltd.	91	–	–	–
– Urumqi Mingyuan Property Management Co., Ltd.	776	–	–	–
– Fuyun Hengsheng Beryllium Industry Co., Ltd.	–	–	–	80
– Xinjiang Non-ferrous Metallurgy Transportation Development Co., Ltd.	–	–	8	–
	3,343	3,009	3,472	1,458
Other payables to other state-owned enterprises	2,206	811	365	541
	7,818	5,708	4,364	2,550

Other payables to Holding Company and fellow subsidiaries were repaid in August 2007.

Long-term payable to Holding Company

	As at 31 December			As at 31 March
	2004	2005	2006	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
– Current	–	4,539	1,382	3,459
– Non-current	–	119,947	118,565	118,565
	–	124,486	119,947	122,024

The long-term payable to Holding Company represents the mining rights payable (Note 19(a)).

Amounts due from/to related parties are interest-free, unsecured and receivable/repayable in accordance with normal commercial terms.

(f) Loans from related parties

	As at 31 December			As at 31 March
	2004	**2005**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Loans from:				
State-owned banks				
– Long-term (a)	–	–	50,000	50,000
– Short-term	56,000	10,000	10,000	10,000
	56,000	10,000	60,000	60,000
Non-bank financial institutions				
– Short-term (b)	44,800	44,800	44,800	44,800
	100,800	54,800	104,800	104,800

Notes:

(a) For the maturity of long-term bank loans, please refer to Note 18.

(b) Subsequently, the loans from non-bank financial institutions were transferred from the Company to Xinjiang Non-ferrous with effect from 23 July 2007 and 24 July 2007 respectively *(Note 40(c))*.

Movements of the loans from state-owned banks or non-bank financial institutions, or government bureau:

	Year ended 31 December			Three months ended 31 March	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
At beginning of the year/period	116,750	100,800	54,800	54,800	104,800
Additions	44,000	10,000	60,000	–	–
Payments	(53,950)	(56,000)	(10,000)	(10,000)	–
Disposal of subsidiaries	(6,000)	–	–	–	–
At end of the year/period	100,800	54,800	104,800	44,800	104,800

Subsequently, the other loans from non-bank financial institutions, China Huarong and China Cinda totalling amounting to RMB44,800,000 were transferred from the Company to Xinjiang Non-ferrous (Note 40(c)).

	Year ended 31 December			Three months ended 31 March	
	2004	**2005**	**2006**	**2006**	**2007**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Interest expenses paid/payable to:					
State-owned banks	3,529	2,153	616	145	479

39. SUMMARY OF DIFFERENCES BETWEEN HKFRS AND PRC GAAP

The consolidated financial statements prepared under HKFRS and those prepared under PRC GAAP have the following major differences:

- Long-term payable for mining rights is stated at discounted net preset value under HKFRS. Under PRC GAAP, such long-term playable is stated at historical cost;
- Revaluation surplus and corresponding depreciation charge on property, plant and equipment are recognised under PRC GAAP, but such revaluation surplus and depreciation charge are reversed under HKFRS;
- Accrued welfare payable for tax allowable purpose but without obligation is recognised under PRC GAAP but it is reversed under HKFRS;
- Pre-operating expenses are capitalised under PRC GAAP, while pre-operating expenses are charged to income statement as incurred under HKFRS;
- Early retirement benefit is recognised when the obligation exists under HKFRS but it is recognised at the date of Reorganisation under PRC GAAP;
- Professional service fees in connection with IPO are charged to equity under HKFRS, there are recorded as other receivables under PRC GAAP;
- Provision for close down, restoration and environmental costs is recognised according to HKAS 37. Under PRC GAAP, such expenses are charged to income statement as incurred;
- Deferred tax assets are recognised using the liability method under HKFRS. Under PRC GAAP, such deferred tax assets are not recognised.

The differences between HKFRS and PRC GAAP are summarised as follows:

	As at 1 January 2004 RMB'000	As at 31 December 2004 RMB'000	2005 RMB'000	2006 RMB'000
Total equity under PRC GAAP	291,199	314,433	459,152	1,042,246
Adjustments for different accounting treatments:				
– Adjustment of long-term payable for mining rights	–	–	172,845	164,169
– Reversal of the revaluation surplus and corresponding depreciation charges of property, plant and equipment recognised under PRC GAAP	(6,571)	(5,556)	(22,314)	(16,877)
– Adjustment of accrued welfare payable recognised under PRC GAAP but not under HKFRS	19,371	19,371	–	–
– Adjustment of pre-operating expenses	–	–	–	(3,087)
– Adjustment of early retirement benefit obligation	(6,709)	(5,901)	1,934	1,373
– Adjustment of IPO professional service fees	–	–	–	(11,993)
– Adjustment of provision for close down, restoration and environmental costs	(1,925)	(2,444)	(2,978)	(3,530)
– Recognition of deferred tax assets under HKFRS	3,295	–	–	–
Total equity under HKFRS	298,660	319,903	608,639	1,172,301

	For the year ended 31 December		
	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Profit for the year under PRC GAAP	113,373	188,695	450,116
Adjustments for different accounting treatments:			
– Adjustment of long-term payable for mining rights	–	(2,818)	(8,676)
– Reversal of the revaluation surplus and corresponding depreciation charges of property, plant and equipment recognised under PRC GAAP	1,015	520	5,437
– Adjustment of pre-operating expenses	–	–	(3,087)
– Adjustment of early retirement benefit obligation	807	7,834	(560)
– Adjustment of provision for close down, restoration and environmental costs	(518)	(535)	(553)
– Recognition of deferred tax assets under HKFRS	(3,295)	–	–
– Others	1,213	–	–
Profit for the year under HKFRS	112,595	193,696	442,677

40. SUBSEQUENT EVENTS

(a) Disposal of a subsidiary

According to the resolution of Board of Directors meeting held on 25 April 2007, the Company entered into an equity transfer agreement with an independent third party, Xinjiang Investment & Development (Group) Co., Ltd. ("Xinjiang I&D") on 30 April 2007, to dispose its 57% equity interests in Zhongxin Mining to Xinjiang I&D, for a consideration of RMB33,060,000. The full consideration was received by the Company on 16 May 2007. The transfer of the equity interest of Zhongxin Mining was filed with the relevant PRC government authorities on 25 May 2007.

Zhongxin Mining was the subsidiary of the Company before such disposal, with net assets amounting to approximately RMB53,618,000 as at 31 March 2007. The loss attributable to Zhongxin Mining for the year ended 31 December 2006 and for the three months ended 31 March 2007 were approximately RMB3,087,000 and RMB1,296,000 respectively.

(b) Special dividend

At the extraordinary general meetings held on 11 May 2007 and 13 September 2007, the Company resolved to make a special dividend to the Promoters in an amount equal to the distributable profits of the Company as at 31 December 2006 after deducting the declared dividend of RMB400 million (Note 34) and the declared profit distribution of RMB13,045,000 (Note 33) and the distributable profits of the Company for the period from 1 January 2007 to 30 June 2007 after making allocations for the required statutory and discretionary surplus reserve funds (the "Special Dividend"). The amount of the Special Dividend will be determined based on the audited financial statements prepared in accordance with PRC GAAP or HKFRS, whichever is lower.

The Directors estimate that the Special Dividend will be approximately RMB471 million.

(c) Debt Restructuring Agreement

Pursuant to the Debt Restructuring Agreement signed by the Company with China Huarong and Xinjiang Non-ferrous on 23 July 2007, the other loan due to China Huarong amounting to RMB22,450,000 was transferred from the Company to Xinjiang Non-ferrous with effect from 23 July 2007. In return, the Company paid Xinjiang Non-ferrous RMB22,450,000 on 25 July 2007. Meanwhile, the guarantee granted by Xinjiang Non-ferrous Industry Group Precious Metal Co., Ltd. to the Company amounting to RMB5,000,000 for securing the other loan due to China Huarong was ceased with effect from 23 July 2007 . Also, pursuant to the Debt Restructuring Agreement, the guarantees provided by the Company to Xinjiang Non-ferrous and Xinjiang A'xi Gold Mine for securing the related debt-to-equity borrowings amounting to RMB28,890,000 and RMB28,900,000, respectively, were ceased with effect from 23 July 2007.

Pursuant to the Debt Restructuring Agreement signed by the Company with China Cinda and Xinjiang Non-ferrous on 24 July 2007, the other loan due to China Cinda amounting to RMB22,350,000 was transferred from the Company to Xinjiang Non-ferrous with effect from 24 July 2007. In return, the Company paid Xinjiang Non-ferrous RMB22,350,000 on 25 July 2007.

(d) Mining rights

On 25 October 2006, the Ministry of Finance of the PRC (the "MOF") and the Ministry of Land and Resource of the PRC (the "MLR") jointly promulgated a new circular on Strengthening Reform of the System for Obtaining Mineral

Exploration Rights and Mining Rights for Value (the "Circular"). Pursuant to the Circular, a holder of state-invested mining rights which were obtained free of charge or by way of increase in the State-owned capital in the past should pay a consideration determined by the MLR in cash. This Circular does not have any grandfather exemption. Since the mining rights held by the Company was originally obtained by Xinjiang Non-ferrous from MLR via capital injection, the Circular applies to the mining rights held by the Company.

On 25 July 2007, the Company entered into an agreement with Xinjiang Non-ferrous to terminate the Mining Rights Transfer Agreement dated 3 September 2005 pursuant to which the Company acquired the mining rights at Kalatongke Mine from Xinjiang Non-ferrous at a consideration of approximately RMB297,332,000 to be paid by 30 instalments over 30 years. It was agreed that Xinjiang Non-ferrous will refund the money that the Company paid in the past two years pursuant to the said Mining Rights Transfer Agreement. On the same date, the Company entered into an agreement with the Xinjiang LRD to acquire for the mining rights at Kalatongke Mine at a consideration of RMB297,021,000. The consideration would be settled by a down-payment of RMB59,466,000 and the remaining balance of RMB237,555,000 would be paid in the next 9 years with interest charged at market rate. Since these agreements were entered after 31 March 2007 and these agreements have not affected the Company's ownership of the mining rights at 31 March 2007, it is not accounted for as an adjusting event and has not been reflected in the Financial Information.

The Directors estimated the financial impact resulted from the termination of the Mining Rights Transfer Agreement and purchase of mining rights from Xinjiang LRD as follows:

Termination of the Mining Rights Transfer Agreement	*Notes*	**At 25 July 2007** *RMB'000*
Reversal of Mining Rights Payable	*(i)*	124,851
Reversal of Mining Rights	*(i)*	(278,335)
Amount due from Xinjiang Non-ferrous	*(ii)*	13,215
Net decrease in net assets		(140,269)
Analysed by:		
Reversal of other reserve	*(iii)*	(175,663)
Contribution by Xinjiang Non-ferrous	*(iv)*	35,394
Net decrease in net assets		(140,269)

Notes:

(i) The balance of mining rights and mining rights payable to Xinjiang Non-ferrous as at 25 July 2007 were calculated in accordance with the Mining Rights Transfer Agreement dated 3 September 2005;

(ii) The amount due from Xinjiang Non-ferrous represented the money paid by the Company in the past two years which would be refunded by Xinjiang Non-ferrous after the termination of the Mining Rights Transfer Agreement, such amount was received on 9 August 2007;

(iii) It represents the difference between the fair value of mining rights acquired from Xinjiang Non-ferrous and the discounted net present value of long term payable for the mining rights acquired. Since the Mining Rights Transfer Agreement with Xinjiang Non-ferrous was terminated, the balance would be reversed;

(iv) The contribution by Xinjiang Non-ferrous resulted from the termination of Mining Rights Transfer Agreement is recorded as "other reserve", representing amortisation of the mining rights and unwinding of discount of the long-term mining rights payable.

Purchase of the Mining Rights from Xinjiang LRD	**At 25 July 2007** *RMB'000*
Mining Rights	297,021
Mining Rights Payable *(Note)*	(297,021)
Net impact to net assets	0

Note: The down-payment of RMB59,466,000 was paid to Xinjiang LRD on 27 July 2007.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Company have been prepared in respect of any year/period subsequent to 31 March 2007 up to the date of this report. Except as disclosed in this report, no dividend or other distribution has been declared, made or paid by the Company in respect of any year/period subsequent to 31 March 2007.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The information sets out in this Appendix does not form part of the Accountants' Report, as set out in Appendix I to this prospectus, prepared by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, and is included herein for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.

(A) UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and unaudited pro forma statement of adjusted net tangible assets of the Group which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 31 March 2007. The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Global Offering been completed as at 31 March 2007 or any future date.

	Audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 March 2007	**Estimated net proceeds from the Global Offering**	**Unaudited pro forma adjusted net tangible assets of the Group**	**Unaudited pro forma adjusted net tangible assets per Share**	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*
Based on an offer price of HK$6.50 per Share	924,138	3,607,248	4,531,386	2.14	2.21
Based on an offer price of HK$4.80 per Share	924,138	2,647,619	3,571,757	1.68	1.73

Notes:

(1) The audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 March 2007 is extracted from the Accountants' Report as set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group as at 31 March 2007 of RMB924,232,000 with an adjustment for intangible assets as at 31 March 2007 of RMB94,000.

(2) The estimated net proceeds from the Global Offering are based on indicative offer prices of HK$6.50 and HK$4.80 per Share respectively, after deduction of the underwriting fees and other related expenses payable by the Company and takes no account of any Shares which may fall to be issued upon the exercise of the over-allotment option.

(3) The unaudited pro forma net tangible assets per Share is arrived at after adjustments referred to in the preceding paragraphs and on the basis that a total of 2,120,000,000 Shares were in issue assuming that the Global Offering have been completed on 31 March 2007 but takes no account of any Shares which may fall to be issued upon the exercise of the over-allotment option.

(4) The translation of Renminbi into Hong Kong dollars has been made at the rate of RMB0.97 to HK$1.00. No representation is made that the Renminbi amounts have been, could have been or could be converted to Hong Kong dollar, or vice versa, at that rate, or at any other rate or at all.

(5) At the extraordinary general meetings held on 11 May 2007 and 13 September 2007, the Company resolved to make a special dividend to the Promoters in an amount equals to the distributable profits of the Company as at 31 December 2006 after deducting the dividend of RMB400,000,000 and profit distribution of RMB13,045,000 declared in March 2007 and the distributable profits of the Company for the period from 1 January 2007 to 30 June 2007 after making allocations for the required statutory and discretionary surplus reserve funds (the "Special Dividend"). The amount of the Special Dividend will be determined based on the audited financial statements prepared in accordance with PRC GAAP or HKFRS, whichever is lower, after making allocations for the required statutory and discretionary surplus reserve funds.

The Directors estimate that the Special Dividend will be approximately RMB471 million.

The unaudited pro forma adjusted net tangible assets and the unaudited pro forma adjusted net tangible assets per Share have not taken into account the effect of the Special Dividend. If the Special Dividend has been accounted for, the unaudited pro forma adjusted net tangible assets and the unaudited pro forma adjusted net tangible assets per Share would be reduced.

(6) As set out on page I-66 of the Accountants' Report in Appendix I to this prospectus, on 25 July 2007, the Company entered into an agreement with Xinjiang Non-ferrous to terminate the Mining Rights Transfer Agreement. On the same date, the Company entered into an agreement with the Land and Resources Department of Xinjiang ("Xinjiang LRD") to acquire the mining rights at Kalatongke Mine at a consideration of RMB297,021,000. The directors estimated the financial impact resulted from the termination of the Mining Rights Transfer Agreement and purchase of the mining rights from Xinjiang LRD will decrease the net assets of the Group by RMB140,269,000.

The unaudited pro forma adjusted net tangible assets and the unaudited pro forma adjusted net tangible assets per Share have not taken into account the effect of the above transactions. If the above transactions have been accounted for, the unaudited pro forma adjusted net tangible assets and the unaudited pro forma adjusted net tangible assets per Share would be reduced.

(7) As of 30 June 2007, the Group's properties were revalued by Sallmanns (Far East) Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix IV — Property Valuation. The net revaluation surplus of such properties classified under the captions "Property, plant and equipment", and "Land use rights" in the Accountants' Report set out in Appendix I, representing the excess of market values of the properties over their book values, is approximately RMB172,600,000. In accordance with the Group's accounting policies, such properties are stated at historical cost less accumulated depreciation/amortisation and impairment. As such, the net revaluation surplus arising from the valuation of properties will not be included in the Group's consolidated financial statements for the year ending 31 December 2007 nor the calculation of the above unaudited pro forma adjusted net tangible assets of the Group. Had these properties been stated at such valuation, an additional depreciation/amortisation of approximately RMB4,891,000 per annum in the aggregate would have been incurred.

(8) No adjustment has been made to reflect any of our trading results or other transactions entered into subsequent to 31 March 2007.

B. UNAUDITED PRO FORMA ESTIMATED EARNINGS PER SHARE

The following unaudited pro forma estimate earnings per Share for the six months ended 30 June 2007 has been prepared on the basis set out in the notes below for the purpose of illustrating the effect of the Global Offering as if it had been taken place on 1 January 2007. This unaudited pro forma estimated earnings per Share has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of financial results of the Group for the six months ended 30 June 2007 or any future period.

Estimated consolidated profit attributable to equity holders of the Company for the six months ended 30 June 2007(1)	Not less than RMB466 million (approximately HK$480 million)
Unaudited pro forma estimated earnings per Share(2)	Not less than RMB0.220 (approximately HK$0.227)

Notes:

1. The estimated consolidated profit attributable to equity holders of the Company for the six months ended 30 June 2007 is extracted from the section headed "Financial Information — Profit estimate for the six months ended 30 June 2007" in this prospectus. The bases on which the above profit estimate has been prepared are summarised in Appendix III to this prospectus. The Directors of the Company have prepared the estimated consolidated profit attributable to equity holders of the Company for the six months ended 30 June 2007 based on the audited consolidated results of the Group for the three months ended 31 March 2007 and the unaudited consolidated results based on management accounts of the Group for the three months ended 30 June 2007. The estimate has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by the Group as set out in Note 3 of Section II of the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

2. The unaudited pro forma estimate earnings per Share is calculated by dividing the estimate consolidated profit attributable to the equity holders of the Company for the six months ended 30 June 2007, assuming that the Global Offering was completed on 1 January 2007 and a total of 2,120,000,000 Shares were in issue during the entire period. The calculation assumes that the Over-allotment Option will not be exercised.

3. The translation of Renminbi into Hong Kong dollars has been made at the rate of RMB0.97 to HK$1.00. No representation is made that the Renminbi amounts have been, could have been or could be converted to Hong Kong dollar, or vice versa, at that rate, or at any other rate or at all.

REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

REPORT FROM REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF XINJIANG XINXIN MINING INDUSTRY CO., LTD.

We report on the unaudited pro forma financial information of Xinjiang Xinxin Mining Industry Co., Ltd. (the "Company") and its subsidiary (hereinafter collectively referred to as the "Group") set out on pages II-1 to II-3 under the headings of "Unaudited Pro Forma Adjusted Net Tangible Assets" and "Unaudited Pro Forma Estimated Earnings Per Share" (the "Unaudited Pro Forma Financial Information") in Appendix II of the Company's prospectus dated 27 September 2007 (the "Prospectus"), in connection with the proposed initial public offering of the shares of the Company. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed initial public offering might have affected the relevant financial information of the Group. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages II-1 to II-3 of the Prospectus.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by rule 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the audited consolidated net assets of the Group as at 31 March 2007 and unaudited estimated profit attributable to equity holders of the Company for the six months ended 30 June 2007 with the Accountants' Report as set out in Appendix I of the Prospectus and profit estimate as set out in the section headed "Financial Information" in the Prospectus, respectively, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

— the financial position of the Group as at 31 March 2007 or any future date, or

— the earnings per share of the Group for the six months ended 30 June 2007 or any future periods.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 27 September 2007

The estimate of the consolidated profit attributable to the equity holders of our Company for the six months ended 30 June 2007 is set out in the section headed "Financial Information — Profit estimate for the six months ended 30 June 2007" in this prospectus.

(A) BASES

Our Directors have prepared the estimate of the consolidated profit attributable to the equity holders of our Company for the six months ended 30 June 2007 based on the audited accounts for the three months ended 31 March 2007 and the unaudited management accounts for the three months ended 30 June 2007. The profit estimate has been presented on the basis of the accounting policies consistent in all material respects with those currently adopted by us as summarised in the Note 3 of the Section II of Accountants' Report, the text of which is set out in Appendix I to this prospectus.

(B) LETTER FROM THE REPORTING ACCOUNTANTS

The following is the text of a letter from the reporting accountants, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong in connection with the estimated consolidated profit attributable to equity holders of the Company for the six months ended 30 June 2007 for the purpose of incorporation in this prospectus.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

The Directors
Xinjiang Xinxin Mining Industry Co., Ltd.
BOCI Asia Limited

27 September 2007

Dear Sirs,

We have reviewed the calculations of and accounting policies adopted in arriving at the estimate of the consolidated profit attributable to equity holders of Xinjiang Xinxin Mining Industry Co., Ltd. (the "Company") for the six months ended 30 June 2007 (the "Profit Estimate") as set out in the subsection headed "Profit estimate for the six months ended 30 June 2007" in the section headed "Financial Information" in the prospectus of the Company dated 27 September 2007 (the "Prospectus").

We conducted our work in accordance with the Auditing Guideline 3.341 "Accountants' report on profit forecasts" issued by the Hong Kong Institute of Certified Public Accountants.

The Profit Estimate, for which the directors of the Company are solely responsible, has been prepared by them based on the audited consolidated results of the Company and its subsidiary (hereinafter collectively referred to as the "Group") for the three months ended 31 March 2007 and the unaudited consolidated results based on management accounts for the three months ended 30 June 2007.

In our opinion, the Profit Estimate, so far as the calculation and accounting policies are concerned, has been properly compiled in accordance with the bases made by the directors of the Company as set out on page III-1 of the Prospectus, and is presented on a basis consistent in all material respects with the accounting policies presently adopted by the Group as set out in Note 3 of Section II of our Accountants' Report dated 27 September 2007, the text of which is set out in Appendix I of the Prospectus.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

(C) LETTER FROM THE SOLE SPONSOR

BOC INTERNATIONAL

26th Floor
Bank of China Tower
1 Garden Road
Hong Kong

The Directors of Xinjiang Xinxin Mining Industry Co., Ltd.

27 September 2007

Dear Sirs,

We refer to the estimate of the consolidated profit attributable to equity holders of Xinjiang Xinxin Mining Industry Co., Ltd. (the "Company") for the six months ended 30 June 2007 (the "Profit Estimate") as set out in the prospectus issued by the Company dated 27 September 2007 (the "Prospectus").

We have discussed with you the bases and assumptions made by yourselves as set out in Appendix III to the Prospectus upon which the Profit Estimate has been made. We have also considered the letter dated 27 September 2007 addressed to yourselves and ourselves from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, regarding the accounting policies and calculations upon which the Profit Estimate has been made.

On the basis of the information comprising the Profit Estimate and on the basis of the accounting policies and calculations adopted by you and reviewed by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, we are of the opinion that the Profit Estimate, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
BOCI Asia Limited
Daniel Ng
Managing Director
Head of Corporate Finance

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Sallmanns (Far East) Limited, an independent valuer, in connection with its valuation as at 30 June 2007 of the property interests of the Company.

Sallmanns

Corporate Valuation and Consultancy
www.sallmanns.com

22nd Floor, Siu On Centre
188 Lockhart Road
Wanchai
Hong Kong
Tel: (852) 2169 6000
Fax: (852) 2528 5079

27 September 2007

The Board of Directors
Xinjiang Xinxin Mining Industry Co., Ltd.
Nonferrous Building
No. 4 Youhaobei Road
Urumqi, Xinjiang, China

Dear Sirs,

In accordance with your instructions to value the properties in which Xinjiang Xinxin Mining Industry Co., Ltd. (the "Company") has interests in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 30 June 2007 (the "date of valuation").

Our valuations of the property interests represent the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

We have valued the property nos. 2, 3, 5, 6 and 7 in Group I by the direct comparison approach assuming sale of the property interests in their existing state with the benefit of immediate vacant possession and by making reference to comparable sale transactions as available in the relevant market.

Where, due to the nature of the buildings and structures of the properties in the PRC, there are no market sales comparables readily available, property nos. 1 and 4 in Group I have been valued on the basis of their depreciated replacement costs.

Depreciated replacement cost is defined as "the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimisation." It is based on an estimate of the Market Value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. The depreciated replacement costs of the property interests are subject to adequate potential profitability of the concerned business.

In valuing the property interests in portion of the property nos. 1 and 4 which are currently under construction, we have assumed that it will be developed and completed in accordance with the latest development proposal provided to us. In arriving at our opinion of value, we have taken into account the construction costs and professional fees relevant to the stage of construction as at the date of valuation and the remainder of the costs and fees to be expended to complete the development.

We have attributed no commercial value to the property interest in Group II, which is leased by the Company, due either to the short-term nature of the lease or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

Our valuations have been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited, the RICS Appraisal and Valuation Standards (5th Edition May 2003) published by the Royal Institution of Chartered Surveyors; and the HKIS Valuation Standards on Properties (1st Edition January 2005) published by the Hong Kong Institute of Surveyors.

We have relied to a very considerable extent on the information given by the Company and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates, Real Estate Title Certificates and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing titles to the property interests in the PRC and any material encumbrances that might be attached to the property interests or any lease amendments. We have relied considerably on the advice given by the Company's PRC legal advisers — Beijing Grandfield Law Firm, concerning the validity of the Company's titles to the property interests.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuations are summarised below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Sallmanns (Far East) Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 24 years' experience in the valuation of properties in the PRC and 27 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

SUMMARY OF VALUES

Group I — Property interests held and occupied by the Company in the PRC

No.	Property	Capital value in existing state as at 30 June 2007 *RMB*
1.	Land, various buildings and structures located at the South Side of Railway Station Xiaohuangshan Fukang City Xinjiang Uygur Autonomous Region The PRC	205,000,000
2.	Units 201 & 202 of Section 3, Block 1 No.4 Youhaobei Road Shayibake District Urumqi City Xinjiang Uygur Autonomous Region The PRC	No commercial value
3.	Blocks 104,147 & 148 Youseyuan Wuqixi Road (Section 10, Site 3) Fukang City Xinjiang Uygur Autonomous Region The PRC	1,250,000
4.	Land, various buildings and structures located at the Copper, Nickel & Mining Area Fuyun County Xinjiang Uygur Autonomous Region The PRC	203,000,000
5.	Units 101 of Section 2, Block 31 & 102 of Section 2, Block 32 No.4 Youhaobei Road Shayibake District Urumqi City Xinjiang Uygur Autonomous Region The PRC	No commercial value
6.	Unit 2706 No.3 of Alley 1222 Caoyang Road Putuo District Shanghai The PRC	1,520,000

No.	Property	Capital value in existing state as at 30 June 2007 *RMB*
7.	Units 202 to 205 No.1 of Alley 99 Shijie Road Yangpu District Shanghai The PRC	No commercial value
	Sub-total:	410,770,000

Group II — Property interest rented and occupied by the Company in the PRC

No.	Property	Capital value in existing state as at 30 June 2007 *RMB*
8.	The 7th & 8th floors of Nonferrous Tower No.4 Youhaobei Road Urumqi City Xinjiang Uygur Autonomous Region The PRC	No commercial value
	Sub-total:	Nil
	Grand Total:	410,770,000

VALUATION CERTIFICATE

Group I — Property interests held and occupied by the Company in the PRC

	Property	**Description and tenure**	**Particulars of occupancy**	**Capital value in existing state as at 30 June 2007** *RMB*
1.	Land, various buildings and structures located at the South Side of Railway Station Xiaohuangshan Fukang City Xinjiang Uygur Autonomous Region The PRC	The property comprises 3 parcels of land with a total site area of approximately 749,333.4 sq.m. on which are constructed 64 buildings and ancillary structures completed between 1993 and 2004. The buildings have a total gross floor area of approximately 41,519.49 sq.m. The buildings mainly include industrial buildings, dormitories, canteen and guardhouses. The ancillary structures mainly comprise boundary fences, roads, gates etc. As at the date of valuation, the property also comprises 10 buildings which were under construction and scheduled to be completed by the end of 2007 ("CIP" buildings). The total construction cost is estimated to be approximately RMB184,968,200 of which the cost incurred up to the date of valuation is RMB32,753,303.60 excluding the land cost. The total gross floor area of the buildings will be approximately 16,130.26 sq.m. upon completion. The land use rights of the property were administratively authorised to the Company for the latest term expiring on 22 December 2054.	The property is currently occupied by the Company for production purposes except for the "CIP" buildings which are under construction.	205,000,000

Notes:

1. Pursuant to 3 State-owned Land Use Rights Certificates — Fu Guo Yong (2006) Di Nos.21, 22 and 23 issued by the Land Resources Bureau of Fukang City all dated 15 May 2006, the land use rights of 3 parcels of land with a total site area of approximately 749,333.4 sq.m. have been authorised to the Company for industrial use for the latest term expiring on 22 December 2054. The Company is the legal owner of the land use rights of the property.

2. Pursuant to 18 Building Ownership Certificates — Fang Quan Zheng Fu Fang Guan Zi Di Nos 15455 to 15473 (omitted BOC Nos. 15460 and 15472) and Fang Quan Zheng Fu Fang Guan Zi Di No. 16829 issued by the Real Estate Administrative Bureau of Fukang City, the 51 buildings with a total gross floor area of approximately 41,519.49 sq.m. are owned by the Company.

3. Pursuant to a Construction Commencement Permit dated 29 July 2006 issued by the Construction Bureau of Fukang City in favour of the Company, permission by the relevant local authority was given to commence the construction of the CIP buildings of the property.

4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   (i) the Company has obtained the Land Use Rights Certificates (as stated in note 1) and can legally occupy and use the land with a total site area of approximately 749,333.4 sq.m.;

(ii) the Company has obtained the Building Ownership Certificates (as stated in note 2) and owned the building ownership rights of the buildings with a total gross floor area of approximately 41,519.49 sq.m.;

(iii) the property is not subject to any mortgage or third party encumbrance;

(iv) the Company has the right to lease, transfer, mortgage and handle the land use rights and building ownership rights of the property (unless otherwise specified by laws);

(v) the construction of CIP buildings is legally valid and enforceable;

(vi) the existing uses of the buildings comply with the permitted use of the land.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2007 *RMB*
2.	Units 201 & 202 of Section 3, Block 1 No.4 Youhaobei Road Shayibake District Urumqi City Xinjiang Uygur Autonomous Region The PRC	The property comprises 2 units on Level 2 of a 6-storey building completed in about 2001. The units have a total gross floor area of approximately 211.07 sq.m.	The property is currently occupied by the Company for residential use.	No commercial value

Notes:

1. Pursuant to 2 Building Ownership Certificates — Fang Quan Zheng Wu Shi Sha Yi Ba Ke Qu Zi Di Nos. 2006040715 and 2006040716 issued by the Transactional Administrative Centre of Property Rights of Urumqi City, two residential units with a total gross floor area of approximately 211.07 sq.m. are owned by the Company.

2. In the valuation of this property, we have not attributed any commercial value to the property which has not obtained any proper land title certificate. However, for reference purposes, we are of the opinion that the capital value of the property as at the date of valuation would be RMB633,000 assuming all relevant title ownership certificates had been obtained and the property could be freely transferred.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   (i) there is no legal impediment for the Company in obtaining the land use rights certificates;

   (ii) the Company has obtained the Building Ownership Certificates (stated in note 1) and owned the building ownership rights of the buildings with a total gross floor area of approximately 211.07 sq.m.;

   (iii) the Company is unable to obtain any land use rights certificate as the local land bureau has not yet commenced the issue of land use rights certificate in that area. The Company undertakes to apply for the land use rights certificate once the local land bureau commences the issue of land use rights certificate;

   (iv) the existing uses of the building comply with the permitted use of the land.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2007 *RMB*
3.	Blocks 104,147 & 148 Youseyuan, Wuqixi Road (Section 10, Site 3) Fukang City Xinjiang Uygur Autonomous Region The PRC	The property comprises 5 parcels of land with a total site area of approximately 833.86 sq.m. on which are constructed 3 carports of a 3-storey building completed between 1996 and 2003. The units have a total gross floor area of approximately 831.91 sq.m. The land use rights of the property were granted to the Company for a term of 70 years expiring on 4 August 2076.	The property is currently occupied by the Company for carports use.	1,250,000

Notes:

1. Pursuant to 5 State-owned Land Use Rights Certificates – Fu Guo Yong (2006) Di Nos. 35 to 39 issued by the Land Resources Bureau of Fukang City all dated 3 August 2006, the land use rights of the property with a total site area of approximately 833.86 sq.m. were granted to the Company for residential use for a term expiring on 4 August 2076. The Company is the legal owner of the land use rights of the property.

2. Pursuant to a Building Ownership Certificate – Fang Quan Zheng Fu Guan Fang Zi Di No. 15472 issued by the Real Estate Administrative Bureau of Fukang City, 3 carports with a total gross floor area of approximately 831.91 sq.m. are owned by the Company.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   (i) the Company has obtained the Land Use Rights Certificates (as stated in note 1) and can legally occupy and use the land with a total site area of approximately 833.86 sq.m.;

   (ii) the Company has obtained the Building Ownership Certificate (stated in note 2) and owned the building ownership rights of the buildings with a total gross floor area of approximately 831.91 sq.m.;

   (iii) the Company has the right to lease, transfer, mortgage and handle the land use rights and building ownership rights of the property (unless otherwise specified by laws);

   (iv) the existing uses of the buildings comply with the permitted use of the land.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2007 *RMB*
4.	Land, various buildings and structures located at the Copper, Nickel & Mining Area Fuyun County Xinjiang Uygur Autonomous Region The PRC	The property comprises 9 parcels of land with a total site area of approximately 1,408,468.28 sq.m. on which are constructed 113 buildings and ancillary structures completed between 1986 and 2007. The buildings have a total gross floor area of approximately 52,503.71 sq.m. The buildings mainly include industrial buildings, dormitories, canteens and guardhouses. The structures mainly comprise boundary fences, roads, gates etc. As at the date of valuation, the property also comprises 2 buildings for dormitory and ancillary uses which were under construction and scheduled to be completed by the end of 2007, ("CIP" buildings). The total construction cost is estimated to be RMB5,297,245 of which the cost incurred up to the date of valuation is RMB2,542.589.60 excluding the land cost. The total gross floor area will be 7,345.37 sq.m. upon completion. The land use rights with a total site area of approximately 1,408,468.28 sq.m. of the property were administratively authorised or granted to the Company for industrial, mining and residential uses for the latest term expiring on 6 June 2057.	The property is currently occupied by the Company for industrial purposes except for the "CIP" buildings which are under construction. As at the date of valuation, 4 parcels of land with a total site area of approximately 114,548.09 sq.m. are vacant.	203,000,000

Notes:

1. Pursuant to 9 State-owned Land Use Rights Certificates — Fu Guo Yong (2006) Di Nos.170 to 173 and Fu Guo Yong (2007) Di Nos. 247, 319 to 322 issued by the People's Government of Fuyun County, the land use rights of the property with a total site area of approximately 1,408,468.28 sq.m. were administratively authorised or granted to the Company for industrial, mining and residential uses for the latest term expiring on 6 June 2057. The Company is the legal owner of the land use rights of the property.

2. Pursuant to 4 State-owned Land Use Rights Grant Contracts entered into between the Land Resources Bureau of Xinjiang Uygur Autonomous Region, Fuyun County and Xinjiang Xinxin Mining Industry Co., Ltd. Kalatongke Nickel and Copper Mine ("Kalatongke Branch"), a branch of the Company, the land use rights of 4 parcels of land with a total site area of approximately 114,548.09 sq.m. are contracted to be granted to Kalatongke Branch for industrial use for a term of 50 years commencing from 10 December 2006 at a total land premium fee of RMB1,303,156.18. The Company has obtained the Land Use Rights Certificates for the 4 parcels of land for mining use (Ref. nos.: Fu Guo Yong (2007) Di nos. 319 to 322. See note 1). The Company has not yet put the 4 parcels of land to use.

3. Pursuant to 18 Building Ownership Certificates — Fang Quan Zheng Fu Fang Zi Di Nos. 00005888, 00005889, 00005891 to 00005894 and 00008560 and Fang Quan Zheng Fu Yuan Zi Di Nos. 00005890, 00005895 to 00005899 and 00008557 to 00008561 issued by the People's Government of Fuyun County, the 111 buildings with a total gross floor area of approximately 52,503.71 sq.m. are owned by the Company.

4. The Company has not obtained the construction work planning permit and construction commencement permit, but pursuant to 4 confirmation letters issued by Fuyun County Building Administration Division, Construction Bureau of Fuyun County, Urban Planning Office of Fuyun County in favour of the Company, the requirement to obtain permission to commence the construction have been waived.

5. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   (i) the Company has obtained the Land Use Rights Certificates (stated in note 1) and can legally occupy and use the land with a total site area of approximately 1,408,468.28 sq.m.;

   (ii) the Company has obtained the Building Ownership Certificates (stated in note 3) and owned the building ownership rights of the buildings with a total gross floor area of approximately 52,503.71 sq.m.;

   (iii) the property is not subject to any mortgage or third party encumbrance;

   (iv) the Company has the right to lease, transfer, mortgage and handle the land use rights and building ownership rights of the property which has obtained the proper title certificates (unless otherwise specified by laws);

   (v) the construction of CIP buildings is legally valid and enforceable;

   (vi) the existing uses of the buildings comply with the permitted uses of the land.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2007 *RMB*
5.	Units 101 of Section 2, Block 31 & 102 of Section 2, Block 32 No.4 Youhaobei Road Shayibake District Urumqi City Xinjiang Uygur Autonomous Region The PRC	The property comprises 2 units on Level 1 of a 6-storey residential building completed in about 2001. The units have a total gross floor area of approximately 204.84 sq.m.	The property is currently occupied by the Company for residential use.	No commercial value

Notes:

1. Pursuant to 2 Building Ownership Certificates — Fang Quan Zheng Wu Shi Sha Yi Ba Ke Qu Zi Di Nos. 2006043775 and 2006043776 issued by the Transactional Administrative Centre of Property Rights of Urumqi City, two residential units with a total gross floor area of approximately 204.84 sq.m. are owned by the Company.

2. In the valuation of this property, we have not attributed any commercial value to the property which has not obtained any proper land title certificate. However, for reference purposes, we are of the opinion that the capital value of the property as at the date of valuation would be RMB615,000 assuming all relevant title ownership certificates had been obtained and the property could be freely transferred.

3. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   (i) there is no legal impediment for the Company in obtaining the land use rights certificates;

   (ii) the Company has obtained the Building Ownership Certificates (as stated in note 1) and owned the building ownership rights of the buildings with a total gross floor area of approximately 204.84 sq.m.;

   (iii) the Company is unable to obtain any land use rights certificate as the local land bureau has not yet commenced the issue of land use rights certificate in that area. The Company undertakes to apply for the land use rights certificate once the local land bureau commences the issue of land use rights certificate;

   (iv) the existing uses of the buildings comply with the permitted use of the land.

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2007 *RMB*
6.	Unit 2706 No.3 of Alley 1222 Caoyang Road Putuo District Shanghai The PRC	The property comprises a unit on Level 25 of a 25-storey building completed in about 1999. The unit has a gross floor area of approximately 152.07 sq.m. The land use rights were granted to Xinjiang Xinxin Mining Industry Co., Ltd. Shanghai Sales Branch with a site area of approximately 20,165 sq.m. for composite use.	The property is currently occupied by the Company for office use.	1,520,000

Notes:

1. Pursuant to a Real Estate Title Certificate — Hu Fang Di Pu Zi (2006) No.017822 dated 15 May 2006 issued by the Shanghai Housing and Land Resources Administration Bureau, a unit, including land use rights and building ownership rights, with a gross floor area of approximately 152.07 sq.m. is owned by Xinjiang Xinxin Mining Industry Co., Ltd. Shanghai Sales Branch ("Shanghai Branch"), a branch of the Company.

2. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   (i) Shanghai Branch has obtained the Real Estate Title Certificate (as stated in note 1) and can legally occupy and use the property with a gross floor area of approximately 152.07 sq.m.;

   (ii) the property is not subject to any mortgage or third party encumbrance;

   (iii) Shanghai Branch has the right to freely lease, transfer, mortgage and handle the land use rights and building ownership rights of the property without additional payment of any land premium or other substantial taxes and expense;

   (iv) the existing uses of the unit comply with the permitted uses of the land (commercial and residential uses).

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2007 *RMB*
7.	Units 202 to 205 No.1 of Alley 99 Shijie Road Yangpu District Shanghai The PRC	The property comprises 4 units on Level 2 of a 6-storey residential building. The unit has a total gross floor area of approximately 177.48 sq.m.	The property is currently occupied by the Company for residential use.	No commercial value

Notes:

1. In the valuation of this property, we have not attributed any commercial value to the property with a gross floor area of approximately 177.48 sq.m. which has not obtained Real Estate Title Certificates. However, for reference purposes, we are of the opinion that the capital value of the property as at the date of valuation would be RMB1,362,000 assuming all relevant title ownership certificates had been obtained and the property could be freely transferred.

2. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   (i) the transfer of this property is governed by certain rules promulgated by the Shanghai Housing and Land Resources Bureau in 1995, which specify that the purchaser of such property must be a staff with Shanghai residency or a public housing tenant with Shanghai residency status. Notwithstanding the purchase price of the property has been paid in full, the Company is unable to meet the residency requirements;

   (ii) the land use rights of the property is currently vested in an independent third party;

   (iii) the existing uses of the buildings comply with the permitted use of the land.

VALUATION CERTIFICATE

Group II — Property interest rented and occupied by the Company in the PRC

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 June 2007 *RMB*
8.	The 7th & 8th floors of Nonferrous Tower No.4 Youhaobei Road Urumqi City Xinjiang Uygur Autonomous Region The PRC	The property comprises the 7th & 8th floors of a 20-storey office building completed in about 2002. The property has a total gross floor area of approximately 1,992 sq.m. Pursuant to a tenancy agreement dated 22 June 2007, the property is leased to the Company from a connected party — Xinjiang Non-ferrous Metal Industry (Group) Ltd. for a term of 2.5 years commencing from 1 July 2007 and expiring on 31 December 2009, at a yearly rental of RMB1,635,930.	The property is currently occupied by the Company for office purposes.	No commercial value

Notes:

1. Pursuant to a Tenancy Agreement entered into between Xinjiang Non-ferrous Metal Industry (Group) Ltd. ("Xinjiang Non-ferrous"), a connected party of the Company, and Xinjiang Xinxin Mining Industry Co., Ltd. dated 22 June 2007, the property is leased to Xinjiang Xinxin Mining Industry Co., Ltd. from a connected party for a term of 2.5 years at a yearly rental of RMB1,635,930, exclusive of management fees, water and electricity charges. The existing uses of the property comply with its permitted uses.

2. We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:

   (i) the above Tenancy Agreement is legally binding and enforceable under the PRC laws;

   (ii) pursuant to a Land Use Rights Certificate — Wu Guo Yong (2003) Zi Di No. 6872 and Building Ownership Certificate — Fang Quan Zheng Wu Shi Sha Yi Ba Ke Qu Zi Di No. 2006012482, Xinjiang Non-ferrous is the legal owner of the property and Xinjiang Non-ferrous has the right to lease out the property for office use. The land use rights of the property is currently vested in Xinjiang Non-ferrous;

   (iii) the lease agreement is legally registered.

SRK Consulting
Engineers and Scientists

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27 September 2007

The Directors
Xinjiang Xinxin Mining Industry Co. Ltd.
Nonferrous Building
No. 4 Youhao Beilu
Urumqi, Xinjiang, China

Dear Sirs,

Independent Technical Adviser Report

The following report summarises the findings of an independent technical and economic assessment of the mine, concentrator, smelter and refinery operated by Xinjiang Xinxin Mining Industry Co. Ltd. ("Xinxin" or the "Company"). The report has been prepared by Steffen Robertson and Kirsten (Australasia) Pty Ltd, trading as SRK Consulting ("SRK"), located at Level 6, 44 Market Street, Sydney, New South Wales, 2000, Australia.

The purpose of this report is provide an independent technical assessment of the Company's mineral assets for inclusion in a prospectus to be issued by the Company to support the proposed listing and fund raising on The Stock Exchange of Hong Kong Limited. SRK has conducted its review and preparation of this report in accordance with Chapter 18 of the Listing Rules of The Stock Exchange of Hong Kong Limited with the exception of the requirements set out in Listing Rule 18.09, Item (8) which relates to the provision of a two-year working capital statement. Given that exploration is not among Xinxin's principal activities and Xinxin is only involved in high-level direction of exploration, and outsources the entire exploration work to third party exploration professionals, Listing Rule 18.09 is not applicable to Xinxin. However in the interests of completeness, Xinxin has requested SRK to comply with all the content requirements set out in Listing Rule 18.09, except Item (8) regarding the two-year working capital statement.

The report set out in Appendix V to the prospectus of the Company dated 27 September 2007 is the only report provided by SRK and has been compiled to include the details required by the Listing Rules.

SRK's Independence

SRK has no prior association with Xinxin in regard to the mineral assets that are the subject of this report. SRK has no beneficial interest in the outcome of the technical assessment being capable of affecting its independence. Neither SRK nor any of the authors of this report has any material present or contingent interest in the outcome of this report, nor do they have any pecuniary or other interest that could be reasonably regarded as being capable of affecting their independence or that of SRK. Neither SRK nor any of the authors of this report holds any share capital of the issuer.

Scope of Work

The findings in this report are based on information gathered prior to and during site inspections made to the mines and processing plants of the Company by SRK personnel and on information subsequently supplied to SRK through E-mail or Facsimile messages or various telephone conversations. During site inspections, SRK personnel held detailed and open discussions with site personnel at each mine or processing plant. Visits were made to the operating mine, the concentrator and the smelter, all located at Kalatongke, the refinery located at Fukang and planning and administration offices at both sites and in Urumqi.

SRK conducted investigations into and has reported upon various technical areas including geology and resource estimation, mining engineering and reserves estimation, metallurgy and processing, environmental and social aspects, statutory requirements including tenement boundaries, company management methods and structure, operating costs and capital investments.

Resources and Reserves

SRK has carried out a high-level review of the resources and reserves as provided by Xinxin for all known deposits at Kalatongke. The resources and reserves estimates are one of the input parameters used for the preparation of this report. Xinxin's resources and reserves estimates were reported in accordance with the requirements of the Chinese system and several of the estimates were approved by the National Mineral Resources Committee of the Ministry of Land and Resources of the PRC. SRK is satisfied that the resources and reserves have been calculated in adherence to requirements as prescribed by the governing state committee for resources at particular stages of project development. These conventional methods have generally been applied conservatively and to the required standard of diligence.

It is SRK's opinion that the current individual estimates are reliable and represent a reasonable global estimate of the relevant Mineral Resources although they are not in full compliance with the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code") standard. The JORC Code requires vigorous recording of mineral deposit sampling, assaying, check calculations and resource estimates. This type of information is usually recorded in a digital form in a computerised database, which allows for rapid checks to be made by a third party. Therefore an independent report on mineral resources under the standards of the JORC Code requires a review of all aspects leading to the resources and reserves estimate including a review of the sample collection methods and quality control of those sampling procedures, assaying results and verification by check assays and blank samples and resource estimates by several methods to ensure applicability of the adopted estimation method. If any of these steps cannot be investigated thoroughly, the technical adviser is required under the JORC Code to state the reason why the resources and reserves estimate does not meet the JORC Code standard.

Many PRC mining companies, including Xinxin, do not have a tradition of keeping geological sampling quality control records to the same standard used in western countries and therefore do not have duplicate samples to allow checking of assay results. The traditional Chinese recording system is based on paper reports, not digital records or databases and often uses geological sections drawn on paper.

The procedures adopted by SRK were to review the resources and reserves estimates provided by Xinxin and, wherever possible, to reassign the resources and reserves estimates and to compare the same with categories similar to those used by the JORC Code to standardise the categorisation. Xinxin's mine at Kalatongke is an underground mine for which resources and reserves estimates are often subject to higher levels of uncertainty compared to those for open pit mines because of a more restricted ability to intersect and sample the deposit.

Reporting Standard

The following report has been prepared to the standard of, and is considered by SRK to be, a Technical Assessment Report under the guidelines of the Valmin Code. The Valmin Code is the code adopted by the Australasian Institute of Mining and Metallurgy and the standard is binding upon all AusIMM members. The Valmin code incorporates the JORC Code for the reporting of Mineral Resources and Ore Reserves. It is SRK's opinion that the report is prepared in accordance with international reporting standards for mineral resources and ore reserves.

In comparing Xinxin's practice against the international best practice, SRK has made comparisons in the report which are qualitative in nature. In the case of quantitative comparison, sources of data are provided. This report is not a Valuation Report and does not express an opinion as to the value of mineral assets.

Aspects reviewed in this report do include product prices, socio-political issues and environmental considerations, however SRK does not express an opinion regarding the specific value of the assets and tenements involved.

Consents

SRK consents to this Report being included, in full, in the Xinxin prospectus, in the form and context in which the technical assessment is provided, and not for any other purpose. SRK provides this consent on the basis that the technical assessments expressed in the individual sections of this Report are considered with, and not independently of, the information set out in the complete Report and the Cover Letter.

Yours Sincerely,
SRK Consulting

M J Warren, BSc (Mining Eng), MBA, MAusIMM, FAICD
Principal Consultant (Project Evaluations)

EXECUTIVE SUMMARY

SUMMARY OF PRINCIPAL OBJECTIVES

The objective of SRK Consulting ("SRK") was to review all relevant technical aspects of the project to provide Xinjiang Xinxin Mining Industry Co. Ltd. ("Xinxin" or "the company") with an independent expert report on the Kalatongke mine, concentrator and smelter and the refinery at Fukang. The SRK report was required to be suitable for inclusion in documents for a proposed listing on The Stock Exchange of Hong Kong Limited.

OUTLINE OF WORK PROGRAM

The work program involved two phases:

- Phase 1, a review of information provided, a site visit to Kalatongke, Fukang and Urumqi, discussions with staff of the company and collection and review of documents provided to SRK; and,

- Phase 2, analysis of the provided data and writing of a draft report, review of additional data and finalisation of this report.

RESULTS

Overall

The mine, concentrator and smelter operated by Xinxin at Kalatongke, in the Xinjiang Uyghur Autonomous Region of China is a well integrated and well managed operation. The proposed expansion project has been planned in considerable detail and is being implemented in a logical fashion. The operating standards at the site are generally comparable to good international industry practice, although there is some scope for improvement and optimisation.

The Kalatongke orebody contains sulphide minerals which are of higher nickel grade than typical nickel laterite deposits. The sulphide minerals also allow simple processing with established technology that is well understood. The sulphide nature of the Kalatongke orebody is currently a strategic advantage for the company.

The Fukang refinery is also a well managed refinery which achieves consistently high metal recoveries and produces high quality metal which is attractive to the international and local market. The technology used is standard in the industry and the expansion project will continue to use this technology and should achieve similar high standard results.

Strengths of the company include a high self-sufficiency from established vertical integration based on exploration for mineral deposits, developing and mining minerals and processing on-site to allow economical transportation to their own refinery where high quality metals are refined. The company has exploration tenements in Xinjiang which is a prospective region for mineral deposits. The company therefore has a strategic advantage over new entrants because of its established position, good quality infrastructure, granted mining and exploration tenements, simple transport logistics and prior knowledge of the good geological prospectivity of mining in the region.

The Kalatongke site, including the mine, concentrator, refinery and support facilities have achieved reasonable accident statistics. SRK considers that the company is committed to safety training, provision of safety equipment and safety monitoring. The statistics compare very well with other mining companies in China and against international best practise.

Workforce numbers in 31 March 2007 at Kalatongke were 1,147 and at Fukang were 1,020 and included people from 11 different ethnic groups. Staff turnover is stated as very low at about 10 people per year, i.e. less than 1% of the workforce. Several of the technical management of the company have worked at Kalatongke for over 15 years and have a thorough knowledge of the geology and mining conditions in the mine. A similar situation exists at Fukang refinery, so the company enjoys a stable and experienced workforce at each of its facilities.

The company has committed to and commenced at both Kalatongke and Fukang a substantial greening program, improvements in dust control, waste water treatment and sewage treatment. All these practices show that the company is being responsible with regard to environmental protection.

Geology

The deposits controlled by the Kalatongke mine are typical magmatic type deposits related to basic-ultrabasic intrusives. The intrusions are mainly along faults, commonly located in the hinge zone of regional folds. In the area, at least 10 such intrusions have been discovered and explored for copper-nickel mineralisation. Several deposits have been defined within the intrusions. Xinxin has been granted a mining licence on the deposits, and four exploration permits covering the extensions of the deposits.

The main deposit (named deposit Y1), occurs within the Y1 intrusion, as well as in the immediate country rock, which is sedimentary tuff. The Y1 intrusion crops out on the surface, and it is believed to have an erosional top surface. The rock body dips at an average angle of 60^{o} to 70^{o}. It has a strike length of about 630m and dip extent from 420m to 620m. The rock units in the Y1 intrusion are diorite, norite, olivine-norite and diabase-norite.

Resource and Reserve

The resource and reserve estimates for the deposits at Kalatongke as at 31 March 2007 are shown in the following tables. Resources for deposits Y2, Y3 Y7 and Y9 have not been mined since the estimates and approvals were completed and are as shown in the table below.

Kalatongke Mine, Resources as at 31 March 2007

Deposit Name	Category (pre-1999 system)	Category (1999 system)	Ore	Cu	Ni	Cu	Ni
			(t)	*(%)*	*(%)*	*(t)*	*(t)*
Y1[1]	B+C+D	111b+331+332+333	17,888,000	0.86	0.57	154,087	102,400
Y2 West	C+D	332+333+334	5,370,000	1.64	1.10	87,950	58,808
Y2 East	C+D	332+333+334	11,261,700	1.01	0.48	114,300	54,100
Y3	D	333	5,610,000	0.95	0.51	53,400	28,700
Y7[2]	D	335	270,000	2.00	0.63	5,400	1,700
Y9[2]	D	337	480,000	0.88	0.35	4,200	1,700
Total	**B+C+D**	**111b+331+332 +333+334**	**40,879,700**	**1.03**	**0.61**	**419,337**	**247,408**

1 The resource estimate was based on 2004 resources certified by the Xinjiang Bureau of Land and Resources

2 The resource estimates were updated by Kalatongke Mine (1996) and the resource estimates for deposit Y1 were certified by the Xinjiang Bureau of Land and Resources. Totals may have been rounded

Kalatongke Mine, Reserves of deposits Y1 and Y2 as at 31 March 2007

Deposit	Zone	Ore *(t)*	Cu *(%)*	Ni *(%)*	Cu *(t)*	Ni *(t)*
Y1	I (Super High grade)	269,629	4.42	3.43	11,924	9,239
	II	4,175,278	1.49	0.97	62,248	40,372
	III	8,409,872	0.59	0.41	49,341	34,211
	IV	3,586,581	0.46	0.31	16,376	11,293
	Total Deposit Y1	**16,441,360**	**0.85**	**0.58**	**139,889**	**95,115**
Y2 West	Super high grade	1,476,825	3.59	2.59	53,060	38,220
	High grade	325,920	1.38	0.81	4,495	2,652
	Low grade	336,105	0.57	0.35	1,936	1,181
	Total	2,138,850	2.78	1.96	59,460	41,921
Y2 East	–	5,398,050	1.09	0.50	58,607	26,733
	Total Deposit Y1 and Y2	**23,978,260**	**1.08**	**0.68**	**258,000**	**163,800**

- Based on mining loss of 3% and mining dilution of 5%. Totals have been rounded.
- The reserve tonnes in the above table were derived from the resource tonnes for the corresponding orebody. The reserve tonnes should not be added to the resource tonnes. To calculate the resources that will remain after reserves are mined, the reserve tonnes should be subtracted from the resource tonnes

SRK has assessed the mining plans and reviewed mining dilution and mining loss assumptions used by the company. Based on the current reserves and a small percentage of existing certified resources, and at a mining rate of 1 million tonnes per annum, the Kalatongke Mine has the potential for a mine life of approximately 30 years commencing from 31 March 2007.

Mining

The mining presently conducted at the Kalatongke mine is technically viable and, based on information provided, also appears economically viable. The expansion plans for the ramp-up in mine production to 3,400tpd by the end of 2009 is achievable provided the implementation, site construction and deployment of personnel is conducted on time. The future mining plans also appear to be technically sound. SRK believes that further design optimisation may be possible when the true rock mass properties are known.

There are three mining methods planned for the Kalatongke mine, of which two utilise backfill techniques. The super-rich grade ore has been mined by cut-and-fill methods in the past and will be mined in this manner in the expansion project. The rich grade ore is presently being mined by undercut and fill mining and will continue to be mined in this manner in the expansion project. The low-grade ore will be mined by the Sublevel Caving method in the expansion project. These are viable methods however there is opportunity to review other methods based on geotechnical, production and economic considerations.

The company has conducted rock mass strength evaluations based on RQD, RMR and the Q System. The results indicate inconsistencies and this may be attributed to the core quality for obtaining geotechnical data. The underground observations conducted during the SRK site visit are in the range of a fair to good rock mass which are similar to the results obtained for the RMR analysis.

The Kalatongke mine is a technically viable mine with sufficient Reserves and Resources to provide growth potential. The infrastructure is sound and capable of supporting the proposed expansion project. There is opportunity for further growth and optimisation and the company has indicated it is keen and has the vision to expand production.

Processing

The Kalatongke concentrator processes sulphide ore from the underground mine and other sources external to the mine to produce two concentrates. The concentrator uses sequential flotation techniques after crushing and grinding. A copper concentrate is sold to external customers and a copper nickel concentrate is processed at the adjacent smelter. The ore mineralogy comprises chalcopyrite and violarite as the major Cu and Ni species with pyrite and pyrrhotite as the major Fe constituents. The current processing capacity is slightly in excess of 1,000 tonnes per day. The Kalatongke concentrator is typical of world practise for treating nickel sulphide ores. It is intended to increase concentrator capacity by building a new facility of a similar flowsheet, parallel to the existing concentrator. The initial increase is planned to be of 2,000 tonnes per day to provide a daily capability of 3,000 tonnes per day by the end of 2009.

The smelting process at Kalatongke is typical of world practise for treating nickel sulphide ores and comprises blending of concentrate, coke, ore, fluxes and converter slag to charge a blast furnace. The furnace produces a mixture of liquid molten sulphides and a liquid siliceous slag combining gangue elements from the charge and particularly some of the iron contained in the concentrate. The furnace is tapped at regular time intervals to produce a matte for further processing in the converters. The molten sulphide matte is transferred to a horizontal blown Pierce Smith type converter where pressured air is blown through tuyeres into the matte and siliceous fluxes added to further reduce the iron and the sulphur content of the matte. The current blast furnace matte grade is approximately 8.6% Ni, 7.9% Cu, 50.0% Fe and 27.7% S.

A feasibility study has been completed for increasing the quantity of ore and concentrate to be processed at Kalatongke. The expansion of the smelter with increased blast furnace capacity, larger converters, slag cleaning and acid production has been studied and costed. The capture of the sulphur dioxide entrained in the smelter waste gas is planned with a proposed installation of a double contact acid plant capable of producing 170,000t of 98% acid per annum.

The matte from the Kalatongke smelter is processed at the Fukang refinery into nickel, copper and cobalt cathodes of good quality on a continuous basis. Contained precious metal gold, silver, platinum and palladium are recovered and refined from the copper refining section residues on a batch basis. The refinery processes used are well known and proven and relatively simple to use and control in the context of hydrometallurgical operations.

Production of major metals from the Fukang refinery in 2006 is shown in the following table.

Fukang refinery production and metal recoveries, 2006

3,365.0 tonnes Ni metal at 9996 grade	Metal recovery 96.7%
3,147.5 tonnes Cu metal	Metal recovery 95.5%
21.2 tonnes Co oxide	Metal recovery 79.8%

The nickel refinery section is currently under expansion from the current capacity of 5,000 tonnes per annum, increasing to a capacity to 13,000 tonnes per annum of Ni in 2009. Copper and cobalt facilities are adequate at this stage for increased throughput.

The reserves shown in the above reserves table include about 1.75Mt of ore classified by the company as "super high grade" in deposits Y1 and Y2 west which has a nickel or copper content greater than or equal to 3%. This "super high grade" ore does not require concentration and can be fed directly to the smelter, eliminating the concentration process and thereby reducing operating costs. This "super high grade" ore provides a significant cost advantage to the company.

Historical and Future Production Capacity

The table below sets out the processing capacity of the Kalatongke mine, concentrator and smelter and the Fukang refinery for the period 2004 to 2006 and the forecast processing capacity for the period 2007 to 2009.

	Units	**2004** *(A)*	**2005** *(A)*	**2006** *(A)*	**2007** *(F)*	**2008** *(F)*	**2009** *(F)*
Mine							
Designed throughput[1]	tpd	1,000	1,000	1,000	1,000	1,000	3,400
Actual throughput	tpd	1,000	1,000	1,000	1,000	1,000	3,400
Concentrator							
Designed throughput[1]	tpd	1,000	1,000	1,000	1,000	1,000	3,000
Actual throughput	tpd	1,000	1,000	1,000	1,000	1,000	3,000
Smelter							
Designed throughput[1]	tpa	3,000	3,000	3,600	3,600	3,600	7,000
Actual throughput[2]	tpa	2,644	3,471	3,693	3,677	3,879	5,373
Refinery							
Designed throughput[1]	tpa	2,040	3,000	3,000	5,000	8,000	13,000
Actual throughput[2]	tpa	2,659	3,260	3,365	5,000	8,568	10,010

1 As at the end of the year. A = actual, F = forecast

2 Where actual throughput exceeds the design capacity it is as a result of technical adjustments by the company to improve electricity flow and other contributing improvements

Environmental

Current Status of Compliance

SRK's review of the available monitoring results and the communications provided by the local council, the environmental protection bureaus of *Aletai Prefecture and Fuyun County*, indicated that the Kalatongke mine, concentrator and smelter are in compliance with the Chinese standards that apply to the respective sites. The Fukang refinery is also in compliance with the Chinese standards.

Impact Assessment

Environmental impact assessments have been prepared by an authorised institute for each of the Kalatongke mine and concentrator, the Kalatongke smelter and the Fukang refinery. These Environmental impact assessments indicate that the expanded projects will meet the applicable Chinese Environmental standards for air emissions, solid waste emissions, water quality, noise and sewage waste waters.

SRK is in agreement with most of the findings of the environmental impact statements, and in particular that with the proposed addition of the acid plant to recover sulphur dioxide from all of the air emissions at the smelter which will lead to a reduced environmental impact compared to current practices. However SRK's review of the environmental impact assessments and the current operational practices identified the following issues that may impact on the future of the proposed project expansion at the Kalatongke site:

- Smelter slag may require improved handling and disposal strategies since it has not yet been demonstrated that metals are not likely to leach from these materials.

- Coarse tailings backfilled to the underground have may have a potential to adversely affect groundwater quality after mine closure.

- Fine tailings in the existing tailings impoundment may be potentially acid generating and decommissioning of the facility will require appropriate closure measures to ensure long term environmental protection. SRK has reviewed a copy of the official approval by the Environmental Protection Bureau of Xinjiang Uyghur Autonomous Region to the tailings impoundment closure plan which has a budget of RMB4.69 million, as suggested by a third-party independent technical advisor, Xinjiang Iron and Steel Design Institute Co., Ltd. an engineering and design consulting firm with relevant government accreditation.

- The existing tailings storage area has a limited capacity and a new facility will be required within a few years after commencing increased production. An environmental impact assessment and costing for a new tailings storage facility had not yet been undertaken. SRK recommended that the company commence a program in this regard. The company has since indicated that they have accepted SRK's recommendation and started implementing the program. In particular, the company states it has completed the environmental assessment of the expansion of mining and processing.

- At the Fukang refinery there may be seepage losses to groundwater from the waste water storage pond.

The company has committed to and commenced at both Kalatongke and Fukang a substantial greening program, improvements in dust control, waste water treatment and sewage treatment. All these practices show that the company is being responsible with regard to environmental protection.

Status of Permitting

The project expansions for the mine, concentrator and smelter at Kalatongke, and the refinery at Fukang, have been approved by the Environmental Protection Bureau of Xinjiang Uyghur Autonomous Region subject to strict adherence to the proposed environmental control measures and meeting the applicable Chinese standards. The approval refers to the potential for contaminant release from the waste rock, tailings and the slag waste materials and the company is working towards achieving these requirements as a part of the expansion program. SRK notes the requirement for an emergency discharge pond is part of the permit requirements.

Safety

Company records show that from January 2006 to 31 March 2007, the company has recorded one fatality to a contractor, two minor injuries for employees, four minor injuries for contractors and no other major injuries.

Social

Consultation undertaken as part of the environmental impact assessments at both Fukang and at Kalatongke has shown that the local communities are in favour of the expansion projects. The expansion project will benefit the local communities in increased economic growth and employment.

The company has a stable workforce that has been shown to be loyal to the company. Therefore, the risk of loss of corporate knowledge and production loss due to staff turnover is therefore considered to be low.

Operating Cost

The major cost inputs to the project are electrical power, salaries and water. Electrical power costs in May 2006 were RMB0.35/kWhr and this rate was used in the Feasibility Study for the expansion project. Average power costs from January to March 2007 increased to RMB0.383/kWhr. The company indicated that the average salary for a surface worker was RMB2,000/month and for underground workers was RMB3,000/month. The cost of water supply was stated as RMB0.60/m^3 in 2005 and this rate was used in the Feasibility Study for the expansion project. The average cost of water from January to March 2007 increased to RMB1.915/m^3.

Capital Cost

The expansion project will require accumulative capital investment of RMB430 million at the mine and concentrator, RMB394 million at the smelter at Kalatongke and RMB182 million at the refinery at Fukang. Total capital investment is forecast at RMB1,006 million.

Of these amounts RMB382 million will be spent at the mine and concentrator, RMB394 million at the smelter at Kalatongke and RMB93 million at the refinery at Fukang, from 2007 to 2009, inclusive. Total capital investment from 2007 to 2009, inclusive, is forecast at RMB869 million.

SRK is of the opinion that the capital expenditure is likely to achieve the aims of the company and result in the forecast production from the mine, concentrator and smelter at Kalatongke and the refinery at Fukang.

DISCLAIMER

The opinions expressed in this report have been based on the information supplied to SRK by Xinjiang Xinxin Mining Industry Co. Ltd. The opinions in this report are provided in response to a specific request from Xinjiang Xinxin Mining Industry Co. Ltd. to do so. SRK has exercised all due care in reviewing the supplied information. Whilst SRK has compared key supplied data with expected values, the accuracy of the results and conclusions from the review are entirely reliant on the accuracy and completeness of the supplied data. SRK does not accept responsibility for any errors or omissions in the supplied information and does not accept any consequential liability arising from commercial decisions or actions resulting from them.

1 INTRODUCTION AND SCOPE OF REPORT

Xinjiang Xinxin Mining Industry Co. Ltd. ("Xinxin" or "the company") commissioned SRK Consulting ("SRK") to review the operations at Kalatongke and Fukang ("the Project"), which are owned and operated by the company and to provide an Independent Expert Report.

2 PROGRAM OBJECTIVES AND WORK PROGRAM

2.1 Program Objectives

The objectives of the program were to review the data available, participating in a site visit and to provide Xinxin with both verbal feedback and a written report.

2.2 Purpose of the Report

The purpose of the report was to provide potential shareholders and The Stock Exchange of Hong Kong Limited ("HKSE") with an Independent Expert Report suitable for inclusion in documents that Xinxin plans to submit to HKSE in relation to a proposed listing of the shares of the company on HKSE.

2.3 Reporting Standard

This report has been prepared to the standard of and is considered by SRK to be, a Technical Assessment Report under the guidelines of the Valmin Code. The Valmin Code incorporates the JORC Code for the reporting of Mineral Resources and Ore Reserve and is binding upon all AusIMM members.

This report is not a Valuation Report and does not express an opinion as to the value of mineral assets. Aspects reviewed in this report do include product prices, socio-political issues and environmental considerations, however SRK does not express an opinion regarding the specific value of the assets and tenements involved.

2.4 Work Program

The work program consisted of a review of data provided by the company, travel to the Xinjiang Uyghur Autonomous region, inspection of the mine, concentrator and smelter at Kalatongke, inspection of the refinery at Fukang and review of documents provided. After discussions with staff of the company, SRK analysed the data provided and prepared this report, which was provided to the company as a draft for review of factual content.

2.5 Project Team

The SRK project team and their duties are shown in Table 1 below.

Table 1: SRK consultants, title and responsibility

Consultant	Title and Responsibility
Mike Warren	Principal Consultant, Team Leader, Logistics and reporting
Dr Yonglian Sun	Principal Geotechnical Engineer, Team Co-ordinator, Translator
Dr Anson Xu	Principal Geologist, Resource Estimates, Translator
Gary MacSporran	Principal Mining Engineer, Production and Costs
Keith Leather	Processing & Metallurgy
John Chapman	Environmental Review and Approvals
Dr Peter Williams	Peer Review and Quality Control
Technical Translators	SRK employed several translators with university degrees in the relevant technical area required

Mr Mike Warren, Principal Consultant (Project Evaluations), BSc (Mining Eng), MBA, MAusIMM, FAICD, is a mining engineer with over 25 years experience. He specialises in open pit and underground mining analysis, due diligence reports and mine valuations. Mr Warren is a JORC Code competent person.

Dr Yonglian Sun, Managing Director of SRK China, B Eng, PhD (Mining Eng), MAusIMM, MIEAust, CPEng, is a Principal Consultant with over 18 years experience in geotechnical engineering, rock mechanics and mining engineering in five countries across four continents. He has considerable international mining experience with an emphasis in site investigation, analysis and modelling of geotechnical issues in open pits, underground mines, tunnels, as well as project management.

Dr Anson Xu, BSc (Geology), PhD (Geology), MAusIMM, is a Principal Geologist with SRK China who has over fifteen years international experience in geological exploration and economic geology, including site investigations, study and exploration for various types of mineral deposits, such as Au-Ag, Cu-Ni, Cu-Au, W-Sn, Rare Earth Elements and diamonds. Dr Xu has experience at designing and supervising geological, geochemical and geophysical programs in different types of properties from green filed, brown field to advanced exploration. He is also experienced in mineral resource and reserves estimation and economic assessment.

Gary MacSporran, BSc (Mining), MSc Eng, MAusIMM, is a Principal Mining Engineer with over 10 years experience in underground mines in Canada and Australia. Gary has experience in ground support optimisation, stope stability analysis, underground mine design, ground support optimisation and numerical modelling. Gary has over 5 years experience from the Mt Isa mines where he held positions including Senior Mining Engineer, Mine Planning Superintendent and Mine Engineering Superintendent.

Keith Leather, B Met., Associate Metallurgist, FAusIMM, is a metallurgist with over 35 years experience in industry. Keith has held senior management positions with such engineering companies as Kvaerner, Bateman and Signet Engineering. Keith has held positions in both operational plants and mineral process plant design. He has comprehensive experience in flotation, heavy media, hydrometallurgical and pyrometallurgical technologies and their application in metals and industrial mineral recovery.

John Chapman, B.Sc. (Chemical Eng), M.Sc. (Eng), MIEAust, Principal Consultant (Geo-Environmental), is a recognised expert in acid rock drainage ("ARD") assessment and prediction, mine waste characterisation and management of mine closure. John has over 15 years of mine environment and related experience and has recent project experience in Australia, South East Asia, Canada, USA and in Europe.

Peter Williams, PhD, Corporate Consultant (Geology) and Managing Director of SRK Consulting (Australasia), has more than 30 years of professional experience with his areas of expertise being mineral exploration, structural geology and the integration of geology, geophysics and GIS. Peter has been involved in numerous project reviews and audits, independent technical reports for the ASX and HKSE, exploration project audits, project generation audits, risk assessments and valuations. These include projects in Australia, the southwest Pacific, central Asia, Zambia and Sweden. He has also managed many large multi-client and multi-disciplinary projects, based on his wide experience in the government and private industry. Peter is a member of the Australian Institute of Geoscientists (AIG) and the Geological Society of Australia (GSA) and fellow of the AICD.

2.6 Warranty

Xinxin has represented to SRK that full disclosure has been made of all material information and that, to the best of its knowledge and understanding, such information is complete, accurate and true. SRK has no reason to doubt this representation.

2.7 Statement of SRK Independence

Neither SRK nor any of the authors of this Report have any material present or contingent interest in the outcome of this report, nor do they have any pecuniary or other interest that could be reasonably regarded as being capable of affecting their independence or that of SRK.

SRK has no prior association with Xinxin in regard to the mineral assets that are the subject of this Report. SRK has no beneficial interest in the outcome of the technical assessment being capable of affecting it independence.

SRK's fee for completing this Report is based on its normal professional daily rates plus reimbursement of incidental expenses. The payment of that professional fee is not contingent upon the outcome of the report.

2.8 SRK Experience

The SRK group employs approximately 500 professionals internationally and has 25 permanently staffed offices in eight countries on six continents. In Australia SRK has approximately 60 staff in four offices located at Perth, Sydney, Maitland and Brisbane. SRK China has an office in Beijing with five staff. SRK has provided Independent Expert Reports for the companies and The Stock Exchange of Hong Kong Limited as shown in Table 2.

Table 2: Recent reports to HKSE by SRK

Company	Year	Nature of Transaction
Yanzhou Coal Limited	2000	Sale of Jining III coal mine by parent company to the listed operating company
Chalco (Aluminium Corporation of China)	2001	Listing on HKSE and New York Stock Exchange
Fujian Zijin Gold Mining Company	2004	Listing on HKSE
Lingbao Gold Limited	2005	Listing on HKSE
Yue Da Holdings Limited	2006	Acquisition of shareholding in mining projects
China Coal Energy Company Limited	2006	Listing on HKSE
Sino Gold Mining Limited	2007	Dual listing on HKSE

2.9 Forward-Looking Statements

Estimates of mineral resources, ore reserves and mine and processing plant production are inherently forward-looking statements, which being projections of future performance will necessarily differ from the actual performance. The errors in such projections result from the inherent uncertainties in the interpretation of geologic data, in variations in the execution of mining and processing plans, in the ability to meet construction and production schedules due to many factors including weather, availability of necessary equipment and supplies, fluctuating prices and changes in regulations.

The possible sources of error in the forward-looking statements are addressed in more detail in the appropriate sections of this report. Also provided in the report are comments on the areas of concern inherent in the different areas of the mining and processing operations.

3 LOCATION OF THE PROJECT

3.1 Location and Access

The Kalatongke project is located approximately 450km north of Urumqi, the capital city of the Xinjiang Uyghur Autonomous region, at approximately Latitude 46^{o} 45’ 35”N and Longitude 89^{o} 40’ 1.5”E. A general map of China showing the Xinjiang Uyghur Autonomous region in the far west of China is provided in Figure 1. A more detailed location map is provided in Figure 2. Figure 3 shows the location of Kalatongke with the mining tenement (shown shaded).

Access to the region is excellent. Daily flights to Urumqi are provided from a number of cities in China. Vehicular access to the area is via a four-lane highway from Urumqi to Fukang, then a national highway to Kalatongke mine which takes about 5 hours. The concentrators and smelter are located adjacent to the mine. The refinery is located near the town of Fukang, which is approximately 76km from Urumqi.

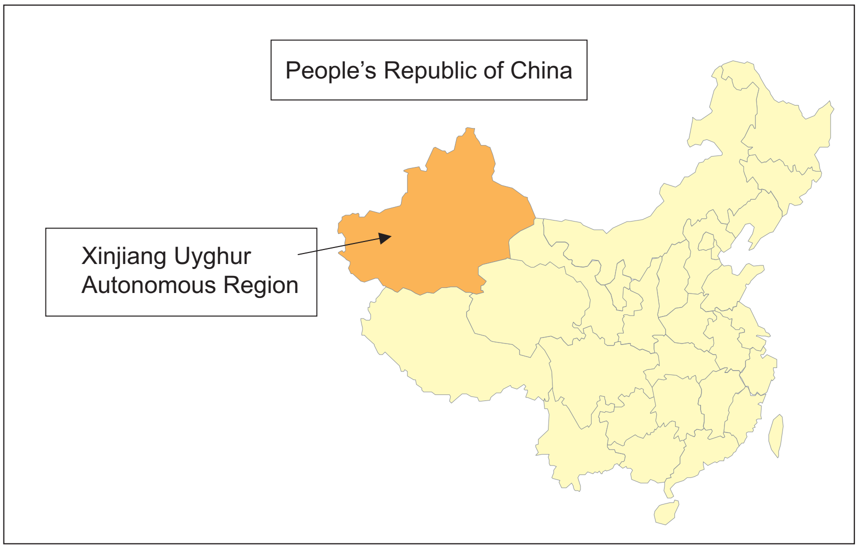

Figure 1: General location map

Figure 2: Location of Xinxin assets in Xinjiang Uyghur Autonomous region

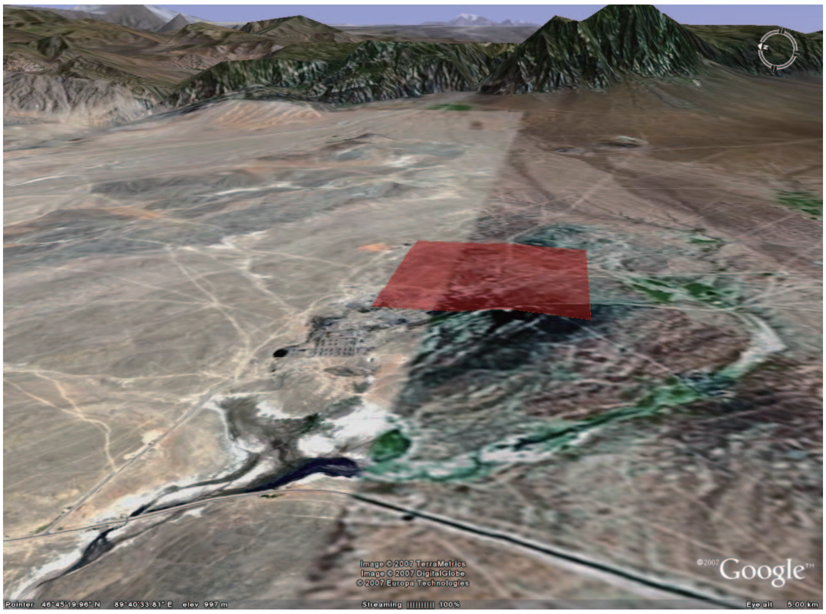

Figure 3: Three dimensional view showing Kalatongke mine site and tenement

Note the sealed access road. The mining tenement area is shaded in red and the tailings storage facility is to the right.

4 GEOLOGICAL AND MINERAL INVENTORY ASSESSMENT

4.1 Geological Advantages of the Xinjiang Region

The Xinjiang region has a range of mineral deposits including porphyry and skarn hosted mineral deposits. The porphyry deposits, dated at 322 Ma, are related to the late evolutionary stages of a subduction-related oceanic or continental margin arc. In contrast, the skarn, gold, and magmatic Ni-Cu deposits are associated with post-collisional tectonics at ca. 290-270 Ma. The region has attracted many geologists from other parts of China to work jointly with local geologists of the Xinjiang Bureau of Land and Resources. As a result, a series of new scientific contributions on many aspects of Xinjiang geology have been published. A number of mineral deposits are located in the prolific Tian Shan and West Junggar mineral belts of Xinjiang which extend westward into the Central Asian Republics of Uzbekistan and Kyrgyzstan where gold ore bodies such as Muruntau (170 million oz Au), Kalmakyr (90 million oz Au), and Kumtor (18 million oz Au) are located. Significant copper-nickel deposits, including Kalatongke, Shanshan and Hami and rare elements deposits occur in the East Junggar mineral belt and the eastern extension of Tian Shan. Copper deposits that are in production include the Ashele Copper Mine and the Tuwu-Yandong Copper Mine.

The Xinjiang region has a formalised development plan which is well supported by both local and PRC government departments. Exploration in the region has found over 138 different natural resource occurrences of which 95 have some resource estimates. These occurrences include petroleum, natural gas, coal, bentonite, vermiculite, gold, copper, iron, rare metals, sodium salt, nickel, asbestos, gems and jade, chromium, potassium salt, white mica, lead and zinc. Ten of these resources are ranked the largest in China.

The Chinese government has declared support for the development of the west of China and is continuing to construct additional infrastructure to support economic growth through the provision of taxation incentives. The abundance of mineral deposits, a strong demand for minerals from eight bordering countries and its favourable transportation infrastructure will assist the Xinjiang region to achieve its goal of being the new Euro-Asia continental bridge. The on-going exploration program for the Xinjiang region includes additional geological surveys, and remote sensing investigations of the land and resources using modern aeromagnetic survey, gravitational survey and geochemical survey techniques.

The tenements controlled by the company include the operating mine at Kalatongke and four (4) surrounding exploration tenements which are highly prospective for further discoveries. The company also plans to hold discussions with other companies which currently control exploration tenements in other parts of the Xinjiang region.

4.2 Regional Geology

The area of interest for this report is located on the Junggar side of the boundary between the Junggar and Altai fold belts. Regionally, three large faults (F1, F2 and F3) bound an area with mainly Devonian and Carboniferous strata, overlain by Quaternary overburden. The Kalatongke deposits are located in the northern part of this area, close to the F1 fault as shown in Figure 4.

The deposits controlled by the company are typical magmatic type deposits related to intrusions of basic-ultrabasic magmatic rocks. In the area, at least 10 such magmatic rock bodies have been discovered and explored for copper-nickel mineralisation. Several deposits have been defined within the rock bodies. Xinxin has been granted a mining licence over the deposits and four exploration permits covering the extensions of the deposits.

4.3 Resource and Reserves Classifications

Before 1999 China used a letter system to categorise resource and reserves estimates. China has since adopted a three number system. However, both the systems are different from the criteria used in defining a resource under the Australian Joint Ore Reserves Committee (JORC) Code. The comparison between different systems is provided in Annexure 1.

4.4 Sampling Quality Assurance and Quality Control

China has its own system and requirements for quality assurance and quality control (QA/QC) for different stages of exploration on various types of mineral deposits. The geological brigade and the mine staff, who have the qualifications for conducting exploration, followed the proscribed procedures for QA/QC, and complied with Chinese regulations. However as current Chinese mineral reserve codes or regulations are still not recognised in Western countries, the QA/QC procedures used at Kalatongke are not necessary compliant with the JORC Code. The main differences between Chinese resource standards and the JORC Code are in the areas of sampling and assaying. The JORC Code is stricter on drill core recovery, the qualification of the assaying laboratory and insertions of control samples into assaying programs.

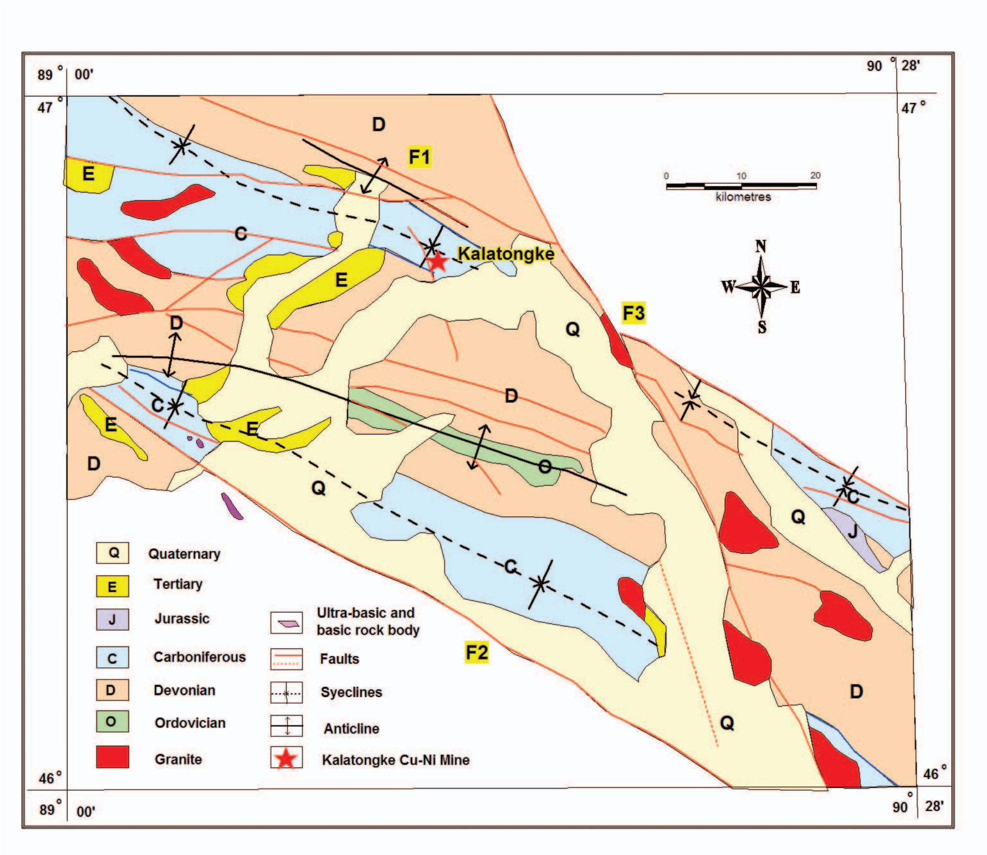

Figure 4: Regional Geology, Kalatongke Cu-Ni Deposits

Kalatongke mine has estimated Resources and Reserves as of 31 March 2007 for all deposits at Kalatongke as shown in Table 3 below.

Table 3: Kalatongke Mine, Resources Estimate as of 31 March 2007

Deposit Name	Category (pre-1999 system)	Category (1999 system)	Ore (t)	Cu (%)	Ni (%)	Cu (t)	Ni (t)
Y1[1]	B+C+D	111b+331+332+333	17,888,000	0.86	0.57	154,087	102,400
Y2 West	C+D	332+333+334	5,370,000	1.64	1.10	87,950	58,808
Y2 East	C+D	332+333+334	11,261,700	1.01	0.48	114,300	54,100
Y3	D	333	5,610,000	0.95	0.51	53,400	28,700
Y7[2]	D	335	270,000	2.00	0.63	5,400	1,700
Y9[2]	D	337	480,000	0.88	0.35	4,200	1,700
Total	**B+C+D**	**111b+331+332+333+334**	**40,879,700**	**1.03**	**0.61**	**419,337**	**247,408**

1 The resource and reserve was based on 2004 resource certified by the Xinjiang Bureau of Land and Resources

2 The resource estimates were updated by Kalatongke Mine (1996) and the resource estimates for Deposit Y1 were certified by the Xinjiang Bureau of Land and Resources. Totals may have been rounded

Table 4: Kalatongke Mine, Reserves of Nos. 1 and 2 deposits as at 31 March 2007

Deposit	Zone	Ore *(t)*	Cu *(%)*	Ni *(%)*	Cu *(t)*	Ni *(t)*
Y1	I (Super High grade)	269,629	4.42	3.43	11,924	9,239
	II	4,175,278	1.49	0.97	62,248	40,372
	III	8,409,872	0.59	0.41	49,341	34,211
	IV	3,586,581	0.46	0.31	16,376	11,293
	Total Deposit Y1	**16,441,360**	**0.85**	**0.58**	**139,889**	**95,115**
Y2 West	Super high grade	1,476,825	3.59	2.59	53,060	38,220
	High grade	325,920	1.38	0.81	4,495	2,652
	Low grade	336,105	0.57	0.35	1,936	1,181
	Total	2,138,850	2.78	1.96	59,460	41,921
Y2 East	–	5,398,050	1.09	0.50	58,607	26,733
	Total Deposit Y1 and Y2	**23,978,260**	**1.08**	**0.68**	**258,000**	**163,800**

- Tonnes are based on a mining loss of 3% and a mining dilution of 5%. Totals have been rounded.
- The reserve tonnes in the above table were derived from the Resource tonnes for the corresponding orebody. The reserve tonnes should not be added to the resource tonnes. To calculate the resources that will remain after reserves are mined, the reserve tonnes should be subtracted from the resource tonnes

SRK has assessed the mining plans and reviewed mining dilution and mining loss assumptions used by the company. Based on the current reserves and a small percentage of existing certified resources, and at a mining rate of 1 million tonnes per annum, the Kalatongke Mine has the potential for a mine life of approximately 30 years commencing from 31 March 2007.

4.5 Deposit Y1

Deposit Y1 is currently the major ore production area for Kalatongke and has been for at least five years. Our assessment relies on our inspection of the deposit and the geological report on the deposit by the Kalatongke Copper-Nickel Mine of Xinjiang Non-ferrous Industrial Corp (1992). The report includes previous geological and exploration work conducted by No. 4 Geological Brigade of Xinjiang Bureau of Geology and Mineral Resources. No updated information since 1992 is available, therefore no changes to the reported numbers are necessary.

Deposit Y1 occurs mainly within the Y1 intrusion, as well as in the immediate country rock of the rock body, which is sedimentary tuff. The Y1 intrusion crops out on the surface, where it dips at average dip of 70^o towards 060^o. It has a strike length of about 630m and a down-dip extent of between 420m and 620m. Rock types in the Y1 intrusion are diorite, norite, olivine-norite and diabase-norite.

4.5.1 *Orebody geology*

There are three kinds of relationships between the Y1 intrusion and the ore deposit:

1. the boundary of the two is defined by cut-off grades,
2. the two are coincident and have the same contact with country rock, and
3. the ore body extends outside of the intrusion and is in contact with country rock.

The contact with the sedimentary tuff country rock is sharp in case #2, while it is disseminated in cases #1 and #3 (as shown in Table 5). Table 5 gives the occurrence parameters of the ore body at different elevations and exploration lines. The plans and cross-sections of the ore body are shown in Figure 7 and Figure 8.

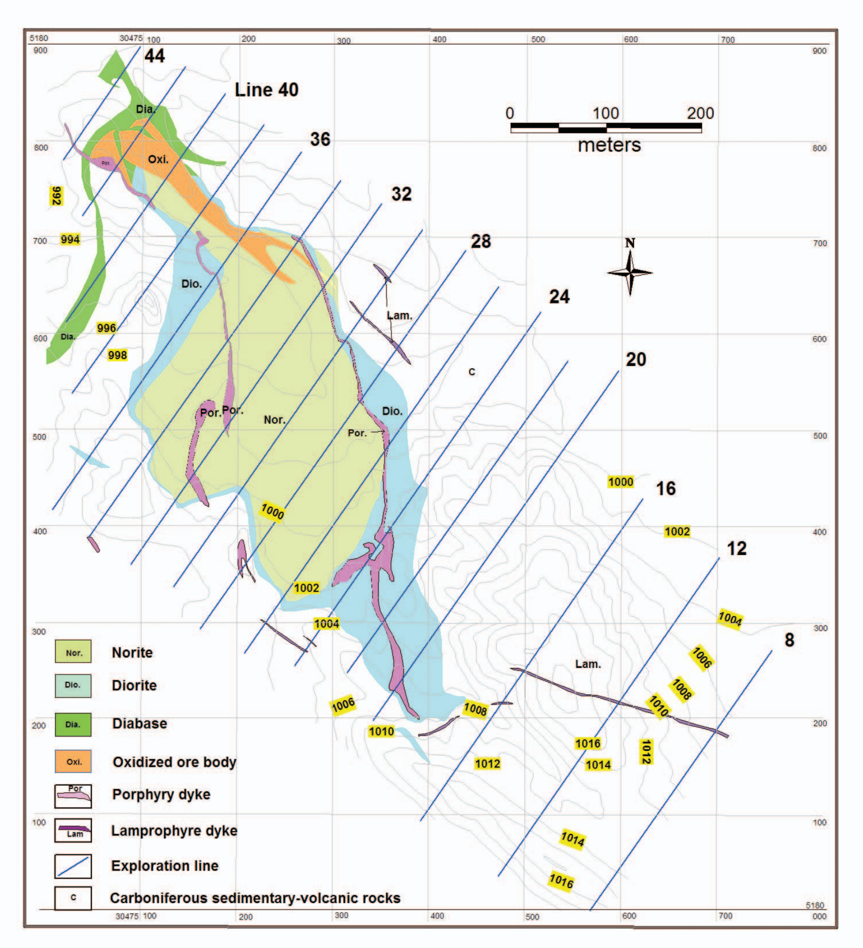

Figure 5: Geology of deposit Y1

Table 5: Occurrence parameters of main ore body

Position	Length (m) Plan	Width (m) Maximum	Width (m) Average	Occurrence Strike	
Surface	280	32	22	306°	
710m level	535	126	79	335°	
650m level	613	56	31	330°	
	Cross-section			**Dip**	**Angle**
Line 24	381	58	28	NE	64°
Line 28	360	117	70	NE	68°
Line 32	342	150	71	NE	68°

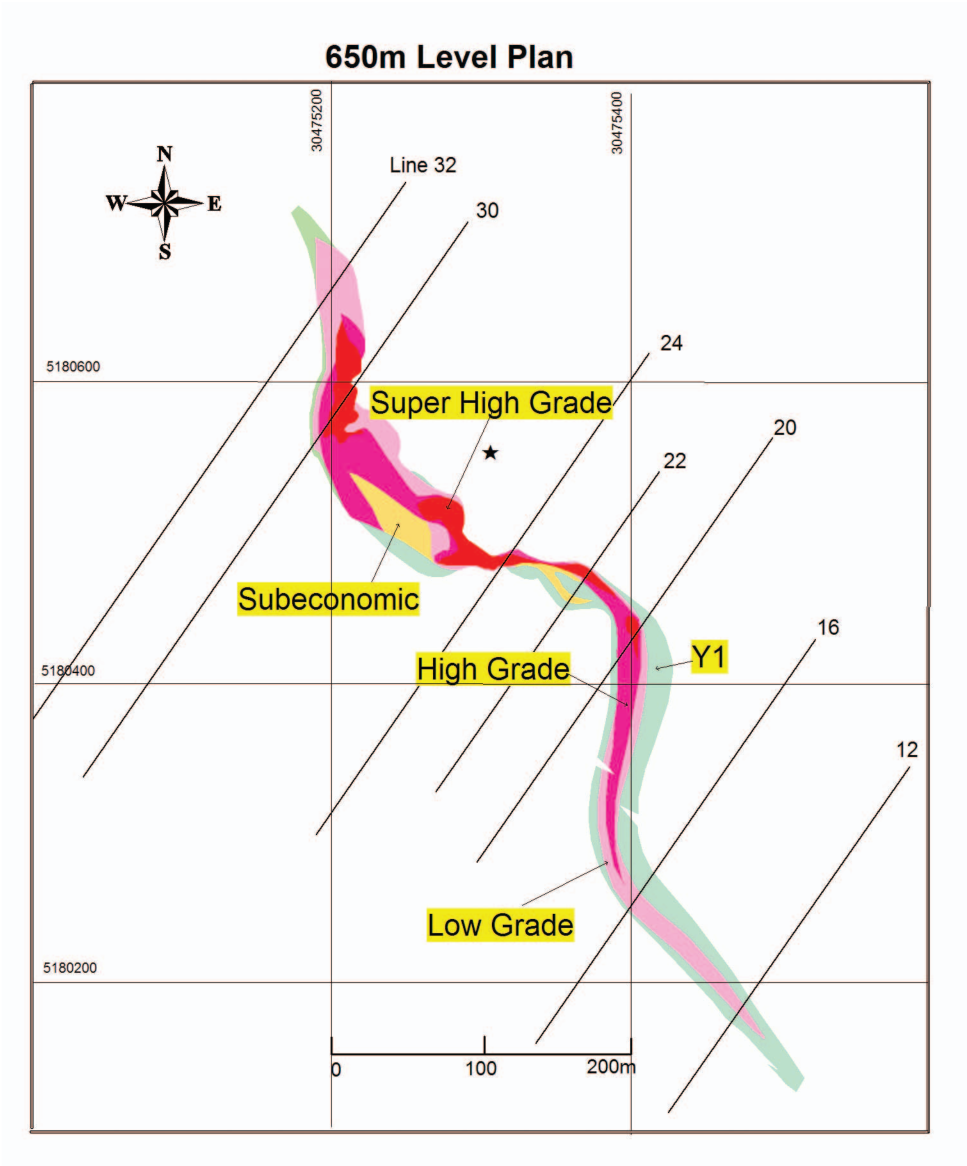

Figure 6: Deposit Y1: plans of main ore body, 650 Level

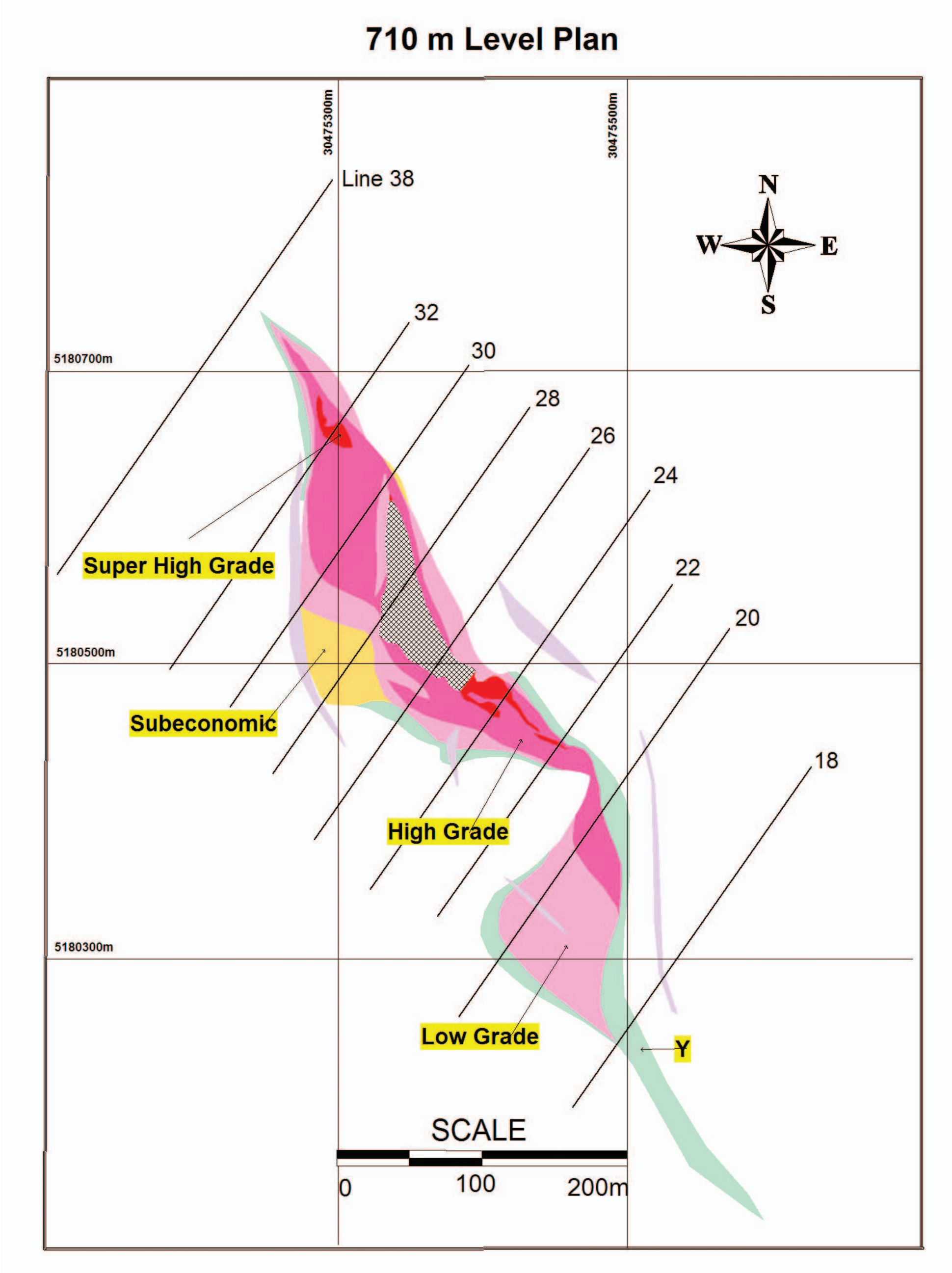

Figure 7: Deposit Y1: plans of main ore body, 710 Level

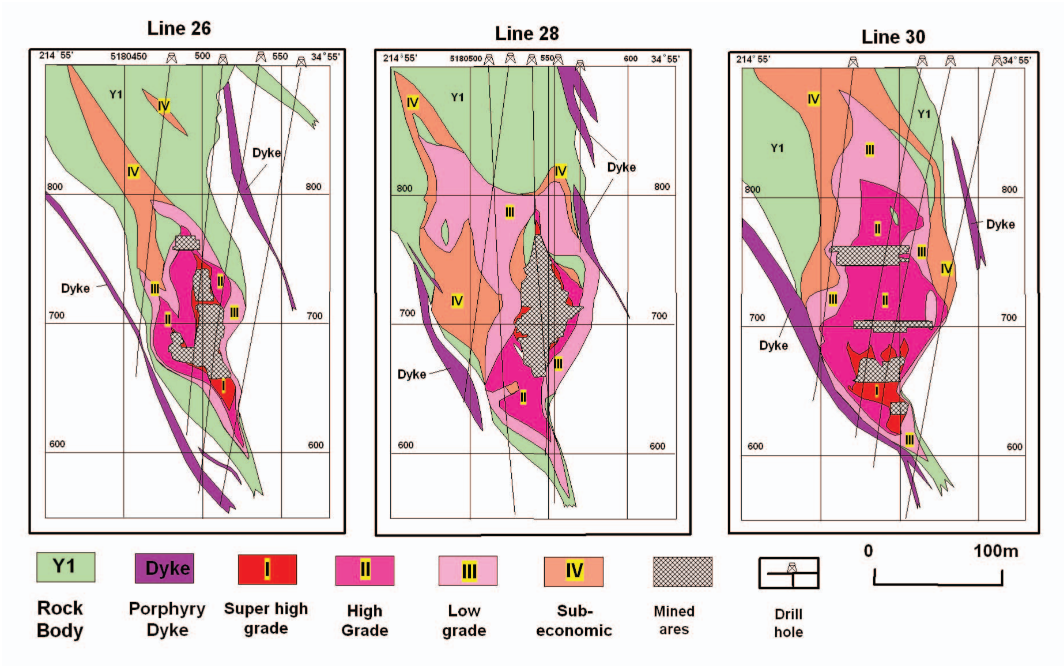

Figure 8: Deposit Y1: cross-sections of main ore body

Based on nickel and copper grades and ore types, the mineralisation can be divided into five zones as follows:

- No. I zone or super high grade ore: ≥3% nickel (or copper)
- No. II zone or high grade ore: ≥1% but <3% nickel (or copper)
- No. III or low grade ore: ≥0.38% but <1% nickel (or copper)
- No. IV or sub-economic mineralised body: ≥0.3% but <0.38% nickel
- No. V or sub-economic oxidised mineralised body: ≥0.3% nickel

Nos. I, II and III are all primary ores. The No. I zone occurs in the core of the deposit, and No. III zone occurs around the margin, while No. II zone is transitional between the two. No. IV is also primary, but No. V zone occurs in the oxidation zone near the surface. The total volume of the ore body accounts for 30.90% of the volume of the total rock body.

4.5.2 Mineralogy

Based on the 1992 Kalatongke Mine report, there are a total of 108 minerals found in primary ores, and 33 minerals found in the oxidised ores. In primary ores there are 82 ore minerals and 26 gangue minerals. The main ore minerals include:

Pentlandite is one of the major nickel minerals. It occurs as grainy aggregates or flakes in massive ores. Grainsize usually ranges from 0.1mm to 0.2mm. Pentlandite grains greater than -200 mesh account for 82.34% of the mineralisation in No. I zone, 76.64% in No. II zone and 80.89% in Nos. III and IV zones.

Chalcopyrite is one of the major copper minerals. It appears as massive, disseminated, and veinlets, and has grain sizes from <0.01 to 2mm. Studies indicate that chalcopyrite greater than

-200 mesh accounts for 80% of the mineralisation in No. I zone, 83.7% in No. II zone and 79% in Nos. III and IV zones (Kalatongke Mine, 1992).

Pyrrhotite is one of the major ore minerals. It occurs as grainy aggregate and flakes. Grainsize usually ranges from 0.1mm to 0.9mm. The mineral commonly has inclusions of altaite and pentlandite.

Pyrite is a common and wide distributed mineral. Its grainsize ranges from 0.01mm to 1mm.

Violarite is the product of alteration of pentlandite. It replaces pentlandite and keeps the shape of the pentlandite crystals.

Magnetite is also a common and wide distributed mineral with grain size from 0.3mm to 0.8mm.

Table 6 gives distributions of copper and nickel in major metal minerals in different zones.

Table 6: Distribution of copper and nickel minerals in ore zones (Kalatongke, 1992)

	Distribution rate (%)					
	Copper			Nickel		
Mineral	**I**	**II**	**III and IV**	**I**	**II**	**III and IV**
Chalcopyrite	99.78	98.81	95.20			
Pentlandite	0.01			77.80	60.06	74.76
Violarite	0.01			6.49	10.65	6.86
Pyrrhotite	0.14	0.10	0.1	15.04	24.14	4.93
Pyrite		0.05		0.02		
Magnetite		0.02		0.22	0.43	

There are also trace amounts of native metal minerals, such as native silver and native gold and metal alloy minerals, such as electrum and biteplatinite, which carry precious metals.

Gangue minerals include plagioclase, biotite, chlorite, hornblende, actinolite, olivine, pyroxene, and calcite.

4.5.3 Sampling, analytical procedures and quality control

In the 1992 report, Kalatongke Mine used 45 of 61 surface drill-holes which were drilled by the No. 4 Geological Brigade in the 1980s in a total drilling program of 19,924m. It is reported that 85.7% of cores had a core recovery of greater than 75%, which is the Chinese standard. In the 1992 program, 39 drill holes with a total of 1,117m were drilled and 32 of them intercepted ore bodies. Among the 32 drill holes, 22 have a core recovery greater than 75%, and 23 holes were used in resource estimates. A total of 1,722m of tunnels were developed to explore the deposit with 25 cross-cuts on exploration lines.

For surface drilling cores, samples were taken by splitting the core into halves, with one half as the sample, and other half stored in core boxes. Sample length was usually 0.5m to 1.5m. For underground drilling cores, whole cores were taken as samples. Each sample usually was 1.5m to 2.0m. In case of low core recoveries, drilling powders were also taken as samples.

The channelling method was used to take samples from tunnels with a channel section size of 10cm (wide) x 3cm (deep). The length of each sample was less than 2m. Channels are chipped horizontally on one wall of the tunnel. Continuous channel samples were taken in cross-cuts, while samples with 2m spacing were taken in drift tunnels. Channel samples were also taken from shafts, and raises.

Sample preparation includes three stages of crushing to reduce the size to 0.9mm, then a 0.5kg split was ground to -200 mesh, then a further 100g split was assayed, with the remaining 400g retained as spare sample. Coarse rejects (4mm) were saved as spare samples for composite heavy mineral samples, and fine rejects (0.9mm) were also saved as backup samples.

In the 1980's program, assaying of copper and nickel were completed in the Central Laboratory of Xinjiang Bureau of Geology and Mineral Resources, and the Laboratory of No. 4 Geological Brigade. Samples were not assayed for precious metals. In the 1992 program, assaying for copper and nickel were conducted in Xinjiang Institute, and assaying for gold, silver and cobalt was done in the Laboratory of No. 701 Geological Brigade of Xinjiang Bureau of Non-ferrous Geological Exploration.

In the 1980's program, polargraphy and atomic absorption methods were used for assaying copper and nickel. Internal and external check samples were analysed. The Central Laboratory of Gansu Bureau of Geology and Mineral Resources assayed the external check samples. The overall qualification rate of the check samples is above 95%.

In the 1992 program, atomic absorption methods were used for analysing copper and nickel. For gold, samples were first dissolved in aqua regia, and then foam plastics was used to concentrate and separate gold, then atomic absorption used for analysis. For silver, samples were dissolved in aqua regia and perchloric acid, and then analysed using atomic the absorption method. For cobalt, samples were dissolved in aqua regia, then assayed using the atomic absorption method. Associated elements, such as Pt, Pd, Se, Te and S were also assayed in the Central Laboratory of Xinjiang Bureau of Geology and Mineral Resources. Internal and external check samples were assayed. For copper and nickel assays, 9.5% of samples were sent for internal checking and 6.4% for external checking. The qualification rate of the check samples was above 96%. For gold, silver and cobalt, 9.0% of samples were sent for internal checking and 7.2% for external checking. The qualification rate of the check samples was above 80%.

4.5.4 Resources and reserves

The resource estimates from 2004 have been reconciled to produce the resource estimates of 2007. Details are provided in Annexure 2 which results in the 2007 resource and reserve estimate shown in Table 7.

Table 7: Detailed Resource estimate for Deposit Y1 as of 31 March 2007

Zone No.	Category	Category	Ore (t)	Cu (t)	Ni (t)
Subtotal (I-III)	B	111b+331	9,332,000	108,174	71,991
	C	332	3,290,00	19,159	14,424
	B+C	**111b+122b+332**	**12,621,000**	**127,333**	**86,415**
Super high grade (I)	B	111b	265,000	12,293	9,525
High grade (II)	B	111b	4,099,000	64,173	41,621
Low grade (III)	B	331	4,967,000	31,708	20,845
	C	332	3,290,000	19,159	14,424
	B+C	331+332	8,257,000	50,867	35,269
Subtotal (IV-V)	C	332	3,521,000	16,882	11,642
	D	333	1,746,000	9,873	4,342
	C+D	**332+333**	**5,267,000**	**26,755**	**15,985**
Primary sub-economic (IV)	C	332	3,521,000	16,882	11,642
	D	333	1,258,000	6,311	4,342
	C+D	332+333	4,780,000	23,193	15,984
Oxidised (V)	D	333	490,000	3,561	—
Total	**B+C+D**	**111b+122b+332+333**	**17,888,000**	**154,087**	**102,400**

I — Super high grade is ≥ 3% Ni or Cu

II — High grade is ≥ 1% but < 3% Ni or Cu

III — Low grade is ≥ 0.38% but < 1% Ni or Cu

IV — Sub-economic ≥ 0.3% but < 0.38% Ni or Cu

Table 8: Resource estimates for associated elements in deposit Y1 as of 31 March 2007[1]

Zone No.	Ore (t)	Au (Kg)	Ag (t)	Co (t)	Pt (Kg)	Pd (Kg)	Se (t)	Te (t)	S ore (t)
I	264,731	172	7.7	249	72	75	13	3	264,731
II	4,099,438	1,066	49	1,517	517	513	66	16	4,099,438
III	8,257,115	908	44	1,817	413	520	50	17	8,257,115
Total	**12,621,284**	**2,147**	**100**	**3,282**	**1,001**	**1,108**	**128**	**36**	**12,621,000**

[1] Estimate by Kalatongke Mine, 2007. Total may have been rounded

Table 9: Resource estimate at deposit Y1, 31 March 2007[1]

Deposit Name	Ore Quality	Category	Ore (1,000t)	Cu (t)	Ni (t)	Cu (%)	NI (%)
Y1	Super High grade	B (111b)	265	12,293	9,525	4.64	3.59
	High Grade	B (111b)	4,099	64,173	41,622	1.57	1.02
	Low grade	C (331)	4,967	31,708	20,845	0.64	0.42
	Low grade	C (332)	3,290	19,159	14,424	0.58	0.44
	Sub-economic grade	D (333)	4,779	23,193	15,984	0.49	0.33
	Sub-economic (oxidised)	D (332)	488	3,561	0	0.75	0.00
Total		**B+C+D**	**17,888**	**154,087**	**102,400**	**0.86**	**0.57**

[1] Estimated by Kalatongke Mine

Figure 9 shows distributions of the resources in a longitudinal projection map.

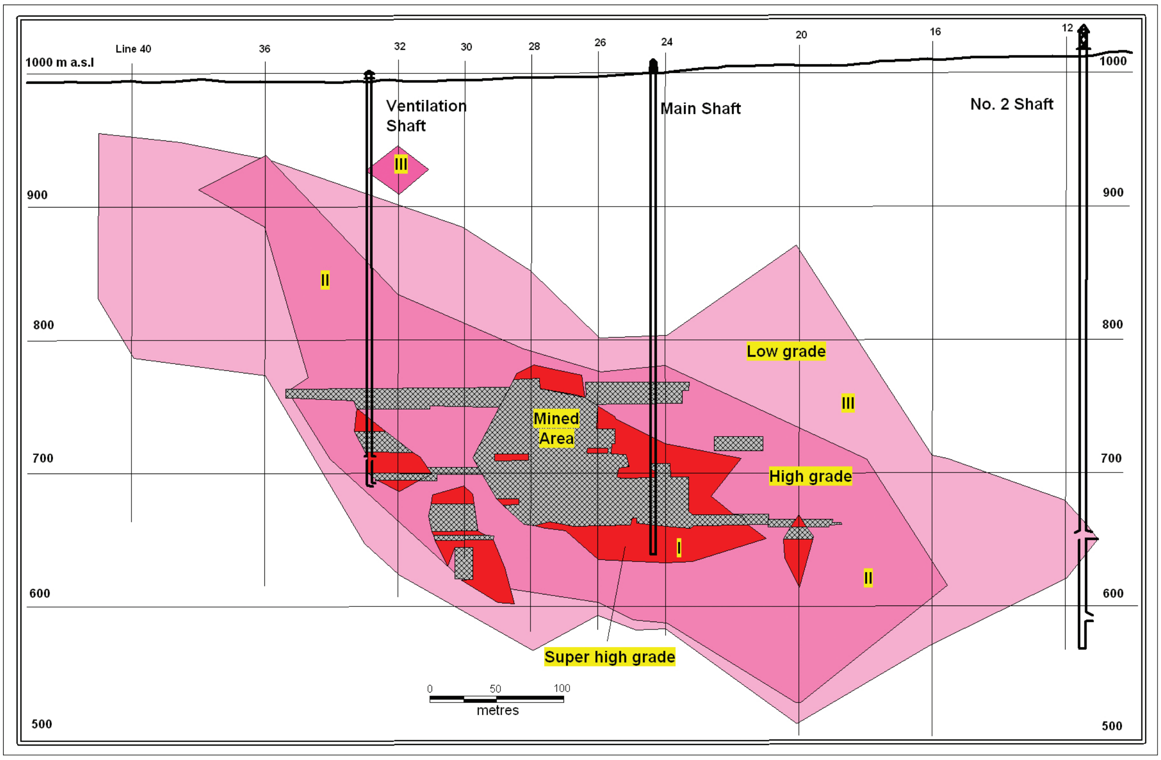

Figure 9: Kalatongke Mine, Deposit Y1 — Resource and reserve distribution on a longitudinal projection map

4.5.5 Potential for Further Exploration

Category B and C resources in the deposit do not need further geological exploration. The low grade or Category D resources should be able to be upgraded to Category B or C through additional geological exploration which could consist of tunnelling and underground drilling. In SRK's opinion there is a potential to define new high grade ore bodies within the low grade mineralisation through further exploration.

Xinxin can seek technical advice in relation to the direction of exploration from its own professional staff, No. 4 Geological Brigade of Xinjiang Bureau of Geology and Mineral Resources or from Dr Anson Xu who is employed by SRK China, whose address is Unit 1408, Tower B, Beijing Cofco Plaza, No 8 Jianguomennei Dajie, Dongcheng District, Beijing, China.

4.6 Deposit Y2

A geological report on the detailed prospecting of the deposit was compiled by the No. 4 Geological Brigade of Xinjiang Bureau of Geology and Mineral Resources in 1987 (No. 4 Brigade, 1987). From 2002 to 2003, the No. 4 Geological Brigade conducted in-fill surface drilling in the eastern part of the deposit and prepared a geological report in 2004 (No. 4 Brigade, 2004). Kalatongke Mine submitted an intermediate geological report to upgrade the resources in the western portion of the deposit in 2005 (Kalatongke Mine, 2005).

The deposit occurs in the Y2 intrusion that is the south-eastern extension of the Y1 intrusion. The intrusions are 200m apart, and might be connected, but there is no evidence to confirm that at this stage. Figure 10 shows the spatial relationship of Y1, Y2 and Y3 (which hosts deposit Y3).

The Y2 intrusion has a strike length of 1,525m, and dips steeply towards 040°. The top of the intrusion is located approximately 200m below the surface and the bottom is approximately 700m below the surface. The intrusion has a complex shape; it is thickest in the central zone and may have a horizontal width up to 280m.

The intrusion is made up of diorite, gabbro-norite, olivine-norite, and other rocks such as hornblende and olivine bearing pyroxenite.

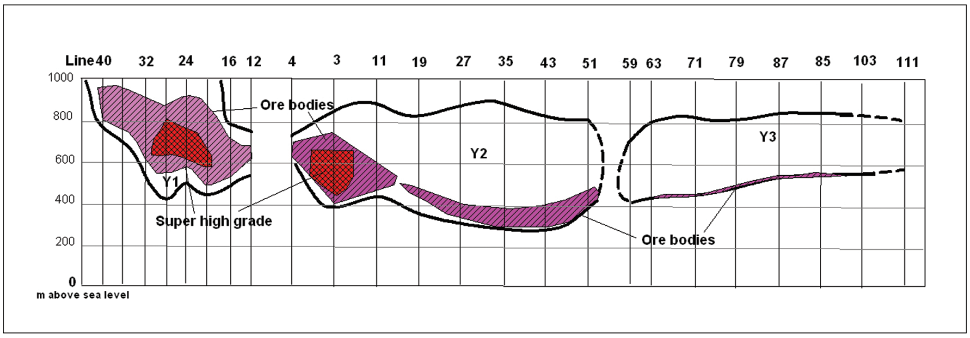

Figure 10: Spatial relationship of Y1, Y2 and Y3 intrusions in longitudinal projection

4.6.1 Ore body geology

The No. 4 Brigade (1987) defined four ore bodies in deposit Y2:

1. high copper and high nickel ore body,

2. high copper and low nickel ore body,

3. low copper and low nickel ore body, and

4. mixed-type ore body.

The high copper and high nickel ore body is included within the high copper and low nickel ore body. It has a strike length of 100m and widths range from 2m to 4m. Its occurrence is consistent with the high copper and low nickel ore body.

The high copper and low nickel ore body is included within the low copper and low nickel ore body. It has a strike length of 200m and widths range from 2m to 17m. Its occurrence is consistent with the low copper and low nickel ore body.

The low copper and low nickel ore body is in the western part of the deposit. It has a strike length of 400m. It occurs as two branches that join at exploration line 4. The ore body dips towards 040° at between 75° and 80°. The two branches have widths up to 11.5 and 23m, respectively. The joined ore body may be as wide as 45m.

The mixed-type occurs in the eastern part of the deposit. It has a strike length of 975m, and the ore body is located from 520m to 710m beneath the surface. It generally strikes 310 degrees and the thickness of the ore body varies in different positions, up to 35m in width. The ratio of copper grade to nickel grade is 2.04:1.

The relationship between the different ore bodies is shown in Figure 11.

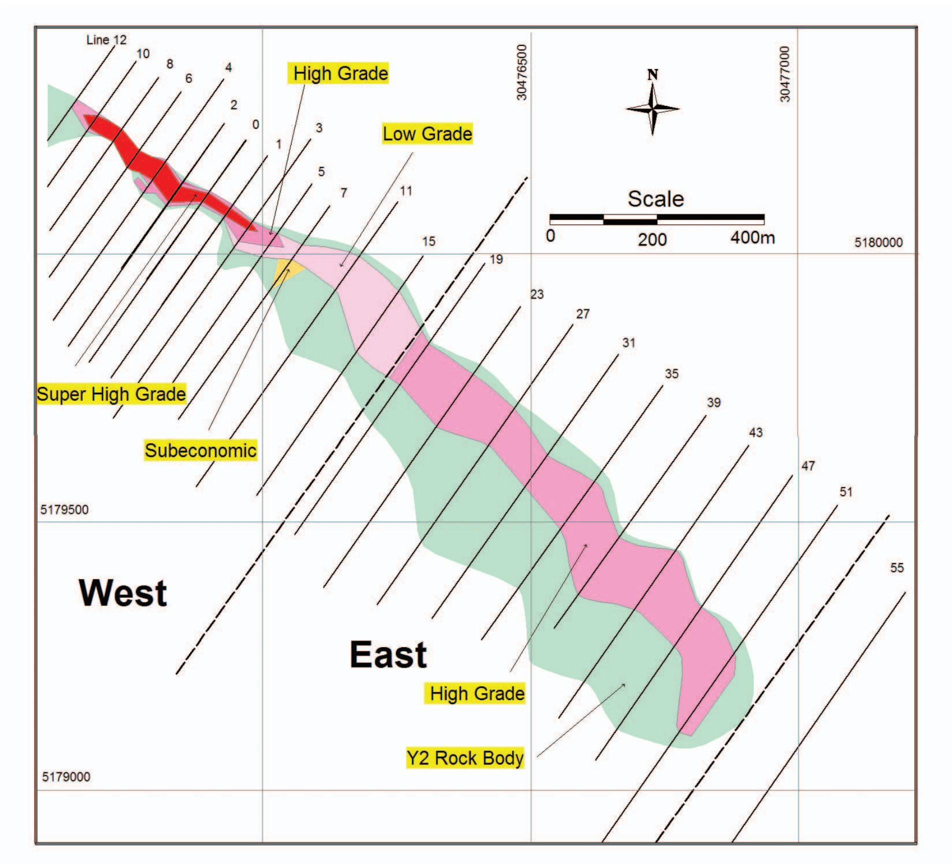

Figure 11: Plan projection of Y2 intrusion and ore bodies

4.6.2 Mineralogy

The mineralogy of the ores in deposit Y2 is similar to that of deposit Y1. The main ore minerals include pyrrhotite, pentlandite, chalcopyrite, violarite, pyrite, and magnetite. Main gangue minerals are plagioclase, biotite, chlorite, hornblende, actinolite, olivine, pyroxene, and calcite.

4.6.3 Sampling, analytical procedures and quality control

In the 1980's, surface drilling by the No. 4 Geological Brigade was conducted on a grid of 200m (along strike) x 100m (along dip) which was used to estimate Category D resources. From 2001 to October 2003, infill drilling was conducted at 100m x 50m grid in some areas of the eastern part of the deposit by the No. 4 Brigade to upgrade resources to Category C. From 2003 to 2005, Kalatongke Mine conducted 6 surface drilling holes in a program of 5,532m, developed drifts and 9 cross-cuts on the 590m level and drilled 5,904m of underground drilling in the western part of the deposit to upgrade the resource category. In general the core recovery of surface drilling was good, with most greater than 95%, and overall recovery above 90%.

Sample collection and sample preparation used the same procedures as for deposit Y1. Assaying of copper and nickel was done in the Laboratory of No. 4 Geological Brigade, and assaying of gold, silver, cobalt, platinum and palladium was conducted in the Central Laboratory of Xinjiang Bureau of Geology and Mineral Resources. Polargraphy methods were used to assay copper and nickel. Internal and external check samples were analysed.

4.6.4 Resources and reserves

Cut-offs — deposit Y2, 2003 and 2005

The following parameters were used to estimate the resources in the eastern part of the deposit:

	No. 4 Brigade (2003)	**Kalatongke Mine (2005)**
Cut-off grade	0.30% Cu	0.25% Ni or 0.30% Cu
Cut-off grades of associated elements	0.05 g/t Au, 1 g/t Ag, 0.03g/t Pt, 0.03g/t Pd, 0.01% Co	
Minimum block grade	0.4% Ni and 0.5% Cu	0.38% Ni or 0.50% Cu
Minimum mineable thickness	2m	1m for supper high grade, 2m for high grade and low grade
Maximum band thickness	4m	5m
Super high grade ore	≥3% Cu or Ni	≥3% Cu or Ni
High grade ore	≥1.0% Cu or Ni and <3.0% Cu or Ni	≥1.0% Cu or Ni and <3.0% Cu or Ni
Low grade ore	<1.0% Cu and Ni and ≥0.4% Ni or ≥0.50% Cu	<1.0% Cu and Ni and ≥0.38% Ni or ≥0.50% Cu
Sub-economic grade	<0.5% Cu or 0.4% Ni and ≥0.30% Cu or ≥0.25% Ni	<0.5% Cu or 0.38% Ni and ≥0.30% Cu or ≥0.25% Ni

4.6.5 Resources

Table 10 gives the resource estimate of the eastern part of deposit Y2 as calculated by the No. 4 Geological Brigade and certified by Xinjiang Bureau of Land and Resources in 2004.

Table 10: Resources estimate for the eastern part of Deposit Y2[1]

Category	Ore *(t)*	Cu *(t)*	Ni *(t)*	Cu *(%)*	Ni *(%)*
332 (C)	5,300,000	60,600	27,300	1.14	0.52
333 (D)	4,610,000	46,100	22,500	1	0.49
334 (D)	1,351,700	7,600	4,300	0.56	0.32
Total	**11,261,700**	**114,300**	**54,100**	**1.01**	**0.48**

Resources of Associated elements

	Au *(kg)*	Ag *(kg)*	Co *(t)*	Pt *(kg)*	Pd *(kg)*
332+333+334	1,812	102,970	2,394	730	871

1 Approved by Xinjiang Bureau of Land and Resources in 2004

The following table gives the resource estimate of the western part of deposit Y2 by Kalatongke Mine and certified by Xinjiang Bureau of Land and Resources in 2005. Figure 12 shows the distribution of the resources.

Table 11: Resource estimate for the western part of Deposit Y2[1]

Ore Quality	Category	Ore *(t)*	Cu *(t)*	Ni *(t)*	Cu *(%)*	Ni *(%)*
Super High grade	332 (C)	1,450,000	54,701	39,402	3.77	2.72
	333 (D)	160,000	6,899	3,941	4.31	2.46
High Grade	332 (C)	320,000	4,634	2,724	1.45	0.85
	333 (D)	420,000	5,934	3,268	1.41	0.78
Low grade	332 (C)	330,000	1,996	1,218	0.6	0.37
	333 (D)	1,970,000	11,407	6,799	0.58	0.35
	334 (D)	720,000	2,379	1,456	0.33	0.2
Total		**5,370,000**	**87,950**	**58,808**	**1.64**	**1.1**

Resources of associated elements

		Au *(kg)*	Ag *(kg)*	Co *(t)*	Pt *(kg)*	Pd *(kg)*
	332+333+334	426	57,480	2,192	438	475

1 Approved by Xinjiang Bureau of Land and Resources in 2005

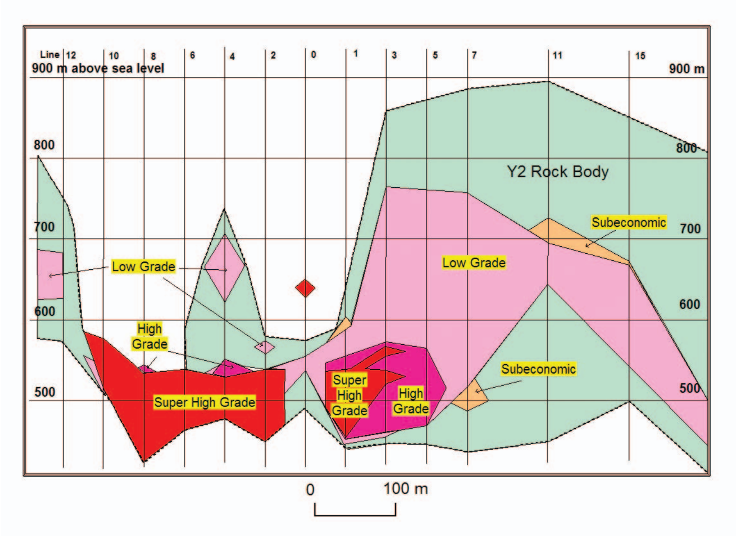

Figure 12: Longitudinal projection map of the western part of Deposit Y2

4.6.6 *Reserve estimate for Deposit Y2*

The reserves estimate for the deposit Y2 is shown in Table 12.

Table 12: Reserves estimate in deposit Y2 as at 31 March 2007

Deposit	Ore *(t)*	Cu *%*	Ni *%*	Cu *(t)*	Ni *(t)*
Y2 West Super high	1,476,825	3.59	2.59	53,060	38,220
Y2 West High	325,920	1.38	0.81	4,495	2,652
Y2 West Low	336,105	0.57	0.35	1,936	1,181
Y2 West Total	2,138,850	2.78	1.96	59,460	41,921
Y2 East	5,398,050	1.09	0.50	58,607	26,733
Total Deposit Y2	**7,536,900**	**1.57**	**0.91**	**118,098**	**68,786**

- Tonnes are based on a mining loss of 3% and a mining dilution of 5%. Totals have been rounded

  The reserve tonnes in the above table were derived from the Resource tonnes for the corresponding orebody. The reserve tonnes should not be added to the resource tonnes. To calculate the resources that will remain after reserves are mined, the reserve tonnes should be subtracted from the resource tonnes

4.6.7 Potential for Further Exploration

SRK believes that more surface drilling, tunnelling and underground drilling are necessary to upgrade the resources in deposit Y2. SRK recommends that the sampling and QA/QC programs be conducted according to standards which meet the requirements of the JORC Code. More exploration is required to determine the potential for additional mineralisation between the Y1 and Y2 rock bodies and to define possible super high grade zones within the existing ore bodies. The company has since stated that they accept SRK's recommendation and will ensure that the standards used for sampling and QA/QC will at least meet the requirements of the PRC Government standards.

4.7 Deposit Y3

A geological report on the detailed prospecting of the deposit was compiled by No. 4 Geological Brigade of Xinjiang Bureau of Geology and Mineral Resources in 1987. The deposit occurs in the Y3 intrusion, which is the south-eastern extension of the Y2 intrusion that hosts deposit Y2. The two intrusions are 100m apart, and might be connected, but there is no evidence to confirm that at this stage. Figure 10 shows the spatial relationship of Y3 and Y2.

Y3 intrusion has a strike length of at least 1300m and is still open to the east and in general has a strike direction of 310 degrees. The top of the rock body is 160m to 205m below the surface, or at 800m to 870m above sea level, and its bottom is 400m to 600m below the surface. Similar to the Y2 intrusion, the Y3 intrusion has a complex shape, and in general, its central portion is thicker with a horizontal width of up to 430m. The rock body is made up of diorite and gabbro-norite, without any olivine.

Figure 13 shows a cross-section on exploration line 87.

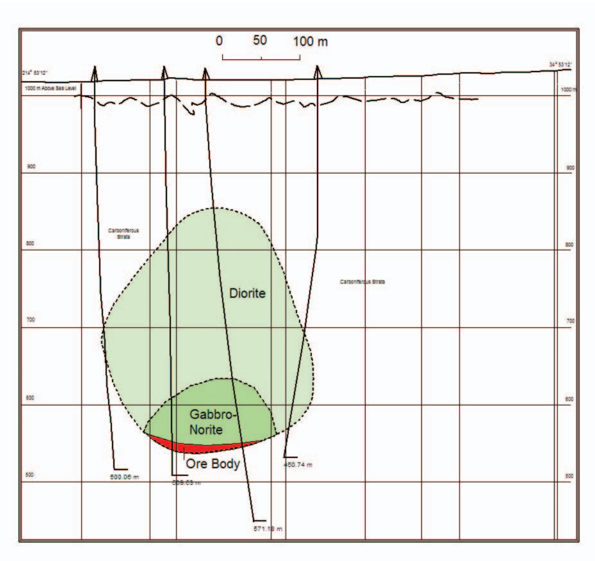

Figure 13: Cross-section of Line 87, Deposit Y3

4.7.1 Orebody geology

There is one ore body defined in deposit Y3 which is layer-like at the bottom of the intrusion as shown in Figure 13. It strikes approximately 310 degrees, has a strike length of 983m and thickness ranging from 7.5m to 18.0m, averaging 15m.

4.7.2 Mineralogy

There are 16 ore minerals found in the deposit Y3. Ore minerals are mainly pyrrhotite, pentlandite and chalcopyrite, and a small amount of violarite, and altaite. Gangue minerals include plagioclase, tremolite, actinolite, clinopyroxene, biotite and chlorite.

4.7.3 Sampling, analytical procedures and quality control

In the 1980's, surface drilling by No. 4 Geological Brigade was conducted at a grid of 200m (along strike) x 100m (along dip) which was used to estimate Category D resources. For the 10 holes used for resource estimate, 8 holes have core recovery greater than 95%, 1 hole greater that 90% and the last with only about 70%.

Sample collection, sample preparation and assaying used the same procedures and laboratories as for deposit Y1. More than 40% of the samples were internally checked, and about 6% of the samples were sent to the Central Laboratory for external checking. Both checking results satisfy relevant Chinese regulations.

4.7.4 Resources

Cut-offs, Deposit Y3

In 1987 No. 4 Brigade used the parameters shown in Table 13 to estimate the resources in deposit Y3.

Table 13: Parameters for Resource estimate, Deposit Y3

Cut-off grade	0.25% Ni and 0.30% Cu
Cut-off grades of associated elements	0.05 g/t Au, 1 g/t Ag, 0.03g/t Pt, 0.03g/t Pd, 0.01% Co
Minimum block grade	0.4% Ni and 0.5% Cu
Minimum mineable thickness	2m for low grade, 0.7m for high grade
Maximum band thickness	5m for low grade, 2m for high grade

Deposit Y3 Resources as at April 2004

No. 4 Geological Brigade compiled a geological report in 1987 and submitted the report to Xinjiang Centre of Examination of Mineral Resources and Reserves in 2004. Table 14 gives the certified resources for deposit Y3 as of April 2004.

Table 14: Resources estimate for deposit Y3, as at April 2004[1]

Category	Ore *(t)*	Ni *(t)*	Cu *(t)*	Ni *(%)*	Cu *(%)*
333 (D)	5,610,000	28,680	53,370	0.51	0.95
	Au *(kg)*	**Co** *(t)*	**Ag** *(kg)*	**Pd** *(kg)*	**Pt** *(kg)*
333 (D)	706	1,660	42,740	706	381

1 Approved by Xinjiang Bureau of Land and Resources

4.7.5 *Potential for Further Exploration*

SRK notes that currently surface drilling is in progress on the deposit Y3. Infill drilling will upgrade some of the resources to Category C. Underground exploration should also be conducted to upgrade resources to Category B, if the surface drilling returns favourable results. The eastern extension of the rock body is worth further exploration, and there is potential to define extensions of mineralisation.

4.8 Deposits Y7 and Y9

A geological report on deposits Y6, Y7, Y8 and Y9 in Kalatongke Mine was compiled by the No. 4 Geological Brigade in 1986 to summarise geological exploration work for copper and nickel mineral resources from 1978 to 1985.

The deposits occur in the Y6, Y7, Y8 and Y9 intrusions which intruded along the faulted hinge zone of an anticline that is parallel to the magmatic belt hosting the Y1, Y2 and Y3 intrusions, as shown in Figure 14. The Y6 intrusion occurs north-east of Y1. The Y7, Y8 and Y9 intrusions occur north-east of the Y2 intrusion.

The Y6 and Y8 intrusions are quite small and host a small resource. They will not be discussed in detail here. Y7 has a length of 225m and widths range from 17-100m. The majority of the intrusion occurs above 950m above sea level. The body is mainly composed of pyroxene-diorite and diabase-norite. Y9 has an outcropping strike length of 650m and widths range from 15m to 60m, with a maximum of 120m. Locally the intrusion is branched. Drilling has defined the body for 227.5m down dip but it is still open at depth. Y9 generally strikes 310 degrees with variable dips towards the northeast. It also consists of pyroxene-diorite and diabase-norite.

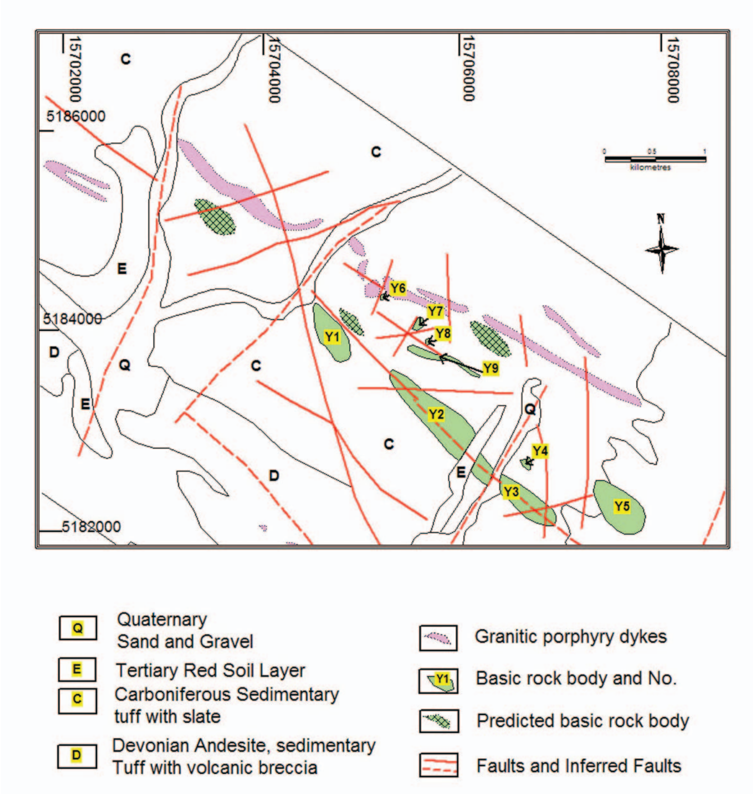

Figure 14: Distribution of Magmatic Rock Bodies in Kalatongke Mine area

4.8.1 *Ore body geology*

Deposit Y7

No. 4 Brigade (1986) reported that there are two ore bodies in deposit Y7. No. I ore body contains a high grade of copper and low grade of nickel, while No. II ore body contains low copper grade.

No. I ore body does not outcrop on the surface, and its top is 12-42.5m below the surface. The ore body mainly occurs in diabase-norite in the bottom of the intrusion. It has a length of about 200m and a thickness ranging from 7.5-360m, averaging 22.1m. The ore body is primary sulphide.

No. II ore body occurs as irregular branched veins near the surface. In general it has a length of 190m and thickness ranges from 5.5 to 27.5m, averaging 19.12m. The ore body is oxidised.

Deposit Y9

No. 4 Brigade (1986) reported one ore body in deposit Y9. The ore body occurs as layer-like near the surface and in diabase-norite on the bottom of the Y9 intrusion. Drilling has defined the ore body for 200m along strike and 177m down dip. Apparent thickness of the ore body ranges from 1.98 to 15.82m. The deposit hosts primary sulphide mineralisation.

4.8.2 Mineralogy

Primary ores are composed of mainly pyrrhotite, chalcopyrite and pyrite, as well as pentlandite, violarite, and magnetite, and a trace amount of chalcocite, bornite, galena as ore minerals, and mainly plagioclase, diopside, actinolite, as well as hornblende, tremolite, biotite as gangue minerals. In primary ores, copper and nickel occur mainly as sulphides.

In oxidised ores, copper occurs mainly as secondary copper minerals (including silicates, sulphates, and carbonates). The main copper minerals include malachite, melaconite, cuprite and covellite. Nickel mainly occurs in silicates, and is adsorbed by limonite.

4.8.3 Sampling, analytical procedures and quality control

No. 4 Brigade conducted surface trenching and diamond drilling on both deposits Y7 and Y9. Spacing of trenching is 20-30m and 50m for deposits Y7 and Y9, respectively. A grid of 50m (along strike) x 50m (along dip) was used to drill deposit Y7, while a grid of 100m x 50-80m was used to drill deposit Y9. The assays obtained from the exploration were used to estimate Category D resources.

Sampling from trenches used channelling methods with a channel section size of 10cm (wide) x 5cm (deep). Each sample has a length of 1-2m. Diamond drilling cores were split into halves with one half taken as samples. Sample length was 1-2m.

The Laboratory of No. 4 Brigade assayed copper and nickel, and the Central Laboratory of Xinjiang Bureau of Geology and Mineral Resource analysed gold, silver, platinum, and palladium. Sample preparations and analytical methods are the same as described in section 4.5.3. Internal and external checking in the Bureau Laboratory were also done and the results qualified.

4.8.4 Resources and reserves

Cut-offs, deposits Y7 and Y9

No. 4 Brigade (1986) used the following parameters to estimate the resources in deposits Y7 and Y9:

	Primary Ores	**Oxidised Ores**
Cut-off grade	0.25% Ni and 0.30% Cu	0.7% Ni and 0.50% Cu
Minimum block grade	0.4% Ni and 0.5% Cu	1.0% Ni and 0.7% Cu
Minimum mineable thickness	2m for low grade, 0.7m for high grade	2m for low grade, 0.7m for high grade
Maximum band thickness	5m for low grade, 2m for high grade	5m for low grade, 2m for high grade
Cut-off grades of associated elements	0.05 g/t Au, 1 g/t Ag, 0.03g/t Pt, 0.03g/t Pd, 0.01% Co	

Resources

In 1986 No. 4 Geological Brigade estimated mineral resources for the deposits Y7 and Y9, and then Kalatongke updated the resource in 2007. Table 15 below gives the uncertified resources in the deposits.

Table 15: Resources estimate for deposits Y7 and Y9 1 as at 31 March 2007

Deposit	Category	Ore (t)	Ni (t)	Cu (t)	Ni (%)	Cu (%)
Y7	D	270,000	1,700	5,400	0.63	2.00
		Au (kg)	**Co** (t)	**Ag** (kg)	**Pd** (kg)	**Pt** (kg)
	D	104	255	5,911	114	69
Y9	D	480,000	1,700	4,200	0.35	0.88
		Au (kg)	**Co** (t)	**Ag** (kg)	**Pd** (kg)	**Pt** (kg)
	D	98	105	5,128	83	45

1 The table above lists unofficial resources estimated by No. 4 Geological Brigade in 1986 and updated by Kalatongke Mine in 2007

4.8.5 Potential for Further Exploration

The Y9 intrusion is still open at depth, so there is further exploration potential. SRK suggests that geophysical surveys, such as IP and TEM should be conducted prior to diamond drilling. The company has since indicated it accepts SRK suggestion.

4.9 Exploration

Xinxin has been granted four exploration permits totalling 159.91km^2. These, together with Xinxin's mining permit for an area of 7.887km^2, cover the immediate extensions and surroundings of current mines and deposits and some geophysical anomalies as shown in Figure 15. Details of these exploration permits are shown in Table 16.

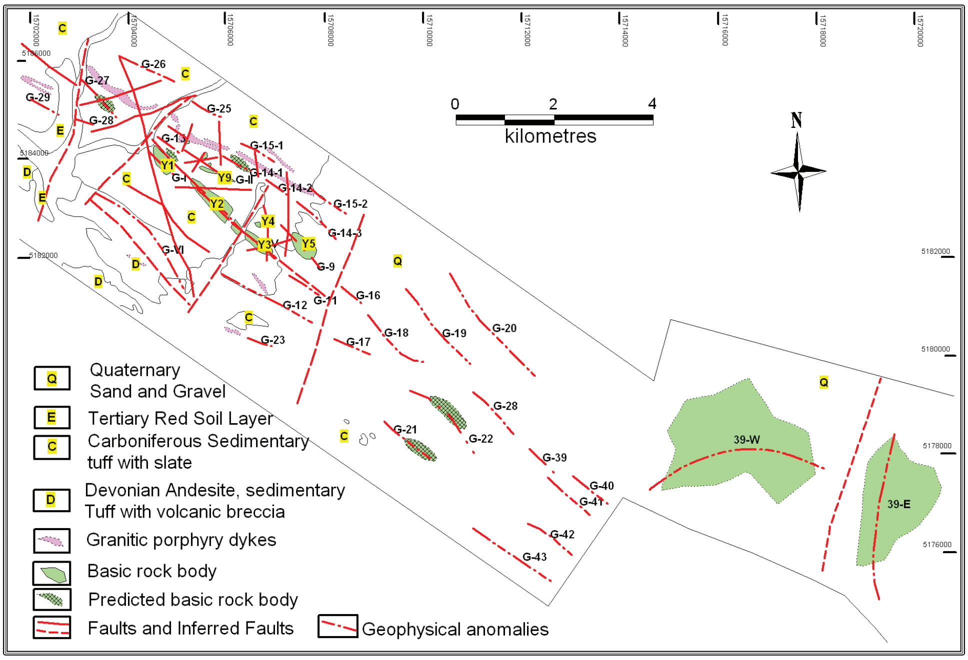

Figure 15: Distribution of magmatic rock bodies and geophysical anomalies in Xinxin's mining licence and exploration permit areas

Table 16: Xinxin Exploration Licence Details

Exploration Licence No.	Area (km^2)	Issue Date	Date for renewal
6500000724071	66.07	26 July 2007	26 July 2008
6500000620686	23.55	13 September 2007	13 September 2008
6500000634472	30.62	9 March 2007	9 March 2008
6500000732318	39.67	21 June 2007	21 June 2008

4.9.1 *Previous Exploration Achievements*

Previous geophysical surveys including airborne magnetics, ground gravity, and ground magnetics, defined several anomalies in the mine area. Some anomalies are consistent with the intrusions hosting copper and nickel deposits, such as Y1, Y2, Y3, Y7, Y8 and Y9. Other anomalies were confirmed to be caused by buried intrusions, such as Y5. Many other anomalies provide a basis for current and future exploration programs.

G27 anomaly is a gravity anomaly. It is on the north-western extension of the Y1 intrusion. It is believed that the anomaly should be the response of a basic igneous intrusion, but so far no exploration work has been completed on the anomaly.

No. 14-1 anomaly is a combination of gravity and magnetic anomaly. It occurs along a fault northeast of and parallel to the fault hosting the Y6, Y7, Y8 and Y9 intrusions. It may be another magmatic zone.

G21 and G22 anomalies are gravity anomalies on the south-eastern extension of Y1-Y3 magmatic zone. Three holes were drilled to test the anomalies. Two holes intercepted gabbro and diorite, and one hole intercepted quartz diorite. Copper and nickel mineralisation was shown in the cores and has copper and nickel assays of 0.03% to 0.2%.

AM16 anomaly is an airborne magnetic anomaly. Recent drill holes on the anomaly confirmed that there are two large basic intrusions (No. 39). One drill-hole intercepted 953.76m of basic rocks. Copper and nickel mineralisation was also identified, with samples returning 0.04% to 0.3% copper and 0.01% to 0.2% nickel.

4.9.2 Potential for Further Exploration

Currently, Kalatongke Mine is conducting exploration programs on G21 and G22, and the east intrusion of No. 39 (or AM16). The programs include geophysical surveys, such as TEM and IP, and diamond drilling. In SRK's view, the strategy and methods used for the exploration in the permit areas are reasonable. Other anomalies, as well as intrusions such as Y5 within the mining licence, should also be investigated when funds and manpower are available.

The potential to find economic copper-nickel deposits in the exploration permit areas is good due to the fact that the geophysical anomalies and confirmed intrusions are an extension of the current mine and defined deposits and they have geological similarities to the known deposits.

5 MINING ASSESSMENT

5.1 Introduction and Mining Licences

The Kalatongke mine is located 450km North of Urumqi in the Xinjiang Uyghur Autonomous Region of China. Kalatongke is a well established underground mine with two shaft access which are used as production shafts, as well as an exhaust ventilation shaft. There is an expansion project presently being developed that plans to increase the mine production capacity to 1.6Mtpa over the next few years.

5.2 Mining Tenements

Xinxin are presently licensed to mine at Kalatongke according to the following licence. Existing legislation allows the company to apply for renewal of the licence prior to the renewal date, as shown in Table 17.

Table 17: Mining Licence Details

Mine	**Mining Licence No.**	**Mining Area** *(km^2)*	**Mining Capacity** *(t/year)*	**Issue Date**	**Date for renewal**
Kalatongke	1000000720060	7.887	1,040,000	July 2007	July 2037

Xinxin's production policy is use its own mine resources to engage in mining, concentrating, smelting, refining and sales of nickel and copper metals. The company also has a policy to mine and process economically exploitable ore according to the rights provided by the mining licence.

The company's policy for growth is to use new and improved technology to increase production and improve the quality of its products.

The company's criteria for selecting development projects is to effectively control and utilise the resources as the basis of its core business and to develop projects that are in compliance with the State's industry policy.

5.3 Mine Layout

The mine layout consists of shaft access (Old Shaft) to the depth of 650mRL. The ore is hoisted via the New Shaft. The new shaft hoists a double deck cage that is capable of hoisting rail cars to the surface. Ventilation consists of the Old and New Shafts as Intake air with an Exhaust raise. The mine operates under negative pressure as the fan is located in the exhaust shaft.

The sublevel interval is 60m with manway accesses to the mining stopes. There are presently five (5) active levels (830mRL, 770mRL, 710mRL 650mRL and 590mRL). Please refer to Figure 20 which highlights the present ventilation system as well as the mine layout.

The expansion of the mine to ore bodies #2 and #3 consists of sinking a new shaft which is presently being developed. The depth of the newest shaft will be to the 225mRL (425m deeper than the other shafts). Please refer to Figure 21 which highlights the expansion ventilation system as well as the mine layout.

The mine layout observed is in good condition and suits the mining method presently being conducted and will also suite the proposed mining for the expansion. The only issue that was not shown was the effect the cave mining of the low grade ore will have on the mine's underground and surface infrastructure. The effect of the cave must be evaluated to ensure that all surface and underground infrastructure are not within the cave zone or affected by the cave subsidence.

5.4 Mining Methods

There are three mining methods planned for the Kalatongke mine, of which two utilise backfill techniques. The super-rich grade ore has been mined by cut-and-fill methods in the past and will be mined in this manner in the expansion project. The rich grade ore is presently being mined by undercut and fill mining and will continue to be mined in this manner in the expansion project. The low-grade ore will be mined by the Sublevel Caving method in the expansion project.

The undercut and fill mining method used for the rich ore is shown in Figure 16 and the cut and fill method used for super-rich ore is shown in Figure 17 below. The sublevel caving method proposed for low grade ore is depicted in both Figure 18 and Figure 19.

The mining methods employed at the Kalatongke Mine work for the present mining layout and geometry of the orebody. There may be opportunity to evaluate other mining methods that allow larger open spans. This would require re-evaluation of the rock mass geotechnically to confirm the acceptable stope sizes. The other option is to change fully to a sublevel caving operation that will allow high tonnage and low costs.

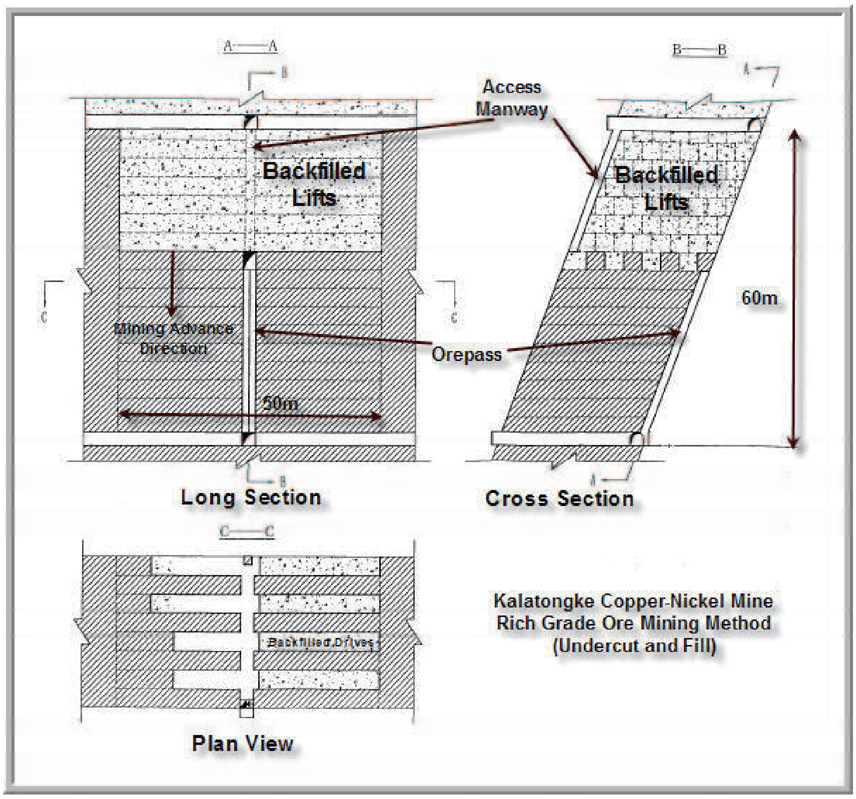

Figure 16: Rich Ore Grade — Undercut and Fill Conceptual Layout

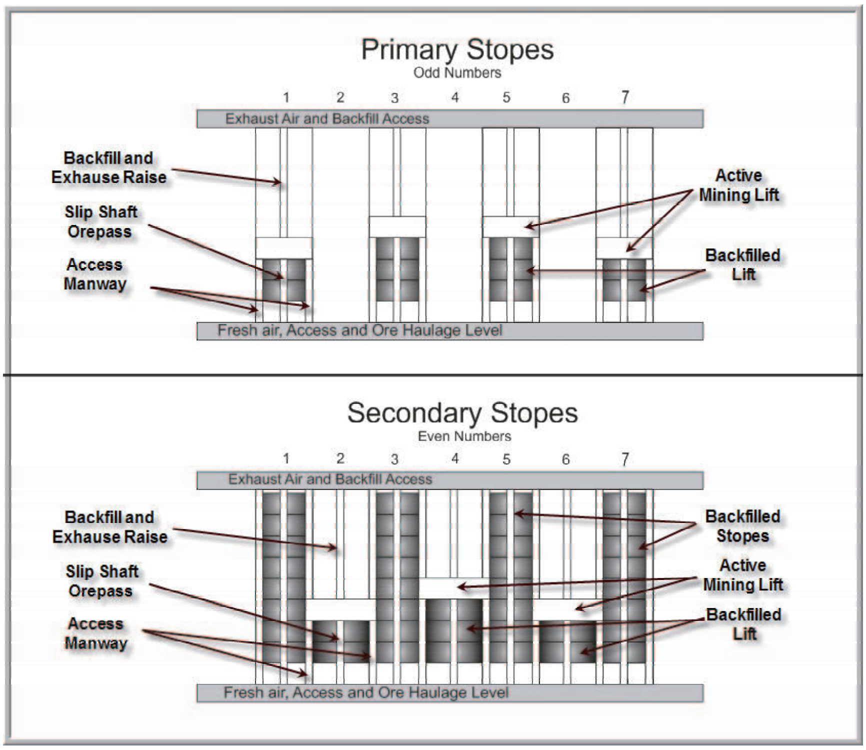

Figure 17: Super-Rich Grade Ore — Cut and Fill Conceptual Layout

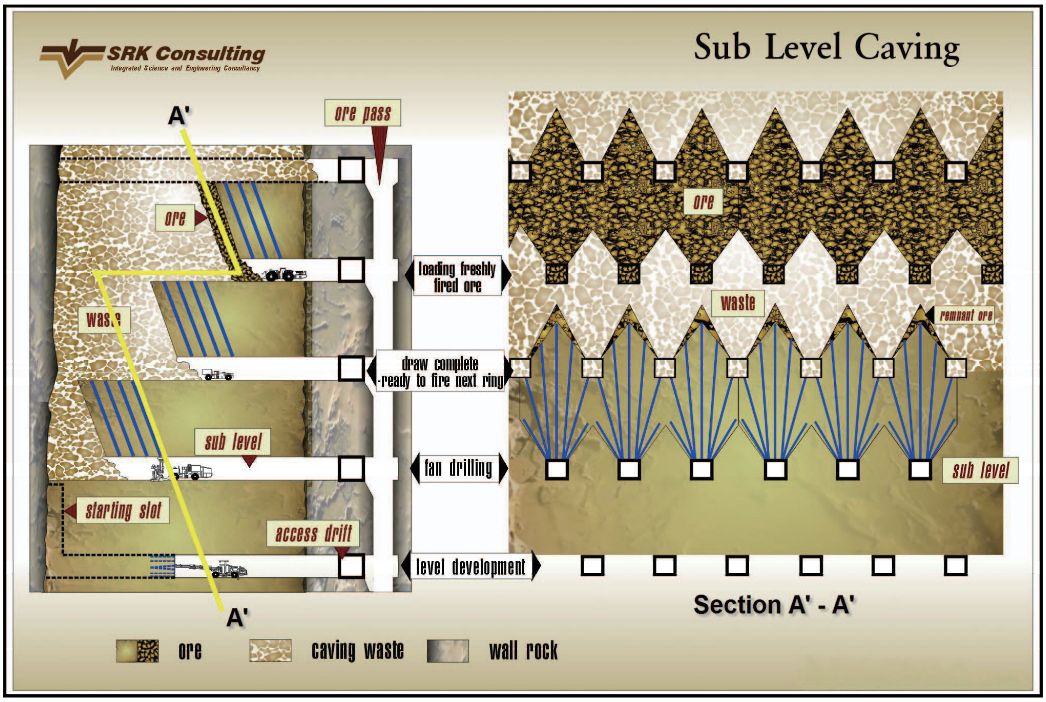

Figure 18: Typical Sublevel Cave Layout (Cross Section and Long Section)

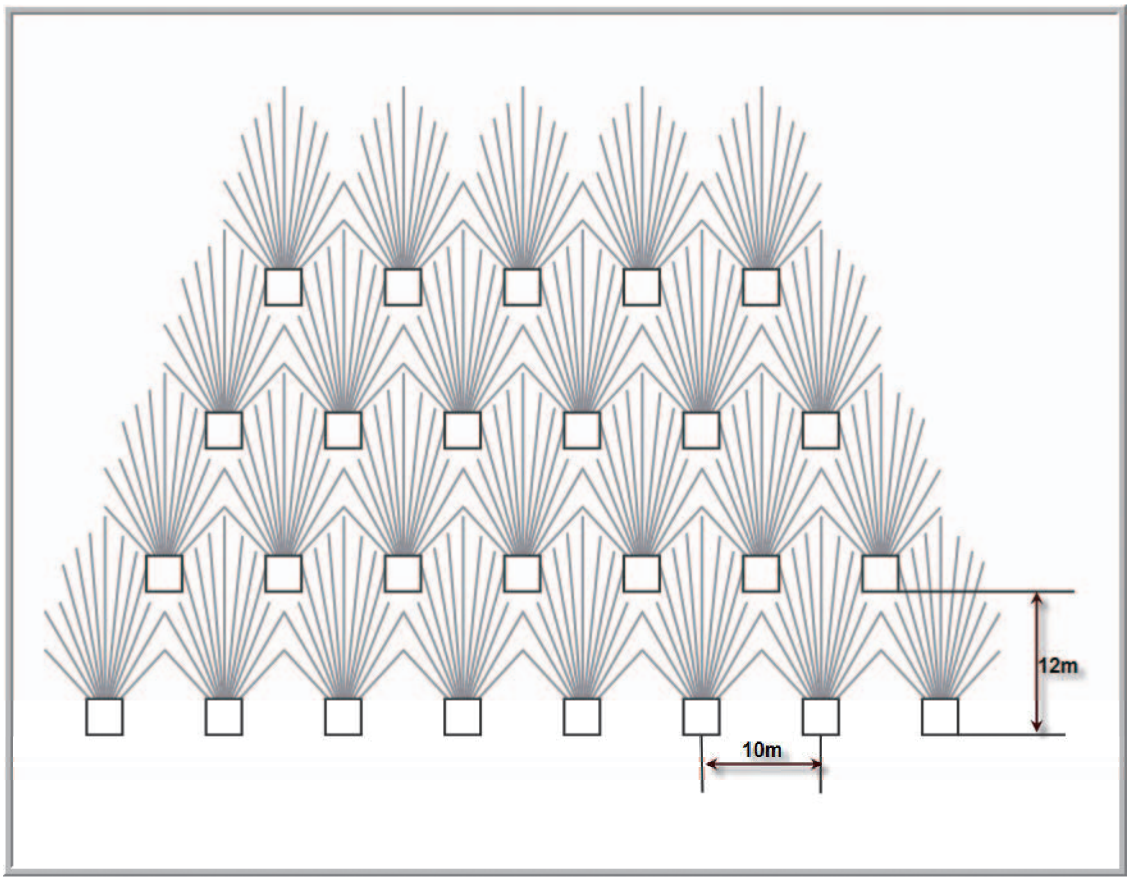

Figure 19: Low Grade Ore — Sublevel Cave Conceptual Layout (Long Section)

5.5 Geotechnical and Ground Support

5.5.1 Geography and climate

The Kalatongke mine is located at an elevation varying from 1000m to 1400m. The location is in the central Europe-Asia hinterland and the climate is a northern temperate zone. The annual precipitation averages 180mm mainly concentrated during April to July. The annual evaporation is about 2000mm per annul, that is 11 times higher than the precipitation rate.

5.5.2 Structural Setting

The mine is located at the northern margin of the Junggar fold belt within the Saerbulake-Sasekebasitao synclinorium. The synclinorium comprises three synclines and two anticlines. The fold axes are dominantly trending NW direction with subsidiary NNW direction trend. The axial planes dip to the NE and ENE direction. Fractures have developed into four (4) sets with NW, NNW, NE and EW strike directions. The predominant fracture set is in the NW direction, with the other directions representing secondary fractures. The types of structural planes are divided into five categories:

- Category I includes fractures outside the mine with no effect on the current mining;
- Category II includes the predominant fractures inside the mine;
- Category III & IV are the internal fractures and joints inside the ore body Y1;
- Category V includes the minor joints.

There are 10 types of rock masses which are located in two anticlines at the middle of the mine, forming two zones referred to as the north and south zones. Current mining is inside the south zone which consists of ore bodies Y1, Y2 and Y3.

The company has conducted rock mass strength evaluations based on the RQD, RMR and the Q System parameters. The results indicate inconsistencies and this may be attributed to the drill core quality used for obtaining geotechnical data. The underground observations conducted during the SRK site visit are in the range of a fair to good rock mass which are similar to the results obtained for the RMR analysis. These rock mass observations do not contradict the mining methods selected as conservative spans are being exposed in the mine. It does however highlight the fact that there is potential to re-evaluate the geotechnical characteristics of the newer ore deposits, with specifically drilled geotechnical holes. This drilling should allow the opportunity to safely increase stope dimensions and possibly work towards a non-entry mining method such as open stoping or conversely replace the current three mining methods with one mining method such as Sublevel Caving.

The rock mass ratings for the Kalatongke mine are shown in Table 18 below.

Table 18: Rock Mass Ratings — Kalatongke Mine

	Rock Quality Designation ("RQD")		Rock Mass Rating ("RMR")		Q-System	
Super-rich Grade Ore	21.6	Very Poor	66	Good Rock	10.15	Fair
Rich Grade Ore	22.2	Very Poor	47	Fair Rock	0.99	Very Poor
Deposit #1 Base	21.0	Very Poor	54	Fair Rock	1.24	Poor
Carbonated Limestone	13.4	Very Poor	76	Good Rock	39.6	Good

5.5.3 *Mechanical Properties of Ore and Rock Samples*

The laboratory tests on samples were conducted for both ores and surrounding rocks (tuff). The results indicated that the super-rich ore (SRO) has the highest uniaxial compressive strength ("UCS") of 192Mpa; while for the other three categories (rich ore, the basic rock as well as the surrounding rock) the UCS falls in a range from 130Mpa to 110Mpa. For the uniaxial tensile strength ("UTS"), the increasing trend was noticed from super-rich ore, to rich ore and basic rock from 4.5Mpa to 5.8Mpa and 6.9Mpa, respectively and the UTS for surrounding rock is 5.4Mpa slightly lower than that for rich ore. In terms of rock quality designation ("RQD"), the test results are 21.6%, 22.2%, 21.0% and 13.4% respectively for super-rich ore, rich ore, basic rock and surrounding rock. These results indicate that the surrounding rock (tuff) has the poorest RQD in comparison to other rocks. Overall the rock masses are in a very unstable condition based on the RQD information where they are all lower than 25%. However the site visit indicated that the rock masses are reasonably fair to good, implying that those RQD numbers are questionable.

5.5.4 *In-Situ Stress*

The in-situ stresses were measured at a depth of 650m using hollow inclusions at 3 separate locations of CM502, CM509 and CM512, respectively. The primary in-situ stress is produced by the geological structure, which results in a compression-twist type of fracture in the dominant NW direction. The secondary in-situ stress is another compression-twist type in the NNW direction producing fractures in the ENE direction as well as tensile fractures in NE direction.

The major principal stress is near horizontal and the intermediate and minor stresses are in an inclined direction. The three components of principal stress are not equal. The magnitude of the major principal stress can be twice that of the minor principal stress. In general the horizontal stress is greater than the vertical stress with a ratio varying from 1.19 to 1.54. The vertical stress is slightly greater than the self weight of the over-burden rock mass indicating that the vertical stress is also altered by the regional tectonics.

5.5.5 *Geotechnical Classification and Mining Condition*

The geotechnical type for the ore body is blocky with medium to complicated structures. The unfavourable factor influencing the ore-body mining is the existing structural planes. These fractures have a direct impact on the stability of the surrounding rocks during mining of the super-rich ores. The bedding forms a cutting wedge with the surrounding category IV structural planes, causing severe caving and spalling in stopes. The category IV structural planes have exhibited poor ductility that are less developed in the surrounding rock. This characteristic of the surrounding rocks helps to create a favourable condition which requires less support while tunnelling. As the major principal stress is near horizontal and is greater than the vertical stress, the width of the development tunnel can be widened without impacting on the stability of the tunnels.

Convergence measurements indicate that the deformation around the tunnel is not large and there is no marked creep occurring inside the rock mass. All these factors illustrate that the long-term stability of the tunnels should be fair to good.

The back-fill method used by the company effectively restrains the rock mass around the stopes from moving inward. The caving method can release the stresses inside the ore bodies. To minimise the impact on the stability of the stopes caused by the back-fill method, SRK recommends that the company increase the proposed operation spacing between these two mining methods. The company has since indicated that it will fully adopt SRK's recommendation.

5.5.6 *Groundwater*

Compared to similar mines in China, Kalatongke copper-nickel mine appears to have a relatively large groundwater inflow. The groundwater inflow has been consistent since the mine commenced production. In general the normal groundwater inflow is approximately 500,000 litres per day. There are currently seven pumps installed in the water sump and the operation of 1 large pump plus 3 small pumps is generally sufficient to discharge the water inflow to the surface. The proposed expansion of mine production will require new water sumps and underground water pumping stations to be constructed to cope with the increased demand and these are proposed by the company. There were no indications during the SRK site visit that either the ores or the rocks swell after being immersed in water, indicating that the ground water does not impose a significant impact on the support.

5.5.7 *Underground Support*

In general, the cross section for the tunnel is sufficient to meet the ventilation demand. The surrounding rocks are in fair to good condition and the tunnel requires few supports. As back-fill is employed in the stope area, these stoping areas are considered by SRK to be stable. In SRK's opinion the current mining operation in the super-rich and rich ore bodies at Kalatongke are sufficiently supported.

5.5.8 *Tailings Dam*

The tailings dam was constructed using gravel and Gobi soil in 2 phases. In Phase I, the height of the dam was built to 6.5m with a top width of 2.5m. The slope for both sides (upstream and downstream sides) was 1:2. The upstream side was constructed with a 300mm thick brick facing to protect the dam wall. There was no brick facing on the downstream side. In phase II, the height of the dam was raised to 8m with a top width of 5m. The total capacity of the dam was 1,893,000 cubic meters. The slope of both sides was specified in the initial design at 1:1.5. However it was observed during the site visit that the slope at the downstream side (60^{o}) appears to be a lot steeper than that in the upstream side (45^{o}).

Initially the ground was dug 1.5m deep into the base rock where a higher strength (4 to 5Mpa) of back-fill material was used. The material was fully compacted; then it was covered with another 1.5m layer of slightly weaker materials (3 to 4Mpa) which was compacted as well. From this point upwards the dam was constructed in 2m increments.

Key operational data regarding site tailings management are summarised below:

- The particle size of the tailings is less than 0.38mm.
- 40% of tailings are used for underground back-fill while 60% is discharged to the dam with a water content of 25% to 30%.
- About 400t to 500t of tailings are discharged daily.
- The life of the tailings dam was about 17.5 years from when it was put into operation in 1999. The proposed expansion of production at the Kalatongke concentrator will shorten the life of the tailings dam.
- The tailings dam is located at 2.2km from the site main office and is accessible by 4-wheel drive.

The following issues were observed during the site visit.

- Some open cracks were observed at the top of the dam close to the downstream side. The cracks may have resulted from poor compaction and partially from over-loading during the winter season. The design of the dam specified the material should be fully compacted using a vibrating roller. In the actual construction phase the roller compaction was replaced by heavy truck compaction only.
- The ditch at the front of the upstream dam wall to divert flood water hasn't been excavated yet, creating a potential hazard to the safety of the dam if heavy rain were to occur. However the region has been perennially dry, so that little hazard is probable.
- Some seepage was noticed at the north-west side of the main dam. SRK was advised this was deliberately released during winter to unload some weight on the tailings dam wall so that the dam wall stability was maximised.
- The seepage collection well appears to be close to the main dam making the dewatering less efficient but it is advantageous for water re-cycling.

Xi'an Exploration Institute of China Non-Ferrous Industry reported on the geotechnical engineering of the tailings dam. They concluded that no major geological structures or unfavourable geology were identified at the site that could reduce the stability of the tailings dam. The ability to resist an earthquake was designed at level 8, which is at the stronger end of the range. From the Institute's analysis, it was concluded that an earthquake would not cause liquefaction of the saturated sands and soils.

SRK was told that a new tailings dam will be built during the planned expansion of the project. However neither the detailed design nor the location of the site was available for inspection during the site visit.

5.6 Mine Schedules

5.6.1 Mine Development Schedule

The mining method employed at the Kalatongke Mine is labour intensive and if shortfalls in the development rate are encountered, the company has assured SRK that there are other sources of manpower to meet the development targets.

The total development consists of 26,081m of horizontal and vertical development. The construction consists of two phases, with Phase 1 including 18,811m and phase 2 consisting of 7,270m. It is anticipated that the mining production capacity will reach 3,400tpd by the end of year 2009. There is every opportunity for the company to optimise and modify the LOM plan as new resources become available through exploration.

5.6.2 Mine Production Schedule

The historical and forecast mine production throughput is shown in Table 19.

Table 19: Kalatongke mine design and actual throughput, 2004 to 2009

		2004 *(A)*	**2005** *(A)*	**2006** *(A)*	**2007** *(F)*	**2008** *(F)*	**2009** *(F)*
Designed throughput[1]	tpd	1,000	1,000	1,000	1,000	1,000	3,400
Actual throughput	tpd	1,000	1,000	1,000	1,000	1,000	3,400

[1] As at the end of the year. A = actual, F = forecast

5.7 Mine Services

A brief overview of the mine services observed during the site visit include; Ventilation, Water Management, Compressed Air and the Backfill System. A description of the present configuration and the planned expansion of each service is summarised below. Based on the premise of what was outlined and proposed for future development of the expansion project, it appears that the mine services should not be a hindrance provided they are constructed and commissioned on time.

5.7.1 Ventilation

The present ventilation consists of an intake and exhaust shaft. The current ventilation intake is the new Auxiliary Shaft. The main intake level is 590mRL and the exhaust shaft is Number 1 Exhaust Shaft. The main exhaust level is 770mRL. There are auxiliary fans within the mine working to reticulate the fresh air to desired workings.

The expansion project plans requires additional ventilation. The original ventilation system is unchanged and is shown in Figure 20. The proposed ventilation system for the mine expansion is shown in Figure 21 below.

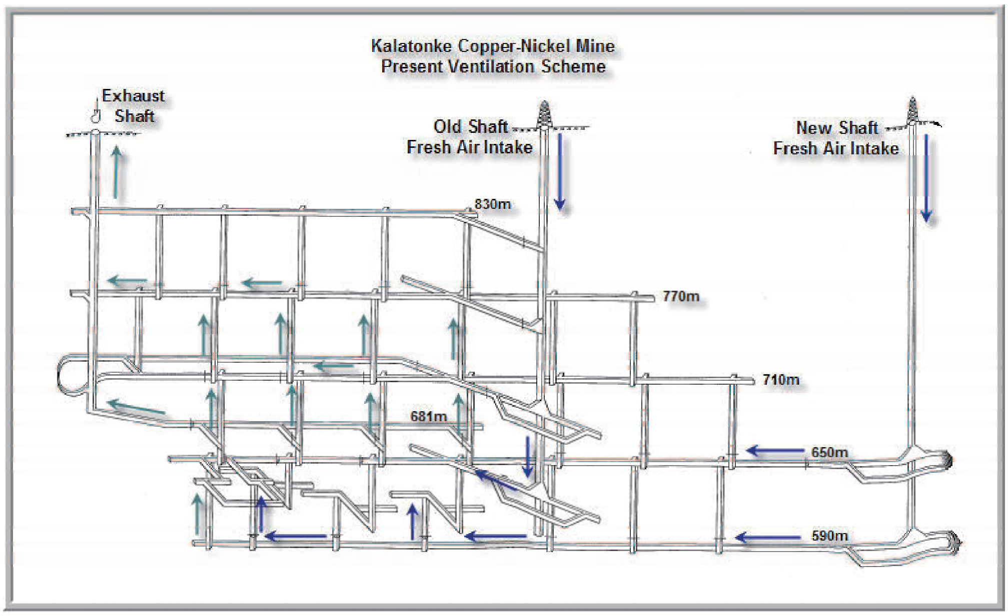

Figure 20: Kalatongke Mine Present Ventilation System (Orebody 1)

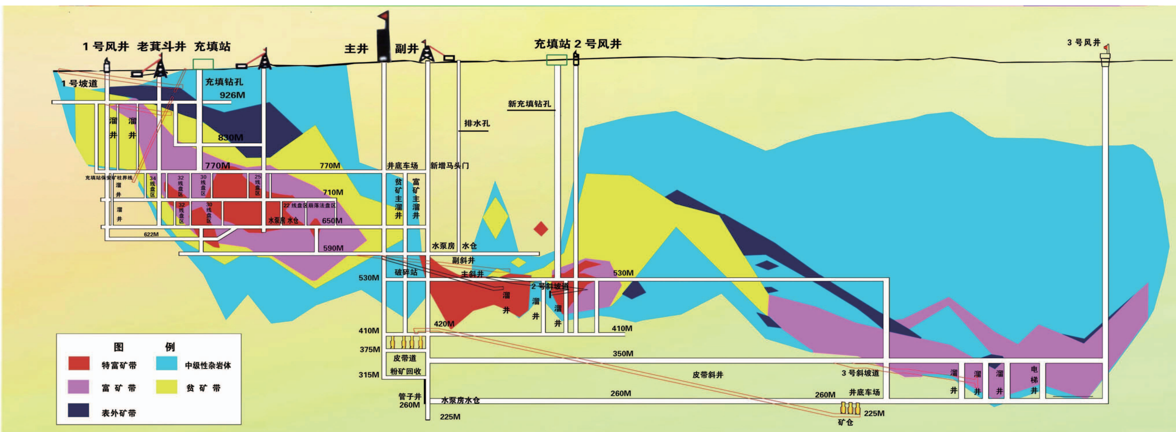

Figure 21: Kalatongke Mine Expansion Ventilation System (Orebody 1, 2 & 3)

5.7.2 *Water Management (Drainage and Pumping)*

The Kalatongke Mine is wetter than many mines and the water table is not expected to reduce significantly over the life of the project. The waste water inflow from Deposit #1 is typically 4,000m^3/d with a maximum inflow of 5,500m^3/d. Water generated by mine operations is typically 400m^3/d from mining and 161m^3/d from backfilling activity.

There is a pumping station presently located at the 650m Level which consists of three D155x7 pumps (155 m^3/h) and four D46x7 pumps (50m^3/h). This pumping station along with the 590m settling pond will be used in orebody #1 for the next 8 years of the expansion.

The mine expansion to orebody #2 will require alternative and/or complimentary water handling facilities. The feasibility study has facilitated this requirement. The company has advised SRK that it has drilled some water boreholes from the surface near the new main shaft and is building a pumping station at 590 level underground. This pumping station will pump underground water directly up to the surface to be used in processing and smelting. The project will involve a depth of 428m from the surface to the 590 level in the shaft, a discharge borehole of 250mm diameter, a transformer chamber at 800m underground and a water sump with 1,000 cubic meters capacity.

5.7.3 Explosives supply

In order to improve the management of explosives supplies and to reduce the transport time, after discussion with Public Security Bureau of Fuyun County and the Civil Blasting Equipment Company, a new underground warehouse will be built. The old warehouse will be changed into a temporary warehouse. The explosives used for underground mining will be delivered directly to the underground warehouse from the Blasting Equipment Co., and the amount for every delivery should be for no more than 3 days requirements. From 18th April 2007, the Fuyun Public Security Bureau assisted with a five-day training course and knowledge quiz for blasting knowledge which was attended by 98 people.

5.7.4 Compressed Air

The air compressor station is presently located near the main shaft. To meet the demand of 188 m^3/min for producing 1,000tpd (306,000tpa) a 5L-40-8 compressor and a 4L-20-8 compressor are used.

The anticipated demand once the full ramp up for mining has reached 5,400tpd (1,652,400tpa) is 308 m^3/min. The original air compressors located at the main shaft will be decommissioned and a new compressor station will be established near the auxiliary shaft and will consist of three LU355W-8 air compressors for Phase 1 of the expansion with a further three more required for phase 2 of the expansion. In total there will be six LU355W-8 air compressors with five in operation at any given time.

Based on observations during the site visit and reviewing the requirements for the mine's expansion there appears to be no issue with the compressed air requirements of this operation.

5.7.5 Backfill System

Based on the underground inspection of the Kalatongke mine the backfill appeared to be performing well for the Undercut and fill mining method reviewed. The backfill system integrates internal reinforcements by means of a 200mm by 200mm grid of wire meshing that is interconnected with wire from the previous lift.

The backfill requirements for the expansion project are shown in Table 20. The company has advised SRK that is plans to invest RMB8.02 million for a project to construct a stope filling plant using tailings, cement and Gobi aggregate. The project is planned to be commissioned in December 2007.

Table 20: Backfilling Requirements for Phase 1 and Phase 2 of the Kalatongke Expansion

	Phase 1		Phase 2	
Mined Void to Fill	193,000m^3/a	632m^3/d	315,000m^3/a	1,030m^3/d
Demand from Backfill plant accounting for losses and compaction	230,000m^3/a	763m^3/d	380,000m^3/a	1,240m^3/d
Gobi Aggregate Consumption	161,000m^3/a	526m^3/d	290,000m^3/a	948m^3/d
Cement Consumption	32,000t/a	105tpd	47,000t/a	154tpd

5.8 Mine Safety

The safety of the Kalatongke Mine is of a high standard compared to average Chinese mining standards. There is a conscious effort by management to promote safety. Although the standards do not meet western standards, appropriate systems are in place and over time it is predicted that the safety practices and standards will continue to improve. Safety procedures and performance statistics are discussed further in Section 7 of this report.

6 METALLURGICAL AND PROCESSING ASSESSMENT

6.1 Kalatongke Concentrator

6.1.1 Process Description

The Kalatongke concentrator processes sulphide ore from the underground mine and other sources external to the mine to produce two concentrates. The concentrator uses sequential flotation techniques after crushing and grinding. A copper concentrate is sold to external customers and a copper nickel concentrate is processed at the adjacent smelter.

The ore mineralogy comprises chalcopyrite and violarite as the major Cu and Ni species with pyrite and pyrrhotite as the major Fe constituents. The current processing capacity is slightly in excess of 1,000 tonnes per day.

The Kalatongke concentrator is typical of world practise for treating sulphide nickel ores.

6.1.2 Milling

The milling of the ore from minus 350mm to the intended grind size is carried out in three stages. Ore in railcars from the underground mine is moved to the respective stockpile of super-rich ore (cut off 3.0% Ni), rich ore (cut off 1.0% Ni) and normal ores. The ore is blended to maintain a consistent grade typically 1.3% Cu and 0.7% Ni before feeding to the mill. The primary milling stage utilises a 5.5m diameter 1.8m EGL Autogenous mill with a 900 kW motor. The mill discharges into a twin spiral separator where a coarse fraction is recovered to feed into a 2.7m diameter 3.6m long ball mill with a 400kW drive. The discharge from the secondary mill flows to the spiral classifier. The spiral classifier overflow is pumped to two 250mm diameter cyclone clusters in parallel. The underflow from the cyclones gravitates to two parallel 2.1m diameter 3.0m long ball mills with 210kW drives. The mills' discharge is in closed circuit with the cyclones and is recombined with the spiral classifier overflow forming a closed loop. The cyclone overflow gravitates to the flotation conditioners. The intended grind for flotation is 80% passing 200 mesh (equivalent to 80% passing 74 microns).

6.1.3 *Flotation*

The flotation circuit comprises an initial Cu roughing stage with one cleaning stage. The pulp from the tertiary grinding cyclones gravitates to two conditioning tanks in series. The pH of the pulp is raised with sodium carbonate and lime to a pH of 8.5. CMC (carboxy methyl cellulose) and sodium silicate are added as gangue dispersants. A small amount of a mixed promoter (sodium ethyl xanthate and di thio phosphate) are added with pine oil added as a frother. The conditioned pulp gravitates to the copper roughing flotation cells where a rougher concentrate is collected and following further lime and CMC additions is pumped to a single bank of cleaning cells. The products from the cleaner flotation cells are a copper concentrate and the cleaner tails which are incorporated in the mixed concentrate production.

Copper recovery in this circuit is 45% to 47% and the concentrate grade is 25% to 30% copper. The total flotation residence time in the Cu circuit is 35 minutes. The tailings slurry from the copper rougher is conditioned with a CMC mixed promoter and pine oil and activated with copper sulphate. The slurry then gravitates to the Cu-Ni rougher flotation where a concentrate is collected and sent directly to dewatering. The rougher tailings are further conditioned with copper sulphate, CMC, mixed collector and frother and then scavenged. The scavenged concentrate is collected and subjected to two stages of cleaning to remove entrained gangue and maximise Cu and Ni recovery. The tailings from the cleaning stages recycle to the previous stage. The tailings from the Cu Ni scavenger cells are the final plant tailings.

The flotation residence time for the Cu-Ni circuit is 105 minutes. Nickel recovery is 80% to 83% and copper recovery is 40% to 47% to make a concentrate of approximately 3.5% Cu and 3.5% Ni.

The typical reagent consumptions for the Kalatongke concentrator are shown in Table 21.

Table 21: Typical Reagent Consumption — Kalatongke Concentrator

Reagent	Reagent Consumption in g/t of ore processed
Na_2CO_3	1,600
CMC	230
SEX	90
Dithio Phosphate	55
Na_2SiO_3	200
Pine Oil	115
$CuSO_4$	480
CaO	600

Tailings from the plant are processed using 150mm diameter cyclones to produce a coarse product for use as cemented sandfill in the underground mine. The sand fill plant consumes some 40% of the total tailings. The remaining tailings are impounded in a single tailings storage facility (TSF) situated approximately 3km from the concentrator. Excess water from the tailings is returned to the plant for reuse. The company advised SRK that a side dam was build near the tailing dam during 2006 and early 2007 to further filter the water and pump all the water back to the processing department for use. The company further advised that the pipes for the tailing transporting have been enlarged from the original diameter of 108mm to a diameter of 159mm. The amount of water recycled back to the processing department has been increase from 600m^3 to 2,200m^3, thus reducing the quantity required from the pipeline and also reducing the risk of the damage to the dam wall due to a high water level.

All equipment at the Kalatongke concentrator was of Chinese manufacture. The flotation cells are a self inducing type to provide air for flotation. Reagent addition was controlled from a PC based system developed on the Plant and addition rates were adjusted in response to sample assays. These were taken manually at timed intervals and provided both an early result and a composite shift sample. In addition the control system monitors bin levels, power draw and motor condition of major equipment. The plant final concentrates are thickened and filtered by vacuum drum filters and plate and frame filters. Copper concentrate moisture is typically 13.5% H_20. Copper Nickel concentrate is typically 17.5% H_20.

A simplified flow diagram for the Kalatongke concentrator is depicted in Figure 22 below.

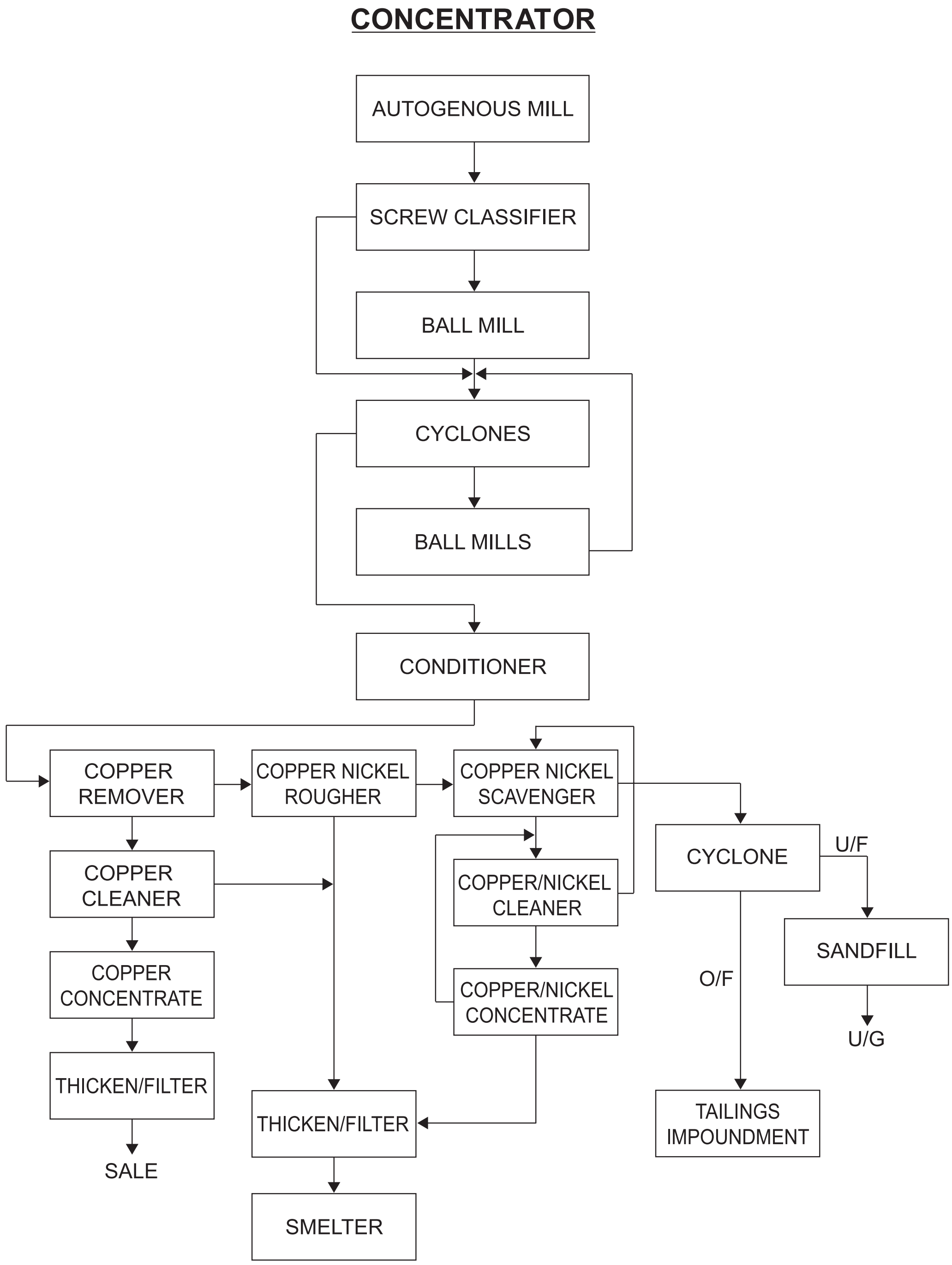

Figure 22: Simplified Flow Diagram for Kalatongke Concentrator

6.1.4 Plant Services

Electrical power is supplied from the external grid and is transformed to the required voltage. Water for the concentrator is pumped from underground aquifers, largely being sourced from mine de-watering activities and is also recycled from the tailings storage facility (TSF). If additional make-up water is required it can be sourced from recently located groundwater sources, which allow reduced water supply costs. Recycling of water from the tailings dam reduces water consumption.

6.1.5 Metallurgical Performance

The plant metallurgical performance is consistent as shown in Table 22.

Table 22: Metallurgical Recovery at Kalatongke Concentrator

Copper Recovery into copper concentrate	45% to 47%
Copper Recovery into Mixed concentrate	40% to 47%
Nickel Recovery into nickel concentrate	82%

Total power consumption at the concentrator was quoted as 46-48 kWh/tonne ore, which included crushing and grinding power consumption of 31 kWh/tonne ore.

There are a total of 126 employees working at the concentrator who work on a 4 shift roster, i.e. three shifts of eight hours per day, with one shift on leave.

6.1.6 Plant Maintenance and Housekeeping

The plant house keeping appeared good for the age of the plant and most working areas were clear and clean. Plant availability/utilisation was quoted at 90%.

6.1.7 Assay Laboratory

The laboratory is equipped for metallurgical testing including flotation machines filtration and milling equipment. The assaying facilities are of good standard with atomic absorption (AA), photo-spectrometer and X-ray diffraction (XRF) methods available.

6.1.8 Metallurgical Sampling and Accounting

Metallurgical sampling is manual. The frequency and sampling points ensure that normal metallurgical accounting and plant control can be performed.

6.1.9 Throughput Expansion Potential

The current mill capacity is 1,000 tonnes per day. The flowsheet is robust and suitable for the ores to be treated with acceptable availability, utilisation and mineral recovery. There is no simple means of increasing the capacity of the plant while maintaining the current performance. In 2007, Kalatongke mine does not plan to purchase ore from other mines. Instead the company plans to purchase some copper and nickel mixed concentrate. It is intended to increase concentrator capacity by building a new facility of a similar flowsheet, parallel to the existing concentrator. The initial increase is planned to be of 2,000 tonnes per day to provide a daily capability of 3,000 tonnes per day (tpd) by the end of 2009 with 400 tpd of super rich ore from Kalatongke mine being sent directly to the smelter.

The historical and forecast concentrator production schedule is shown in Table 23.

Table 23: Kalatongke concentrator design and actual throughput, 2004 to 2009

	Units	2004 *(A)*	2005 *(A)*	2006 *(A)*	2007 *(F)*	2008 *(F)*	2009 *(F)*
Designed throughput[1]	tpd	1,000	1,000	1,000	1,000	1,000	3,000
Actual throughput	tpd	1,000	1,000	1,000	1,000	1,000	3,000

1 As at the end of the year A = actual, F= forecast

6.2 Kalatongke Smelter

6.2.1 Process Description

The smelting process at Kalatongke is typical of world practise for treating sulphide nickel ores and comprises blending of concentrate, coke, ore, fluxes and converter slag to charge a blast furnace. The furnace produces a mixture of liquid molten sulphides and a liquid siliceous slag combining gangue elements from the charge and particularly some of the iron contained in the concentrate. The furnace is tapped at regular time intervals to produce a matte for further processing in the converters.

The blast furnace charge is prepared by extracting the required component mix from the flux storage bins and blending to the required chemical analysis and conveying to the charging ports at the top of the furnace.

The smelter is controlled via a computer system developed by the operations personnel. This system also monitors the performance of major equipment such as the air blowers and logs performance. The furnace slag, which is low in metal values, is quenched and stockpiled – a portion being used in the sandfill mixture. Waste gases are ducted away and after removal of dust and particulates by gravity and cyclones released to the atmosphere.

The molten sulphide matte is transferred to a horizontal blown Pierce Smith type converter where pressured air is blown through tuyeres into the matte and siliceous fluxes added to further reduce the iron and the sulphur content of the matte. The current blast furnace matte grade is approximately 8.6% Ni, 7.9% Cu, 50.0% Fe and 27.7% S.

Waste gases are collected from the mouth of the converter and subsequent to two stage dust collection are released to the atmosphere as per the blast furnace waste gas. The converter is slagged at intervals and the converter charge topped up with fresh blast furnace matte until the desired matte composition is achieved. The converter is turned out and the matte collected in a steel ladle which is then quenched in excess water producing a finely dispersed granular product for refining. The converter slag with entrained Cu and Ni values is recycled through the blast furnace via flux bins.

The blast furnace has a hearth area of 10.5 m^2. The plant has 4 converters with each being 2.2m diameter, 4.6m long and of 10 tonne capacity.

As of 31 March 2007 there were a total of 296 employees at the smelter who work on a 4 shift roster, i.e. three shifts of eight hours per day, with one shift on leave.

The flowsheet for the Kalatongke smelter is depicted in the figure below.

The reserves shown in Table 4 include up to 1.75Mt of ore classified by the company as "super high grade" which has a nickel or copper content greater than or equal to 3%. This "super high grade" ore does not require concentration and can be fed directly to the smelter, eliminating the concentration process and thereby reducing operating costs. This "super high grade" ores provides a significant cost advantage to the company.

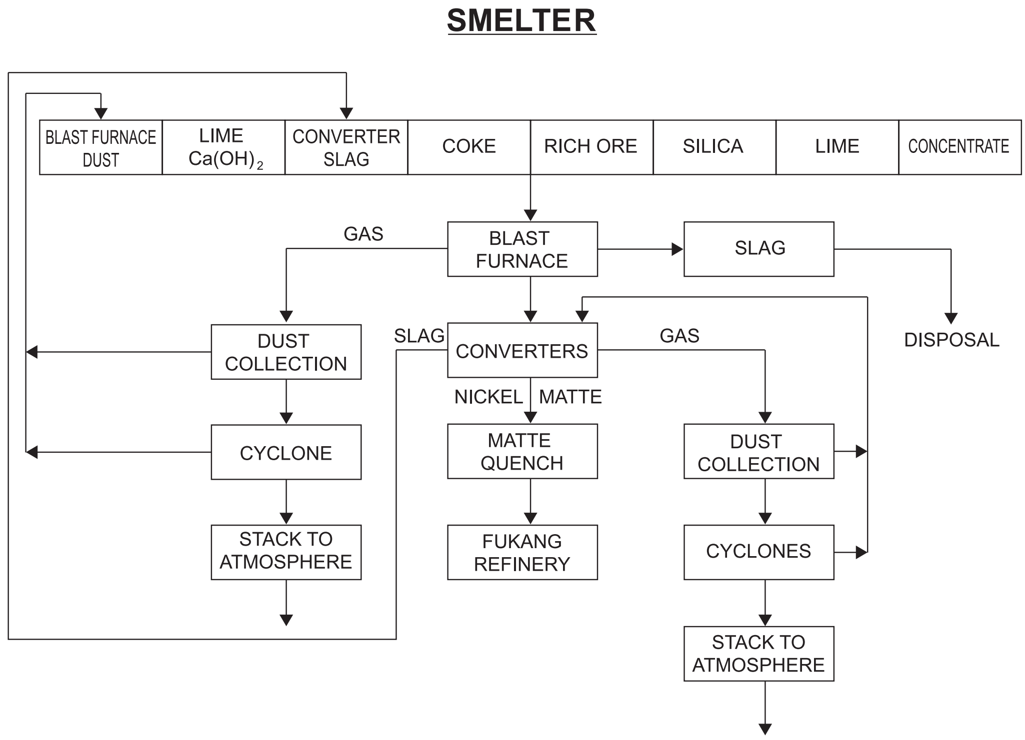

Figure 23: Simplified Flow Diagram for Kalatongke Smelter

6.2.2 *Plant Services*

Electrical power is supplied from the external grid and is transformed to the required voltage. Water for the smelter is provided by the underground water from the mine with the addition of recycled water from the tailings storage facility.

A Pressure Swing Adsorption (PSA) oxygen plant with a capacity of 3,000m^3/hr of 90% oxygen has recently been installed. The oxygen is being used to enrich the air in the blast furnace, which increases throughput by approximately 15% and reduces operating costs by approximately 10%. Enriched converter air is soon to be introduced which is expected to increase the throughput rate per blow.

6.2.3 Metallurgical Performance

The matte grade produced has a general composition as shown in Table 24.

Table 24: Typical Matte Composition — Kalatongke Smelter

Element	Percentage
Ni + Cu	>70%
S	<18.5%
Fe	<1.5%
NiO	<1.2%

Current production from the Kalatongke smelter is in excess of 7,000 tonnes of quenched matte per annum. Recovery of metal at the smelter into the quenched matte up to 31 March 2007 was 93% Ni and 93% Cu.

6.2.4 Plant Maintenance and Housekeeping

The smelter was not operating at the time of the SRK inspection as the blast furnace was being refurbished. The level of housekeeping appeared to be generally good and of acceptable standard. Equipment generally seemed to be in good repair and well maintained. The blast furnace campaign life is approximately 18 months. The tuyere line of the converters has a life of approximately 45 blows. Both these figures are in general agreement with world practise.

6.2.5 Reagent Consumption

Major consumable materials were coke in lump and fine form, silica flux and lime and their consumption is shown in Table 25.

Table 25: Typical Reagent Consumption — Kalatongke Smelter

Reagent	Reagent Consumption
Coke	22,526t/annum
Silica flux	27,500t/annum
Lime/Limestone	2200/5600t/annum
Water	26m^3/t of product

6.2.6 Assay Laboratory

The assaying facilities for the smelter are shared with the concentrator as described in section 6.1.7 above.

6.2.7 Metallurgical Sampling and Accounting

Metallurgical sampling is manual. The frequency and sampling points ensure that normal metallurgical accounting standards and plant control are maintained.

6.2.8 Throughput Expansion Potential

A feasibility study has been completed for increasing the quantity of ore and concentrate to be processed at Kalatongke. The construction of a new smelter with increased blast furnace capacity, larger converters, slag cleaning and acid production has been studied and costed. The capture of the sulphur dioxide entrained in the smelter waste gas is planned with a proposed installation of a double contact acid plant capable of producing 170,000t of 98% acid per annum.

The present converter capacity can cope with the planned initial phase of increased matte production by the introduction of oxygen enrichment and also the increase of the diameter of two converters from 2.2m to 2.4m. These two equipment changes are expected to increases the capacity of the converters to 15t per blow.

The table below sets out the processing capacity of the Kalatongke smelter for the period 2004 to 2006 and the forecast processing capacity for the period 2007 to 2009.

Table 26: Kalatongke smelter design and actual throughput, 2004 to 2009

	Units	**2004** *(A)*	**2005** *(A)*	**2006** *(A)*	**2007** *(F)*	**2008** *(F)*	**2009** *(F)*
Designed throughput[1]	tpa	3,000	3,000	3,600	3,600	3,600	7,000
Actual throughput[2]	tpa	2,644	3,471	3,693	3,677	3,879	5,373

1 As at the end of the year. A = actual, F = forecast

2 Where actual throughput exceeds the design capacity it is as a result of technical adjustments by the company and other contributing improvements

6.3 Fukang Refinery

6.3.1 Process Description

The Ni-Cu matte from the Kalatongke smelter is processed at the Fukang refinery into nickel, copper and cobalt cathodes of good quality on a continuous basis. Contained precious metal gold, silver, platinum and palladium are recovered and refined from the copper refining section residues on a batch basis. The refinery processes used are well known and proven and relatively simple to use and control in the context of hydrometallurgical operations. The technology used is well proven and similar to technology used in other refineries worldwide. The expansion project proposes to duplicate the existing proven technology with minor improvements and therefore represent a low risk and is likely to be implemented successfully.

The nickel matte from the smelter is ground in two stages to produce a product of 90% passing 325 mesh (equivalent to 38 microns). The thickened and filtered solids are conditioned with barium carbonate, sodium sulphate borax and sulphuric acid to a pH of 5.8 to 6.2. The pulp is leached at a temperature range of 60 to 90 degrees C with an air rate of 1000-2500Nm^3/t for between 4 and 8 hours. The slurry is thickened and the underflow is further conditioned with sulphuric acid to pH between 1.0 and 4. This slurry is then submitted to pressure acid leaching in an autoclave at 130-165 degrees C and a pressure of 0.8 to 1.0Mpa. Residence time is between 2 and 4 hours. After pressure let down the pulp is filtered and the filtrate is recycled to the pre-leach conditioner. The filter cake is predominantly a copper sulphide residue with less than 3.5% Ni. The residue is transferred to the copper recovery section.

The overflow from the primary leach thickener, which typically has a Ni tenor above 80g/litre, is filtered. The residue is returned to the pressure acid leach circuit and the filtrate is mixed with black nickel, basically Ni^{3+}, to precipitate cobalt from solution. The black nickel is prepared from filtrate at a pH of 5.8 to 6.2 which is electrolysed at 40-60 degrees C and a cell voltage of 2.5-3.2 V. The process takes approximately 20 hours and requires a Ni^{3+}:Co^{2+} of 2:1. This technique was introduced by Outokumpu Oy and has been practised in various parts of the world. The resultant slurry is separated by filtration. The Ni-rich filtrate typically with an assay of Co<0.01g/litre, Ni >80g/litre, H_3Bo_3 3-8g/litre Cu, Fe <0.004g/litre is conditioned with sulphuric acid and electrolysed for 5 to 7 days at 2.0-3.85 V. The resultant cathodes are removed, washed, assayed and prepared for packaging before sale.

The copper sulphide residue is processed by conventional roast, leach, and electrowinning technology. After an oxidation roast, the roaster concentrate is copper-leached and filtered with spent electrolyte. The copper rich filtrate is conditioned with further sulphuric acid to 44g/litre and electrolysed. The off gas from the roaster is passed through an acid plant to remove sulphur dioxide. The plant with a capacity of 3,000 tonnes of sulphuric acid supplies all requirements at Fukang. The excess of approximately 1,000 tonnes is sold to external customers. Conditions applied to copper cathodes are 1.6V to 2.1V at 50-70 degrees C for 5-7 days. Current efficiency is 95%. The copper cathodes are washed and bundled for sale.

The cobalt residue is processed by conditioning with sulphuric acid, barium carbonate and sodium sulphite. The residue is filtered and the residue returns to the nickel plant. The filtrate is processed in two solvent extraction stages. The first stage uses a phosphoric acid based extractant (P_20_4) to remove iron and some Ni from the solution. The reverse extraction is by sulphuric and hydrochloric acid. A second phosphonic acid based extraction (C272) is used for Ni and Co separation. Following the reverse extraction from the organic with hydrochloric acid, the $CoCl_2$ solution is de-oiled and after resin exchange electrolysed to produce a cobalt cathode which is washed and bundled before sale.

The precious metal residues are roasted with the slag being discarded and the metal matte being quenched crushed milled and leached.

The leach solution is processed to remove silver. For the residue, ion exchange in conjunction with ammonia solution and hydrochloric acid is used to separate copper gold, platinum and palladium.

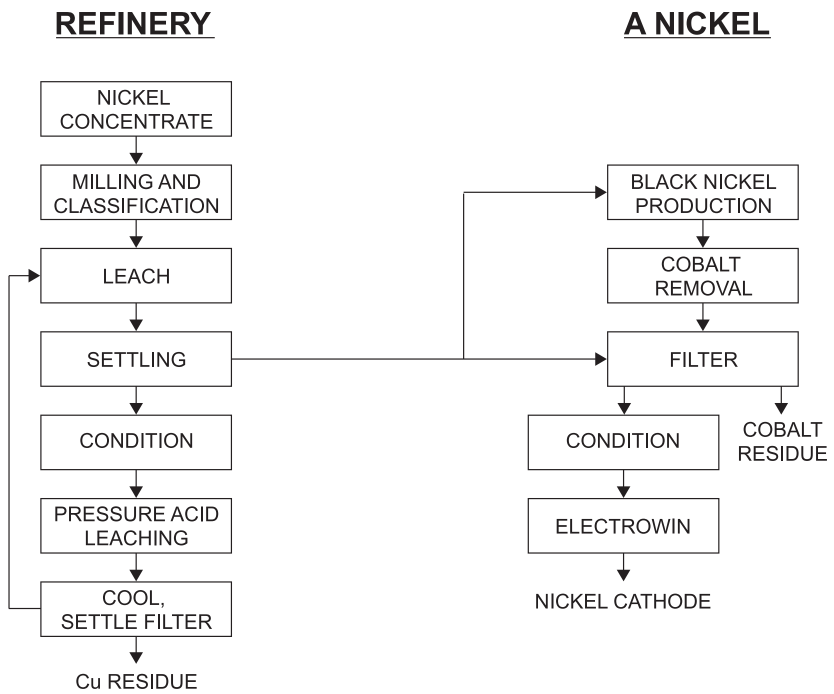

Figure 24: Simplified Flow Diagram for Fukang Refinery Nickel Circuit

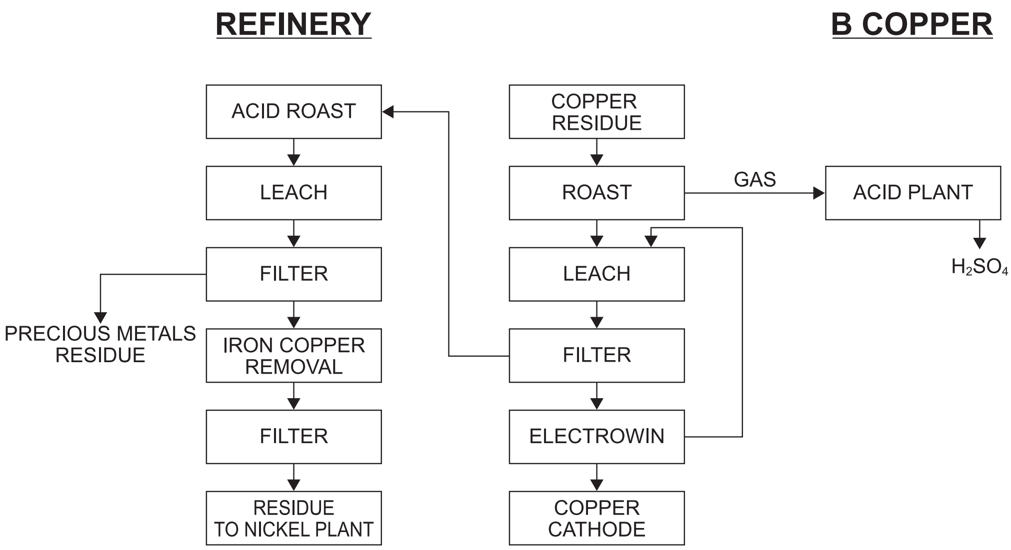

Figure 25: Simplified Flow Diagram for Fukang Refinery Copper Circuit

REFINERY C COBALT

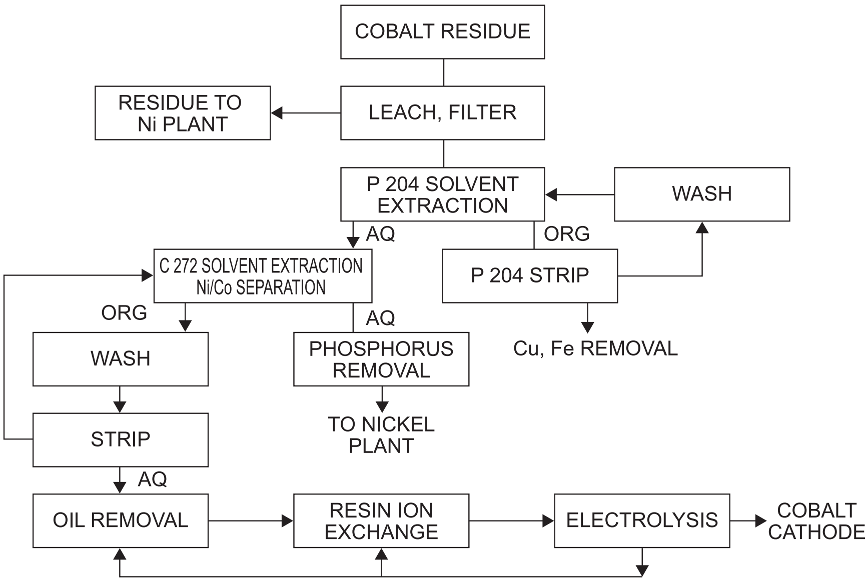

Figure 26: Simplified Flow Diagram for Fukang Refinery Cobalt Circuit

6.3.2 *Plant Services*

Electrical power is supplied to the Fukang refinery from the local grid system. At 31 March 2007 the cost was RMB0.32 per kWh. Adequate water is available from three bores of which only one is in use at a time. The cost of water for the Fukang refinery is RMB1.98 per m^3.

6.3.3 *Metallurgical Performance*

Production of major metals from the Fukang refinery in 2006 is shown in Table 27.

Table 27: Fukang refinery production and metal recoveries, 2006

3,365.0 tonnes Ni metal at 9996 grade	Metal recovery 96.7%
3,147.5 tonnes Cu metal	Metal recovery 95.5%
21.2 tonnes Co oxide	Metal recovery 79.8%

The total labour force at the Fukang refinery at 31 March 2007 was 1,020. The workforce work on a 4 shift roster, i.e. three shifts of eight hours per day, with one shift on leave.

6.3.4 *Plant Maintenance and Housekeeping*

The plant housekeeping was generally good and to an appropriate standard.

6.3.5 *Reagent Consumption*

Typical reagent consumption and costs at the Fukang refinery for the period of January to December 2006 are shown in Table 28.

Table 28: Reagent Consumption and Cost — Fukang Refinery, to 31 December 2006

Reagent	Consumption	Cost	Unit
XP-1 froth dispersant	2,800kg/annum	16	RMB/kg
Boric Acid	21t/annum	4,800	RMB/t
Barium Carbonate	153t/annum	2,050	RMB/t
Sodium Sulphite	102t/annum	3,300	RMB/t
C272 SX extractant	1,087kg/annum	560,000	RMB/t
Sodium Carbonate	2,343t/annum	1,550	RMB/t
Caustic Soda	320t/annum	2,700	RMB/t
HCl	408t/annum	750	RMB/t

6.3.6 *Assay Laboratory*

The laboratory at the Fukang refinery is well equipped with one Inductively Coupled Plasma -mass spectrometry unit, two AA units and a photo-spectrometer. The laboratory is to International Standard. Metal analyses also meet international standards.

6.3.7 *Metallurgical Sampling and Accounting*

Metallurgical accounting is conducted to industry standards.

6.3.8 *Throughput Expansion Potential*

The nickel refinery section is currently under expansion which will facilitate an increase of capacity to 13,000 tonnes per annum of Ni. Copper and cobalt facilities are adequate at this stage for increased throughput.

The table below sets out the processing capacity of the Fukang refinery for the period 2004 to 2006 and the forecast processing capacity for the period 2007 to 2009.

Table 29: Fukang refinery design and actual throughput, 2004 to 2009

	Units	2004 *(A)*	2005 *(A)*	2006 *(A)*	2007 *(F)*	2008 *(F)*	2009 *(F)*
Designed throughput [1]	tpa	2,040	3,000	3,000	5,000	8,000	13,000
Actual throughput [2]	tpa	2,659	3,260	3,365	5,000	8,568	10,010

1 As at the end of the year. A = actual, F = forecast

2 Where actual throughput exceeds the design capacity it is as a result of technical adjustments by the company to improve electricity flow and other contributing improvements

7 OCCUPATIONAL HEALTH AND SAFETY

7.1 Safety Procedures and Training

7.1.1 Safety Procedures

Kalatongke has a Safety Production Committee which has 13 full time employees. The Safety and Environmental Protection Division has four (4) full time employees. Each workshop has a safety committee and written safety goals are required. An annual review of safety responsibilities is conducted. Monetary incentives are paid to the company by each Workshop Director as a "deposit". At the end of the year, if the safety performance of the workshop for which he is responsible is satisfactory, the Director receives the deposit and a bonus of up to two times that sum.

Before the start of each shift employees hold safety meetings of about 15 minutes duration with the previous shift workers in their work area. The previous shift workers are required to complete a written and signed safety report to advise the incoming shift about the prevailing work conditions.

Each workshop holds a monthly safety meeting which includes a one hour presentation by the Director of the workshop safety committee. After any serious accident the workshop Director is required to complete additional safety training. The best 10% of staff who perform their work safely receive a monetary reward or goods to the equivalent value.

During the site visits, SRK noted that safety signage and personal protective equipment (PPE) was provided to employees. However, SRK notes that improved utilisation of PPE and other strategies can be employed to reduce health and safety risks to the workforce. Accordingly, the company has indicated a desire and intention to improve the appropriate use by employees of PPE.

7.1.2 Safety Training

Safety training for new employees is provided at three levels.

1. Recruitment training of seventy two (72) hours including an introduction to relevant regulations and general safety awareness training.

2. Workshop specific training of three (3) days, including an introduction to the work area and the role of the individual within the workshop.

3. Work Group or Shift specific training, including a probationary period of six (6) months during which the new recruit is not permitted to work unsupervised.

Established employees are provided with updated training every year or every second year depending on the employees experience level. Employees with roles which require certification or licensing (e.g., the use of explosives) are trained by the relevant statutory authority. Such training could extend over seven (7) days per annum and includes skills testing before a certificate or licence is issued.

During 2006 426 people were trained for a range of special positions, including 108 electricians, 85 welders, 128 crane-men, 20 pressure vessel workers, 80 stokers and 5 for water treatment. All attendees received their licences for these special positions.

7.2 Historical Safety Records

The Kalatongke site, including the mine, concentrator, refinery and support facilities have achieved the accident statistics as shown in Table 30. SRK notes that there were four fatalities over the period from 2004 to 31 March 2007, one involving a company's employee and two involving contractors. The company advised that new regulations since the beginning of 2006 requires the company to pay a minimum of RMB200,000 or a sum equivalent to 60 months salary as compensation to the bereaved family of employees but not contractors.

Table 30: Kalatongke Accident Statistics, 2004 to 30 June 2006

	2004		2005		1 January to 30 June 2006		30 June 2006 to 31 March 2007	
	E	C	E	C	E	C	E	C
Minor	2	2	1	2	2	4	0	0
Serious	0	0	0	2	0	0	0	0
Fatal	0	2	1	0	0	1	0	0
Total	**2**	**4**	**2**	**4**	**2**	**5**	**0**	**0**

E = Employees, C = Contractors

SRK considers the above accident statistics to show that the company is very committed to safety training, provision of safety equipment and safety monitoring. The statistics compare very well with other mining companies in China and against international best practise.

7.3 Workforce Turnover

Workforce numbers were 1,147 at 31 March 2007 and included people from 11 different ethnic groups. Staff turnover is stated as very low at about 10 people per year, i.e. less than 1% of the workforce. The mining contractor may have an employee turnover of about 10% but there have been no problems with the provision of the skilled workers required.

Several of the technical management of the company have worked at Kalatongke for over 15 years and have a thorough knowledge of the geology and mining conditions in the mine.

8 OPERATING AND CAPITAL COSTS

8.1 Operating Costs

8.1.1 Historical and Forecasting Operating Costs

The major cost inputs to the project are electrical power, salaries and water. The average electrical power costs of the company from January to March 2007 was RMB0.38/kWhr and the average cost of water was RMB1.9/cubic metre. The average salary for surface workers was RMB2,000/month and average salary for underground workers was RMB3,000/month.

8.2 Capital Costs

The expansion project will require accumulative capital investment of RMB430 million at the mine and concentrator, RMB394 million at the smelter at Kalatongke and RMB182 million at the refinery at Fukang. Total capital investment is forecast at RMB1,006 million.

Of these amounts RMB382 million will be spent at the mine and concentrator, RMB394 million at the smelter at Kalatongke and RMB93 million at the refinery at Fukang, from 2007 to 2009, inclusive. Total capital investment from 2007 to 2009, inclusive, is forecast at RMB869 million.

The capital costs estimated by the company are shown in Table 31.

Table 31: Xinxin forecast capital investments, 2007 to 2009

	Mining and ore processing operations *(RMB millions)*	**Smelting operations** *(RMB millions)*	**Refining operations** *(RMB millions)*	**Total** *(RMB millions)*
FY 2007	164.0	5.0	43.8	212.8
FY 2008	137.1	293.1	39.1	469.3
FY 2009	80.6	96.2	10.0	186.8
Total	**381.7**	**394.3**	**92.9**	**868.9**

FY is the financial year from January to December

8.2.1 *Expansion Capital*

The expansion project at Kalatongke including the mine, concentrator and smelter is estimated to cost RMB776 million. Of this amount, 62% is for buildings and 38% is for equipment, with other components making up the total.

The expansion at the refinery at Fukang is forecast by the company to cost RMB93 million. Of this total 17% is for buildings and 83% is for equipment.

The total capital cost of the expansion is currently forecast at approximately RMB869 million.

8.2.2 *Sustaining Capital*

International practise suggests that sustaining capital cost for a project will require in the range of 3% to 5% per annum of the initial capital expenditure. Therefore in the case of Xinxin, it is likely that sustaining capital requirements will be as shown in Table 32.

Table 32: Estimated Sustaining Capital Requirements

		Forecast Capital investment *(RMB million)*	**Forecast Sustaining Capital** *(RMB million p.a.)*
Kalatongke	Mining & Concentrator	382	11.5 to 19.1
	Smelter	394	11.8 to 19.7
Fukang Refinery		93	2.8 to 19.7
Total		**869**	**26.1 to 43.5**

SRK is of the opinion that the proposed capital expenditure is likely to achieve the aims of the company and result in the forecast production from the mine, concentrator, smelter at Kalatongke and the refinery at Fukang.

9 INFRASTRUCTURE

9.1 Road Access

Access to the Kalatongke project is by highway number 216, a good quality, sealed, double-carriageway from Urumqi via Fukang. Regular deliveries of foodstuffs and domestic requirements for the town, plus all processing reagents are delivered to the site via this road. All supplies and construction materials for the planned expansion are also expected to be delivered to site via this road. The products from the site are transported by truck to Fukang and Urumqi via the same road.

9.2 Electrical Power Supply

Kalatongke and the Fukang refinery are connected to the regional electrical power grid which has available capacity for both the current production rate and the proposed expansion. Existing transmission lines and transformers also have sufficient capacity for the proposed expansion.

The regional electrical power grid is sourced from a combination of hydro-electrical and coal fired power stations. One hydro-electrical power station is located only 110km from Kalatongke and several coal fired power stations are located between Urumqi and Kalatongke.

9.3 Water Supply

Kalatongke's water supply is from two sources. For domestic water and potable water, the source is a well-field at Sasekebasitao which is located 4.5km from Kalatongke. For the process plant, water is pumped from underground aquifers and is also recycled from the tailings storage facility (TSF). If make-up water is required, it has previously been sourced from the Eerqisi River. The company has recently investigated groundwater sources closer to the mine. An advisor has assisted the company with some success in locating several suitable water sources which should reduce costs. The company plans to start a project for the increased use of underground water with daily capacity of 12,000m^3, and the annual capacity of 4.3 million m^3. The project will use biological aerated filtration (BAF) technology and it is planned to complete construction and start the operation by the end of 2007. The project is financially supported by the State Reform and Development Committee.

The Fukang refinery sources its water from three local water bores.

9.4 Accommodation

The town at Kalatongke was built for the mining project and currently has approximately 5,000 residents, most of whom are employees of the mining company or are involved in support roles within the town.

9.5 Workshops and Repair Facilities

Kalatongke already has substantial repair and maintenance workshops. Due to its reasonably isolated location, the original project needed to be largely self sufficient. Therefore the company constructed a number of workshops, maintains considerable stores of spares and production reagents and employs a number of tradesmen who are trained in repair and maintenance of the equipment on site.

10 ENVIRONMENTAL ASSESSMENT

10.1 Expansion Project Environmental Impacts

Separate environmental impact assessments have been completed for each component of the proposed expansion project namely:

- The mine and concentrator located at Kalatongke
- The smelter located at Kalatongke
- The refinery located at Fukang

In all three cases the environmental impact assessments appropriately describe the regulatory setting, current site conditions including geographic and environmental settings, emissions and waste products from current project activities. The descriptions of the proposed expansion activities are consistent with SRK's understanding of the projects at each location.

The company recognises the environment as very important and has included a number of strategies to reduce air and noise pollution in particular. The company also recognises that groundwater is a precious commodity that has to be protected, especially in the light of increased local consumption for villagers and increased utilisation for crop and livestock production that is occurring in the areas of the projects.

The following discussion of environmental impacts and areas of concern therefore concentrate predominantly on a review of the environmental impact statements that have been prepared, and raise, as applicable, issues of potential concern related to these assessments and observed current site management practices.

10.1.1 Kalatongke Mine and Concentrator

Environmental Impact Assessment

Development of the underground mine requires abstraction of groundwater to maintain a safe working environment and provide access to the ore. The groundwater abstracted is used in the concentrator and elsewhere on site.

The Kalatongke underground mine produces ore and excess development waste rock. The waste rock is disposed of on surface and will be used for the construction of the tailings dam. The ore is processed in the concentrator to produce nickel and copper concentrates, and tailings is produced as a waste product. The coarse fraction of the tailings is cement amended and backfilled to the mined out stopes. The fines fraction is disposed in the tailings area. Other waste emissions include:

- air emissions,
- sewage water emissions,
- industrial and domestic litter.

The proposed project expansion will attract a larger workforce, increased equipment fleet and therefore will result in increased emissions. In particular, mining activities will increase the amount of waste rock and tailings produced.

The waste rock is disposed on surface near the main hoist. The waste rock will also be used for construction purposes in particular for the tailings dam area. No characterisation of the waste rock is undertaken prior to disposal. The environmental impact statement does not assign any risk to this waste material.

Processing of the ore concentrates the sulphide minerals that contain nickel and copper. The iron sulphide minerals, pyrite and pyrrhotite, and trace minerals of copper, nickel and other metals however are not removed completely from the ore so that some sulphide minerals are lost to the tailings. The tailings are split into a coarse fraction and a fines fraction. The fines fraction is disposed in the tailings storage area. Cement is added to the coarse sand fraction of the tailings and used as backfill in the underground workings.

Toxicity leach extraction tests to Chinese standards have been completed on the fines fraction of the tailings. The leach extraction tests showed leachable metal concentrations for nickel and copper, but within the Chinese standards. Transport calculations have been completed which showed that the rate of water release from the tailings storage facility is low, and it is concluded in the environmental impact assessment that the pore-water release is not likely to adversely impact the groundwater aquifer. The company has commissioned an independent assessment of closure requirements for the tailings facility. This Assessment was done by an independent third party, the Xinjiang Iron and Steel Design Institute Co., Ltd. The expected investment is estimated at RMB4.69 million Yuan (about USD600,000). The mine is in the Gobi area, where the rainfall is low at approximately 180mm/year, which reduces the residual risks associated with erosion and acid generation by the tailings, but these have not been fully assessed by the company. Nor does the company appear to have considered geotechnical stability issues or the design and use of water management structures. During 2006 the company invited a third party to conduct a safety evaluation of the TSF which, SRK has been advised by the company, resulted in an approval by the Safety Monitoring Bureau of Xinjiang Autonomous Region. The Production Licence is expected to be issued in June 2007.

The environmental impact assessment also assessed noise impacts and air quality impacts from the mine and concentrator expansion project.

A community consultation was undertaken in which public expressed a positive view to the project.

The environmental impact assessment also presents a cost benefit analysis which shows the proposed environmental management and control strategies for the project to be cost effective.

In SRK's opinion the environmental impact assessment identifies all the waste products, provides reasonable recommendations for future environmental management strategies and indicates that the proposed expansion project for the mine and concentrator will meet the applicable Chinese environmental standards. SRK however identified some of areas that may have current and future environmental impacts. These areas have either not been fully quantified or not been appropriately addressed in the environmental impact assessment and are summarised below.

SRK Assessment of Areas of concern

The residual sulphide minerals that are present in the mine waste products tailings may in time lead to the formation of acid and cause metals to leach from these wastes. The fine and coarse tailings, and waste rock have not been characterised adequately to determine their overall acid-base balance. The leach extraction tests that have been conducted on the tailings do not adequately estimate cumulative effects or future changes in the potential for metals released to the aquifer in the very long term. If the waste materials are not appropriately stored or secured, exposure to oxidising conditions leading to the onset of acid generation could represent environmental areas of concern in the long term.

Coarse tailings that are being backfilled to the underground workings have cement added which results in a high pH and provide secure short term storage of these materials. The backfill materials contain metal sulphide minerals that may cause metal leaching if exposed to extended oxidising conditions. When mining ceases soluble metals could be released to the groundwater which may affect groundwater quality. This risk however can be managed if the potential for metal release is known in advance and adequate control measures can be implemented. The most simple and effective control measure would be to pump water from the mine and to treat it before discharging. This however will require a long term commitment after mine closure.

The proposed closure of the fine tailings storage area is reasonable if there is no risk of metal release from the tailings in the long term, and provided adequate measures are taken to address geotechnical stability and water management. SRK has reviewed a copy of the official approval by the Environmental Protection Bureau of Xinjiang Uyghur Autonomous Region official of the tailings impoundment closure plan with a budget of RMB4.69 million, which was suggested by a third-party independent technical advisor, Xinjiang Iron and Steel Design Institute Co., Ltd. who possesses Grade A qualifications and thus possesses the relevant experience in giving the advise pursuant to Listing Rule 18.04. Although the Copper-Nickel mine is in a dry area with a low rainfall, the tailings have a sulphur content of up to 18%. The residual risk for acid generation has not been quantified. SRK considers that acid generation and/or metal leaching from the tailings is possible. The site that will need to be developed for the replacement of the existing tailings facility has not been selected by the company. Depending on the location and size of the facility, establishing a new tailings area will incur additional costs. A distant location may also incur additional capital costs, and pumping costs may impact on operating costs. The company has since indicated that they fully accept SRK's comments and in particular, the company has completed the preliminary design of the TSF and is currently working on the construction blueprint.

10.1.2 Kalatongke Smelter

Environmental Impact Assessment

At the Kalatongke smelter the concentrates are blended with coke, ore, fluxes and converter slag and melted in a blast furnace. The furnace produces a mixture of liquid molten sulphides and a liquid siliceous slag combining gangue and iron. The molten sulphide metals are then refined in the converters with air and oxygen enriched air injection to a copper and nickel matt. The process produces atmospheric emissions comprising sulphur dioxide, carbon dioxide and particulate matter, and solid waste in the form of slag and dust.

Currently, only particulate matter is removed from the gaseous emissions. The expansion program will include a sulphuric acid plant which will reduce sulphur dioxide emissions below the current emissions and will represent a considerable improvement in the air emission situation at Kalatongke. The expansion project will incorporate a number of control strategies that will reduce the overall environmental impacts including:

- A new dust filtration system for the blast furnace and the converters
- Sulphuric acid plant for sulphur dioxide removal from exhaust gases
- Hazardous waste disposal area
- Noise reduction measures
- On-line monitoring and control for real-time control of the facilities
- Greening projects

These strategies represent investments that will be undertaken by the company over the next three years to improve site conditions and protect the environment. The company has advised SRK that during 2006 it invested RMB1.1 million for the renewal and maintenance of the dust-collection system in the smelter to increase the collection efficiency.

The assessment assumes that the slag is an inert material and its disposal is of no environmental consequence, and no assessment of surface disposal of the slag was undertaken as part of the environmental impact assessment. The expansion project will result in an increase in slag production.

The environmental impact assessment also assessed noise impacts from the smelter expansion project. A community consultation was undertaken in which public expressed a positive view of the project.

The smelter assessment presents a cost benefit analysis which shows the proposed environmental management and control strategies for the project to be cost effective.

In SRK's opinion the environmental impact assessment identifies all the waste products, provide reasonable recommendations for future environmental management strategies and indicate that the proposed expansion project for the mine and concentrator will meet the applicable Chinese environmental standards. SRK however identified a number of areas that may have current or future environmental impacts. The areas of environmental risk are summarised below.

SRK Assessment of Areas of concern

In our experience slag products from similar smelter operations have shown a propensity to leach metals. The cumulative effect of infiltration that passes through the slag, when spread over a large area could impact ground water quality. Infiltration may be controlled by compacting the surfaces of the slag materials or placing impermeable covers to provide environmental protection. The company has indicated that the sale of the slag to a third party may be possible. Should the slag be sold to a third party and removed from site, the slag will no longer represent an environmental risk.

Sales contracts have not yet been established for the sulphuric acid that will be produced. The storage of large quantities of sulphuric acid on site may be costly and could represent an environmental hazard until such time that the acid can be sold.

10.1.3 *Fukang Refinery*

The Fukang refinery has an integrated processing facility designed to minimise waste products. The refinery does however produce air emissions, waste water and waste solids. The refinery has incorporated an acid plant which removes most of the sulphur dioxide from the gaseous emissions. The waste water is currently discharged to a holding pond together with treated sewage water. All the solids waste products are returned to the smelter/converter facility where it is recycled, thus solid waste production is minimised. As noted before, this integrated approach to processing clearly demonstrates the ability of the company to maximise the utilisation of the resource and minimise waste products.

The environmental impact assessment includes extensive air dispersion modelling which indicates that if controlled at the applicable standards, air emissions are not likely to adversely impact the air quality in the nearby urban areas.

Fly ash and kiln ash is also produced as a waste product from the coal fire steam plant. The fly ash has in the past been used for the manufacture of cement. A well defined strategy to deal with the ash waste products in an environmentally acceptable manner will need to be developed should the ash production exceed the demand for cement manufacture.

The waste water from the refinery and the sewage treatment plant is being discharged to a holding pond, where it appears that most of the water is being evaporated. However, monitoring results indicate that there is no net build-up of salts in the pond. This suggests that there are seepage losses to groundwater from the pond. If the company expands production as planned, the increase in discharge water may increase seepage losses and the impacts on groundwater will need to be determined. Should it become necessary, the pond could be lined to prevent seepage and a water treatment system could be installed to enable the water to be used for irrigation. The company has since indicated it will fully adopt SRK's recommendation and in particular has appointed an independent third party to design a water treatment plan.

10.2 Water Supply

At the Kalatongke site, process water and irrigation water is largely being sourced from the mine dewatering activities. Drinking water is being sourced from a groundwater well field. The expansion project will increase the site water demand which will require that the mine recover water from the Eerqisi River. The Eerqisi River has historically had sufficient water flow to meet all of the company's needs. However if dry weather conditions were to persist, this source may not be able to provide all of the water requirements. The company has recently located groundwater sources closer to the mine which can supplement water supplies from the Eerqisi River.

At the Fukang refinery additional ground water wells are being installed together with an upgrade to the supply line. These additional wells will ensure adequate water supply to serve the expansion project. It is SRK's understanding that the abstraction of the additional water supply has been approved and therefore water supply does not represent a risk to future operations.

10.3 Environmental Practices

The company has also achieved ISO 14001 certification for Environmental Management Systems. This standard is applicable to any organisation that wishes to:

- implement, maintain and improve an environmental management system
- assure itself of its conformance with its own stated or required environmental policy
- demonstrate conformance and ensure compliance with environmental laws and regulations

In achieving the certification, the company has demonstrated implementation of environmental management systems considerate of the environment.

Stated environmental management practices of the company include maximisation of recycling of waste water, minimisation of waste products and treatment of waste water to meet Chinese standards.

The company has implemented a substantial greening program at Kalatongke which includes an irrigation system to maintain the vegetation that has been established. The company is in the process of retrofitting the current dust removal system for the smelter and has implemented acceptable reagent handling and mixing measures. The company has advised SRK that every year, the mine invests approximately RMB400,000 for tree planting in the mine area. In 2006, 500,000 trees were planted. To date in 2007, trees were also planted along the road in the industrial area and more than 100 trees were planted in the mine headquarter area.

The company has also implemented an extensive greening program at the Fukang refinery that extends beyond the refinery and includes vast roadside areas. To sustain the vegetation an irrigation system has been implemented.

All sewage water discharges, at both Kalatongke and Fukang, are currently being treated to meet Chinese standards for sewage discharge. At the Fukang refinery, the company is currently considering secondary treatment of the waste water to enable it to be used for irrigation and greening purposes.

All these practices show that the company is being responsible with regard to environmental protection.

At the Kalatongke site however it is noted that, while the tailings supernatant water monitoring shows that the water contains elevated concentrations of nickel in particular, livestock at the time of the site visit were allowed to consume this water. Also, the seepage water from the embankment is not being monitored. It is recommended that the seepage water quality be monitored by the company. The company advised SRK that during 2006 a fence has been erected to prevent livestock access to the area and that the company fully accepts SRK's recommendation. In particular, the company notes that the Environmental Bureau of the Aleti area regularly monitors and supervises the seepage water quality.

It is also noted that the dry tailings beaches are susceptible to wind erosion leading to dissemination of fine tailings to the surrounding area. Measures should be implemented to prevent the dispersion of the fine tailings.

10.4 Current Status of Compliance

SRK's review of the available monitoring results and the communications provided by the local council, *the environmental protection bureaus of Aletai Prefecture and Fuyun County*, indicated that the Kalatongke mine, concentrator and smelter are in compliance with the Chinese standards that apply to the respective sites.

Similarly, the Fukang refinery is in compliance with the Chinese standards that apply to the site.

10.5 Status of Permitting

The proposed project expansions for the mining and concentrator, the smelter at Kalatongke, and the refinery at Fukang, have been approved by the Environmental Protection Bureau of Xinjiang Uyghur Autonomous Region subject to strict adherence to the proposed environmental control measures and meeting the applicable Chinese standards.

11 MAJOR CONTRACTS AND AGREEMENTS

11.1 Mining contracts

The only significant contract at Kalatongke is a mining contract which includes shaft sinking for the expansion, production stoping and preparation of future stoping areas by development of tunnels. The contract also has the ability to add other duties as required. The mining contract is between the company and Wenzhou Sheng Da Mine Construction Co Ltd, of Zhejiang Province. The duties to be performed and the quality of the work are specified in the contract. Clauses included in the contract indicate the penalties which will apply if production quantities or qualities do not meet the requirements of the contract.

11.2 Supply contracts

Supplies of consumable materials such as diesel fuel and reagents for processing plant are generally purchased at market prices on short terms contracts with a term of less than 12 months.

11.3 Labour Relations

The majority of the workforce is employed on long-term contracts. Other workers usually sign a contract with the company with a three year term. Both types of contracts require a renegotiation at the end of the term.

As described above, the mining workforce is employed on contract terms and labour relations have been reliable.

12 SOCIAL ASSESSMENT

12.1 Social and Community Interaction

The Kalatongke community relies upon the company for employment and the associated accommodation provided by company. Current workforce, including contractors, is 1,147 and the workforce turnover is <1%, indicating a stable workforce. Salaries paid are well above other employers in the region.

Consultation undertaken as part of the environmental impact assessments at both Fukang and at Kalatongke has shown that the local communities are in favour of the expansion projects. The expansion project will benefit the local communities in increased economic growth and employment.

The company has a stable workforce that has been shown to be loyal to the company. Therefore, the risk of loss of corporate knowledge and production loss due to staff turnover is therefore considered to be low.

GLOSSARY OF TERMS AND ABBREVIATIONS

AusIMM	Australasian Institute of Mining and Metallurgy
c.o.g.	Cut-off grade, the minimum grade of a mineral in a deposit which is able to be mined and processed economically
Cu	The chemical symbol for copper
deposit	Earth material of any type, either consolidated or unconsolidated, that has accumulated by some natural process or agent
E	east
IPO	Initial Public Offering
JORC Code	Joint Ore Reserves Committee Code
kg	kilogram, equivalent to 1,000 grams
km	kilometres, equivalent to 1,000 metres
km^2	square kilometres
m^3	cubic meters
m^3/sec	cubic meters per second
m^3/tonne	cubic meters per tonne
mg/m^3	milligrams per cubic meter
mRL	metres Reduced Level, a measure of vertical height above a datum level
Ml	megalitres, equivalent to 1,000,000 litres
MLR	Ministry of Land and Resources of PRC
Mt	million tonnes
Mtpa	million tonnes per annum
N	north
Ni	The chemical symbol for nickel
O	The chemical symbol for oxygen

p.a.	per annum
PPE	Personal protective equipment
Q-System	A standard method of comparing rock strength
RL	see mRL
RMB	The legal currency of China, also known as Yuan
RMR	Rock Mass Rating, a standard for comparing a rock mass strength characteristics
ROM	run of mine — meaning the ore as it leaves the mine, before any processing
RQD	Rock Quality Designation, a standard for comparing rock strength characteristics
S	south, also the chemical symbol for sulphur
SRK	Steffen Robertson and Kirsten (Australasia) Pty Ltd
Stope	An underground excavation which is planned or from which ore has been removed in a series of steps
T	tonne, equal to 1,000kg
tpa	tonnes per annum
tpd	tonnes per day
tph	tonnes per hour
TSF	Tailings Storage Facility
USD	United States dollars
Valmin Code	Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports
W	west
WWTP	waste water treatment plants
Xinxin	Xinjiang Xinxin Mining Industry Co. Ltd.

ANNEXURE

Annexure 1: Resource and Reserve Standards

Categorisation of Mineral Resources and Ore Reserves

The system for the categorisation of mineral resources and ore reserves in China is in a period of transition which commenced in 1999. The traditional system, which is derived from the former Soviet system, uses five categories based on decreasing levels of geological confidence — Categories A, B, C, D and E. The new system (Rule 66) promulgated by the Ministry of Land & Resources (MLR) in 1999 uses three-dimensional matrices, based on economic, feasibility/mine design and geological degrees of confidence. These are categorised by a three number code of the form "123". This new system is derived from the UN Framework Classification proposed for international use. All new projects in China must comply with the new system. However, estimates and feasibility studies carried out before 1999 will have used the old system.

Wherever possible, the Chinese Resource and Reserve estimates have been reassigned by SRK to categories similar to those used by the JORC Code to standardise categorisation. Although similar terms have been used, SRK does not mean to imply that in their present format they are necessarily classified as 'Mineral Resources' as defined by the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code").

A broad comparison guide between the Chinese classification scheme and the JORC Code is presented in the following table.

JORC Code	Chinese "Reserve" Category	
Resource Category	**Previous system**	**Current system**
Measured	A, B	111, 111b, 121, 121b, 2M11, 2M21, 2S11, 2S21, 331
Indicated	C	122, 122b, 2M22, 2S22, 332
Inferred	D	333, 334

Relationship between JORC Code and the Chinese Reserves System

In China, the methods used to estimate the resources and reserves are generally prescribed by the relevant Government authority, and are based on the level of knowledge for that particular geological style of deposit. The parameters and computational methods prescribed by the relevant authority include cut-off grades, minimum thickness of mineralisation, maximum thickness of internal waste, and average minimum 'industrial' or 'economic' grades required. . The resource classification categories are assigned largely on the basis of the spacing of sampling, trenching, underground tunnels and drill holes.

In the pre-1999 system, Category A generally included the highest level of detail possible, such as grade control information. However, the content of each category B, C & D may vary from deposit to deposit in China, and therefore must be carefully reviewed before assigning to an equivalent "JORC Code type" category. The traditional Categories B, C & D are broadly equivalent to the 'Measured', 'Indicated', and 'Inferred' categories that are provided by the JORC Code and USBM / USGS systems used widely elsewhere in the world. In the JORC Code system the 'Measured Resource' category has the most confidence and the 'Inferred' category has the least confidence, based on the increasing levels of geological knowledge and continuity of mineralisation.

Definition of the new Chinese Resource and Reserve Category Scheme

Category	Denoted	Comments
Economic	1	Full Feasibility Study considering economic factors has been conducted
	2	Pre-feasibility to scoping study which generally considers economic factors has been conducted
	3	No pre-feasibility or scoping study conducted to consider economic analysis
Feasibility	1	Further analysis of data collected in "2" by an external technical department
	2	More detailed feasibility work including more trenches, tunnels, drilling, detailed mapping etc
	3	Preliminary evaluation of feasibility with some mapping and trenches
Geologically controlled	1	Strong geological control
	2	Moderate geological control via closely-spaced data points (e.g. small-scale mapping)
	3	Minor work which projected throughout the area
	4	Review stage

Annexure 2: Resources Reconciliation 2004 to 2007

Cut-off Grades — Kalatongke, 2004

The Resource estimate by Kalatongke Mine in 2004 used the same industrial parameters issued by Xinjiang Bureau of Non-ferrous Geological Exploration in 1992. The parameters are shown in the following table.

Resource and Reserve estimate parameters used at Kalatongke, 2004

	Primary ores	Oxidised ores
Cut-off grade	0.30% Ni	0.7% Ni or 0.5% Cu
Minimum block grade	0.38% Ni	1.0% Ni and 0.7% Cu
Super high grade ore	≥3% Ni or Cu	not applicable
High grade ore	≥1.0% Ni or Cu and <3.0% Ni or Cu	not applicable
Low grade ore	0.38<1.0% Ni and Cu	not applicable
Sub-economic mineralisation	0.3<0.38% Ni	not applicable
Minimum mineable thickness	1m for super high grade, 2m for high grade and low grade	2m
Maximum band thickness	5m	5m

Resources and Reserves estimate, 2004

The updated resource estimated in 2004 was based on the 1992 resources, which combined the 1980's surface drilling samples and the 1990's underground drilling and tunnel samples. More underground drilling samples and tunnel samples were used to upgrade resource categories and mined-out resources were subtracted in the 2004 update.

Exploration grids of 25m (along strike) x 30m (level height) and 50m x 30m were used to explore Category B resources for No. I zone and Nos. II, III and IV zones, respectively. For Category C resources, grids of 50m (along strike) x 64-100m (along dip) and 100m x 64-100m were used for No. I zone and Nos. II, III and IV zones, respectively. Category D resources were based on larger spacing grid and extrapolation.

The following table provides details of resources and reserves remaining as of March 2004, as estimated by Kalatongke mine.

Resource and Reserve estimate at Kalatongke deposit Y1, March 2004[1]

Resource	Ore	Main Metals				Associated Metals				
Category	Tonnage	Ni	Cu	Ni	Cu	Au	Ag	Co	Pt	Pd
		(t)	*(t)*	*%*	*%*	*(kg)*	*(t)*	*(t)*	*(kg)*	*(kg)*
111b (B)	330,000	12,000	15,200	3.6	4.6	217	10	314	91	95
111b (B)	4,790,000	47,200	74,100	0.985	1.54	1,247	57	1,774	604	599
Subtotal	5,120,000	59,200	89,300	1.2	1.7	1,464	67	2,088	695	694
331 (B)	5,090,000	21,400	32,500	0.4	0.6					
332 I	3,320,000	14,600	19,300	0.4	0.6					
333 (D)	5,270,000	16,000	26,800	0.3	0.5					
Subtotal	13,670,000	52,000	78,600	0.4	0.6	1,457	66	2,715	626	918
Total	**18,800,000**	**111,200**	**167,900**	**0.6**	**0.9**	**2,921**	**133**	**4,803**	**1,321**	**1,612**

[1] Approved by Xinjiang Bureau of Land and Resources

The company has provided production quantities since March 2004 and calculated the Resource and reserve estimates as at 31 March 2007.

Detailed changes of resources/reserves in deposit Y1, March 2004 to March 2007[1]

	Production			Mining loss			Exploration			Total change		
Category	Tonnage	Metals (t)		Tonnage	Metals (t)		Tonnage	Metals (t)		Tonnage	Metals (t)	
	1000t	*Cu*	*Ni*	*1000t*	*Cu*	*Ni*	*1000k*	*Cu*	*Ni*	*1000t*	*Cu*	*Ni*
111b	-145	-5,988	-5,382	-0.4	-19	-17	79	2,921	3,110	-66.4	2,478	-2,897
111b	-689	-9,881	-5,621	-14	-256	-135	12	138	208	-691	5,618	-9,929
331	-129	-895	-660				6	29	45	-123	-631	-850
332							-30	-129	-166	-30	-129	-166
111b+331+332	-963	-16,764	-11,663	-14.4	-275	-152	67	2,959	3,197	-910.4	8,856	-13,842

[1] Provided by Kalatongke Mine on 23 May 2007

Changes of Resources/reserves in Deposit Y1 from March 2004 to March 2007[1]

Ore Class	Category	As of March 2004			Changes (March 04 to March 07)			As of March 2007		
		Tonnage	Metal (t)		Tonnage	Metal (t)		Tonnage	Metal (t)	
			Cu	*Ni*		*Cu*	*Ni*		*Cu*	*Ni*
Super	111b	330	15,190.1	12,002.9	-66.4	-2,897	-2,478	264	12,293	9,524.9
High	111b	4,790	74,102.2	47,239.1	-691	-9,929	-5,618	4,099	64,173	41,621.1
Low	331	5,090	32,557.9	21,475.7	-123	-850	-631	4,967	31,708	20,844.7
	332	3,320	19,324.8	14,552.5	-30	-166	-129	3,290	19,159	14,423.5
Sub-eco	332+333	4,780	23,193.1	15,984.2	–	–	–	4,780	23,193	15,984.2
Oxidised	–	490	3,561.0	–	–	–	–	490	3,561	0
Total	**111b+331 +332+333**	**18,800**	**167,929**	**111,254**	**-910**	**-13,842**	**-8,856**	**17,890**	**154,087**	**102,398**

1 Based on the data provided by Kalatongke Mine on 23 May 2007 and approved resources of 2004

Taxation of Security Holders

The following is a summary of certain PRC and Hong Kong tax consequences of the ownership of our H Shares by an investor that purchases such H Shares in connection with the Global Offering and holds these H Shares as capital assets. This summary does not purport to address all material tax consequences of the ownership of our H Shares, and does not take into account the specific circumstances of any particular investors such as tax exempt entities, certain insurance companies, maker-dealer, investors liable for alternative minimum tax, investors that actually or constructively own 10% or more of the voting shares of the Company, investors that hold H Shares as part of a straddle or a hedging or conversion transaction whose functional currency is not U.S. dollars, some of which may be subject to special rules. This summary is based on the tax laws of the PRC and Hong Kong as in effect on the date hereof, which are subject to change (or changes in interpretation), possibly with retroactive effect.

The discussion does not address any aspects of Hong Kong or PRC taxation other than income taxation, capital taxation, stamp duty and estate taxation. Prospective investors are urged to consult their tax advisers regarding the PRC, Hong Kong and other tax consequences of owning and disposing of our H Shares.

Taxation of Dividends

PRC Taxation

Individual Investors. Pursuant to the “Individual Income Tax Law of the People’s Republic of China” promulgated in 1980, as amended on 31 October 1993, 30 August 1999 and 27 October 2005, dividends paid by PRC companies to individuals are ordinarily subject to an individual income tax levied at a flat rate of 20%. For a foreign individual who is not a resident of the PRC, his receipt of dividends from a company in the PRC is ordinarily subject to an individual income tax of 20%, unless reduced by an applicable tax treaty or specifically exempted by the tax authority of the State Council. However, on 21 July 1993, the PRC State Administration of Taxation (“SAT”) issued a “Notice of the State Administration of Taxation Concerning the Taxation of Gains on Transfer and Dividends from Shares (Equities) Received by Foreign Investment Enterprises, Foreign Enterprises and Foreign Individuals” (“the Tax Notice”), which states that dividends received by foreign individuals and paid by a PRC company with respect to shares listed on an overseas stock exchange (“Overseas Shares”), such as H Shares, are temporarily not subject to PRC individual income tax.

“The Amendment to the Individual Income Tax Law of the People’s Republic of China by the Standing Committee of the National People’s Congress” (“The Amendment”) was enacted on 31 October 1993 and became effective on 1 January 1994, and rules that the effect of any past provision of any past law contradicting the Amendment with respect to individual income tax ceases on the same date. Pursuant to the Amendment, the amended “Individual Income Tax Law” and the “Provisions for Implementation of Individual Income Tax Law of the PRC”, a foreign individual receiving dividends from a PRC company is subject to an Individual Income Tax of 20%, unless reduced by an applicable tax treaty or specifically exempted by the tax authority of the State Council. However, in a letter dated 26 July 1994 to the State Economic Restructuring Commission, the Securities Commission and the CSRC, the SAT reiterated the temporary tax exemption stated in the Tax Notice for dividends received from a PRC company listed overseas. In the event of the withdrawal of this exemption, a 20% tax should be levied on dividends pursuant to the amended Individual Income Tax Law and the Provisions for Implementation of Individual Income Tax Law of the PRC. Such tax levy may be reduced pursuant to applicable agreements for avoidance of double taxation. The relevant tax authority has not levied any withholding tax on Overseas Shares dividends to the present.

Enterprises. According to the Income Tax Law of the PRC Concerning Foreign Investment Enterprises and Foreign Enterprises (中華人民共和國外商投資企業和外國企業所得稅法) (which would be repealed on 1 January 2008) and the PRC Enterprise Income Law, dividends paid by PRC companies to foreign enterprises established under foreign laws with no practical management institution in the PRC (including foreign companies and other economic entities) are ordinarily subject to a PRC withholding tax levied at a rate of 20%. However, according to the Tax Notice, a foreign enterprise (including foreign companies and other economic entities) receiving dividends with respect to a PRC company's Overseas Shares will temporarily not be subject to the 20% withholding tax. Pursuant to the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) issued on 16 March 2007 and becoming effective on 1 January 2008, an income tax rate of 20% will be applicable to dividends payable to non-PRC enterprise shareholder which are derived from sources within the PRC, unless there is a tax treaty applicable between the PRC and the relevant jurisdiction in which such non-PRC enterprise shareholder resides, whereby the relevant tax liability may be reduced or exempted. Although the new tax law also provides that such income tax may be reduced or exempted, there can be no assurance that the dividends paid to any of our foreign enterprise shareholder will be benefit from such reduction or exemption.

Tax Treaties. Investors who do not reside in the PRC and reside in countries that have entered into double taxation treaties with the PRC may be entitled to a reduction of the withholding tax imposed on the payment of dividends to investors of the Company who do not reside in the PRC. The PRC currently has double taxation treaties with a number of countries, including without limitation Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States.

Hong Kong Taxation

Under the current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by us.

Taxation of Capital Gains

PRC Taxation

As to individual holders of our H Shares, the Provisions for Implementation of Individual Income Tax Law of the PRC (中華人民共和國個人所得稅法實施條例) (the "Provisions"), issued on 28 January 1994, generally stipulated that gains derived from sale of equity shares shall be subject to income tax at a rate of 20%. In addition, the Provisions stipulated that measures for the levying of individual income tax on gains derived from the sale of equity securities shall be formulated separately by the Ministry of Finance and shall be implemented following approval of the State Council. However, no income tax on gains realised on the sale of equity shares has been collected. Gains on the sale of shares by individuals were temporarily exempted from individual income tax pursuant to notices issued jointly by the MOF and SAT dated 30 March 1998. In the event this temporary exemption is withdrawn or ceases to be effective, individual holders of our H Shares may be subject to capital gains tax at the rate of 20% unless such tax is reduced or eliminated by an applicable double taxation treaty.

On 18 November 2000, the State Council issued a notice entitled "State Council Notice on the Income Tax Reduction for Interest and Other Income that Foreign Enterprises Derive in the PRC" (關於外國企業來源於我國境內的利息等所得減徵所得稅問題的通知) (the "Tax Reduction Notice"). Under the Tax Reduction Notice, beginning 1 January 2000, for foreign enterprises which have no institutions and premises in China or have set up institutions and premises but having no practical connection with its above income, a business income tax will be levied upon their interest, rent, royalties and other income at a 10% reduced tax rate. Pursuant to the PRC Enterprise Income Tax Law, an income tax rate of 20% will be applicable to property transfer income obtained by foreign enterprise which are derived from sources within the PRC, unless there is a tax treaty applicable between the PRC and the relevant jurisdiction in which such foreign enterprise resides, whereby the relevant tax liability may be reduced or exempted. Although the new tax law also provides that such income tax may be reduced or exempted, there can be no assurance that the gains on the sales of shares by any of our foreign enterprise shareholder will be benefit from such reduction or exemption.

Hong Kong Taxation

No tax is imposed in Hong Kong in respect of capital gains from the sale of property such as H shares. Trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax, which is currently imposed at the rate of 17.5% on corporations and at a maximum rate of 16% on individuals. Gains from sales of our H shares effected on the Stock Exchange will be considered to be derived from or to have arisen in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of our H shares realised by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp Duty

PRC Stamp Duty

The PRC stamp duty imposed on the transfer of shares of PRC publicly traded companies under the Provisional Regulations should not apply to the acquisition and disposal by non-PRC investors of H Shares outside of the PRC by virtue of the Provisional Regulations of the PRC Concerning Stamp Duty (中華人民共和國印花稅暫行條例), which became effective on 1 October 1988. It also provides that PRC stamp duty is imposed only on documents executed or received within the PRC that are legally binding in the PRC and are protected under PRC law.

Hong Kong Stamp Duty

Hong Kong stamp duty will be payable by the purchaser on every purchase and by the seller on every sale of our H shares. With effect from 1 September 2001, the duty is charged at the ad valorem rate of HK$1 per HK$1,000 or part thereof of the consideration for, or (if greater) the value of, the H Shares transferred (i.e. a total of HK$2 per HK$1,000 or part thereof is payable on a typical sale and purchase transaction of H Shares). In addition, a fixed duty of HK$5 is currently payable on any instrument of transfer of shares.

If one of the parties to the sale is a non-resident of Hong Kong and does not pay the required stamp duty, the unpaid duty will be assessed on the instrument of transfer (if any), and the transferee will be liable for payment of such duty.

Estate Duty

PRC Estate Tax

No liability for estate tax under PRC law will arise from non-PRC nationals holding our H Shares.

Hong Kong Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 abolished estate duty in respect of deaths occurring on or after 11 February 2006. In addition, estate duty in respect of deaths occurring on or after 15 July 2005 but before 11 February 2006 has been reduced to nominal duty of HK$100 in respect of estates whose assessed value exceeds HK$7.5 million. No estate duty is payable where the assessed value of the dutiable estate does not exceed HK$7.5 million.

Taxation of Our Company in the PRC

Income Tax

From 1 January 1994, income tax payable by PRC domestic enterprises, including state-owned enterprises and joint stock enterprises, is governed by the PRC Enterprise Income Tax Provisional Regulations (中華人民共和國企業所得稅暫行條例) (the "EIT Regulations", which would be repealed on 1 January 2008) which provide for an enterprise income tax rate of 33% unless a lower rate or exemption is provided by law, administrative regulations or State Council regulations. We are generally subject to an enterprise income tax at a rate of 33% pursuant to the EIT Regulations.

Pursuant to the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) promulgated by the People's Congress on 16 March 2007 and becoming effective on 1 January 2008, other than any preferential treatment available under PRC laws and regulations, both domestic enterprises and foreign investment enterprises are subject to a uniform enterprise income tax rate of 25%.

Value-added Tax

The PRC Provisional Regulations on Value-added Tax ("the VAT Regulations") were promulgated on 13 December 1993 and became effective on 1 January 1994. The VAT Regulations apply to domestic and foreign investment enterprises that sell goods, provide processing or repair services or import goods in the PRC. Except for certain specified categories of goods sold or imported, the value-added tax rate for the sale or import of which is 13%, the tax rate for sales or import of goods and the provision of processing and repair services is 17%.

Business Tax

Under the Provisional Regulations on Business Tax of the PRC (中華人民共和國營業稅暫行條例) promulgated on 13 December 1993 and the provisional implementation rules thereof which took effect on 1 January 1994, business tax is levied on all enterprises that provide "taxable services", assignment of intangible assets and sale of immovable property in the PRC. The rates range from 3% to 20% depending on the type of taxable items.

Taxation of Our Company by Hong Kong

We do not believe that any of our income is derived from or arises in Hong Kong for the purpose of Hong Kong taxation. We will therefore not be subject to Hong Kong taxation.

This appendix sets out summaries of certain aspects of PRC laws and regulations, which are relevant to our operations and business. These include laws relating to company, taxation, securities, arbitration and foreign exchange control. Laws and regulations relating to taxation in the PRC are discussed separately in Appendix VI to this prospectus. This appendix also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain of the material differences between PRC and Hong Kong company law, certain requirements of the Listing Rules and additional provisions required by the Stock Exchange for inclusion in the articles of association of PRC issuers.

PRC Legal System

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations, directives and local laws, laws of Special Administrative Regions and laws resulting from international treaties entered into by the PRC Government. Court case verdicts do not constitute binding precedents. However, they are used for the purposes of judicial reference and guidance.

The PRC Constitution stipulates the National People's Congress and the Standing Committee thereof to exercise the legislative power of the State. The National People's Congress has the power to amend the PRC Constitution and enact and amend basic laws governing state agencies and civil and criminal matters. The Standing Committee of the National People's Congress is empowered to enact and amend all laws except for the laws that are required to be enacted and amended by the National People's Congress.

The State Council is the highest organ of the State administration and has the power to enact administrative rules. The ministries and commissions under the State Council are also vested with the power to issue orders, directives and departmental rules within the jurisdiction of their respective departments. All administrative rules, regulations, ordinances and orders promulgated by the State Council and its ministries and commissions must be consistent with the PRC Constitution and the national laws enacted by the National People's Congress. In the event that a conflict arises, the Standing Committee of the National People's Congress has the power to annul administrative rules, regulations, ordinances and orders.

At the regional level, the provincial, autonomous region and municipal People's Congresses and their respective standing committees may enact local rules and the people's governments may promulgate local governmental rules applicable to their own administrative areas. These local laws and regulations must be consistent with the PRC Constitution, the national laws and the administrative rules and regulations promulgated by the State Council.

The State Council, provincial, autonomous region and municipal governments may also enact or issue administrative rules, regulations or ordinances in new areas of the law for experimental purposes. After gaining sufficient experience with experimental measures, the State Council may submit legislative proposals to be considered by the National People's Congress or the Standing Committee of the National People's Congress for enactment at the national level.

The PRC Constitution vests the power to interpret laws in the Standing Committee of the National People's Congress. According to the Decision of the Standing Committee of the National People's Congress Regarding the Strengthening of Interpretation of Laws passed on 10 June 1981, The Supreme People's Court has the right to interpret any questions related to the practical applications of the law and orders of the judicial trial, and has the power to interpret the application of laws and regulations. The State Council and its ministries and commissions are also vested with the power to interpret administrative rules and regulations that they have promulgated. At the regional level, the power to interpret regional laws is vested in the regional legislative and administrative bodies which promulgate such laws.

PRC Judicial System

Under the PRC Constitution and the Law of Organisation of the People's Courts, the judicial system is made up of the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are comprised of the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts are organised into civil, criminal and administrative divisions. The intermediate people's courts are organised into divisions similar to those of the basic people's courts, and are further organised into other special divisions, such as the intellectual property division. The higher level people's courts supervise the basic and intermediate people's courts. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of people's courts of the same level and lower levels. The Supreme People's Court is the highest judicial body in the PRC. It supervises the administration of justice by all of the people's courts.

The people's courts employ a two-tier appellate system. A party may appeal against a judgement or order of a people's court of first instance to the people's court at the next higher level. Second judgements or orders given at the next higher level are final. First judgements or orders of the Supreme People's Court are also final. If, however, the Supreme People's Court or a people's court at a higher level finds an error in a judgement which has been given in any people's court at a lower level, or the presiding judge of a people's court finds an error in a judgement which has been given in the court over which he presides, the case may then be retried according to the judicial supervision procedures.

The Civil Procedure Law of the PRC, which was adopted on 9 April 1991, sets forth the criteria for instituting a civil action, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgement or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. Generally, a civil case is initially exercised jurisdiction over by a people's court of the defendant's domicile. The parties to a contract may, by written statement, select a jurisdiction where civil actions may be brought, provided that the judicial court is either the plaintiff's or the defendant's place of residence, the place of execution or implementation of the contract or the place of the subject matter of the action. However, such selection can not violate the stipulations of grade jurisdiction and exclusive jurisdiction in any case.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil dispute refuses to comply with a judgement or order made by a people's court or an award granted by an arbitration panel in the PRC, the aggrieved party may apply to the people's court to request for enforcement of the judgement, order or award. There are time limits imposed on the right to apply for such enforcement. If at least one of the parties to the dispute is an individual, the time limit is one year. If both parties to the dispute are legal persons or other institutions, the time limit is six months. If a person fails to satisfy a judgement made by the court within the stipulated time, the court may, at its own discretion or upon application by the relevant party, mandatorily enforce the judgement.

A party seeking to enforce a judgement or order of a people's court against a party who is not located within the PRC and does not own any property in the PRC may apply to a foreign court with relevant jurisdiction for recognition and enforcement of the judgement or order. A foreign judgement or ruling may also be recognised and enforced by the people's court according to the PRC enforcement procedures if the PRC has entered into, or acceded to, an international treaty with the relevant foreign country, which provides for such recognition and enforcement, or if the judgement or ruling satisfies the court's examination according to the principle of reciprocity, unless the people's court finds that the recognition or enforcement of such judgement or ruling will result in a violation of the PRC's sovereignty or security, or social or public interests.

On 14 July 2006, the Supreme People's Court and the Government of Hong Kong Special Administrative Region entered into the Arrangement between the Mainland and Hong Kong Special Administrative Region in Relation to the Recognition and Enforcement of Court Decisions of Civil and Commercial Cases in Which the Parties Agreed on Jurisdiction (the "Arrangement", 《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》). It was agreed that with respect to an enforceable final judgment rendered by a people's court of the Mainland or by a court of Hong Kong Special Administrative Region regarding a civil and commercial case involving a written agreement on jurisdiction, in which payment must be made, the party concerned may, according to this Arrangement, apply to the people's court of the Mainland or the court of Hong Kong Special Administrative Region for recognition and enforcement. The Arrangement will take effect upon the date announced both parties after promulgation for judicial interpretation by the Supreme People's Court and amendments to the relevant legal procedure by the Hong Kong Special Administrative Region.

1. The Company Law, Special Regulations and Mandatory Provisions

On 29 December 1993, the Standing Committee of the Eighth National People's Congress adopted the Company Law, which came into effect on 1 July 1994 and was amended on 25 December 1999, 28 August 2004 and 27 October 2005, respectively.

On 4 August 1994, the Special Regulations were passed by the State Council, and they were promulgated and implemented on 4 August 1994. The Special Regulations are formulated in respect of overseas share subscription and listing of joint stock limited companies. The Mandatory Provisions were issued by the relevant agencies of the State Council on 27 August 1994, prescribing provisions required to be incorporated in the articles of association of joint stock limited companies to be listed overseas. Accordingly, the Mandatory Provisions have been incorporated in our Articles of Association. Set out below is a summary of the major provisions of the Company Law, the Special Regulations and the Mandatory Provisions.

General

A "joint stock limited company" is a corporate legal person incorporated under the Company Law, whose registered capital is divided into shares of equal par value. The liability of its shareholders is limited to their respective equity interests in the company, and the liability of the company is limited to the assets that it owns.

A company must conduct its business in accordance with the laws and corporate ethics. A company may invest in other limited liability companies and joint stock companies. A company shall make a resolution regarding to investment in other companies through the board of directors and/or the shareholders' meeting. If the articles of association prescribe any limit on the total amount of such investment, or on the amount of a single investment, its investment in other companies shall not exceed such limitation. The company's liabilities with respect to such invested companies are limited to the amount invested unless otherwise provided under applicable law.

Incorporation

A joint stock limited company may be incorporated by at least two but no more than 200 promoters, and more than half of these promoters must have its domicile within the PRC. According to the Special Regulations, state owned enterprises or enterprises with the majority of their assets owned by the State can be restructured in accordance with the relevant regulations to become joint stock limited companies which can issue shares to overseas investors. These companies, if incorporated by promotion, may have fewer than five promoters and can issue new shares once incorporated.

Where a joint stock limited company is established by promotion, its registered capital shall be the total capital stock subscribed by all the promoters as registered in the company registration authority. Where a joint stock limited company is established by public subscription, its registered capital shall be all the total subscribed capital stock as registered in the company registration authority. The minimum amount of the registered capital of a joint stock limited company is RMB5 million, unless otherwise provided under applicable law or administrative rules and regulations.

To establish a joint stock limited company, an application for establishment registration shall be filed with relevant company registration authority. If the relevant law or administrative regulation provides that the establishment of a joint stock limited company shall be subject to approval, relevant approval procedures shall be completed prior to the registration of the company.

Promoters of a company are required to convene an inaugural meeting within 30 days after the issued shares have been fully paid, and give notice to all subscribers or make an announcement of the date of the inaugural meeting 15 days before the meeting. The inaugural meeting may be convened only with the presence of subscribers holding shares representing more than 50% of the shares of the company. The inaugural meeting will consider matters such as the adoption of draft articles of association proposed by the promoter(s) and the election of the board of directors and supervisory board. All resolutions of the meeting require the approval of subscribers with more than half of the voting rights present at the meeting.

Within 30 days after the conclusion of the inaugural meeting, the board of directors is required to apply to the company registration authority for registration of the establishment of the company. A company is formally established and has the status of a legal person after the approval of registration has been given by the relevant administration of industry and commerce authority and a business licence has been issued.

A joint stock limited company's promoters will individually and collectively be liable for (i) the payment of all expenses and liabilities incurred in the incorporation process if the company fails to be incorporated; (ii) the repayment of subscription monies to the subscribers together with interest at bank rates for a deposit for the same term if the company fails to be incorporated; and (iii) damages suffered by the company as a result of the default of the promoters during the course of incorporation. According to the Provisional Regulations Concerning the Issuance and Trading of Shares promulgated by the State Council on 22 April 1993 (which is applicable to the issuance and trading of shares and related activities in the PRC), if a company is established by way of public subscription, the promoters of such company are required to assume joint responsibility for the accuracy of the contents of the prospectus and to ensure that the prospectus does not contain any misleading statement or omit any material information.

Share capital

Promoters of a company can make capital contributions in cash, in kind or by way of injection of assets, intellectual property rights, land use rights or other non-currency property that can be valued and transferred in cash in accordance with law based on their appraised value. The amount of the capital contributions in cash paid by all shareholders shall not be less than 30% of a company's registered capital.

If a capital contribution is made other than in cash, a valuation and verification of the property to be contributed must be conducted and the appraised value of the property will be used to calculate the contribution amount.

A company may issue registered or bearer share certificates. However, shares issued to promoters and legal persons must be in the form of registered share certificates, and may not be registered under a different name or in the name of an agent.

The Special Regulations and the Mandatory Provisions require shares issued to foreign investors and listed overseas be issued in registered form, denominated in Renminbi and subscribed for in foreign currency.

The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and investors from the territories of Hong Kong, Macau and Taiwan and listed overseas be known as overseas listed foreign invested shares, and those shares issued to investors within Mainland China be known as domestic invested shares.

We may offer our Shares to the overseas public with the approval of the CSRC. Under the Special Regulations, upon approval of the CSRC, a company may agree, in the underwriting agreement in respect of an issue of overseas listed foreign invested shares, to retain not more than 15% of the aggregate number of overseas listed foreign invested shares proposed to be issued after accounting for the number of underwritten shares.

All of our Share issues are based on the principles of equality and fairness. The same class of shares must carry equal rights. For each Share issue, the terms of allotment for individual shares, including the subscription price, must be identical to other Shares of the same class. We may issue Shares at par value or at a premium, but we may not issue Shares below the par value.

Reduction of share capital

Subject to the minimum registered capital requirements, we may reduce our registered capital in accordance with the following procedures prescribed by the Company Law:

(i) we must prepare a balance sheet and asset list;

(ii) our shareholders must approve the reduction of registered capital in a general meeting;

(iii) we must inform our creditors of the reduction in capital within 10 days and publish an announcement of the reduction in the newspapers within 30 days after the resolution approving the reduction has been passed;

(iv) our creditors may, within the statutorily prescribed time limit, require us to pay our debts or provide guarantees covering such debts; and

(v) we must register the reduction in registered capital with the competent Administration of Industry and Commerce.

Repurchase of shares

We may only repurchase our Shares (i) to reduce our registered share capital, (ii) to merge with another company holding our Shares, (iii) to award shares to our employees, or (iv) if we are requested by any shareholder to purchase his shares because this shareholder raises any objection to our resolution on merger or split-up made at any session of the shareholders' general meeting. The Mandatory Provisions provide that we must act in accordance with our Articles of Association and that we must obtain necessary approvals from the relevant supervisory authorities. We may repurchase our Shares by making a general offer to our shareholders, by purchasing our Shares on a stock exchange or by purchasing our Shares through an off-exchange agreement.

Where a company needs to repurchase its own shares under the circumstance in (i), (ii) or (iii), it shall be subject to a resolution of the shareholders' general meeting. After the company repurchases its own shares under the circumstance in (i), it shall cancel the repurchased shares within 10 days; while under either circumstance in (ii) or (iv), it shall transfer or cancel the repurchased shares within six months following the repurchase of such shares. The shares repurchased by the company under the circumstance in (iii) shall not exceed 5% of the total shares already issued by this company; the fund used for the share repurchase shall be paid from the after-tax profits of the company; and the shares repurchased by the company shall be transferred to the employees within one year.

Transfer of shares

Our Shares may be transferred in accordance with the relevant laws and regulations, such as the Company Law, the Securities Law and the Special Regulations.

A shareholder may effect a transfer of our Shares on a stock exchange established in accordance with law or by any other means as prescribed by the State Council. Registered shares may be transferred after the shareholders endorse their signatures on the back of the share certificates or in any other manner specified by applicable laws and regulations.

Shares issued to our Promoters may not be transferred within one year after the date of our establishment. Our directors, supervisors and other senior executives shall declare to us the shares held by them and the changes in holdings. During the term of office, the shares transferred by any of them each year shall not exceed 25% of the total shares of our Company he holds. The shares of our Company held by the aforesaid persons shall not be transferred within one year from the day when our stocks are listed and traded on a stock exchange. After any of the aforesaid persons is removed from his post, he shall not transfer his shares within six months from the date when he is removed from his post.

Transfers of Shares may not be entered in the register of shareholders within 20 days before the date of a shareholders' meeting or within five days before the base date set for the purpose of distribution of dividends, unless otherwise provided under applicable law.

Shareholders

Our shareholders' rights and obligations are set out in our Articles of Association. Our Articles of Association are binding on each shareholder.

Under the Company Law and the Mandatory Provisions, our shareholders are entitled to the following rights:

(i) to attend and vote in person or to appoint a proxy to attend and vote on his or her behalf at shareholders' general meetings;

(ii) to transfer our Shares on the Stock Exchange in accordance with any applicable laws;

(iii) to inspect our Articles of Association, minutes of shareholders' general meetings, financial and accounting reports and to make proposals or inquiries in respect of our operations;

(iv) If the procedures for calling a shareholders' general meeting, meeting of the board of directors, or the procedures for voting, is in violation of any law, administrative regulation or the Articles of Association, or if a resolution is in violation of our Articles of Association, the shareholders may, within 60 days from the day when the resolution is made, request the court to revoke the resolution;

(v) to receive dividends and distributable benefits in other forms in proportion to his or her shareholding;

(vi) to receive surplus assets of the company upon its termination in proportion to his or her shareholding; and

(vii) any other shareholders' rights specified in our Articles of Association.

The obligations of a shareholder include (i) the obligation to abide by our Articles of Association, (ii) to pay the subscription monies in respect of the Shares subscribed for, (iii) to be liable for our debts and liabilities to the extent of the amount of subscription monies agreed to be paid in respect of the Shares taken up by such shareholder and (iv) any other shareholders' obligations specified in our Articles of Association.

General meetings

Under the Company Law, our shareholders may exercise the following powers in a general meeting:

(i) determine our business policies and investment plans;

(ii) elect or remove our Directors assumed by non-representatives of the employees and decide on matters relating to the remuneration of our Directors;

(iii) elect or remove our Supervisors assumed by non-representatives of the employees and decide on matters relating to the remuneration of our Supervisors;

(iv) consider and approve reports of our Board and our supervisory committee;

(v) consider and approve our proposed annual financial budget and final accounts;

(vi) consider and approve our profit distribution plan and plans for recovery of losses;

(vii) approve any increase or reduction in our share capital;

(viii) approve an issue of bonds;

(ix) approve a merger, division, change of company form, dissolution or liquidation;

(x) approve amendments to our Articles of Association; and

(xi) other powers as prescribed by our Articles of Association.

Shareholders' general meetings are required to be held on an annual basis. An extraordinary shareholders' general meeting is required to be held within two months after the occurrence of any of the following:

(i) the number of Directors on our Board is less than the number provided for in the Company Law or less than two-thirds of the number specified in our Articles of Association;

(ii) the uncompensated losses amount to one-third of our paid-up share capital;

(iii) shareholders holding 10% or more of our issued and outstanding voting shares request in writing the convening of an extraordinary general meeting;

(iv) the Board or the supervisory committee considers such extraordinary general meeting necessary; or

(v) other circumstances as prescribed by our Articles of Association.

Shareholders' general meetings are convened by the Board and presided over by the chairman of the Board. Under the Special Regulations and the Mandatory Provisions, we are required to give 45 days' written notice of a shareholders' general meeting and this notice must specify the matters to be considered and the date and place of the meeting. If we have bearer Shares in issue, we must make a public announcement of the shareholders' general meeting at least 45 days prior to the meeting being held. Under the Special Regulations and the Mandatory Provisions, shareholders who plan to attend a shareholders' general meeting are required to provide us with a written confirmation of their intentions 20 days prior to the meeting. Shareholders holding 3% or more of our voting rights are entitled, under the Company Law, to submit written motions to be considered at an annual general meeting. Any such motions that can be decided at a shareholders' general meeting must be included in the agenda of that meeting.

The Special Regulations and the Mandatory Provisions provide that a general meeting of our shareholders may be held if shareholders holding 50% or more of our voting Shares have confirmed in writing 20 days prior to the proposed date of the meeting that they intend to attend the meeting. If this 50% minimum is not attained, a shareholders' general meeting may be held if, within five days after the deadline, we notify the shareholders again by public announcement of the matters to be considered and the date and place of the meeting.

Each shareholder present at a shareholders' general meeting is entitled to one vote for each Share held. A shareholder may appoint a proxy to attend and vote on his behalf at a shareholders' general meeting. Ordinary resolutions proposed at a shareholders' general meeting must be passed by more than half of the votes cast by shareholders present in person or by proxy. However, special resolutions and the following actions must be approved by more than two thirds of the votes cast by shareholders present in person or by proxy: (i) amendments to our Articles of Association; (ii) a merger, division, dissolution, liquidation or change of the form of the company; (iii) an increase or reduction of capital or the issue of any class of Shares, warrants or securities alike or corporate bonds; and (iv) other matters which the shareholders' general meeting has resolved by way of ordinary resolution as having a potential material effect on us as a company and should be approved by special resolution.

In the event of a variation or abrogation of the rights of a particular class of shareholders, the Mandatory Provisions require us to hold a special class meeting. Holders of our Domestic Shares and holders of our H Shares are deemed to be different classes of shareholders.

Board

A company will have a board of directors, which will consist of 5 to 19 members. Under the Company Law, each term of office of a director may not exceed three years. A director may serve consecutive terms if he is re elected.

Meetings of the board of directors will be convened at least twice a year. Notice of meeting will be given to all directors and all supervisors 10 days before the meeting. The board of directors may provide for a different method of giving notice and notice period for convening an extraordinary meeting of the board of directors.

Under the Company Law, our Board of Directors may exercise the following powers:

(i) convene shareholders' general meetings and report to the shareholders;

(ii) implement resolutions passed by shareholders in general meetings;

(iii) decide on our business plans and investment proposals;

(iv) formulate proposals for annual budgets and final accounts;

(v) formulate proposals for profit distribution and recovery of losses;

(vi) formulate proposals for the increase or reduction of the company's registered capital and the issuance of the corporate bonds;

(vii) formulate proposals for merger, division or dissolution or change of the form of the company;

(viii) decide on our internal management structure;

(ix) appoint or dismiss our managers and, based on a manager's recommendation, appoint or dismiss deputy managers and financial controllers and to decide on their remuneration;

(x) formulate the Company's management control system; and

(xi) other powers as may be conferred by the Articles of Association.

In addition, the Mandatory Provisions provide that our Board is also responsible for formulating proposals for amending our Articles of Association.

If a Director is unable to attend a Board meeting, he may appoint another Director by a written power of attorney specifying the scope of the authorisation to attend the meeting on his behalf.

If a resolution of the Board of Directors violates any law, administrative regulation or our Articles of Association as a result of which we sustain serious losses, the Directors participating in passing the resolution are personally liable to compensate us. However, if it can be proven that a Director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such Director may be relieved from that liability.

Under the Company Law, the following persons may not serve as one of our Directors:

(i) persons without civil capacity or with restricted civil capacity;

(ii) persons who have been convicted of a criminal offence relating to corruption, bribery, encroachment of property, appropriation of property or destruction of the social economic order, where no more than five years have elapsed since the date of completion of the sentence;

(iii) persons who have been deprived of their political rights, where no more than five years have elapsed since the date of the completion of such deprivation;

(iv) persons who are directors, factory managers or managers of a company or enterprise which has become bankrupt and been liquidated and who are personally liable for the bankruptcy of such company or enterprise, where no more than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;

(v) persons who have been legal representatives of a company or enterprise which had its business licence revoked and had been ordered to wind up due to unlawful operations and who are personally responsible for such revocation, where no more than three years have elapsed since the date of such revocation; or

(vi) persons who are liable for relatively large amount of debts which have not been repaid when due.

Other circumstances under which a person is disqualified from acting as a Director are set out in the Mandatory Provisions and our Articles of Association, a summary of which is set out in Appendix VIII.

The Board will appoint a chairman, who is elected with approval of more than half of all the Directors. Under the Company Law, the chairman of the Board exercises, among other things, the following powers:

(i) preside over shareholders' general meetings and convene and preside over meetings of the Board;

(ii) examine the implementation of the resolutions of the Board; and

(iii) sign securities issued by us.

Supervisors

We are required to establish a supervisory committee comprised of at least 3 members. Each term of office for our Supervisors is three years and he or she may serve consecutive terms if re-elected.

The supervisory committee comprises representatives elected by our shareholders and representatives of employees, with one third of the supervisory committee shall be representatives of our employees. The specific proportion shall be subject to the stipulation of our Articles of Association. The Directors and other senior executives may not act concurrently as Supervisors.

Under the Company Law, our supervisory committee is responsible for the following matters:

(i) reviewing our financial affairs;

(ii) supervising our Directors and other senior executives while they carry out their duties and to impeach those who carry out their duties in violation of relevant laws and regulations, our Articles of Association and the resolutions of the shareholders' general meeting;

(iii) requiring our Directors and other senior executives to rectify any action which adversely affects our interests;

(iv) proposing the convening of, or convening and presiding over, extraordinary shareholders' general meetings;

(v) put forward proposals at shareholders' general meetings;

(vi) if any director, or other senior executive violates any law, administrative regulation, or our Articles of Association during the term of his office, and if we suffer any loss due to such violation, the supervisory committee may initiate lawsuit against such director, or other senior executive; and

(vii) carrying out other duties as specified in our Articles of Association.

The circumstances under which a person is disqualified from acting as a Director under the Company Law and the Mandatory Provisions also apply to a Supervisor.

Managers and officers

We are required to have a manager who is appointed, and may be removed, by the Board. Under the Company Law, our manager is accountable to the Board and may exercise the following powers:

(i) management of our production and business and implement resolutions of our Board;

(ii) organise the implementation of our annual business and investment plans;

(iii) formulate proposals for the establishment of our internal management structure;

(iv) formulate proposals for our basic management system;

(v) formulate our internal rules;

(vi) recommend the appointment and dismissal of deputy managers and financial controller and appoint or dismiss other management staff (other than those required to be appointed or dismissed by our Board);

(vii) attend board meetings; and

(viii) other powers conferred by our Board or our Articles of Association.

The Special Regulations and Mandatory Provisions require us to employ other corporate officers, including a secretary of the Board of Directors and other executives specified in our Articles of Association.

The circumstances under which a person is disqualified from acting as a director under the Company Law and the Mandatory Provisions also apply to our other senior executives.

Our Articles of Association are binding on us, our shareholders, Directors, Supervisors and other senior executives. Such persons shall be entitled to exercise their rights, apply for arbitration and initiate legal proceedings according to our Articles of Association. The provisions of the Mandatory Provisions regarding our senior executives have been incorporated in our Articles of Association, a summary of which is set out in Appendix VIII.

Duties of directors, supervisors, managers and officers

The Directors, Supervisors and other senior officers of the Company are required under the Company Law to comply with the relevant laws, regulations and our Articles of Association, to carry out their duties honestly and protect our interests. The Special Regulations and the Mandatory Provisions provide that the Directors, Supervisors and senior executives of the Company owe a fiduciary duty to us, and require them to perform their duties faithfully, protect our corporate interests and not abuse their positions for personal gain. The Directors, Supervisors and other senior executives of the Company are also under a duty of confidentiality and are prohibited from divulging certain secret information unless required by applicable laws and regulations or with the approval of our shareholders.

A Director, Supervisor or other senior executives shall be personally liable to the Company for any loss incurred by us arising out of his or her violation of any law, regulation or our Articles of Association of the Company in the performance of his or her duties.

Finance and accounting

The Company is required to establish a financial and accounting system which must comply with relevant laws and regulations as well as rules stipulated by the State Council and the Ministry of Finance.

We are required to make our financial statements available for inspection by our shareholders at least 20 days prior to our annual general shareholders' meeting. We must also publish our financial statements by way of public announcement.

We are required by PRC law to make the following deduction from our after tax profit before we distribute any profits to our shareholders:

- 10% of our after-tax profit must be transferred to our statutory common reserve fund, provided that no transfer is required if our accumulated statutory common reserve fund is accumulated over 50% of our registered capital; and

- subject to our shareholders' approval in a general meeting and after transfer of the requisite amount to the statutory common reserve fund, a discretionary amount from our after-tax profit may be transferred to the discretionary common reserve.

Any balance of the after tax profit, after deduction of the amounts for recovery of previous losses and transfers to the common reserve, may be distributed to our shareholders in proportion to their respective shareholdings.

If the amount in our statutory common reserve fund is insufficient to make up for losses from the previous year, our profits in the current year must be applied to make up for such losses before we make deduction to the statutory common reserve fund.

Our common reserve comprises the statutory common reserve fund, discretionary common reserve fund and the capital common reserve fund.

Our capital common reserve fund is made up of the premium over the nominal premium of our Shares and other incomes deemed to be part of the capital common reserve fund by the financial department of the State Council.

Our common reserve must be applied for the following purposes:

(i) to make up for our losses provided that our capital common reserve fund may not be applied to make up for our losses;

(ii) to expand our business operations; and

(iii) to increase the capital of the company, provided that if the statutory common reserve is converted into registered capital, the balance of the statutory common reserve after such conversion may not be less than 25% of our registered capital prior to the increase.

Appointment and retirement of auditors

The Special Regulations require us to employ an independent PRC qualified accounting firm to audit our annual financial statements and review certain other financial reports.

The auditors are to be appointed for a term commencing from the close of the relevant annual general meeting to the close of the next annual general meeting.

If we remove or decide not to renew the appointment of our existing auditors, we are required by the Special Regulations to give prior notice to the auditors and the auditors are entitled to make representations before our shareholders in a general meeting. If our auditors resign, they are obligated to make a statement to the shareholders stating whether or not we have undertaken any inappropriate affairs. The appointment, removal or non-renewal of appointment of auditors is decided by the shareholders' general meetings and must be recorded with the CSRC.

Distribution of profits

The Special Regulations provide that dividends and other distributions payable to holders of our H Shares must be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of dividends and other distributions in foreign currency to these shareholders must be made through a receiving agent appointed by us for holders of our H Shares. Shares and H Shares as at the date of the passing of the relevant special resolution or, such Shares as are part of our plan at the time of our establishment, to issue Domestic Shares and H Shares and which plan is implemented within 15 months from the date of approval by the State Council Securities Policy Committee.

Amendments to Articles of Association

Our Articles of Association may only be amended by an affirmative vote of more than two-thirds of our shareholders at a general meeting. An amendment to our Articles of Association will only take effect after we have obtained any necessary approvals from relevant regulatory and administrative agencies. If an amendment to our Articles of Association affects the information in our business registration, we must apply to the related government department to change the relevant details in the licence.

Dissolution and liquidation

A company may apply for a declaration of insolvency by reason of its inability to pay debts as they fall due. After a people's court has made a declaration of a company's insolvency, its shareholders, the relevant authorities and the relevant professionals shall, under the direction of the people's court, form a liquidation committee to conduct the liquidation of the company.

Under the Company Law and the Mandatory Provisions, we will be dissolved and liquidated if any of the following events occur:

(i) our term of operations set down in our Articles of Association has expired or an event of dissolution specified in our Articles of Association have occurred;

(ii) our shareholders in general meeting have resolved to our dissolution by special resolution;

(iii) a merger or division that requires our dissolution;

(iv) the declaration of our insolvency as a result of our inability to pay our debts when they become due and payable;

(v) we have been ordered to close down or our business licence has been revoked as a result of a violation of the law or administrative regulation; or

(vi) we meet any material difficulty in our operations or management so that our shareholders will face heavy loss if we continue to exist and it cannot be resolved by any other means, in which case the shareholders who hold 10% or more of the voting rights of all the shareholders may petition the court to dissolve us.

If we are dissolved in the circumstances referred to in (i), (ii), (v) or (vi) above, in a general meeting our shareholders must, within 15 days of the occurrence of the event, appoint the members of a liquidation committee. If the liquidation committee is not established within the specified time, our creditors may apply to the people's court to appoint the members of the liquidation committee. The people's court will then organise a liquidation committee to conduct the liquidation. If we are dissolved in the circumstances described in (iv) or (v) above, the people's court or relevant administrative authorities shall lead the formation of the liquidation committee, which consists of shareholders, the relevant authorities and the relevant professional(s).

The liquidation committee is required to notify our creditors of our dissolution within 10 days after its establishment and issue at least three public announcements in the newspapers within 60 days after its establishment. A creditor is required to lodge his claim with the liquidation committee within 30 days after receiving the notification, or within 45 days after the public announcement if he did not receive any notification.

The liquidation committee exercises the following powers during the liquidation period:

(i) to sort out our assets and to prepare a balance sheet and an inventory of the assets;

(ii) to notify creditors or issue public notices;

(iii) to dispose of any unfinished businesses of ours in relation to the liquidation;

(iv) to pay all outstanding taxes;

(v) to settle our claims and liabilities;

(vi) to deal with our surplus assets after our debts have been paid off; and

(vii) to represent us in civil lawsuits.

In the event of a dissolution, our assets will be applied towards the payment of liquidation expenses, wages owed to our employees, social insurance premiums and legal indemnification premiums, tax overdue and our general indebtedness. Any surplus assets will be distributed to our shareholders in proportion to the number of shares held by them.

If our assets are insufficient to repay or discharge our indebtedness, the liquidation committee will apply to the people's court for a declaration of insolvency, and will with such declaration, transfer the liquidation proceedings to the people's court.

We are not allowed to engage in new business operations if we are involved in liquidation proceedings.

Upon completion of the liquidation process, the liquidation committee is required to submit a liquidation report to our shareholders in a general meeting and to the relevant authorities for confirmation. The liquidation committee is also required to apply to the competent Administration of Industry and Commerce for the cancellation of our registration and to make a public announcement of our dissolution following such cancellation.

Members of the liquidation committee are required to discharge their duties honestly and in compliance with the relevant laws. A member of the liquidation committee is liable to indemnify us and our creditors in respect of any loss arising from his willful or material default.

Overseas listing

We must obtain the approval of the CSRC to list our Shares overseas. An overseas listing of our Shares must comply with the Special Regulations.

According to the Special Regulations and the Mandatory Provisions, our Board must implement our plan to issue our H Shares within 15 months after the CSRC has approved our application.

Loss of share certificates

If a Share certificate in registered form of our domestic shares is either lost, stolen or destroyed, the respective shareholder may apply, in accordance with the relevant provisions set out in the PRC Civil Procedure Law, to a people's court for a declaration that such certificate will no longer be valid. After obtaining the declaration, the shareholder may apply to us for a replacement certificate.

Merger and division

All mergers and divisions shall be approved by our shareholders' general meeting. We may also need to seek government approval for a merger or division. In the PRC, a merger may be effected either by way of absorption followed by the dissolution of the company being absorbed or by the establishment of a new entity.

If our shareholders' general meeting approve a proposed merger, we are required to sign a merger agreement and to prepare our balance sheet and an inventory of assets. We must notify our creditors of the merger within 10 days and publicly announce the merger in newspapers within 30 days after the resolution approving the merger has been passed. Our creditors are allowed, within a certain time period, to request us to repay any outstanding indebtedness or provide guarantees covering such indebtedness.

In the case of a division, we are likewise required to prepare our balance sheet and an inventory of assets and to notify and make public announcement to our creditors.

2. Securities Law and Regulations

The PRC has promulgated a number of regulations that relate to the issue and trading of our Shares and disclosure of information by us. In early 1993, the State Council established the Securities Committee and the CSRC. The Securities Committee was responsible for coordinating the drafting of securities regulations, formulating securities related policies, planning the development of securities markets, directing, coordinating and supervising all securities related institutions in the PRC and administering the CSRC. The CSRC is the regulatory arm of the Securities Committee and is responsible for the drafting of regulatory provisions of securities markets, supervising securities companies, regulating public offers of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities related statistics and undertaking research and analysis. In April 1998, the Securities Committee and the CSRC merged and CSRC became the supervising authority of the securities and futures market in the PRC.

On 22 April 1993, the State Council promulgated the Provisional Regulations Concerning the Issuance and Trading of Shares (the "Securities Provisional Regulations") (股票發行與交易管理暫行條例). These regulations deal with the application and approval procedures for public offerings of equity securities, trading in equity securities, the acquisition of listed companies, settlement clearance and transfer of listed equity securities, the disclosure of information with respect to a listed company, investigation and penalties and dispute settlement. According to these regulations, we must obtain the approval of the Securities Committee to offer our Shares outside the PRC. In addition, if we propose to issue Renminbi denominated ordinary Shares as well as special Renminbi denominated Shares, we must comply with the Securities Provisional Regulations. Provisions of these regulations in relation to acquisitions of listed companies and disclosure of information expressly apply to listed companies in general without being confined to listed companies on any particular stock exchange.

On 12 June 1993, pursuant to the Securities Provisional Regulations, the CSRC promulgated the Implementation Measures (Provisional) on Disclosure of Information (公開發行股票公司信息披露實施細則(試行)). Pursuant to these measures, the CSRC is responsible for supervising the disclosure of information by companies which have offered shares to the public in the PRC. These measures contain provisions regarding prospectuses and listing reports to be issued in connection with a public offering of shares in the PRC, publication of interim and final reports and announcement of material transactions or matters by companies which have offered shares to the public. Material transactions or matters are those the occurrence of which may have a material effect on the share price of a company. They include changes to a company's articles of association or registered capital, removal of auditors, mortgage or disposal of major operating assets or one-off writing down of the value of such assets where the amount being written down exceeds 30% of the total value of such assets, revocation by a court of any resolution passed by the shareholders or the supervisors of a company and the merger or de-merger of a company. These measures also contain disclosure provisions in relation to the acquisition of listed companies which supplement the requirements contained in the Securities Provisional Regulations.

On 2 September 1993, the Securities Committee promulgated the Provisional Measures Prohibiting Fraudulent Conduct Relating to Securities (禁止證券欺詐行為暫行辦法). The prohibitions imposed by these measures include the use of insider information in connection with the issuance of, or trading in, securities (insider information being defined as including undisclosed material information known to any insider which may affect the market price of securities); the use of funds or information or through an abuse of power in creating a false or disorderly market or influencing the market price of securities or inducing investors to make investment decisions without knowledge of actual circumstances; and the making of any statement in connection with the issue of, and trading in, securities which is false or materially misleading, or in respect of which there is any material omission. Penalties imposed for contravening any of the provisions of the measures include fines, confiscation of profits and suspension of trading. In serious cases, criminal liability may be imposed.

On 25 December 1995, the State Council promulgated the Regulations of the State Council Concerning Domestic Listed Foreign Shares of Joint Stock Limited Liability Companies (國務院關於股份有限公司境內上市外資股的規定). These regulations deal mainly with the issue, subscription, trading and declaration of dividends and other distributions of domestic listed foreign shares and disclosure of information of joint stock limited liability companies having domestic listed foreign shares.

The PRC Securities Law (the "Securities Law") (中華人民共和國證券法) took effect on 1 July 1999 and was amended on 28 August 2004 and 27 October 2005 separately. This is the first national securities law in the PRC, and it is divided into 12 chapters and 240 articles regulating, among other things, the issue and trading of securities, takeovers of listed companies, securities exchanges, securities companies and the duties and responsibilities of the State Council's securities regulatory authorities. The Securities Law comprehensively regulates activities in the PRC securities market. Article 238 of the Securities Law provides that we must obtain prior approval from the State Council's securities regulatory authorities to list our shares outside the PRC. Article 239 of the Securities Law provides that as to any subscription or trading of stocks of a domestic company in a foreign currency, the specific measures thereof shall be separately formulated by the State Council. Currently, the issue and trading of foreign issued shares (including H Shares) are still mainly governed by the rules and regulations promulgated by the State Council and the CSRC.

On 29 March 1999, the SETC and the CSRC promulgated the Opinion on the Further Promotion of the Regular Operation and In Depth Reform of Companies Listed Overseas (關於進一步促進境外上市公司規範運作和深化改革的意見) which is aimed at regulating the internal operation and management of PRC companies listed overseas. We will be subject to the opinion upon listing of our H Shares on the Stock Exchange. The Opinion regulates, among others, the appointments and functions of external directors and independent directors in the board of directors; and the appointment and functions of external supervisors and independent supervisors in the supervisory committee.

On 14 July 1999, the CSRC promulgated the Notice on Issues Regarding Application for Overseas Listing by Enterprises (中國證券監督管理委員會關於企業申請境外上市有關問題的通知) which sets out the requirements to be satisfied by PRC enterprises seeking overseas main board listing, and matters including the approval procedure and the submission of documents.

3. Arbitration and Enforcement of Arbitral Awards

The Arbitration Law of the PRC (the "Arbitration Law") (中華人民共和國仲裁法) was passed by the Standing Committee of the National People's Congress on 31 August 1994 and became effective on 1 September 1995. It is applicable to contract disputes and other property disputes between natural persons, legal persons and other organisations where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by agreement provided arbitration as the method for dispute resolution, the people's court will refuse to handle the case.

The Listing Rules and the Mandatory Provisions require an arbitration clause to be included in our Articles of Association and, in the case of the Listing Rules, also in contracts with each of our Directors and Supervisors, to the effect that whenever any disputes or claims arise between holders of our H Shares and us; holders of our H Shares and our Directors, Supervisors, manager or other senior officers; or holders of our H Shares and holders of Domestic Shares, in respect of any disputes or claims in relation to our affairs as a result of any rights or obligations arising under our Articles of Association, the Company Law or other relevant laws and administrative regulations, such disputes or claims shall be referred to arbitration. Where a dispute or claim of rights as described in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, shall comply with the choice of arbitration to resolve the dispute, if such persons are us, our shareholders, Directors, Supervisors, Manager or other senior officers. Disputes in respect of the definition of shareholders and disputes in relation to our register of shareholders need not be resolved by arbitration.

A claimant may elect for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission in accordance with its arbitration rules or the Hong Kong International Arbitration Centre in accordance with its securities arbitration rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. If the claimant elects for arbitration to be carried out at the Hong Kong International Arbitration Centre, any party to the dispute or claim may apply for the arbitration to take place in Shenzhen in accordance with the securities arbitration rules of the Hong Kong International Arbitration Centre.

Under the Arbitration Law and PRC Civil Procedure Law, an arbitral award is final and binding on the parties. If a party fails to comply with an award, the other party to the award may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration commission if there is any procedural or membership irregularity specified by law or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration commission.

A party seeking to enforce an arbitral award of PRC arbitration panel against a party who, or whose property, is not within the PRC, may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognised and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "New York Convention") adopted on 10 June 1958 pursuant to a resolution of the Standing Committee of the National People's Congress passed on 2 December 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognised and enforced by other parties to the New York Convention, subject to their right to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of the State to which the application for enforcement is made. It was declared by the Standing Committee of the National People's Congress simultaneously with the accession of the PRC that (i) the PRC will only recognise and enforce foreign arbitral awards on the principle of reciprocity and (ii) the PRC will only apply the New York Convention in disputes considered, under PRC laws, to arise from contractual and non-contractual mercantile legal relations. On 18 June 1999, an arrangement was made between Hong Kong and the Supreme People's Court of the PRC for the mutual enforcement of arbitral awards. This new arrangement was approved by the Supreme People's Court of the PRC and the Hong Kong Legislative Council, and became effective on 1 February 2000. The arrangement is made in accordance with the spirit of the New York Convention. Under the arrangement, awards made by PRC arbitral authorities recognised under the Arbitration Ordinance of Hong Kong can be enforced in Hong Kong. Hong Kong arbitration awards are also enforceable in China.

4. Foreign Exchange Controls

The lawful currency of the PRC is the Renminbi, which is subject to foreign exchange controls and is not freely convertible into foreign exchange at this time. The SAFE, under the authority of the PBOC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

Prior to 31 December 1993, a quota system was used for the management of foreign currency. Any enterprise requiring foreign currencies was required to obtain a quota from the local SAFE office before it could convert Renminbi into foreign currencies through the PBOC or other designated banks. Such conversion had to be effected at the official rate prescribed by the SAFE on a daily basis. Renminbi could also be converted into foreign currencies at swap centers. The exchange rates used by swap centers were largely determined by the demand for, and supply of, foreign currencies and the Renminbi requirements of enterprises in the PRC. Any enterprise that wished to buy or sell foreign currencies at a swap center had to obtain an approval from the SAFE.

On 28 December 1993, the PBOC, under the authority of the State Council, promulgated the Notice of the People's Bank of China Concerning Further Reform of the Foreign Currency Control System (the "Notice") (關於進一步改革外匯管理體制的公告), effective from 1 January 1994. The Notice announces the abolition of the system of foreign exchange quotas, the implementation of conditional convertibility of Renminbi in current account items, the establishment of the system of settlement and payment of foreign exchange by banks, and the unification of the official Renminbi exchange rate and the market rate for Renminbi established at swap centers. On 26 March 1994, the PBOC promulgated the "Provisional Regulations for the Administration of Settlement, Sale and Payment of Foreign Exchange" (the "Provisional Regulations"). The Provisional Regulations set out detailed provisions regulating the sale and purchase of foreign exchange by enterprises, economic organisations and social organisations in the PRC.

On 29 January 1996, the State Council promulgated new Regulations of the People's Republic of China for the Control of Foreign Exchange (the "Control of Foreign Exchange Regulations") (中華人民共和國外匯管理條例) which became effective on 1 April 1996. The Control of Foreign Exchange Regulations classify all international payments and transfers into current account items and capital account items. Most of the current account items are no longer subject to SAFE approval while capital account items still are. The Control of Foreign Exchange Regulations were subsequently amended on 14 January 1997. This latest amendment affirmatively states that the State shall not restrict international current account payments and transfers.

On 20 June 1996, the PBOC promulgated the "Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange" (the "Settlement Regulations") (結匯、售匯及付匯管理規定) which became effective on 1 July 1996. The Settlement Regulations supersede the Provisional Regulations and abolish the remaining restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items. On the basis of the Settlement Regulations, the PBOC also published the Announcement on the Implementation of Foreign Exchange Settlement and Sale at Banks by Foreign invested Enterprises" (the "Announcement"). The Announcement permits foreign invested enterprises to open, on the basis of their needs, foreign exchange settlement accounts for current account receipts and payments of foreign exchange along with specialised accounts for capital account receipts and payments at designated foreign exchange banks.

On 25 October 1998, the PBOC and the SAFE promulgated the Notice Concerning Closure of the Foreign Exchange Swap Business Activities pursuant to which and with effect from 1 December 1998, all foreign exchange swapping business in the PRC for foreign invested enterprises shall be discontinued, while the trading of foreign exchange by foreign invested enterprise shall come under the banking system for the settlement and sale of foreign exchange.

On 1 January 1994, the former dual exchange rate system for Renminbi has been abolished and replaced by a managed floating exchange rate system, which is determined by demand and supply. The PBOC sets and publishes daily the Renminbi-U.S. dollar base exchange rate. This exchange rate is determined with reference to the transaction price for Renminbi U.S. dollar in the inter bank foreign exchange market on the previous day. The PBOC will also, with reference to exchange rates in the international foreign exchange market, announce the exchange rates of Renminbi against other major currencies. In foreign exchange transactions, designated foreign exchange banks may, within a specified range, freely determine the applicable exchange rate in accordance with the exchange rate announced by the PBOC.

Save for foreign-invested enterprises or other enterprises which are specially exempted by relevant regulations, all entities in the PRC (except for some foreign trading companies and production enterprises having import and export rights, which are entitled to retain part of foreign exchange income generated from their current account transactions and to make payments using such retained foreign exchanges in their current account transactions or approved capital account transactions) must sell their foreign exchange recurrent income to designated foreign exchange banks. Foreign exchange income from loans issued by organisations outside the territory or from the issuance of bonds and shares (for example foreign exchange income received by us from the sale of shares overseas) is not required to be sold to designated foreign exchange banks, but may be deposited in foreign exchange accounts at the designated foreign exchange banks.

PRC enterprises (including foreign-invested enterprises) which require foreign exchange for transactions relating to current account items, may, without the approval of SAFE, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks, on the strength of valid receipts and proof of transactions. Foreign invested enterprises which need foreign exchange for the distribution of profits to their shareholders, and PRC enterprises which in accordance with regulations are required to pay dividends to shareholders in foreign exchange such as our company, may on the strength of board resolutions on the distribution of profits, effect payment from their foreign exchange accounts or convert and pay dividends at the designated foreign exchange banks.

Conversion of foreign exchange in respect of capital account items, such as direct investment and capital contribution, remains subject to restriction, and prior approval from SAFE and the relevant branch must be sought.

Dividends to holders of our H Shares will be fixed in Renminbi but must be paid in HK dollars. The PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against the U.S. dollar in the market during the prior day. The PBOC also takes into account other factors such as the general conditions existing in the international foreign exchange markets. Although PRC governmental policies were introduced in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currency for current account items, conversion of Renminbi into foreign exchange for capital items, such as foreign direct investment, loans or security, requires the approval of the SAFE and other relevant authorities. On 21 July 2005, the Renminbi was no longer pegged to the U.S. dollars but instead to a basket of currencies.

5. Hong Kong Laws and Regulations

Summary of Material Differences between Hong Kong and PRC Company Law

(a) Company Law

The Hong Kong law applicable to a company incorporated in Hong Kong is based on the Companies Ordinance and supplemented by common law and the rules of equity that apply to Hong Kong.

As a joint stock limited company established in the PRC that is seeking a listing of our H Shares on the Stock Exchange, we are governed by the Company Law and all other rules and regulations promulgated pursuant to the Company Law.

In the following sections, we summarise certain material differences between Hong Kong company law applicable to a company incorporated in Hong Kong and the Company Law applicable to a joint stock limited company incorporated and existing under the Company Law. This summary is, however, not intended to be an exhaustive comparison.

(i) Share capital

Under Hong Kong law, the authorised share capital of a Hong Kong company is the amount of share capital that the company is authorised to issue. A company is not bound to issue the entire amount of its authorised share capital. The authorised share capital of a Hong Kong company may be larger than the issued share capital. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders if required, cause the company to issue new shares. The Company Law does not provide for authorised share capital. Our registered capital is the amount of our issued share capital. Any increase in our registered capital must be approved by our shareholders in a general meeting and the relevant PRC governmental and regulatory authorities.

Under the Company Law, the amount of the capital contributions in cash paid by all the shareholders shall be no less than 30% of a company's registered capital. There is no such restriction on a Hong Kong company under Hong Kong law.

(ii) Restrictions on shareholding and transfer of shares

Under PRC law, our Domestic Shares, which are denominated and subscribed for in Renminbi, may only be subscribed for or traded by the State, PRC legal persons, natural persons, Qualified Foreign Institutional Investors and qualified foreign strategic investors. Our overseas listed H Shares, which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for, and traded by, Qualified Domestic Institutional Investors of China, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC and PRC individuals pursuant to the relevant regulations.

Under the Company Law, our Promoters are not allowed to transfer our Shares they hold for a period of one year after the date of our establishment. Shares in issue prior to the Company's public offering cannot be transferred within one year from the day when the shares are listed and traded on the stock exchange. Similarly, during the term of office, the shares transferred by any of our directors, supervisors and senior managers each year shall not exceed 25% of the total shares of the company he holds. The shares of the company held by the aforesaid persons shall not be transferred within one year from the day when the stock of the company is listed and traded on a stock exchange, or within six months after such personnel leave the post. There are no such restrictions on shareholdings and transfer of shares under Hong Kong law. See "Underwriting — Undertakings" for information relating to restrictions on transfer under Listing Rules.

(iii) Financial assistance for acquisition of shares

Although the Company Law does not prohibit or restrict us or our subsidiaries from providing financial assistance for the purpose of an acquisition of our Shares, the Mandatory Provisions contain restrictions on a company and its subsidiaries providing such financial assistance similar to those under the Hong Kong company law.

(iv) Variation of class rights

The Company Law makes no specific provision relating to variation of class rights. However, the Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in our Articles of Association, which are summarised in Appendix VIII — Summary of Articles of Association.

Under the Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting, (ii) with the consent in writing of the holders of three fourths in nominal value of the issued shares of the class in question, (iii) by agreement of all our members or (iv) if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.

We (as required by the Listing Rules and the Mandatory Provisions) have adopted in our Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of overseas listed foreign invested shares and domestic invested shares are defined in our Articles of Association as different classes, except where (i) either separately or concurrently in any 12-month period, pursuant to a shareholders' special resolution, not more than 20% of each of the issued overseas listed foreign invested shares and the issued domestic invested shares existing as at the date of the shareholders' special resolution; and (ii) the plan for the issue of domestic invested shares and overseas listed foreign invested shares upon its establishment is implemented within 15 months following the date of approval by the CSRC; and (iii) the transfer by the promoters of our shares held by them to overseas listed shares upon receiving the approval of the CRSC or the authorized securities approval authorities of the State Council. The Mandatory Provisions contain detailed provisions relating to circumstances which are deemed to constitute a variation of class rights.

(v) Directors

The Company Law, unlike Hong Kong company law, does not contain, other than connected transaction related, any requirements relating to the declaration of directors' interests in material contracts, interested directors being restricted from counting towards the quorum of, and voting at, a meeting of the board of directors at which a transaction in which a director is interested in being considered, restrictions on directors' authority in making major dispositions, restrictions on companies providing certain benefits, such as loans, to directors and guarantees in respect of directors' liability and prohibitions against compensation for loss of office without shareholders' approval. The Mandatory Provisions, however, contain certain restrictions on major dispositions and specify the circumstances under which a director may receive compensation for loss of office, all of which provisions have been incorporated in our Articles of Association, a summary of which is set out in "Appendix VIII — Summary of Articles of Association."

(vi) Supervisory committee

Under the Company Law, our Directors and managers are subject to the supervision of a supervisory committee. There is no mandatory requirement for the establishment of a supervisory committee for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be our best interests and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(vii) Derivative action by minority shareholders

Hong Kong law permits minority shareholders to start a derivative action on behalf of all shareholders against directors who have committed a breach of their fiduciary duties to the company if the directors control a majority of votes at a general meeting, thereby effectively preventing a company from suing the directors in breach of their duties in its own name. Although the Company Law gives our shareholders the right to initiate proceedings in the people's court to restrain the implementation of any resolution passed by our shareholders in a general meeting, or by the Board, that violates any law, administration rules or Articles of Association or if the Directors, or management personnel violate laws, administration rules or Articles of Association when performing their duties and cause losses to the company or infringes the lawful rights and interests of our shareholders, there is no form of proceedings equal to a derivative action. The

Mandatory Provisions, however, provide us with certain remedies against the Directors, Supervisors and officers who breach their duties to us. In addition, as a condition to the listing of our H Shares on the Stock Exchange and in accordance with our Articles of Association, each of our Directors and Supervisors is required to give an undertaking in favor of us acting as agent for each of our shareholders. This allows minority shareholders to act against our Directors and Supervisors in default.

(viii) Protection of minorities

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to the court to either wind up the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. There is no specific provision in the Company Law to guard against oppression by the majority shareholders of minority shareholders', but we, as required by the Mandatory Provisions, have adopted in our Articles of Association minority protection provisions similar to (though not as comprehensive as) those available under the Hong Kong law.

These provisions state that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of our shareholders, may not relieve a Director or Supervisor of his duty to act honestly in our best interests or may not approve the expropriation by a Director or Supervisor of our assets or the individual rights of other shareholders.

(ix) Notice of shareholders' meetings

Under the Company Law, notice of the annual shareholders' general meeting must be given not less than 20 days before the meeting and notice of an extraordinary meeting of shareholders must be given not less than 15 days before the meeting. In the case of a company having bearer shares, a public announcement of a shareholders' general meeting must be made at least 30 days prior to it being held. Under the Special Regulations and the Mandatory Provisions, 45 days' written notice must be given to all our shareholders and shareholders who wish to attend the meeting must reply in writing 20 days before the date of the meeting. For a Hong Kong limited company, the minimum period of notice of a general meeting where convened for the purpose of considering ordinary resolutions is 14 days and where convened for the purpose of considering special resolutions, is 21 days. The notice period for an annual general meeting is also 21 days.

(x) Quorum for shareholders' meetings

Under Hong Kong law, the quorum for a general meeting is provided for in the articles of association of a company, but must be at least two members unless it is a single-member company. The Company Law does not specify any quorum requirement for a shareholders' general meeting, but the Special Regulations and the Mandatory Provisions provide that our general meeting may only be convened when replies to the notice of that meeting have been received from shareholders whose Shares represent 50% of the voting rights at least 20 days before the proposed date of the meeting, or if that 50% level is not achieved, we must within five days notify our shareholders by way of a public announcement and we may hold the shareholders' general meeting thereafter.

(xi) Voting

Under Hong Kong law, an ordinary resolution is passed by a simple majority of affirmative votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three quarters of votes cast by members present in person or by proxy at a general meeting.

Under the Company Law, the passing of any resolution requires more than one half of the affirmative votes held by our shareholders present in person or by proxy at a shareholders' general meeting except in cases of proposed amendments to our Articles of Association, merger, division, dissolution, or transformation which require two thirds of the affirmative votes held by shareholders present in person or by proxy at a shareholders' general meeting.

(xii) Financial disclosure

We are required under the Company Law to make available at our office for inspection by shareholders our annual financial report, 20 days before our shareholders' annual general meeting. In addition, we must publish our financial statements and our annual balance sheet must be verified by registered accountants. The Companies Ordinance requires a company incorporated in Hong Kong to send to every shareholder a copy of its balance sheet, auditors' report and directors' report, which are to be laid before the company in its annual general meeting, not less than 21 days before such meeting.

We are required under PRC law to prepare our financial statements in accordance with PRC accounting standards. The Mandatory Provisions require that we must, in addition to preparing our accounts according to PRC standards, have our accounts prepared and audited in accordance with international or Hong Kong accounting standards and our financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC accounting standards. The Company is required to publish its interim and annual accounts within 60 days from the end of the first six months of a financial year and within 120 days from the end of a financial year, respectively.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously in the relevant stock exchanges.

(xiii) Information on directors and shareholders

The Company Law gives our shareholders the right to inspect our Articles of Association, minutes of the shareholders' general meetings and financial and accounting reports. Under our Articles of Association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors similar to that available to shareholders of Hong Kong companies under Hong Kong law.

(xiv) Receiving agent

Under the Company Law and Hong Kong law, dividends once declared are debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while under the PRC law the limitation period is two years. The Mandatory Provisions require us to appoint a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of our H Shares dividends declared and all other monies owed by us in respect of our Shares.

(xv) Corporate reorganisation

Corporate reorganisations involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company to another company in the course of being wound up voluntarily, pursuant to section 237 of the Companies Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to section 166 of the Companies Ordinance, which requires the sanction of the court. For PRC companies, such reorganisations are administratively considered and sanctioned under the Company Law.

(xvi) Arbitration of disputes

In Hong Kong, disputes between shareholders on the one hand, and a company incorporated in Hong Kong or its directors on the other, may be resolved through the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the Hong Kong International Arbitration Centre ("HKIAC") or the China International Economic and Trade Arbitration Commission ("CIETAC"), at the claimant's choice.

(xvii) Mandatory deductions

Under the Company Law, after tax profits of a company are subject to deductions of contributions to the statutory surplus reserve of a company before they can be distributed to shareholders. There are prescribed limits under the Company Law for such deductions. There are no corresponding provisions under the Companies Ordinance.

(xviii) Remedies of the Company

Under the Company Law, if a director, supervisor or manager in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or manager should be liable to the company for such damages. In addition, in compliance with the Listing Rules, on remedies similar to hose available under the Hong Kong law (including rescission of the relevant contract and recovery of profits made by a director, supervisor or officer) have been set out in our Articles of Association.

(xix) Dividends

Our Articles of Association empower us to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is two years. We shall not exercise our powers to forfeit any unclaimed dividend in respect of our H Shares until after the expiry of the applicable limitation period.

(xx) Fiduciary Duties

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the Company Law and the Special Regulations, directors, supervisors, officers, managers and other management personnel owe a fiduciary duty and a due diligence duty towards their company and are not permitted to engage in any activities which compete with or damage the interests of their company.

(xxi) Closure of Register of Shareholders

The Companies Ordinance requires that the register of members of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas our Articles of Association provide that share transfers may not be registered within 30 days before the date of a shareholders' meeting or within five days before the base date set for the purpose of distribution of dividends.

(b) Listing Rules

The Listing Rules provide additional requirements which apply to us as an issuer incorporated in the PRC as a joint stock limited liability company and seeking a primary listing or whose primary listing is on the Stock Exchange. Set out below is a summary of the principal provisions containing the additional requirements which apply to us:

(i) Sponsor

We are required to appoint a sponsor to assist us with our initial application for listing. The sponsor must be acceptable to the Stock Exchange.

The sponsor must be satisfied that our Directors and Supervisors appreciate the nature of their responsibilities and can be expected to honor their obligations required of them under and their respective undertakings, the Listing Rules and applicable laws and regulations.

(ii) Compliance adviser

We are required to appoint a compliance adviser for the period from our listing until the publication of our financial results for the first full financial year after listing. The services of a compliance adviser must be acceptable to the Stock Exchange.

We must ensure that our compliance adviser has access at all times to our authorised representatives, Directors and other officers and is given such information and assistance as it may request in connection with the performance of its duties. The appointment of the compliance adviser may not be terminated until a replacement acceptable to the Stock Exchange has been appointed.

If the Stock Exchange is not satisfied that the compliance adviser is fulfilling its responsibilities adequately, it may require us to terminate the compliance adviser's appointment and appoint a replacement as soon as possible.

The compliance adviser must keep us informed on a timely basis of changes in the Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to our company. It must act as our principal channel of communication with the Stock Exchange if our authorised representatives are expected to be frequently outside Hong Kong.

(iii) Accountants' report

An accountants' report will not normally be regarded as acceptable by the Stock Exchange unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong. Such report will normally be required to conform to either Hong Kong or international accounting standards or the International Financial Reporting Standards.

(iv) Process agent

We are required to appoint and maintain a person authorised to accept service of process and notices on our behalf in Hong Kong throughout the period during which our securities are listed on the Stock Exchange and must notify the Stock Exchange of his, her or its appointment, the termination of his, her or its appointment and his, her or its contact details.

(v) Public shareholdings

Under the Listing Rules, securities which are listed on the Stock Exchange and held by the public must constitute not less than 25% of our issued share capital unless a waiver from the Stock Exchange is obtained.

(vi) Independent non executive directors and supervisors

Independent non executive directors are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of our general body of shareholders will be adequately represented. Supervisors must have the character, expertise and integrity and be able to demonstrate a standard of competence commensurate with their position as Supervisors.

(vii) Restrictions on purchase of its own securities

Subject to governmental approvals and the provisions of our Articles of Association, we may repurchase our own H Shares on the Stock Exchange in accordance with the provisions of the Listing Rules. Approval by way of special resolution of the holders of our Domestic Shares and the holders of our H Shares at separate class meetings conducted in accordance with our Articles of Association is required for share repurchases. In seeking approvals, we are required to provide information on any proposed or actual purchases of all or any of our equity securities, whether or not listed or traded on the Stock Exchange. Our Directors must also state the consequences of any purchases which will arise under either or both of the Code on Takeovers and Mergers and any similar PRC law of which the Directors are aware, if any. Any general mandate given to our Directors to repurchase H Shares must not exceed 10% of the total amount of our existing issued H Shares.

(viii) Mandatory Provisions

With a view to increasing the level of protection afforded to investors, the Stock Exchange requires the incorporation, in the articles of association of a PRC company whose primary listing is on the Stock Exchange, of the Mandatory Provisions and provisions relating to the change, removal and resignation of auditors and class meetings. Such provisions have been incorporated into our Articles of Association, a summary of which is set out in Appendix VIII to this prospectus.

(ix) Redeemable shares

We must not issue any redeemable shares unless the Stock Exchange is satisfied that the relative rights of the holders of our H Shares are adequately protected.

(x) Pre emptive rights

Except in the circumstances mentioned below, Directors are required to obtain the approval by a special resolution of shareholders in general meeting, and the approvals by special resolutions of the holders of Domestic Shares and H Shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with the Articles of Association, prior to:

(i) authorising, allotting, issuing or granting Shares or securities convertible into Shares, options, warrants or similar rights to subscribe for any Shares or such convertible securities; or

(ii) any major subsidiary making any such authorisation, allotment, issue or grant so as materially to dilute the percentage of our equity interest in such subsidiary.

No such approval will be required, except to the extent that our existing shareholders have by special resolution in general meeting given a mandate to Directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorise, allot or issue, either separately or concurrently once every 12 months, not more than 20% of each of the existing issued Domestic Shares and H Shares as at the date of the passing of the relevant special resolution or, such Shares as are part of our plan at the time of our establishment, to issue Domestic Shares and H Shares and which plan is implemented within 15 months from the date of approval by the State Council Securities Policy Committee.

(xi) Amendment to the Articles of Association

We may not permit or cause any amendment to our Articles of Association which would cause them to cease to comply with the Company Law, the Mandatory Provisions or the Listing Rules.

(xii) Documents for inspection

We are required to make available at a place in Hong Kong for inspection by the public and our shareholders free of charge, and allow our shareholders to make copies at reasonable charges the following:

- a complete duplicate register of shareholders;
- a report showing the state of our issued share capital;
- our latest audited financial statements and the reports of the Directors, auditors and (if any) Supervisors, if any, thereon;
- special resolutions;

- reports showing the number and nominal value of securities repurchased by us since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares and H Shares);

- a copy of the latest annual return filed with the State Administration for Industry and Commerce or other competent PRC authority; and

- for shareholders only, copies of minutes of meetings of shareholders.

(xiii) Receiving agents

Under Hong Kong law, we are required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owed in respect of our H Shares to be held, pending payment, in trust for the holders of such H Shares.

(xiv) Statements in share certificates

We are required to ensure that all our listing documents and share certificates include the statements stipulated below and to instruct and cause each of our share registrars not to register the subscription, purchase or transfer of any of our Shares in the name of any particular holder unless and until such holder delivers to the share registrar a signed form in respect of those Shares bearing statements to the following effect, that the acquirer of Shares:

- agrees with us and each shareholder, and we agree with each shareholder, to observe and comply with the Company Law, the Special Regulations and the Articles of Association;

- agrees with us, each shareholder, Director, Supervisor, manager and other officer and, acting both for the company and for each Director, Supervisor, manager and other officer, we agree with each shareholder to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association. Any reference to arbitration will be deemed to authorise the arbitration tribunal to conduct its hearing in open session and to publish its award. Such arbitration will be final and conclusive;

- agrees with us and each shareholder that Shares are freely transferable by the holder thereof; and

- authorises us to enter into a contract on his behalf with each Director and officer whereby such Directors and officers undertake to observe and comply with their obligations to shareholders as stipulated in our Articles of Association.

(xv) Compliance with the Company Law, the Special Regulations and our Articles of Association

We are required to observe and comply with the Company Law, the Special Regulations and our Articles of Association.

(xvi) Contract between us and our Directors, officers and Supervisors

We are required to enter into a contract in writing with every Director and officer containing at least the following provisions:

- an undertaking by our Director or officer to observe and comply with the Company law, the Special Regulations, our Articles of Association, the Codes on Takeovers and Mergers and Share Repurchases and an agreement that we shall have the remedies provided in our Articles of Association and that neither the contract nor his office is capable of assignment;

- an undertaking by our Director or officer acting as agent for each shareholder to observe and comply with his obligations to shareholders as stipulated in our Articles of Association;

- an arbitration clause which provides that whenever any differences or claims arise from that contract, our Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant law and administrative regulations concerning the relationship between us and our Directors or officers and between a holder of our H Shares and our Director or officer, such differences or claims will be referred to arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its Securities Arbitration Rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. Such arbitration will be final and conclusive;

- if the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the Securities Arbitration Rules of HKIAC;

- PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations;

- the award of the arbitral body is final and shall be binding on the parties thereto;

- the agreement to arbitrate is made by the Director or officer with us on our own behalf and on behalf of each of our shareholders; and

- any reference to arbitration shall be deemed to authorise the arbitral tribunal to conduct hearings in open session and to publish its award.

(xvii) Subsequent listing

We must not apply for the listing of any of our H Shares on a PRC stock exchange unless the Stock Exchange is satisfied that the rights of the holders of our H Shares are adequately protected.

(xviii) General

If any change in the PRC law or market practices materially alters the validity or accuracy of any of the basis upon which the additional requirements have been prepared, then the Stock Exchange may impose additional requirements or make listing of our H Shares subject to special conditions as the Stock Exchange considers appropriate. Whether or not any such changes in the PRC law or market practices occur, the Stock Exchange retains its general power under the Listing Rules to impose additional requirements and make special conditions in respect of the listing of our H Shares on the Stock Exchange.

(c) Other Legal and Regulatory Provisions

Upon listing, the provisions of the SFO, the Codes on Takeovers and Mergers and Share Repurchases and such other relevant ordinances and regulations as may be applicable to companies listed on the Stock Exchange will apply to us.

(d) Securities Arbitration Rules

Our Articles of Association provide that certain claims arising from our Articles of Association or the Company Law shall be arbitrated at either the CIETAC or the HKIAC in accordance with their respective rules.

The Securities Arbitration Rules of the HKIAC contain provisions allowing, upon application by any party, an arbitral tribunal to conduct a hearing in Shenzhen for cases involving companies incorporated in the PRC and listed on the Stock Exchange so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties, including witnesses and the arbitrators, being permitted to enter Shenzhen for the purpose of the hearing. Where a party, other than a PRC party or any of its witnesses or any arbitrator, is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

This Appendix contains a summary of our Articles of Association which were adopted on 13 September 2007 and will become effective on the date that our H Shares are listed on the Stock Exchange. The principal objective is to provide potential investors with an overview of our Articles of Association. As the information contained below is in summary form, it does not contain all the information that may be important to potential investors. As stated in the paragraph headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix X, a copy of the Articles of Association is available for inspection.

Our Articles of Association and relevant amendments thereto were adopted or authorised by our shareholders in general shareholders' meetings in accordance with applicable laws and regulations, including the Company Law, the Securities Law of the PRC, the Notice on Issues Regarding Shareholders' Annual Meeting in 1995 and Amendments to Articles of Association of Offshore Listing Companies, the Opinion Letter Regarding Supplementary Amendments to Articles of Association of Companies Limited by Shares Seeking Listing in Hong Kong, the Special Regulations, the Mandatory Provisions and the Hong Kong Listing Rules.

Directors and Other Officers

Power to Allot and Issue Shares

There is no provision in the Articles of Association empowering the Directors to allot and issue Shares.

To increase the capital of our Company, the Board is responsible for formulating proposals for approval at a shareholders' general meeting by way of special resolution. Any such increase must be conducted in accordance with the procedures stipulated by the relevant laws and administrative regulations.

Power to Dispose of the Assets of our Company or any Subsidiary

The Board is accountable to the shareholders' general meeting.

The Board shall not, without the prior approval or consent of shareholders' general meeting, dispose or agree to dispose of, any fixed assets of our Company where the anticipated value of the assets to be disposed, together with the value of any fixed assets of our Company that has been disposed in the period of four (4) months immediately preceding the proposed disposition, exceeds 33% of the value of our Company's fixed assets as shown in the last balance sheet placed before the shareholders' general meeting.

The validity of a disposition by our Company of fixed assets shall not be affected by the breach of the above paragraph.

For the purposes of the Articles of Association, a disposition of fixed assets includes an act involving the transfer of an interest in assets but does not include the provision of fixed assets as security.

The Directors shall carry out its duties in compliance with the laws, regulations, rules, the Articles of Association and resolutions passed by the shareholders' general meetings.

Emoluments and Compensation or Payments for Loss of Office

Our Company shall, with the prior approval of shareholders' general meeting, enter into a contract in writing with each of the Directors or Supervisors in respect of his or her emoluments. The aforesaid emoluments include:

(1) emoluments in respect of his or her service as a Director, Supervisor or senior executive officer of our Company;

(2) emoluments in respect of his or her service as a Director, Supervisor or senior executive officer of any subsidiary of our Company;

(3) emoluments in respect of the provision of other services in connection with the management of the affairs of our Company and any of its subsidiaries; and

(4) payments by way of compensation for loss of office or retirement from office.

Except under the contract entered into in accordance with the foregoing, no proceedings may be brought by a Director or Supervisor against our Company for any benefit due to him in respect of the above matters.

The contracts concerning the emoluments between our Company and its Directors or Supervisors should provide that, in the event of an acquisition of our Company, the Directors and Supervisors shall, subject to the prior approval of the shareholders' general meeting, have the right to receive compensation or other payment in respect of his loss of office or retirement. An "acquisition of our Company" referred to in this paragraph means either:

(1) an offer made by any person to all shareholders; or

(2) an offer made by any person with a view to the offeror becoming a "controlling shareholder" within the meaning set out in the Articles of Association (see the section headed "Rights of the Minorities in Relation to Fraud or Oppression thereof" below).

If the relevant Director or Supervisor does not comply with the above, any sum so received by him shall belong to those persons who have sold their Shares as a result of the offer made. The expenses incurred in distributing such sum pro rata amongst those persons shall be borne by the relevant Director or Supervisor and not be paid out of that sum.

Loans to Directors, Supervisors and Other Officers

Our Company shall not directly or indirectly make a loan to, or provide any guarantee in connection with the making of a loan to a Director, Supervisor, our general manager or any other senior executive officer of our Company or of our Company's holding company or any of their respective associates. However, the following transactions are not subject to such prohibition:

- the provision by our Company of a loan or a guarantee of a loan to a company which is a subsidiary of our Company;

- the provision by our Company of a loan or a guarantee in connection with the making of a loan or any other funds to any of its Directors, Supervisors, our general manager and other senior executive officers for them to pay for expenditure incurred or to be incurred by him for the purposes of our Company or for the purpose of enabling him to perform his duties properly, in accordance with the terms of a service contract approved by the shareholders' general meeting; and

- Our Company may make a loan to or provide a guarantee in connection with the making of a loan to any of the relevant Directors, Supervisors, our general manager and other senior executive officers or their respective associates on normal commercial terms, provided that the ordinary course of business of our Company includes the lending of money or the giving of guarantees.

A loan made by our Company in breach of the above provisions shall be forthwith repaid by the recipient of the loan regardless of the terms of the loan.

A guarantee provided by our Company in breach of the above provisions shall be unenforceable against our Company, unless:

1. the guarantee was provided in connection with a loan to an associate of any of the Directors, Supervisors, our general manager and other senior executive officers of our Company or of our Company's holding company and at the time the loan was advanced the lender did not know the relevant circumstances; or

2. the collateral provided by our Company has been lawfully disposed of by the lender to a bona fide purchaser.

For these purposes:

(a) a guarantee includes the assumption of liability by the guarantor or the provision of assets by the guarantor to secure the performance of obligations by the obligor; and

(b) a definition of an associate as referred to in sub-section headed "Duties" below applies, mutatis mutandis, to this provision.

Financial Assistance for the Acquisition of Shares in our Company or any Subsidiary

Subject to the exceptions in the Articles of Association, our Company and our subsidiaries shall not, by any means at any time, provide any kind of financial assistance (as defined below) to a person who is acquiring or is proposing to acquire shares of our Company. The said acquirer of shares of our Company includes a person who directly or indirectly incurs any obligations (as defined below) due to the acquisition of the shares. Our Company (including any branches of our Company) and our subsidiaries shall not, by any means at any time, provide financial assistance to the said acquirer as referred to above for the purpose of reducing or discharging the obligations assumed by that person.

The following activities shall not be deemed to be prohibited activities by the above provisions:

- the provision of financial assistance by our Company where the financial assistance is given in good faith in the interest of our Company, and the principal purpose in giving the financial assistance is not for the acquisition of shares in our Company, or the giving of the financial assistance is an incidental part of some larger purpose of our Company;

- the lawful distribution of our Company's assets by way of dividend in accordance with law;

- the allotment of bonus shares as dividends;
- a reduction of registered capital, a repurchase of shares of our Company or a reorganisation of the share capital structure of our Company effected in accordance with these Articles of Association;
- the lending of money by our Company in the ordinary course of its business, where the lending of money is part of the scope of business of our Company (provided that the net assets of our Company are not thereby reduced or that, to the extent that the assets are thereby reduced, the financial assistance is provided out of distributable profits); and
- the provision of money by our Company for contributions to staff and workers' shares schemes (provided that the net assets of our Company are not thereby reduced or that, to the extent that the assets are thereby reduced, the financial assistance is provided out of distributable profits).

For these purposes:

(a) "financial assistance" includes (without limitation) the following meanings:

(1) gift;

(2) guarantee (including the assumption of liability by the guarantor or the provision of assets by the guarantor to secure the performance of obligations by the obligor), or compensation (other than compensation arising from our Company's own default) or release or waiver of any rights;

(3) provision of loan or any other agreement under which the obligations of our Company are to be fulfilled before the obligations of another party, or a change in the parties to or the assignment of rights under such loan or agreement; or

(4) any other form of financial assistance given by our Company when our Company is unable to pay its debts or has no net assets or when its net assets would thereby be reduced by a material extent.

(b) "incurring an obligation" includes the incurring of obligations by the changing of the obligor's financial position by way of entering into a contract or making an arrangement (whether enforceable or not, and whether made on its own account or with any other persons), or by any other means.

Disclosure of Interests in Contracts with our Company or any of its Subsidiaries

Where a Director, Supervisor, our general manager or any other senior executive officer of our Company is in any way, directly or indirectly, materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with our Company (other than his contract of service with our Company), he shall declare the nature and extent of his interests to the Board at the earliest opportunity, whether or not the contract, transaction or arrangement or proposal therefor is otherwise subject to the approval of the Board under normal circumstances.

Unless the interested Director, Supervisor, general manager or senior executive officer discloses his interests in accordance with the Articles of Association and the contract, transaction or arrangement is approved by the Board at a meeting in which the interested Director, Supervisor, President or other senior executive officer is not counted in the quorum and refrains from voting, a contract, transaction or arrangement in which that a Director, Supervisor, our general manager or any other senior executive officer is materially interested is voidable at the instance of our Company except as against a bona fide party thereto acting without notice of the breach of duty by the interested Director, Supervisor, our general manager or senior executive officer.

For these purposes, a Director, Supervisor, our general manager or other senior executive officer of our Company is deemed to be interested in a contract, transaction or arrangement in which an associate of his/hers is interested.

Where a Director, Supervisor, our general manager or any other senior executive officer of our Company gives to the Board a general notice in writing stating that, by reason of the facts specified in the notice, he is interested in contracts, transactions or arrangements which may subsequently be made by our Company, such notice shall be deemed for the purposes of this paragraph to be a sufficient disclosure of his interests, so far as the content stated in such notice is concerned, provided that such general notice shall have been given before the date on which the question of entering into the relevant contract, transaction or arrangement is first taken into consideration on behalf of our Company.

Remuneration

The remuneration of Directors must be approved by the shareholders' general meeting, as referred to under the section headed "Emoluments and Compensation or Payments for Loss of Office" above.

Appointment, Removal and Retirement

The term of office of the chairman of the Board and the other Board members shall be three years. If the term of appointment of a Director expires and he is re-elected, the Director may be reappointed for consecutive terms.

Directors shall be elected and removed by the shareholders' general meeting. A written notice of the intention to propose a person for election as Director and a notice in writing by that person indicating his acceptance of such proposal is required to be given to our Company seven days before the date of such shareholders' general meeting.

The Board shall consist of nine Directors, of which three shall be independent non-executive Directors. The Board shall have one chairman and one vice-chairman. The chairman and vice-chairman shall be elected and removed by a majority of all of the Directors. A Director is not required to hold shares of our Company.

A person may not serve as a Director, Supervisor, our general manager and any other senior executive officer of our Company if any of the following circumstances apply:

- a person without legal or with restricted legal capacity;
- a person who has committed an offence of corruption, bribery, infringement of property, misappropriation of property or sabotaging the social economic order and has been punished because of committing such offence; or who has been deprived of his political

rights, in each case where no more than five (5) years has elapsed since the date of the completion of implementation of such punishment or deprivation;

- a person who is a former director, factory manager or manager of a company or enterprise which has entered into liquidation due to insolvency because of mismanagement and he is personally liable for the insolvency of such company or enterprise, where no more than three (3) years has elapsed since the date of the completion of the liquidation of such company or enterprise;

- a person who is a former legal representative of a company or an enterprise which had its business licence revoked or was ordered to close down due to a violation of the law and who incurred personal liability, where no more than three (3) years has elapsed since the date of the revocation of the business licence;

- a person who has a relatively large amount of debts due and outstanding;

- a person who is under criminal investigation or prosecution by judicial organisation for violation of the criminal law which investigation or prosecution is not yet concluded;

- a person who is not eligible for enterprise leadership according to laws and administrative regulations;

- a non-natural person;

- a person convicted of the contravention of provisions of relevant securities regulations by a relevant government authority, and such conviction involves a finding that he has acted fraudulently or dishonestly, where less than five (5) years has elapsed since the date of the conviction; or

- any other circumstances prescribed by applicable laws and administrative regulations or rules.

There is no provision in our Articles of Association which imposes any age limit for Directors beyond which retirement from the office of Director is mandatory.

The validity of an act of a Director, our general manager or any other senior executive officer on behalf of our Company is not, vis-à-vis a bona fide third party, affected by any irregularity in his office, election or any defect in his qualification.

Borrowing Powers

The Articles of Association do not contain any specific provision in respect of the manner in which borrowing powers may be exercised by the Directors nor do they contain any specific provision in respect of the manner in which such powers may be varied, other than: (a) provisions which give the Directors the power to formulate proposals for the issuance of debentures by our Company; and (b) provisions which provide that the issuance of debentures must be approved by the shareholders' general meeting by way of a special resolution.

Duties

In addition to obligations imposed by laws, administrative regulations or required by the Stock Exchange, each of our Company's Directors, Supervisors, our general manager and other senior executive officers owes a duty to each shareholder, in the exercise of the functions and powers of our Company entrusted to him:

- not to cause our Company to exceed the scope of the business stipulated in its business licence;
- to act honestly in the best interest of our Company;
- not to expropriate in any guise our Company's property, including (without limitation) usurpation of opportunities advantageous to our Company; and
- not to expropriate the individual rights of shareholders, including (without limitation) rights to distribution and voting rights, save the restructuring of our Company submitted to shareholders' general meeting for approval in accordance with the Articles of Association.

Each of our Company's Directors, Supervisors, our general manager and other senior executive officers owes a duty, in the exercise of his powers and discharge of his duties, to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Each of our Company's Directors, Supervisors, our general manager and other senior executive officers shall exercise his powers or carry out his duties in accordance with the principle of good faith and shall not put himself in a position where his duty and his interest may conflict. This principle includes (without limitation) discharging the following obligations:

- to act honestly in the best interests of our Company;
- to exercise powers within the scope of his powers and not to exercise powers outside the scope of his powers;
- to exercise the discretion vested in him personally and not to allow himself to act under the control of another and, unless and to the extent permitted by laws, administrative regulations or with the informed consent of shareholders' general meeting, not to delegate the exercise of his discretion;
- to treat shareholders of the same class equally and to treat shareholders of different classes fairly;
- except in accordance with the Articles of Association or with the informed consent of shareholders' general meeting, not to enter into any contract, transaction or arrangement with our Company;
- unless with the informed consent of shareholders' general meeting, not to use our Company's property for his own benefit;
- not to exploit his position to accept bribes or other illegal income or expropriate our Company's property by any means, including (without limitation) opportunities advantageous to our Company;

- unless with the informed consent of shareholders' general meeting, not to accept commissions in connection with our Company's transactions;

- to abide by the Articles of Association, faithfully execute his official duties and protect our Company's interests, and not to exploit his position and power in our Company to advance his own private interests;

- not to compete with our Company in any form unless with the informed consent of shareholders' general meeting;

- not to misappropriate our Company's funds or lend such funds to others, not to open accounts in his own name or other names for the deposit of our Company's assets and not to provide a guarantee for debts of a shareholder of our Company or other individual(s) with our Company's assets; and

- unless with the informed consent of the shareholders' general meeting, to keep in confidence information acquired by him in the course of and during his tenure and not to use the information other than in furtherance of the interests of our Company, save that disclosure of such information to the court or other governmental authorities is permitted if: (i) disclosure is made under compulsion of law; (ii) the interests of the public require disclosure; (iii) the interests of the relevant Director, Supervisor, our general manager or senior executive officer require disclosure.

Each Director, Supervisor, our general manager or senior executive officer of our Company shall not cause the following persons or institutions ("associates") to do what he or she is prohibited from doing:

(1) the spouse or minor child of that Director, Supervisor, our general manager or senior executive officer;

(2) a person acting in the capacity of trustee of that Director, Supervisor, our general manager or senior executive officer or any person referred to in the paragraph (1);

(3) a person acting in the capacity of partner of that Director, Supervisor, our general manager or senior executive officer or any person referred to in paragraphs (1) and (2) above;

(4) a company in which that Director, Supervisor, our general manager or senior executive officer, alone or jointly with one or more persons referred to in paragraphs (1), (2) and (3) above or other Directors, Supervisors, our general manager and other senior executive officers of our Company have de facto control; and

(5) the directors, supervisors, general manager and other senior executive officers of our Company under control referred to in the paragraph (4).

The fiduciary duties of the Directors, Supervisors, our general manager and other senior executive officers of our Company do not necessarily cease with the termination of their tenure. The duty of confidence in relation to trade secrets of our Company survives the termination of their tenure. Other duties may continue for such period as fairness may require depending on the time lapse between the termination and the act concerned and the circumstances under which the relationships between them and our Company are terminated.

In addition to any rights and remedies provided by the laws and administrative regulations, where a Director, Supervisor, general manager or any other senior executive officer of our Company is in breach of his duties to our Company, our Company has a right to:

- claim damages from the Director, Supervisor, our general manager or any other senior executive officer in compensation for losses sustained by our Company as a result of such breach;
- rescind any contract or transaction entered into by our Company with the Director, Supervisor, our general manager or senior executive officer or with a third party (where such third party knows or should know that there is such a breach of duties by such Director, Supervisor, our general manager or senior executive officer);
- demand an account of the profits made by the Director, Supervisor, our general manager or senior executive officer in breach of his duties;
- recover any funds received by the Director, Supervisor, our general manager or senior executive officer that should have been received by our Company, including (without limitation) commissions;
- demand payment of the interest earned or which may have been earned by the Director, Supervisor, our general manager or senior executive officer on the funds that should have been paid to our Company; and
- take legal actions to obtain judgment that our Company should own the properties earned by the Director, Supervisor, our general manager or senior executive officer in breach of his duties.

Subject to the Articles of Association, a Director, Supervisor, our general manager or senior executive officer of our Company may be relieved of liability for specific breaches of his duty by the informed consent of shareholders' general meeting save and except that such relief of liability leads to the interest of some of the shareholders or the shareholders as a whole being compromised.

Alterations to Constitutional Documents

Our Company may amend its Articles of Association in accordance with the requirements of laws, administrative regulations and the Articles of Association.

Amendments to our Articles of Association involving the contents of the Mandatory Provisions shall become effective upon approval by the companies-approving department authorised by the State Council and by the securities authority of the State Council. If such amendments require the approval of the supervising authority, such approval should be obtained. If there is any change relating to the registered particulars of our Company, application shall be made for registration of the changes in accordance with law.

Variation of Rights of Existing Shares or Classes of Shares

Holders of Domestic Shares and holders of overseas listed foreign Shares of our Company shall be considered as different classes of shareholders.

All the existing Domestic Shares may not be transferred within a period of one year from the date of the Listing of the H Shares on the Stock Exchange. Under the Articles of Association, it is provided that subject to the approval of the securities authority of the State Council, Domestic Shareholders may transfer their Domestic Shares to overseas investors and such transferred Shares may be listed or traded on an overseas stock exchange. Any listing or trading of the transferred Shares on an overseas stock exchange would have to comply with the regulatory procedures, rules and requirements of such stock exchange. Any listing or trading of the transferred Shares on an overseas stock exchange do not need to be approved by a special resolution of that class of Shareholders unless otherwise required by such overseas stock exchange.

Rights conferred on any class of shareholders in the capacity of shareholders ("class rights") may not be varied or abrogated unless approved by a special resolution of shareholders' general meeting and by holders of Shares of that class at a separate meeting conducted in accordance with the Articles of Association.

The following circumstances shall be deemed to be a variation or abrogation of the class rights of a class:

(1) to increase or decrease the number of Shares of such class, or to increase or decrease the number of Shares of a class having voting or distribution rights or privilege equal or superior to those of the Shares of such class;

(2) to effect an exchange of all or part of the Shares of such class into Shares of another class or to effect an exchange or create a right of exchange of all or part of the Shares of another class into the Shares of such class;

(3) to remove or reduce rights to accrued dividends or rights to cumulative dividends attached to Shares of such class;

(4) to reduce or remove a priority in dividend or priority in distribution of assets in liquidation attached to Shares of such class;

(5) to add, remove or reduce conversion privileges, options, voting rights, transfer rights or pre-emptive rights, or rights to acquire securities of our Company attached to Shares of such class;

(6) to remove or reduce rights to receive payment payable by our Company in particular currencies attached to Shares of such class;

(7) to create a new class of Shares having voting or distribution rights or privileges equal or superior to those of the Shares of such class;

(8) to restrict the transfer or ownership of the Shares of such class or add to such restriction;

(9) to issue rights to subscribe for, or convert into, shares in our Company of such class or another class;

(10) to increase the rights or privileges of Shares of another class;

(11) to restructure our Company where the proposed restructuring will result in different classes of shareholders bearing a disproportionate burden of such proposed restructuring; and

(12) to vary or abrogate provisions in chapter 9 of the Articles of Association.

Shareholders of the affected class, whether or not otherwise having the right to vote at shareholders' general meetings, shall nevertheless have the right to vote at class meetings in respect of matters concerning paragraphs (2) to (8), (11) and (12) above, but interested shareholder(s) (as defined below) shall not be entitled to vote at class meetings.

Resolutions of a class of shareholders shall be passed by votes representing more than two-thirds of the voting rights of shareholders of that class represented at the relevant meeting who are entitled to vote at class meetings.

Written notice of a class meeting shall be given forty-five (45) days before the date of the class meeting to notify all of the shareholders in the share register of the class of the matters to be considered and the date and the venue of the class meeting. A shareholder who intends to attend the class meeting shall deliver his written reply concerning attendance at the class meeting to our Company twenty (20) days before the date of the class meeting.

If the number of Shares carrying voting rights at the meeting represented by the shareholders who intend to attend the class meeting reaches one half or more of the voting Shares at the class meeting, our Company may hold the class meeting; if not, our Company shall within five (5) days notify the shareholders of the class again, by public notice, of the matters to be considered, the date and the venue for the class meeting. Our Company may then hold the class meeting after publication of such notice.

Notice of class meetings need only be served on shareholders entitled to vote thereat.

Meetings of any class of shareholders shall be conducted in a manner as similar as possible to that of general meetings of shareholders. The provisions of the Articles of Association relating to the manner of conducting the shareholders' general meeting shall apply to the meeting of a class of shareholders.

The special procedures for voting at a class of shareholders shall not apply in the following circumstances:

(1) where our Company issues, upon the approval by a special resolution of its shareholders' general meeting, either separately or concurrently once every twelve months, not more than 20% of each of its existing issued Domestic Shares and overseas listed foreign Shares;

(2) where our Company's plan to issue Domestic Shares and overseas listed foreign Shares at the time of its establishment is carried out and completed within fifteen (15) months from the date of approval of the securities authority of the State Council; and

(3) where our Domestic Shares are transferred to overseas investors and will be listed or traded on an overseas stock exchange, upon approval by the State Council or its authorised approving authorities and in compliance with the requirements of the relevant overseas stock exchange.

For the purposes of the class rights provisions of the Articles of Association, the meaning of "interested shareholder(s)" is:

(1) in the case of a repurchase of Shares by offers to all shareholders pro rata or public dealing on a stock exchange, a "controlling shareholder" within the meaning of the Articles of Association;

(2) in the case of a repurchase of Shares by an off-market contract, a holder of the Shares to which the proposed contract relates; and

(3) in the case of a restructuring of our Company, a shareholder within a class who bears less than a proportionate burden imposed on that class under the proposed restructuring or who has an interest in the proposed restructuring different from the interest of shareholders of that class.

Special Resolutions — Majority Required

Resolutions of shareholders' general meetings shall be divided into ordinary resolutions and special resolutions.

To adopt an ordinary resolution, votes representing more than half of the voting rights represented by the shareholders (including proxies) present at the meeting must be exercised in favour of the resolution in order for it to be passed.

To adopt a special resolution, votes representing more than two-thirds of the voting rights represented by the shareholders (including proxies) present at the meeting must be exercised in favour of the resolution in order for it to be passed.

Voting Rights (generally, on a poll and right to demand a poll)

The ordinary shareholders of our Company have the right to attend or appoint a proxy to attend shareholders' general meetings and to vote thereat. A shareholder (including proxy) when voting at a shareholders' general meeting may exercise voting rights in accordance with the number of shares carrying the right to vote and each share shall have one vote. At any general meeting of shareholders a resolution shall be decided on a show of hands unless a poll is (before or after any vote by show of hands) demanded:

- by the chairman of the meeting;

- by at least two shareholders entitled to vote present in person or by proxy; or

- by one or more shareholders present in person or by proxy and representing 10% or more of all shares carrying the right to vote at the meeting.

Unless a poll be so demanded, a declaration by the chairman that a resolution has on a show of hands been carried, unanimously, or carried by, a particular majority, or lost, and an entry to that effect in the minutes of the meeting shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favor of or against such resolution. The demand for a poll may be withdrawn by the person who makes such demand.

A poll demanded on the election of the chairman of the meeting, or on a question of adjournment of the meeting, shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the chairman of the meeting directs, and any business, other than that upon which a poll has been demanded may be proceeded with, pending the taking of the poll. The result of the poll shall be deemed to be a resolution of the meeting at which the poll was demanded.

On a poll taken at a meeting, a shareholder (including proxy) entitled to two or more votes need not cast all his votes in the same way.

In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting at which the show of hands takes place or at which the poll is demanded shall be entitled to one additional vote.

Requirements for Annual General Meetings

The Board shall convene an annual shareholders' meeting once each year and within six (6) months from the close of the preceding financial year.

Accounts and Audit

Our Company shall establish its financial and accounting system in accordance with the laws, administrative regulations and rules of the relevant department of the PRC government.

The Board shall place before the shareholders at every annual general meeting such financial reports as are required by any laws, administrative regulations or directives promulgated by competent regional and central governmental authorities prepared by our Company.

Our Company's financial reports shall be made available for shareholders' inspection at our Company twenty (20) days before the date of every shareholders' annual general meeting. Each shareholder shall be entitled to obtain a copy of the financial reports.

The financial statements of our Company shall, in addition to being prepared in accordance with PRC accounting standards and regulations, be prepared in accordance with either International Financial Reporting Standards, or that of the overseas place where our Company's shares are listed. If there is any material difference between the financial statements prepared respectively in accordance with the two accounting standards, such difference shall be stated in an appendix to the financial statements. When our Company is to distribute its profits, it is required to distribute dividends based on the lower of our Company's distributable reserves determined under the two accounting standards.

Any interim results or financial information published or disclosed by our Company must also be prepared and presented in accordance with PRC accounting standards and regulations, and also in accordance with either International Financial Reporting Standards or that of the overseas place where our Company's shares are listed.

Our Company shall publish its financial reports twice every fiscal year, that is, the interim financial report shall be published within sixty (60) days after the expiration of the first six (6) months of each fiscal year and the annual financial report shall be published within one hundred and twenty (120) days after the expiration of each fiscal year.

Notice of Meetings and Business to be Conducted thereat

The shareholders' general meeting is the organ of authority of our Company and shall exercise its functions and powers in accordance with law. Our Company shall not, without the prior approval of shareholders' general meeting, enter into any contract with any person other than a Director, Supervisor, our general manager or a senior executive officer whereby the management and administration of the whole or any substantial part of the business of our Company is to be handed over to such person. Shareholders' general meetings are divided into annual general meetings and extraordinary general meetings. Shareholders' general meeting shall be convened by the Board. In case the Board fails to perform its obligation to convene a shareholders' general meeting, the Supervisory Committee may convene the shareholders' general meeting. Under any of the following circumstances, the Board shall convene an extraordinary general meeting within two (2) months:

- when the number of Directors is less than the number of Directors required by the Company Law or two-thirds of the number of Directors specified in the Articles of Association;
- when the unrecovered losses of our Company amount to one-third of the total amount of its share capital;
- when shareholder(s) holding 10% or more of our Company's shares carrying voting rights request(s) the convening of an extraordinary general meeting;
- when deemed necessary by the Board or as requested by the supervisory committee;
- as requested by two or more Independent Non-executive Directors; or
- any other circumstances prescribed by laws or administrative regulations or rules or specified in the Articles of Association of our Company.

In case the Board fails to perform its obligation to convene a general meeting, the Supervisory Committee or two or more shareholders holding an aggregate of 10% or more of our Company's shares carrying voting rights may convene a general meeting.

When our Company convenes a shareholders' general meeting, written notice of the meeting shall be given forty-five (45) days before the date of the meeting to notify all of the shareholders in the share register of the matters to be considered and the date and the venue of the meeting. A shareholder who intends to attend the meeting shall deliver his written reply concerning the attendance of the meeting to our Company twenty (20) days before the date of the meeting.

When our Company convenes a shareholders' general meeting, shareholders jointly or severally holding 3% or more of the total voting shares of our Company shall have the right to propose new motions in writing, and our Company shall place matters in the proposed motions within the scope of functions and powers of the shareholders' general meeting on the agenda.

A shareholders' extraordinary general meeting shall not decide on those matters not stated in the notice of meeting.

Our Company shall, based on the written replies received twenty (20) days before the date of the shareholders' general meeting from the shareholders, calculate the number of voting shares represented by shareholders who intend to attend the meeting. If the number of voting shares represented by the shareholders who intend to attend the meeting reaches more than one half of our Company's total voting shares, our Company may hold the meeting. If not, then our Company shall within five (5) days notify the shareholders again by public notice of the matters to be considered, the place and the date for the meeting. Our Company may hold the meeting after the publication of such notice.

A notice of meeting of shareholders shall be required to:

- be in writing;
- specify the venue, the date and the time of the meeting;
- state the matters to be discussed at the meeting;
- provide such information and explanations necessary for the shareholders to exercise an informed judgment on the proposals before them. Without limiting the generality of the foregoing, where a proposal is made to amalgamate our Company with another, to repurchase shares, to reorganise the share capital or to restructure our Company in any other way, the terms of the proposed transaction must be provided in detail together with copies of the proposed agreement, if any, and the cause and effect of such proposal must be properly explained;
- contain a disclosure of the nature and extent, if any, of the material interests of any Director, Supervisor, our general manager or other senior executive officer in the matter to be discussed and the effect of the matter to be discussed on them in their capacity as shareholders in so far as it is different from the effect on the interests of the shareholders of the same class;
- contain the full text of any special resolution proposed to be voted at the meeting;
- contain conspicuously a statement that a shareholder entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him and that a proxy need not be a shareholder; and
- specify the time and place for lodging proxy forms for the relevant meeting.

Notice of shareholders' general meeting shall be served on the shareholders (whether or not entitled to vote at the meeting), by delivery or prepaid mail to their addresses as shown in the register of shareholders. For the holders of Domestic Shares, notice of the meetings may be issued by way of public notice.

The public notice shall be published in one or more newspapers designated by the securities governing authority of the State Council within the interval between forty-five (45) days and fifty (50) days before the date of the meeting. After the publication of such notice, the holders of Domestic Shares shall be deemed to have received the notice of the relevant shareholders' general meeting. The accidental omission to give notice of a meeting to, or the non-receipt of notice of a meeting by, any person entitled to receive such notice shall not invalidate the resolutions at that meeting.

The following matters shall be resolved by an ordinary resolution at a shareholders' general meeting:

- work reports of the Board and the supervisory committee;

- plans formulated by the Board for the distribution of profits and for making up losses;
- appointment and removal of the members of the Board and members of the supervisory committee and their remuneration and method of payment;
- annual preliminary and final budgets, balance sheets and profit and loss accounts and other financial statements of our Company; and
- matters other than those required by the laws and administrative regulations or by the Articles of Association to be adopted by special resolution.

The following matters shall be resolved by a special resolution at a shareholders' general meeting:

- the increase or decrease of share capital and the issue of shares of any class, warrants and other similar securities;
- the repurchase of our Company's own Shares;
- the issue of debentures of our Company;
- the division, merger, dissolution, liquidation, material acquisition and disposal in relation to our Company;
- amendments to the Articles of Association, and
- any other matters considered by the shareholders' general meeting, by way of an ordinary resolution, to be of a nature which may have a material impact on our Company and should be adopted by a special resolution.

Transfer of Shares

Unless otherwise provided by laws and regulations and subject to the Listing Rules, all the fully paid-up Shares can be freely transferred in accordance with the Articles of Association. For H Shares listed on the Hong Kong Stock Exchange, unless the requirements stipulated in the Articles of Association are met, the Board may refuse to accept any transfer documents without giving any explanation for such refusal.

The alteration and rectification of each part of the share register shall be carried out in accordance with the laws of the place where the register is maintained.

No changes in the shareholders' register due to the transfer of shares may be made within thirty (30) days before the date of a shareholders' general meeting or within five (5) days before the record date for our Company's distribution of dividends.

Power of our Company to Purchase its Own Shares

In accordance with the provisions of the Articles of Association, our Company may reduce its registered share capital. Our Company may, with approval according to the procedures provided in the Articles of Association and subject to the approval of the relevant governing authority of the State, repurchase its issued shares under the following circumstances:

- cancellation of shares for the reduction of its capital;
- merging with another company that holds shares in our Company;
- issuing bonus shares to employees of our Company as incentives;
- at the request of shareholders who vote against a resolution passed by the shareholders approving the merger or division of our Company to acquire their shares; and
- other circumstances permitted by laws and administrative regulations.

Our Company may, with the approval of the relevant State governing authority, repurchase its shares in one of the following ways:

- making a pro rata general offer of repurchase to all of its shareholders;
- repurchasing shares through public dealing on a stock exchange;
- repurchasing by an over-the-counter agreement; or
- other ways prescribed by applicable laws and administrative regulations or approved by securities authority of the State Council.

Where our company repurchases its Shares by an over-the-counter agreement, prior sanction of shareholders in a general meeting shall be obtained in accordance with the Articles of Association. Our Company may release, vary or waive such contract or its rights under such contract so entered into by our Company with the prior approval of shareholders in a general meeting obtained in the same manner.

A contract to repurchase Shares includes (without limitation) an agreement to become obliged to repurchase and to acquire the right to repurchase Shares. Our Company shall not assign the contracts to repurchase Shares and its rights under such contracts.

Shares repurchased in accordance with law by our Company shall be cancelled within the period prescribed by laws and administrative regulations, and our Company shall apply to the original companies registration authority for registration of the change of its registered shares capital. The amount of our Company's registered shares capital shall be reduced by the aggregate par value of those cancelled shares.

Unless our Company is in the course of liquidation, it must comply with the following provisions in relation to repurchase of its issued Shares:

- where our Company repurchases Shares of our Company at par value, payment shall be made out of the book surplus of distributable profits of our Company or out of proceeds of a fresh issue of Shares made for that purpose;

- where our Company repurchases Shares of our Company at a premium to its par value, payment equivalent to the par value shall be made out of the book surplus of distributable profits of our Company or out of the proceeds of a fresh issue of Shares made for that purpose. Payment of the portion in excess of the par value shall be effected as follows: (i) if the Shares being repurchased were issued at par value, payment shall be made out of the book surplus of distributable profits of our Company; or (ii) if the Shares being repurchased were issued at a premium to its par value, payment shall be made out of the book surplus of distributable profits of our Company or out of the proceeds of a fresh issue of Shares made for that purpose, provided that the amount paid out of the proceed of the fresh issue shall not exceed the aggregate of premiums received by our Company on the issue of the Shares repurchased nor the current amount of our Company's share premium account (including the premiums on the fresh issue);

- payment by our Company in consideration of the following shall be made out of our Company's distributable profits: (i) acquisition of rights to repurchase Shares of our Company; (ii) variation of any contract to repurchase Shares of our Company; and (iii) release of any of our Company's obligations under any contract to repurchase Shares of our Company; and

- after our Company's registered share capital has been reduced by the total par value of the cancelled Shares in accordance with the relevant provisions, the amount deducted from the distributable profits of our Company for payment of the par value portion of the Shares repurchased shall be transferred to our Company's share premium account (or capital surplus account).

Power for Any Subsidiary of Our Company to Own Shares in Our Company

There are no provisions in the Articles of Association preventing ownership of Shares in our Company by a subsidiary.

Dividends and Other Methods of Profit Distribution

Our Company may distribute dividends in the following manner:

- cash; or

- Shares.

Cash dividends and other payments payable to holders of Domestic Shares shall be paid in Renminbi. Cash dividends and other payments payable to holders of H Shares shall be paid in HK dollars. Foreign currencies required for payments to holders of overseas listed foreign Shares shall be arranged in accordance with applicable PRC's foreign currencies regulations.

Our Company shall appoint receiving agents on behalf of holders of the H Shares to receive on behalf of such shareholders dividends declared and all other monies owing by our Company in respect of their H Shares. The receiving agents appointed on behalf of holders of the H Shares shall be a company registered as a trust company under the Trustee Ordinance of Hong Kong.

Any dividend declared and payable to holders of H Shares but unclaimed after a period of six (6) years from the date of declaration of such dividend may be forfeited and revert to our Company.

Proxies

Any shareholder entitled to attend and vote at a meeting of our Company shall be entitled to appoint one or more other persons (whether a shareholder or not) as his proxy to attend and vote on his behalf, and a proxy so appointed shall:

- have the same right as the shareholder to speak at the meeting;
- have authority to demand or join in demanding a poll; and
- have the right to vote by hand or on a poll, but if the proxy is more than one person, such proxy may only vote on a poll.

The instrument appointing a proxy shall be in writing signed by the shareholder or signed by the shareholder's agent duly authorised in writing, or if the shareholder is a legal entity, either sealed by the shareholder or signed by a director or agent duly authorised. The instrument appointing a voting proxy and, if such instrument is signed by a person under a power of attorney or other authority on behalf of the appointer, a notary certified copy of that power of attorney or other authority, shall be deposited at the residence of our Company or at such other place as is specified for that purpose in the notice convening the meeting, not less than twenty-four (24) hours before the time for holding the meeting at which the proxy proposes to vote or the time appointed for the passing of the resolution.

If the appointer is a legal entity, its legal representative or such person as is authorised by resolution of its board of directors or other governing body to act as its representative may attend at any meeting of shareholders of our Company as a representative of the appointer.

Any form issued to a shareholder by the Board for use by him for appointing a proxy to attend and vote at a meeting of our Company shall be such as to enable the shareholder according to his intention, to instruct the proxy to vote in favor of or against each resolution dealing with business to be transacted at the meeting. Such a form shall contain a statement that in the absence of instructions by the shareholder the proxy may vote as he thinks fit.

A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or loss of capacity of the appointer or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the shares in respect of which the proxy is given, provided that no notice in writing of such death, loss of capacity, revocation or transfer as aforesaid shall have been received by our Company before the commencement of the meeting at which proxy is used.

Calls on Shares and Forfeiture of Shares

There are no provisions in the Articles of Association relating to the making of calls on Shares or for the forfeiture of Shares.

Rights of Shareholders (including inspection of register)

The ordinary shareholders of our Company shall enjoy the following rights:

- the right to dividends and other distributions in proportion to the number of Shares held;
- the right to propose to convene, convene, preside, attend or appoint a proxy to attend shareholders' general meetings and to vote thereat;

- the right of supervisory management over our Company's business operations, and the rights to present proposals or to raise enquires;

- the right to transfer, donate or pledge their shares in accordance with laws, administrative regulations and provisions of the Articles of Association;

- the right to obtain relevant information in accordance with laws, administrative regulations and the provisions of the Articles of Association, including: (i) the right to obtain a copy of the Articles of Association, subject to payment of the cost of such copy; (ii) the right to inspect free of charge and copy, subject to payment of a reasonable charge: (a) all parts of the register of shareholders; (b) the personal information of Directors, Supervisors, general manager and other senior management personnel including name (current and previous), alias, address (residential), nationality, full-time and part-time occupation and identity document and number; (c) report on the state of our Company's issued share capital; (d) recent audited financial reports and reports of Directors, auditors and Supervisors; (e) special resolutions of our Company; (f) reports showing the number, aggregate par value, quantity, maximum and minimum price paid in respect of each class of Shares repurchased by our Company since the end of the last accounting year and the aggregate amount incurred by our Company for this purpose; (g) latest annual return submitted to the relevant administrative authorities; (h) minutes of shareholders' general meetings, resolutions of the Board and resolutions of the supervisory committee; and (i) records of debentures of our Company;

- in the event of the termination or liquidation of our Company, to participate in the distribution of remaining assets of our Company in accordance with the number of Shares held;

- the right to request repurchase of their shares, holders of which have voted against a resolution passed in shareholders' general meeting in respect of any merger or division of our Company; and

- other rights conferred by laws, administrative regulations and the Articles of Association.

Quorum for Meetings and Separate Class Meetings

Our Company may convene a shareholders' general meeting where the number of voting Shares represented by those shareholders from whom our Company has received, twenty (20) days before the meeting, notices of intention to attend the meeting reaches more than one half of our Company's voting Shares; or, if that number is not reached, our Company shall within five (5) days notify the shareholders again of the matters proposed to be considered at the meeting, the date and the venue of the meeting by way of public announcement. After such public announcement, our Company may hold the shareholders' general meeting.

Our Company may convene a class meeting where the number of voting Shares represented by those shareholders from whom our Company has received, twenty (20) days before the meeting, notices of intention to attend the meeting reaches one half or more of the total number of voting Shares of that class; or, if that number is not reached, our Company shall within five (5) days notify the shareholders again of the matters proposed to be considered at the meeting, the date and the venue of the meeting by way of public announcement. After such public announcement, our Company may hold the class meeting.

Rights of the Minorities in Relation to Fraud or Oppression thereof

In addition to obligations imposed by laws, administrative regulations or required by the stock exchange on which Shares of our Company are listed, a controlling shareholder shall not exercise his voting rights in respect of the following matters in a manner prejudicial to the interests of the shareholders generally or of some of the shareholders of our Company:

- to relieve a Director or Supervisor of his duty to act honestly in the best interests of our Company;
- to approve the expropriation by a Director or Supervisor (for his own benefit or for the benefit of another person), in any guise, of our Company's assets, including (without limitation) opportunities beneficial to our Company; or
- to approve the expropriation by a Director or Supervisor (for his own benefit or for the benefit of another person) of the individual rights of other Shareholders, including (without limitation) rights to distributions and voting rights save pursuant to a restructuring submitted to shareholders for approval in accordance with the Articles of Association.

For these purposes, a "controlling shareholder" means a person who satisfies any one of the following conditions:

- he alone, or acting in concert with others, has the power to elect more than half of the Directors;
- he alone, or acting in concert with others, has the power to exercise or to control the exercise of 30% or more of the voting rights in our Company;
- he alone, or acting in concert with others, holds 30% or more of the issued shares of our Company; or
- he alone, or acting in concert with others, in any other manner has de facto control over our Company.

See also the Section headed "Variation of Rights of Existing Shares or Classes of Shares" above.

Procedures on Liquidation

Our Company shall be liquidated and dissolved in accordance with the law upon the occurrence of any of the following events:

- a resolution for dissolution is passed by shareholders' general meeting;
- dissolution is necessary due to a merger or division of our Company;
- our Company is legally declared bankrupt due to its failure to repay debts due;
- the business licence of our Company is revoked or our Company is ordered to close down or to be dissolved because of its violation of laws and administrative regulations; or

- an application is made to the court by shareholders holding more than 10% of the voting rights to dissolve our Company when our Company's operation and management are under serious difficulties and the continuation of our Company will seriously prejudice shareholders' interests and that there are no other means of resolving the difficulties.

Where the Board proposes to liquidate our Company due to causes other than the declaration of insolvency, the Board shall include a statement in its notice convening a shareholders' general meeting to consider the proposal to the effect that, after making full inquiry into the affairs of our Company, the Board is of the opinion that our Company will be able to pay its debts in full within twelve (12) months from the commencement of the liquidation.

Upon the passing of the resolution by the shareholders' general meeting for the liquidation of our Company, all functions and powers of the Board shall cease.

The liquidation committee shall act in accordance with the instructions of the shareholders' general meeting to make a report at least once every year to the shareholders' general meeting on the committee's receipts and payments, the business of our Company and the progress of the liquidation and to present a final report to the shareholders' general meeting on completion of the liquidation.

Other Provisions Material to our Company and our Shareholders

General Provisions

Our Company is a joint stock limited company in perpetual existence.

The Articles of Association constitute a legally binding document regulating our Company's organisation and activities, and the rights and obligations between our Company and each shareholder and among the shareholders inter se.

Subject to the Articles of Association our Company may invest in other enterprises.

Our Company may, based on its requirements for operation and development and in accordance with the relevant provisions of the Articles of Association, approve an increase of capital.

Our Company may increase its capital in the following ways:

- offering new shares to non-specifically-designated investors for subscription;
- placing new shares to its existing shareholders;
- distributing new shares to its existing shareholders by way of bonus issues;
- issuing new shares to specific investors; and
- any other way permitted by laws and administrative regulations.

Our Company's increase of capital by issuing new shares shall, after being approved in accordance with the provisions of the Articles of Association, be conducted in accordance with the procedures stipulated by relevant laws and administrative regulations.

Unless otherwise provided by laws or administrative regulations, all fully paid-up shares in our Company are freely transferable and are not subject to any lien.

When our Company reduces its registered share capital, it must draw up a balance sheet and an inventory of assets. Our Company shall notify its creditors within ten (10) days of the date of our Company's resolution for reduction of share capital and shall publish a notice in a newspaper within thirty (30) days of the date of such resolution. A creditor has the right within thirty (30) days of receiving the notice from our Company or, in the case of a creditor who does not receive the notice, within forty-five (45) days of the date of the first public notice, to demand our Company to repay its debts or provide a corresponding guarantee for such debt. Our Company's registered capital after reduction shall not be less than the statutory minimum amount.

The ordinary shareholders of our Company shall assume the following obligations:

- to abide by the Articles of Association;
- to pay subscription funds according to the number of shares subscribed and the method of subscription;
- other than those circumstances prescribed by laws and regulations, not to request for repurchase of shares;
- not to prejudice the interests of our Company and other shareholders by abusing their shareholder's rights, or to prejudice the interests of the creditors of our Company by abusing the status of our Company as an independent legal entity or the limit of their liability as shareholders; and
- other obligations imposed by laws, administrative regulations and the Articles of Association.

Shareholders are not liable to make any further contribution to the share capital other than as agreed by the subscriber of the relevant shares on subscription.

Board

The Board is accountable to the shareholders' general meeting and exercises the following powers:

(1) to be responsible for convening shareholders' general meetings and to report on its work to the shareholders' general meeting;

(2) to implement the resolutions of the shareholders' general meetings;

(3) to decide on our Company's business plans and investment plans;

(4) to formulate our Company's annual financial budget and final proposal;

(5) to formulate our Company's profit distribution plan and loss recovery plan;

(6) to formulate proposals for the increases or decrease of our Company's registered capital, the issue of corporate debentures or other securities and listing;

(7) to formulate the plans for repurchase of shares, merger, division, change of form or dissolution of our Company;

(8) to decide on our Company's investment issues, acquisition and disposal of assets, mortgage of assets, providing guarantees, entrusting financial management and connected transactions as authorised by the shareholders' general meeting;

(9) to decide on the establishment of our Company's internal management structure;

(10) to appoint or remove our Company's general manager, the secretary of the Board and, based on the recommendations of the general manager, to appoint or remove the deputy general manager, Chief Financial Officer and other senior executive officers and, to decide on their remuneration, award and penalty matters;

(11) to formulate proposals for any amendment to the Articles of Association;

(12) to formulate our Company's basic management system;

(13) to manage information disclosure by our Company;

(14) to propose to the shareholders' general meetings the appointment or change of the accounting firm conducting the audit work of our Company;

(15) to listen to our general manager's work report and supervise the relevant works; and

(16) to exercise any other powers conferred by laws, regulations, rules, the Articles of Association and the shareholders' general meetings.

Except for the Board's resolutions in respect of the matters specified in the above paragraphs (6), (7) and (11), which shall be passed by more than two-thirds of the Directors, the Board resolutions in respect of all other matters may be passed by more than half of the Directors.

Meetings of the Board shall be held at least four times a year and convened by the chairman of the Board. Notice of the meeting shall be served on all of the Directors and Supervisors fourteen (14) days before the date of the meeting. More than one-third of the Directors or the Supervisory Committee, or shareholders or general manager having more than one-tenth of the voting rights may propose to convene an extraordinary meeting of the Board, and the chairman of the Board shall convene a meeting within ten (10) days of receiving such proposal.

Meetings of the Board shall be held only if more than half of the Directors are present. Each Director shall have one vote. Where the number of votes cast for and against a resolution are equal, the chairman of the Board shall have the deciding vote.

Supervisory Committee

Our Company shall have a supervisory committee. The Directors, our general manager and other senior executive officers shall not act concurrently as Supervisors. The supervisory committee shall consist of five (5) Supervisors. One of the members of the supervisory committee shall act as the chairman. The term of office of Supervisors shall be three years, renewable upon re-election and reappointment. The election or removal of the chairman of the supervisory committee shall be determined by two-thirds or more of the members of the supervisory committee. Decisions of the supervisory committee shall be made by the affirmative vote of more than two-thirds of the Supervisors.

The supervisory committee shall comprise one (1) representative of shareholders, two (2) independent supervisors and two (2) representative of staff and workers of our Company. The representative of shareholders and independent supervisors shall be elected and removed by shareholders' general meeting; the representatives of workers and staff of our Company shall be elected and removed by the workers at staff meetings, staff representative meetings or other democratical methods.

The supervisory committee shall be accountable to the shareholders' general meeting and exercise the following powers in accordance with law:

(1) to review and comment in writing on the regular reports prepared by the Directors;

(2) to examine and inspect our Company's financial situation;

(3) to supervise the performance by the Directors, general manager and other senior executive officers of their duties, and propose to remove the aforesaid personnel for violation of the applicable laws, regulations, the Articles of Association or the resolutions of the shareholders' general meeting;

(4) to demand rectification from a Director, general manager and other senior executive officers when the acts of such persons are harmful to our Company's interest;

(5) to propose to convene an extraordinary shareholders' general meeting and to convene and preside over the shareholders' general meeting when the Board of our Company fails to perform the duties of convening and presiding over the shareholders' general meeting as stipulated in Company Law;

(6) to make agenda to the shareholders' general meeting;

(7) to deal with the Directors on behalf of our Company or to bring legal proceedings against Directors and senior executive officers according to Article 152 of our Company Law;

(8) to check the financial information proposed to be presented to shareholders' meeting from the Board including the financial report, business operation report and profit distribution plans and to investigate any anomaly discovered and if necessary, engage professionals including accounting firms, law firms, practising auditors, etc, to assist, the costs of which are borne by our Company; and

(9) to exercise other powers specified in the Articles of Association.

Supervisors may be present at meetings of the Board, and make enquiries and provide advice regarding issues discussed at meetings of the Board.

General Manager of our Company

Our Company shall have one general manager and several deputy general managers, who shall be appointed and dismissed by the Board. Each term of appointment of general manager shall be three years and may be reappointed for consecutive terms if re-elected.

Our general manager shall be accountable to the Board and exercise the following powers:

(1) to be in charge of our Company's operation and management and to organise the implementation of the resolutions of the Board and provide work reports to the Board;

(2) to organise the implementation of our Company's annual business plan and investment plan;

(3) to draft plans for the establishment of the internal organisational structure of our Company;

(4) to draft our Company's basic management system;

(5) to formulate basic rules and regulations for our Company;

(6) to propose the appointment or dismissal of our deputy general manager, Chief Engineer and Chief Financial Officer;

(7) appoint or dismiss management personnel other than those required to be appointed or dismissed by the Board; and

(8) to exercise other powers conferred by the Articles of Association and the Board.

Our general manager shall be present at meetings of the Board. However, the general manager shall have no voting rights at the meetings unless he is also a Director. Our general manager, in performing their functions and powers, shall act honestly and diligently and in accordance with laws, regulations and the Articles of Association.

Chairman of the Board

The chairman of the Board shall exercise the following powers:

(1) to preside the shareholders' meeting, convene and preside the meetings of the Board;

(2) to inspect the implementation of the resolutions of the Board;

(3) to sign the securities issued by our Company; and

(4) to exercise other powers authorised by the Board.

In case where the chairman of the Board cannot or does not exercise the powers abovementioned, the vice chairman of the Board may exercise such powers.

Secretary of the Board

The secretary of the Board shall be a natural person who has the requisite professional knowledge and experience, and shall be appointed by the Board. His primary responsibilities include, without limitation:

(1) to ensure that our Company's documents and records are complete;

(2) to ensure the lawful preparation and submission by our Company of reports and documents as required by relevant authorities (including but not limited to the administration of industry and commerce);

(3) to ensure that the register of shareholders is properly maintained, and to ensure that persons who are entitled to obtain our Company's records and documents can timely obtain the relevant records and documents;

(4) to be responsible for the organisation and coordination of information disclosure;

(5) to be responsible for the confidentiality of information sensitive to share price and to formulate a feasible confidentiality system and confidentiality measures; and

(6) to exercise other duties and obligations imposed by law or by the supervisory authorities of the listing of our Company, and/or such duties and obligations as specified in the Articles of Association (including other powers authorised by the Board).

Accounts and Audit

- Appointment of auditors.

Our Company shall appoint independent auditors who are qualified under the relevant regulations of the PRC to audit our Company's annual financial statements and review our Company's other financial reports. The first auditors of our Company may be appointed by the inaugural meeting of our Company before the first annual general meeting and the auditors so appointed shall hold office until the conclusion of the first annual shareholders' general meeting. If the inaugural meeting fails to exercise its powers under this paragraph, those powers shall be exercised by the Board.

The auditors appointed by our Company shall hold office from the conclusion of the annual general meeting of shareholders at which the appointment is made until the conclusion of the next annual meeting of shareholders.

Before the convening of the shareholders' general meeting, the Board may fill any casual vacancy in the office of the auditors, but while any such vacancy continues, the surviving or continuing firm, if any, may act.

The shareholders' general meeting may, by ordinary resolution, remove an accounting firm before the expiration of its office, notwithstanding the stipulations in the contract between our Company and the firm, but without prejudice to the firm's right to claim, if any, for damages in respect of such removal.

The remuneration of certified public accounting firm or the manner in which such firm is to be remunerated shall be determined by the shareholders' general meeting. The remuneration of a certified public accounting firm appointed by the Board shall be determined by the Board.

Our Company's appointment of, removal of and non-reappointment of a certified public accounting firm shall be resolved by shareholders' general meetings and filed with the security management department of the State Council.

Where it is proposed that any resolution be passed at a shareholders' general meeting concerning the appointment of a certified public accounting firm, which is not an incumbent firm, to fill a casual vacancy in the office of the certified public accounting firm, reappointment of a retiring accounting firm which was appointed by the Board to fill a casual vacancy, or removal of the accounting firm before the expiration of its term of office, the following provisions shall apply:

- A copy of the proposal shall be sent to the firm proposed to be appointed or proposing to leave its post or the firm which has left its post (leaving includes leaving by removal, resignation and retirement) before notice of meeting is given to the shareholders.

- If the firm leaving its post makes representations in writing and requests our Company to notify such representations to the shareholders, our Company shall (unless the representations are received too late): (i) in any notice of the resolution given to shareholders, state the fact of the representations having been made; and (ii) attach a copy of the representations to the notice and deliver it to the shareholders in the manner stipulated in the Articles of Association.

- If the firm's representations are not sent in accordance with the preceding paragraph, the relevant firm may require that the representations be read out at the shareholders' general meeting and may lodge further complaints.

- A certified public accounting firm which is leaving its post shall be entitled to attend: (i) the shareholders' general meeting at which its term of office would otherwise have expired; (ii) any shareholders' general meeting at which it is proposed to fill the vacancy caused by its removal; and (iii) any shareholders' general meeting convened on its resignation; and to receive all notices of, and other communications relating to, any such meetings, and to speak at any such meeting in relation to matters concerning its role as the former accounting firm of our Company.

Where the certified public accounting firm resigns its post, it shall make clear to the shareholders' general meeting whether there has been any impropriety on the part of our Company.

Any certified public accounting firm may resign its office by depositing at our Company's legal residence a resignation notice which shall become effective on the date of such deposit or on such later date as may be stipulated in such notice. Such notice shall include the following:

(1) a statement to the effect that there are no circumstances connected with its resignation which it considers should be brought to the notice of the shareholders or creditors of our Company; or

(2) a statement of any such circumstances.

Where a notice is deposited under the preceding paragraph, our Company shall within fourteen (14) days after receiving of such notice send a copy of the notice to the relevant governing authority. If the notice contains a statement under subparagraph (2) of the preceding paragraph, a copy of such statement shall be placed at our Company's registered office for shareholders' inspection. Our Company shall also send a copy of such statement by prepaid mail to every holder of H Shares at the address registered in the register of shareholders.

Where the accounting firm's notice of resignation contains a statement of any circumstances, the certified public accounting firm may require the Board to convene a shareholders' extraordinary general meeting for the purpose of giving an explanation of the circumstances connected with its resignation.

Dispute Resolution

Whenever any disputes or claims arise between holders of the H Shares and our Company, between holders of the H Shares and our Company's Directors, Supervisors, general manager or other senior executive officers, or between holders of the H Shares and holders of Domestic Shares concerning the affairs of our Company, based on the Articles of Association or any rights or obligations conferred or imposed by our Company Law or any other relevant laws and administrative regulations, such disputes or claims shall be referred by the relevant parties to arbitration.

A claimant may elect arbitration at either the China International Economic and Trade Arbitration Commission in accordance with its rules or the Hong Kong International Arbitration Centre in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant.

If a claimant elects arbitration at Hong Kong International Arbitration Centre, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Centre.

If any disputes or claims of rights are referred to arbitration, the laws of the People's Republic of China shall apply, save as otherwise provided in laws and administrative regulations.

Where a dispute or claim of rights is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, shall abide by the arbitration provided that such person is our Company or our Company's shareholder, Director, Supervisor, general manager or other senior executive officer. Disputes in relation to the identification of shareholders and disputes in relation to the share register need not be referred to arbitration.

The award of an arbitration body shall be final and conclusive and binding on all parties.

1. FURTHER INFORMATION ABOUT THE COMPANY

A. Incorporation

Our Company was established in the PRC under the Company Law as a joint stock limited company on 1 September 2005. Our Company has established a place of business in Hong Kong at 9/F, Gloucester Tower, The Landmark, 15 Queen's Road, Central, Hong Kong and was registered on 13 September 2007 as an oversea company in Hong Kong under Part XI of the Companies Ordinance, with Lam Cheuk Fai appointed as the agent of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong. As our Company was established in the PRC, its operations are subject to the relevant laws and regulations of the PRC and to its constitution which comprises the Articles of Association. Certain relevant aspects of the relevant laws and regulations of the PRC and certain relevant parts of the Articles of Association are set out in Appendices VII and VIII to this prospectus, respectively.

B. Changes in the share capital of our Company

As at the date of establishment of our Company, the initial nominal value of share capital of our Company was RMB300 million divided into 300 million Domestic Shares of RMB1.00 each, all of which were credited as fully paid. In May 2006, our Company issued 80 million new Domestic Shares of RMB1.00 each and our share capital was increased from RMB300 million to RMB380 million. Pursuant to a written resolution of the shareholders of our Company dated 11 May 2007 and the approval from the CSRC dated 29 August 2007, each Domestic Share of a par value of RMB1.00 was subdivided into four Domestic Shares of a par value of RMB0.25 each. Our total number of Domestic Shares was increased from 380,000,000 to 1,520,000,000. As at the date of this prospectus, the share capital of our Company was held by the Promoters as follows:

Name of Promoters	Number of Domestic Shares	Percentage of Shareholding in the Share Capital of the Company
Xinjiang Non-ferrous	954,204,000	62.7766%
Shanghai Yilian	282,896,000	18.6116%
Zhongjin Investment	198,028,000	13.0282%
Xiamen Zijin	56,580,000	3.7224%
Xinjiang Xinying	22,020,000	1.4487%
Shaanxi Honghao	6,272,000	0.4125%
Total	1,520,000,000	100%

Assuming the Global Offering becomes unconditional, immediately following completion of the Global Offering, but without taking into account any H Shares which may be issued upon exercise of the Over-allotment Option, the share capital of the Company will be RMB2,120,000,000, comprising 1,460,000,000 Domestic Shares and 660,000,000 H Shares, fully paid up or credited as fully paid up, representing approximately 68.87% and 31.13% of the enlarged share capital of our Company, respectively.

Save as disclosed in this prospectus, there has been no alteration in the share capital of the Company since its establishment.

C. Resolutions of the shareholders passed at our general meetings on 11 May 2007 and 13 September 2007

At the extraordinary meetings of the Company held on 11 May 2007 and 13 September 2007, the following resolutions, among other resolutions, were duly passed:

(a) the Directors were authorised to deal with all matters and to implement all the resolutions relating to the listing of H Shares on the Stock Exchange;

(b) the approval of our new Articles of Association, which will come into effect upon the listing of the H Shares on the Stock Exchange; and

(c) conditional upon, among others, (i) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the H Shares to be issued as mentioned herein; and (ii) the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms of such agreement or otherwise:

(i) the issue of H Shares and the granting of the Over-allotment Option were approved;

(ii) the listing of the H Shares on the Stock Exchange was approved; and

(iii) the granting of the Over-allotment Option and the transfer to NSSF such number of Domestic Shares, as in aggregate equivalent to 10% of the number of Offer Shares after the exercise in full of the Over-allotment Option was approved.

D. Our subsidiary

Zhongxin Mining was previously our subsidiary in which we held a 57% equity interest. We transferred our 57% interest in Zhongxin Mining to an Independent Third Party and Zhongxin Mining ceased to be our subsidiary upon the registration of the transfer with the local industry and commerce authority on 25 May 2007.

2. FURTHER INFORMATION ABOUT THE BUSINESS

A. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by our Company within the two years preceding the date of this prospectus and are or may be material:

(a) a trademark licence agreement dated 10 July 2006 entered into between our Company and Xinjiang Non-ferrous in relation to the granting of a licence to use the "Bo Feng (博峰)" trademark by Xinjiang Non-ferrous to our Company without consideration, the details of which are set out in the section headed "Connected transactions — Exempt Continuing Connected Transactions — Trademark Licence Agreement";

(b) an equity transfer agreement dated 30 April 2007 entered into between our Company and Xinjiang Investment and Development (Group) Company Limited (新疆投資發展(集團)有限責任公司) ("Xinjiang I & D") in relation to the transfer of all of the equity interest in Zhongxin Mining held by our Company (57%) to Xinjiang I & D at a consideration of RMB33,060,000;

(c) the New Agreement dated as of 25 July 2007 entered into between the Company and Xinjiang Non-ferrous in relation to the termination of the Mining Rights Transfer Agreement and the payment of the mining rights consideration to Xinjiang LRD, the details of which are set out in the section headed "Relationship with Xinjiang Non-ferrous — Financial independence — Independence from Promoters";

(d) the New Mining Rights Transfer Agreement dated 25 July 2007 entered into between the Company and Xinjiang LRD in relation to the transfer of mining rights of the Kalatongke Mine for a term of 30 years commencing from 27 July 2007 and expiring on 27 July 2037 at a consideration of RMB297,021,600, the details of which are set out in the section headed "Relationship with Xinjiang Non-ferrous — Financial independence — Independence from Promoters";

(e) the Comprehensive Services Agreement dated 17 September 2007 entered into between the Company and Fuyun Xingtong relating to the provision of supporting services from Fuyun Xingtong to the Company, the details of which are set out in the section headed "Connected transactions — Comprehensive Services Agreement";

(f) the Mutual Supply Agreement dated 17 September 2007 entered into between our Company and Xinjiang Non-ferrous relating to the provision of production supplies, storage, transportation and loading services and other supporting and ancillary services from Xinjiang Non-ferrous to our Company and the provision of our Company's products to Xinjiang Non-ferrous, the details of which are set out in the section headed "Connected transactions — Mutual Supply Agreement";

(g) the Non-competition Agreement dated 17 September 2007 entered into between the Company and Xinjiang Non-ferrous relating to certain non-competition undertakings given by Xinjiang Non-ferrous and certain rights of first refusal and option to purchase in favour of the Company, the details of which are set out in the section headed "Relationship with Xinjiang Non-ferrous — Non-competition Agreement";

(h) the Property Lease Agreement dated 22 June 2007 entered into between the Company and Xinjiang Non-ferrous in relation to leasing of certain office premises in Xinjiang for a period commencing from 1 July 2007 and ending 31 December 2009 at a consideration of RMB1,635,930, the details of which are set out in the section headed "Connected transactions — Property Lease Agreement";

(i) the Placing Agreement dated 7 September 2007 entered into between the Company, BOCI Asia and Center Bright Limited pursuant to which Center Bright Limited agreed to subscribe for our H Shares in the amount of HK$59 million, the details of which are set out in the section headed "Our Corporate Investors";

(j) the Placing Agreement dated 5 September 2007 entered into between the Company, BOCI Asia and China Life Insurance (Group) Company pursuant to which China Life Insurance (Group) Company agreed to subscribe for our H Shares in the amount of HK$118 million, the details of which are set out in the section headed "Our Corporate Investors";

(k) the Placing Agreement dated 5 September 2007 entered into between the Company, BOCI Asia and Fidelity Insurance Co Ltd pursuant to which Fidelity Insurance Co Ltd agreed to subscribe for our H Shares in the amount of HK$78 million, the details of which are set out in the section headed "Our Corporate Investors";

(l) the Placing Agreement dated 5 September 2007 entered into between the Company, BOCI Asia and Grahamstowe Investments Limited pursuant to which Grahamstowe Investments Limited agreed to subscribe for our H Shares in the amount of HK$118 million, the details of which are set out in the section headed "Our Corporate Investors";

(m) the Placing Agreement dated 7 September 2007 entered into between the Company, BOCI Asia and Li Ka Shing Foundation Limited pursuant to which Li Ka Shing Foundation Limited agreed to subscribe for our H Shares in the amount of HK$118 million, the details of which are set out in the section headed "Our Corporate Investors";

(n) the Placing Agreement dated 7 September 2007 entered into between the Company, BOCI Asia and New World Strategic Investment Limited pursuant to which New World Strategic Investment Limited agreed to subscribe for our H Shares in the amount of HK$59 million, the details of which are set out in the section headed "Our Corporate Investors";

(o) the Placing Agreement dated 5 September 2007 entered into between the Company, BOCI Asia and Sinotrans (HK) Holdings Limited pursuant to which Sinotrans (HK) Holdings Limited agreed to subscribe for our H Shares in the amount of HK$78 million, the details of which are set out in the section headed "Our Corporate Investors"; and

(p) the Underwriting Agreement dated 25 September 2007 relating to the Global Offering entered into among our Company, the Covenanting Shareholders, the Underwriters and the Sole Global Coordinator, the details of which are set out in the section headed "Underwriting".

B. Intellectual property

Trademark

(a) As at the Latest Practicable Date, the Company had been licensed to use the following trademark from Xinjiang Non-ferrous in the PRC:

Trademark	Place of Registration	Class	Registration Number	Valid Period
Bo Feng (博峰)	PRC	6	1257586	21 March 1999 to 20 March 2009

(b) As at the Latest Practicable Date, the Company had applied for the registration of the following trademarks:

Trademark	Country of application	Class	Application date
	PRC	6, 35, 37, 40	3 July 2006
	Hong Kong	6, 16, 35, 37, 40	28 June 2007
XINXIN	Hong Kong	6, 16, 35, 37, 40	28 June 2007
新鑫	Hong Kong	6, 16, 35, 37, 40	28 June 2007

Save as disclosed above, there are no other copyright, patents or other intellectual property rights which are material in relation to our business.

3. FURTHER INFORMATION ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

A. Directors' and Supervisors' interests and short positions in the share capital and debentures of our Company and its associated corporations

So far as the Directors are aware, immediately following completion of the Global Offering (assuming that the Over-allotment Option is not exercised), the interests and short positions of the Directors and Supervisors of our Company in the Shares, underlying shares and debentures of our Company and its associated corporations (within the meaning of Part XV of the SFO) which, once the H Shares are listed, will have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under the SFO) or will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, or will be required pursuant to section 352 of the SFO to be entered in the register referred to therein, will be as follows:

Name	**Company/name of associated corporation**	**Capacity**	**Number of Shares** *(1)*	**Approximate percentage of the shareholding**
Mr. Zhou Chuanyou (周傳有) *(2)*	The Company	Interest of a controlled corporation	480,924,000 (L)	22.68%

Notes:

1. The letter "L" represents the person's long position in such shares.

2. 282,896,000 Shares and 198,028,000 Shares will be registered in the name of Shanghai Yilian and Zhongjin Investment, respectively, the entire issued share capital and 98.83% shareholding of Shanghai Yilian and Zhongjin Investment, respectively, are beneficially owned by Mr. Zhou. Pursuant to the SFO, Mr. Zhou is deemed to be interested in the 480,924,000 Shares held by Shanghai Yilian and Zhongjin Investment.

B. Substantial Shareholder

Information on the substantial shareholder of the Company is set out in the section headed "Substantial Shareholders".

C. Particulars of service agreements

Directors and Supervisors

Each of our Directors and Supervisors has entered into a service agreement with our Company. Principal particulars of these agreements are summarised below:

(a) Each service agreement is for an initial term of three years commencing on the date on which they are appointed at the shareholders' meeting (subject to termination in certain circumstances as stipulated in the relevant agreement). Under the service agreements for all Directors and Supervisors, either party may terminate the agreement at any time by giving to the other not less than six-months' prior written notice.

(b) Under the current arrangements, the aggregate remuneration payable to the Directors and Supervisors shall be approved by our shareholders' meeting from time to time.

In addition, each of our executive Directors is entitled to the benefits provided by our Company under the relevant PRC laws and regulations to our employees. Our independent Supervisors and our Supervisor elected as shareholder representative are entitled to Supervisors' allowance, the amount of which shall be decided and approved by the shareholders' meeting, and are not entitled to further monetary remuneration. Supervisors elected as employees' representative are not entitled to Supervisors' allowance but are entitled to the normal welfare available to our employees, including their usual salaries.

(c) Each of our executive Directors shall abstain from voting and not be counted toward the quorum in respect of any resolution of the Board regarding the amount of annual salary or management bonus payable to him.

Pursuant to the respective service contracts, the remuneration payable to each of our executive Directors for the year ending 31 December 2007 is estimated to be as follows:

Yuan Ze	RMB800,000
Shi Wenfeng	RMB640,000
Zhang Guohua	RMB640,000
Liu Jun	RMB512,000

Pursuant to the respective service contracts, the remuneration payable to each of our non-executive Directors for the year ending 31 December 2007 is estimated to be as follows:

Zhou Chuanyou	RMB Nil
Niu Xuetao	RMB Nil

Pursuant to the respective service contracts, the remuneration payable to each of our independent non-executive Directors for the year ending 31 December 2007 is estimated to be as follows:

Ng Yuk Keung	RMB110,000
Chen Jianguo	RMB50,000
Sun Baosheng	RMB50,000

Pursuant to the respective service contracts, the remuneration payable to each of the Supervisors for the year ending 31 December 2007 is estimated to be as follows:

Jiang Mingshun	RMB350,000
Chen Jiahong	RMB Nil
Sun Baohui	RMB227,000
Chen Yuping	RMB25,000
Hu Zhijiang	RMB25,000

D. Remuneration of Directors and Supervisors

The aggregate amount of remuneration paid and benefits in kind granted to our Directors and our Supervisors for the year ended 31 December 2006 were approximately RMB1,850,000.

Under the arrangements currently in force, the aggregate remuneration payable to and benefits-in-kind received by our Directors and Supervisors for the year ending 31 December 2007 are estimated to be approximately RMB3,429,000.

Save as disclosed above, no other emoluments have been paid or are payable, in respect of the three years ended 31 December 2006 by us to the Directors and Supervisors.

E. Related party transactions

Our Company entered into the related party transactions within the three years immediately preceding the date of this prospectus as mentioned in Note 38 in Section II. Notes to the financial information of the Accountants' Report in Appendix I.

F. Disclaimers

Save as disclosed in this prospectus, as at the Latest Practicable Date:

(a) so far as the Directors are aware, none of the Directors or Supervisors of our Company had, as at the Latest Practicable Date, any interests or short positions in any Shares, underlying shares or debentures of, our Company or any of our associated corporation (within the meaning of Part XV of the SFO) which would be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or which would be required pursuant to section 352 of the SFO to be entered in the register referred to therein, or which would be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, in each case once our H Shares are listed on the Stock Exchange (for this purpose, the relevant provisions of the SFO applicable to the Directors are interpreted as if they also applied to the Supervisors);

(b) none of the Directors, Supervisors, Promoters nor any of the persons whose names are listed in the section headed "Consent of experts — Other Information" in this Appendix:

   (i) has any direct or indirect interest in the promotion of the Company, or in any assets which have been acquired or disposed of by or leased to our Company, or are proposed to be acquired or disposed of by or leased to our Company within the two years immediately preceding the date of this prospectus; or

   (ii) is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Company;

(c) none of the persons whose names are listed in the section headed "Consent of experts — Other Information" in this Appendix has any shareholding in our Company or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company;

(d) none of the Directors or Supervisors has entered or has proposed to enter into any service agreements with our Company (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation); and

(e) no cash, securities or other benefit has been paid, allotted or given within the two years preceding the date of this prospectus to any Promoters of our Company nor is any such cash, securities or benefit intended to be paid, allotted or given on the basis of the Global Offering or related transaction as mentioned in this prospectus.

4. OTHER INFORMATION

A. Estate duty and tax

Our Directors have been advised that no material liability for estate duty under the laws of the PRC or Hong Kong would be likely to fall upon our Company.

Dealings in the H Shares will be subject to Hong Kong stamp duty.

Intending holders of the H Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the H Shares. It is emphasised that none of us, the Directors or any other parties involved in the Global Offering accepts responsibility for any tax effect on, or liabilities of holders of H Shares resulting from their subscription for, purchase, holding or disposal of or dealing in the H Shares.

B. Indemnities

Pursuant to the Reorganisation Agreement, Xinjiang Non-ferrous has agreed to indemnify our Company against any claims as referred to in the section headed "Connected Transactions — Connected transactions pursuant to the Reorganisation — Reorganisation Agreement".

C. Litigation

Our Company is not engaged in any litigation or arbitration of material importance and, so far as the Directors are aware, no litigation or arbitration or claim of material importance or claim in relation to our business in particular our exploration rights or mining rights is known to the Directors to be pending or threatened against our Company.

D. Sponsor/Compliance advisor

The Sponsor has made an application on behalf of our Company to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, our H Shares to be issued as mentioned herein, including any H Shares falling to be issued pursuant to the exercise of the Over-allotment Option. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

We have in accordance with Rule 3A.19 of the Listing Rules retained BOCA Asia as our compliance adviser.

E. Preliminary expenses

The preliminary expenses of our Company relating to its establishment as a joint stock company amounted to approximately RMB1,255,000 and were paid by our Company.

F. Promoters

Our Promoters are Xinjiang Non-ferrous, Shanghai Yilian, Zhongjin Investment, Xiamen Zijin, Xinjiang Xinying and Shaanxi Honghao. Save as disclosed in this prospectus, no cash, securities or other benefit had been paid, allotted or given within the two years preceding the date of this prospectus, or proposed to be paid, allotted or given, to the Promoters in connection with the Global Offering or the related transactions described in this prospectus.

G. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualifications
BOCI Asia Limited	Licensed to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Beijing Grandfield Law Firm	PRC legal advisers
Sallmanns (Far East) Limited	International property valuation firm
PricewaterhouseCoopers	Certified public accountants
SRK Consulting	Independent technical consultant

H. Consent of experts

The Sole Sponsor, Beijing Grandfield Law Firm, Sallmanns (Far East) Limited, PricewaterhouseCoopers and SRK Consulting previously have given and have not withdrawn their written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or valuation certificates and/or the references to their names included herein in the form and context in which they are respectively included.

I. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance insofar as applicable.

J. Miscellaneous

(a) Save as disclosed in this prospectus:

(i) within the two years preceding the date of this prospectus, no share or loan capital of us or any of our subsidiaries, if any, has been issued or agreed fully or partly paid either for cash or a consideration other than cash;

(ii) none of our share or loan capital or that of any of our subsidiaries is under any option or is agreed conditionally or unconditionally to be put under option;

(iii) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any of our share or loan capital or that of any of our subsidiaries to any of our Directors, proposed Directors, Supervisors, proposed Supervisors, Promoters or the parties listed in paragraph G of this Appendix;

(iv) we have no founder, management or deferred shares;

(v) none of our equity or debt securities or that of our subsidiary is listed or dealt in any other stock exchange nor in any listing or permission to deal being or proposed to be sought; and

(vi) there has been no material adverse change in our financial position or prospects of our Company since 31 March 2007 (being the date to which our latest audited consolidated financial statements were made up).

(b) None of the parties listed in paragraph G of this Appendix:

(i) is interested beneficially or non-beneficially in any shares in the Company; or

(ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in the Company.

(c) No part of the equity of the Company is presently listed on any stock exchange or traded on any trading facility.

(d) All necessary arrangements have been made to enable the H Shares to be admitted into CCASS for clearing and settlement.

(e) We do not intend to apply for the status of a Sino-foreign investment joint stock limited company and we do not expect to be subject to the PRC Sino-Foreign Joint Venture Law.

(f) Our Company has no outstanding convertible debt securities.

K. Share Appreciation Rights

Under the "Provisional Measures on the Implementation of Share Appreciation Rights by State-controlled Overseas Listed Companies" ("Provisional Measures of Share Appreciation Rights"), the terms of our Share Appreciation Rights Incentive Scheme should conform with the provisions of the Provisional Measures of Share Appreciation Rights. According to the Provisional Measures of Share Appreciation Rights, the total number of share appreciation rights which may be granted during the effective period of the Share Appreciation Rights Incentive Scheme may not exceed 10 percent of the total issued share capital of our Company.

L. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by Section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE**, **YELLOW** and **GREEN** Application Forms, the written consents referred to in the section headed "Consent of experts — Other information" in Appendix IX, the statement of adjustments signed by PricewaterhouseCoopers and copies of the material contracts referred to in the section headed "Summary of material contracts — Further information about the business" in Appendix IX.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Huen Wong & Co. in association with Fried, Frank, Harris, Shriver & Jacobson LLP at 9th Floor, Gloucester Tower, 15 Queen's Road Central, Central, Hong Kong, during normal business hours up to and including at least 14 days from the date of this prospectus:

(a) the Articles of Association;

(b) the accountants' report signed by PricewaterhouseCoopers, the text of which is set out in Appendix I;

(c) the report on unaudited pro forma financial information signed by PricewaterhouseCoopers, the text of which is set out in Appendix II to this prospectus;

(d) the letters relating to the profit estimate, the texts of which are set out in Appendix III;

(e) the audited financial statements of the companies comprising the Company and its subsidiary for the three years ended 31 December 2006 signed by PricewaterhouseCoopers;

(f) the statement of adjustments signed by PricewaterhouseCoopers;

(g) the independent technical review report of SRK, the text of which is set out in Appendix V;

(h) the full valuation report, including the letter dated 27 September 2007 and valuation certificates, relating to our property interests prepared by Sallmanns (Far East) Limited, the text of which is set out in Appendix IV;

(i) the Company Law, the Special Regulations, the Mandatory Provisions together with unofficial English translation thereof;

(j) the material contracts referred to in the section headed "Summary of material contracts — Further information about the business" in Appendix IX to this prospectus;

(k) the written consent of experts referred to in the section headed "Consent of experts — Other information" in Appendix IX to this prospectus;

(l) the PRC legal opinion issued by Beijing Grandfield Law Firm, the legal advisers to the Company on PRC law dated 27 September 2007, confirming, among others, that in their opinion, the summary of relevant PRC laws and principal regulatory provisions set out in Appendix VII is a correct summary of the relevant PRC laws and regulatory provisions;

(m) the PRC legal opinions issued by Beijing Grandfield Law Firm, the legal advisers to the Company on PRC law, dated 27 September 2007 on general corporate and property matters, respectively; and

(n) the service contracts between the Company and the Directors and Supervisors relating to the terms of appointment of the Directors and Supervisors referred to in the section headed "Particulars of service agreements — Further information about Directors, Supervisors, senior management and staff" in Appendix IX.