ZHAOJIN

ZHAOJIN MINING INDUSTRY COMPANY LIMITED*
招金礦業股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(於中華人民共和國註冊成立的股份有限公司)
(Stock Code: 1818) (股份代號：1818)

Annual Report 2010
二零一零年年報

5th Anniversary of listing

* For identification purposes only
* 僅供識別

金脈承千年

招金，和中國數千年黃金文明一脈相承，帶著濃鬱的歷史氣息一路拼搏，精心地描繪著一幅壯美的黃金畫卷。時間的河流永不停歇，我們繼往開來、勇攀高峰，不斷為這幅長卷增添更多精彩。

仁義結天下

招金，崇仁而重義。我們胸懷寬廣、厚德仁愛、兼收並蓄，不斷汲取世間精華，推動企業進步和發展。我們豁達豪爽、義利並舉、勇闖天涯，不斷結交天下朋友，共創價值、共享成長。

Inherit gold veins for thousands of years means that Zhaojin, coming down in one continuous line with the history of Chinese gold civilization of thousands of years, works hard all the way and elaborately paints a magnificent gold scroll painting. As the river of time never stops, we will carry forward our cause and forge ahead into the future and scale new heights, constantly adding more splendidness for the scroll painting.

Spread benevolence throughout the world means that Zhaojin advocates benevolence and emphasizes uprighteousness. Being broad-minded, benevolent, all-embracing, we ceaseless absorb the quintessence from the world and promote the progress and development of Zhaojin. Meanwhile, being magnanimous, forthright, righteousness-and-profit-balanced, we make friends throughout the world, creating value and sharing growth altogether.

CONTENTS

Corporate Information

Name of the Company
招金礦業股份有限公司

English Name of the Company
Zhaojin Mining Industry Company Limited

Legal Representative
Mr. Lu Dongshang

Executive Directors
Mr. Lu Dongshang *(Chairman)*
Mr. Weng Zhanbin *(President)*

Non-executive Directors
Mr. Liang Xinjun *(Vice Chairman)*
Mr. Cong Jianmao
Mr. Wang Peifu
Mr. Wu Zhongqing
Mr. Chen Guoping

Independent non-executive Directors
Mr. Yan Hongbo
Mr. Ye Tianzhu
Ms. Chen Jinrong
Mr. Choy Sze Chung Jojo

Members of the Supervisory Committee
Mr. Wang Xiaojie
(Chairman of the Supervisory Committee)
Ms. Jin Ting
Mr. Chu Yushan

Secretary to the Board
Mr. Wang Ligang

Company Secretary
Ms. Ma Sau Kuen

Qualified Accountant
Mr. Ma Ving Lung Nelson

Authorised Representatives
Mr. Lu Dongshang *(Chairman)*
Mr. Weng Zhanbin *(President)*

Audit Committee Members
Ms. Chen Jinrong
(Chairman of the Audit Committee)
Mr. Chen Guoping
Mr. Choy Sze Chung Jojo

Strategic Committee Members
Mr. Lu Dongshang
(Chairman of the Strategic Committee)
Mr. Liang Xinjun
Mr. Weng Zhanbin

Nomination and Remuneration Committee Members
Mr. Liang Xinjun
(Chairman of the Nomination and Remuneration Committee)
Mr. Cong Jianmao
Mr. Yan Hongbo
Mr. Ye Tianzhu
Ms. Chen Jinrong

Geological and Resources Management Committee Members
Mr. Ye Tianzhu
(Chairman of the Geological and Resources Management Committee)
Mr. Weng Zhanbin
Mr. Yan Hongbo

Safety and Environment Protection Committee Members

Mr. Yan Hongbo
(Chairman of the Safety and Environment Protection Committee)
Mr. Wang Peifu
Mr. Cong Jianmao

Auditors

International Auditors:

Ernst & Young
18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

PRC Auditors:

Shulun Pan Certified Public Accountants
4/F, New Whampoa Finance Building
No. 61 Nanjing Road East
Shanghai
PRC

Legal Advisers

PRC Law Advisers:

King & Wood PRC Lawyers
28-29/F
Huai Hai Plaza
1045 Huaihai Road (M)
Shanghai 200031
PRC

Hong Kong Law Advisers:

Stephen Mok & Co in association with Eversheds
21/F
Gloucester Tower
The Landmark
15 Queen's Road Central
Central
Hong Kong

Registered Office

No. 299 Jinhui Road
Zhaoyuan City
Shandong Province, PRC

Principal Place of Business in Hong Kong

8th Floor
Gloucester Tower
The Landmark
15 Queen's Road Central
Central
Hong Kong

Hong Kong H Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-16, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

Bank of China
78 Fuqian Road
Zhaoyuan City
Shandong
PRC

Agricultural Bank of China
298 Wenquan Road
Zhaoyuan City
Shandong
PRC

Company Website

www.zhaojin.com.cn

Stock Code

1818

Corporate Profile

Zhaojin Mining Industry Company Limited ("Zhaojin Mining" or the "Company") (stock code: 1818) and its subsidiaries (collectively the "Group") were jointly established by Shandong Zhaojin Group Company Limited (the "Zhaojin Group"), Shanghai Fosun Industrial Investment Co., Ltd. ("Shanghai Fosun"), Shanghai Yuyuan Tourist Mart Co., Ltd. ("Shanghai Yuyuan"), Shenzhen Guangxin Investments Co., Ltd.* ("Guangxin Investments") and Shanghai Laomiao Gold Co., Ltd. ("Laomiao Gold") with the approval of the People's Government of Shandong Province. The Company was incorporated as a joint stock limited company in the People's Republic of China (the "PRC") on 16 April 2004 and listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 8 December 2006.

The Company is an integrated large-scale enterprise with exploration, mining, processing and smelting operations focusing on the gold production business. The Company is one of the leading gold producers and one of the largest enterprises of gold smelting in the PRC. Our principal products include standard Au9999 and Au9995 gold bullions. Our main production techniques and equipment are of advanced level domestically and internationally.

The Company is strategically based in the Zhaoyuan district in the Jiaodong peninsula of Shandong Province, the PRC, which has a long history of gold exploration and production. According to the China Gold Association, gold resources in Zhaoyuan district account for approximately 10% of the remaining gold resources in the PRC. Zhaoyuan district, which is named by China Gold Association as the "Gold Capital of the PRC", is the largest gold production base and its first gold production city in the PRC.

Recently, the Company has endeavored to focus on gold mining as well as technology and management innovation in order to strengthen our technologies and cost advantages in the industry. Thus, the Company has achieved remarkable results with increasing gold reserves, production volume and corporate efficiency. Meanwhile, the Company has proactively participated in the consolidation of gold resources and implemented strategies for expanding our resources in order to keep in line with the development of the industry. The Company has also endeavored to expand our operations into new areas, improve the overall development progress and further increase our resources. Currently, the Company owns 33 subsidiaries, joint venture and associates nationwide, amongst them we possess 6 operating mines within the Zhaoyuan district ("Inside Zhaoyuan"), namely Dayingezhuang Gold Mine, Jinchiling Gold Mine, Xiadian Gold Mine, Hedong Gold Mine, Jintingling Gold Mine and Canzhuang Gold Mine, with their businesses covering major gold production regions in the PRC. The Company also invested in a listed company in Australia engaging in the gold industry by way of equity investment to secure overseas resources. As at 31 December 2010, our gold ore resources reservation under the Code of The Joint Ore Reserves Committee in Australia (the "JORC") were approximately 15,941 kozs (as at 31 December 2009: 10,861 kozs), and our minable gold reserves were approximately 8,098 kozs (as at 31 December 2009: 7,028 kozs).

Looking ahead, the Company will continue to adhere to the strategy of "developing gold mining business in a righteous manner by leveraging on its long history". With favourable location, abundant resources, advanced techniques and technologies and innovative management model, the Company is committed to the pure gold production, continuously increasing gold reserves and gold production, proactively participating in the consolidation and development of domestic and overseas gold resources. The Company will strive to attain continuous growth in the profits and become one of the top and leading gold production enterprises in the PRC and the world with an aim to repay the shareholders and society with the best results.

* On 31 August 2009, Zhaoyuan City State-owned Assets Operation Ltd. has successfully acquired a total of 42,400,000 domestic shares of the Company held by Guangxin Investments, which constituted approximately 2.91% of the total issued share capital of the Shares in the Company.

Financial Summary

Summary of Operating Results

	For the year ended 31 December				
	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000
Revenue	**4,097,800**	2,796,991	2,152,731	1,512,273	1,164,415
Gross profit	**2,310,842**	1,449,287	1,079,917	754,821	623,175
Share of profit/(loss) of associates	**3,961**	1,331	2,672	1,979	(1,935)
Profit before tax	**1,651,898**	1,044,632	710,339	559,995	517,750
Profit from discontinued operations	**–**	(29,264)	(1,483)	–	–
Profit attributable to equity holders of the Company	**1,201,731**	754,020	533,905	388,447	351,190
Earnings per share (RMB)	**0.82**	0.52	0.37	0.27	0.24

Summary of Assets

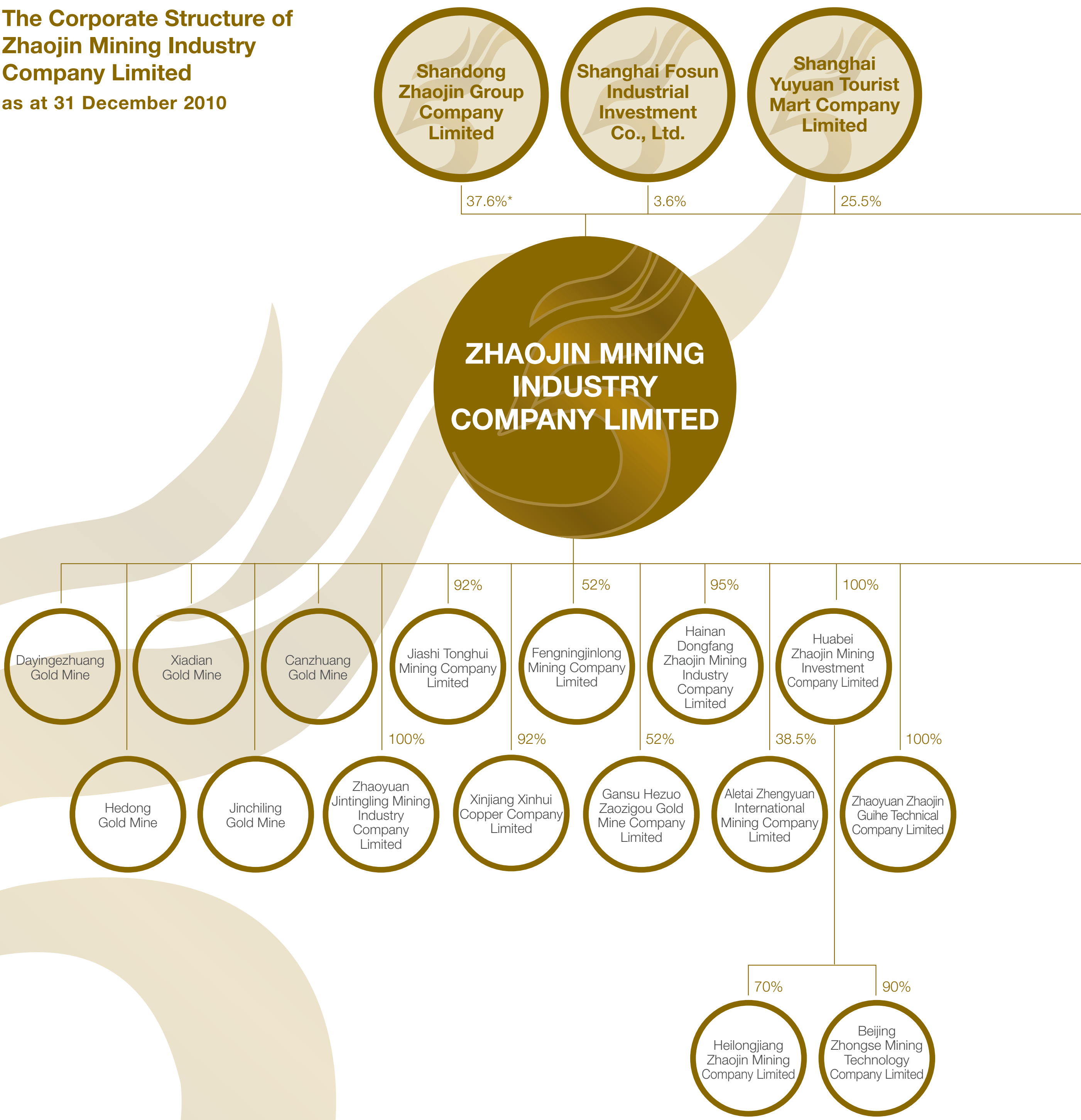
	As at 31 December				
	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000
Total assets	**9,414,933**	8,581,632	5,930,985	5,013,877	4,907,558
Cash and cash equivalents	**781,188**	2,209,396	688,764	1,625,689	2,695,397
Cash and cash equivalents listed as assets of disposal groups held for sale	**4,553**	4,715	–	–	–
Total liabilities	**(3,639,289)**	(3,614,215)	(1,522,316)	(1,260,663)	(1,443,134)
Net assets	**5,775,644**	4,967,417	4,408,669	3,753,214	3,464,424
Net assets per share (RMB)	**3.74**	3.41	3.02	2.58	2.38

The above profit before tax and profit from discontinued operations for 2008 and 2009 have been restated according to the HKFRS while the profit before tax and profit from discontinued operations for 2006 and 2007 have not been restated as the materiality was insignificant for investors' decision. The above earning per share and net assets per share for 2005, 2006 and 2007 have been restated according to the total number of issued shares of 1,457,430,000 shares as at 31 December 2009.

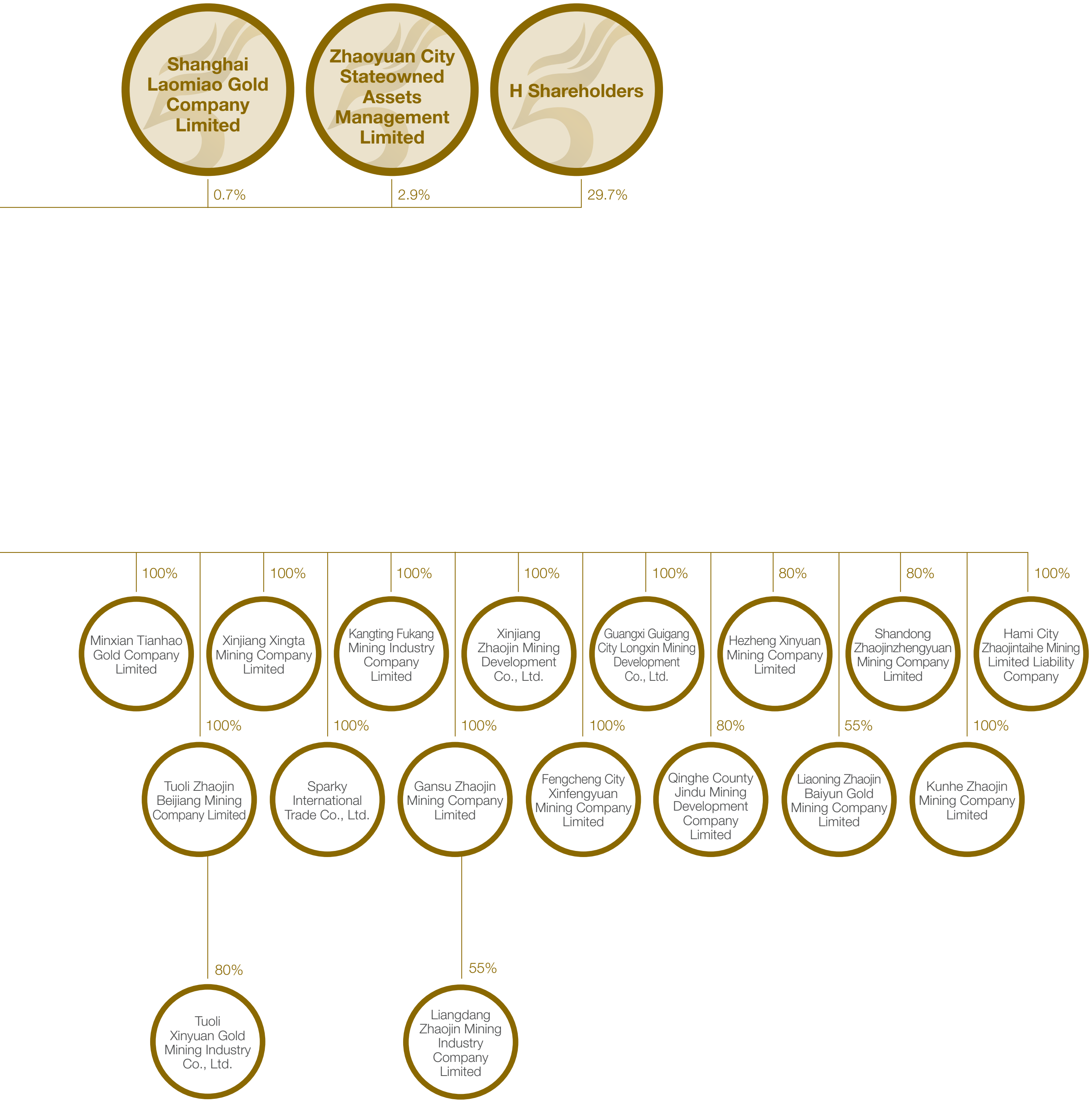
Corporate Structure

The Corporate Structure of Zhaojin Mining Industry Company Limited

as at 31 December 2010



* As at 31 December 2010, 543,257,000 domestic shares and 4,998,000 H shares are held by Shandong Zhaojin Group Company Limited, the controlling shareholder of the Company, representing totally 37.6% of the total issued ordinary shares of the Company.


Shanghai Laomiao Gold Company Limited
Zhaoyuan City Stateowned Assets Management Limited
H Shareholders
0.7%
2.9%
29.7%
100%
Minxian Tianhao Gold Company Limited
100%
Xinjiang Xingta Mining Company Limited
100%
Kangting Fukang Mining Industry Company Limited
100%
Xinjiang Zhaojin Mining Development Co., Ltd.
100%
Guangxi Guigang City Longxin Mining Development Co., Ltd.
80%
Hezheng Xinyuan Mining Company Limited
80%
Shandong Zhaojinzhengyuan Mining Company Limited
100%
Hami City Zhaojintaihe Mining Limited Liability Company
100%
Tuoli Zhaojin Beijiang Mining Company Limited
100%
Sparky International Trade Co., Ltd.
100%
Gansu Zhaojin Mining Company Limited
100%
Fengcheng City Xinfengyuan Mining Company Limited
80%
Qinghe County Jindu Mining Development Company Limited
55%
Liaoning Zhaojin Baiyun Gold Mining Company Limited
100%
Kunhe Zhaojin Mining Company Limited
80%
Tuoli Xinyuan Gold Mining Industry Co., Ltd.
55%
Liangdang Zhaojin Mining Industry Company Limited

Chairman's Statement

To Shareholders,

I am pleased to present the annual report of Zhaojin Mining Industry Company Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2010 (the "Year") on behalf of the board of directors (the "Board") of the Company. I would also like to express our kind regards to all shareholders of the Company (the "Shareholders") on behalf of the Board and all staff members.

2010 is a year of gradual recovery of global economy from consolidation. In the same year, Zhaojin Mining displayed its persistence in implementing its pure gold strategies so as to realize multi-crossed development.

Annual Review

Looking back to 2010, in face of the ever-changing world economy, gold became the clear winner in market again with its unique currency nature. Gold prices continued to rise strongly for the whole year and breaking new records time and again. The international gold prices hit a historic high at US$1,431.25/oz on 7 December 2010, and it is expected that the bullish gold market will continue.

Under the background of global economy remaining sluggish, Zhaojin Mining, as one of the most important gold producers in PRC, adheres to its pure gold development strategies, be faithful to its entrepreneurship of external development and observes its core enterprise values with persistence. Besides, Zhaojin Mining also strives for enhancing its ability in corporate and operation management, in capturing investment opportunities and in responding to market fluctuations. Through the agglomeration of virtues, Zhaojin Mining has achieved glorious progression over the years, and has become a leading corporate in the industry. For the year ended 31 December 2010, the Group's total sales revenue for the year was RMB4,097,800,000, representing a rise of 46.51% over the last corresponding period. The total output of gold amounted to approximately 672,811 ozs, representing an increase of 7.4% over the previous corresponding period. Net profit of the Group amounted to RMB1,242,161,000, representing an increase of 65.33% over the last corresponding period. The average comprehensive costs of gold per gram was RMB113.4 per gram, up 19.62% from previous corresponding period.

The Company's outstanding performance and corporate values are well-recognised by the market, its share price increased by 105% for the whole year, making its market capitalization reached HK$46.3 billion and has therefore become one of the most influential gold stocks in the capital market. Zhaojin Mining has been selected as a constituent stock of the MSCI China Index. The Board of the Company was awarded with "Directors of the Year 2010" by the Hong Kong Institute of Directors and "Gold Prize for Investor Relations and Social Responsibility 2010" by the Asset.

Outlook

Looking forward to 2011, the global economy is still full of uncertainties, various persistent regional economic crisis will continue to exist in the long term, and the European debt crisis will be deteriorated. The excessive liquidity problem of the global market will not be improved shortly, and the gold price is expected to be on the upward trend. 2011 is the fifth anniversary of the listing of the Group in Hong Kong. In the coming new year, the Group will grasp any opportunities brought by the increase of gold price, adhere to its pure gold development strategies, explore and capture new opportunities emerged by improving its ability in operation management. In addition, the Group will also adhere to its strategies of prioritizing resources, accelerate the development of projects, reduce operational costs, increase economies of scale, highlight the safety and environmental protection concept, maintain continuous growth in results, take up its social responsibility actively, as well as create maximum returns for shareholders.

Acknowledgement

In 2010, the Group recorded a stable increase in the output of gold and a substantial increase in resources, which enabled it to maintain a relatively fast pace of development. The increase was benefiting not only from the Group's policies of external development, cost control and enhancement of production and management capabilities, but also from the hard work and efforts of the staff, and, especially, the contributions from the shareholders and all sectors paying longstanding support to the Group.

I hereby take this opportunity to express my sincere appreciation to all shareholders and persons from all sectors highly concern to the Group, and also extend my heartfelt tribute to all our directors and the staff for their dedication and excellence. The Group will follow our corporate vision of "Practice", "Innovation", "Integrity" and "Devotion" for realizing effectiveness by compliance, innovation by intellectual, success by unity and advancement by cooperation. Leveraging on our philosophy of taking virtues from others, the Group will definitely reward our shareholders with heighten values at its fifth anniversary of listing.

With perseverance, we have become the market winner.

With enthusiasm, we are well-prepared to face any new challenges ahead!

Lu Dongshang
Chairman

4 March 2011

Management Discussion and Analysis

The following discussions should be read in conjunction with the audited financial statements of the Group and the notes thereto contained in this annual report and other sections.

Market Overview

As the U.S. dollar credits system was severely hurt during the financial crisis, the value of gold regained market recognition and began to increase. The opening price was US$1,097.10 per oz while the closing price was US$1,420.80 per oz in 2010, representing an increase of US$323.70 per oz. The average gold price for the Year was US$1,227.2 per oz with a 26% growth when compared to last year, and recorded the highest annual growth rate in the last decade. On 7 December 2010, the international gold price also hit the historical high of US$1,431.25 per oz. The trend of domestic gold price basically increased in line with the international gold price, showing obvious characteristics of a bullish market. Gold prices achieved record highs over and over again. The opening price of the “9995 gold” in the Shanghai Gold Exchange (“SGE”) was RMB241.15 per gram and reached the highest at RMB306.00 per gram while the closing price was RMB301.15 per gram. The average gold price for the Year was approximately RMB265.84 per gram.

The gold production volume in China reached a new high record in 2010. According to the statistics of the China Gold Association, gold production reached 340.88 tons, representing an increase of 8.57% when compared to last year. This also made China remain the No. 1 gold production country globally for four consecutive years.

The average price of gold sold by the Group in the SGE during the Year was approximately RMB276.87 per gram, representing an increase of approximately 24.96% as compared to RMB221.56 per gram in the previous year and was RMB11.03 per gram higher than the average price of gold in the SGE.

Principal Business

For the year ended 31 December 2010, the Group is mainly engaged in the exploration, mining, ore processing, smelting and sales of gold products and other metallic products in the People’s Republic of China (the “PRC”). Our principal products include Au9999 and Au9995 standard gold bullions under the brand name of “Zhaojin”.

Results for the Year

Gold Output

For the year ended 31 December 2010, the Group's total output of gold amounted to 20,926.78 kg (approximately 672,811 ozs), representing an increase of 7.40% as compared to the last corresponding period. Among which, 13,785.44 kg (approximately 443,212 ozs) of gold was mine-produced gold, representing a rise of approximately 21.93% over last corresponding period, and 7,141.34 kg (approximately 229,599 ozs) was smelted and processed gold, posting decline of approximately 12.68% as compared to the previous corresponding period. In 2010, the subsidiaries outside Zhaoyuan has recorded a rapid growth and the total gold output amounted to 2,207 kg (approximately 70,942 ozs), representing an increase of approximately 42.42% as compared to the previous year.

Revenue

For the year ended 31 December 2010, the Group's revenue was approximately RMB4,097,800,000 (2009: approximately RMB2,796,991,000), representing an increase of approximately 46.51% as compared to the previous year.

Net Profit

For the year ended 31 December 2010, the Group's net profit was approximately RMB1,242,161,000 (2009: approximately RMB751,333,000), representing an increase of approximately 65.33% as compared to the previous year.

Earnings Per Share

For the year ended 31 December 2010, earnings per share attributable to ordinary equity holders of the parent amounted to approximately RMB0.82 (2009: RMB0.52), increased by approximately 57.69% as compared to the previous year.

Management Discussion and Analysis

Analysis of Results

The substantial growth in profit was primarily attributable to the significant increase in gold output of the Group and higher gold selling price.

Appropriation Proposal

The Board proposed the payment of a cash dividend of RMB0.3 (before taxation) per share (2009: RMB0.22 (before taxation)) to all shareholders, the cash dividend payout ratio is approximately 39.94% (2009: approximately 48.44%).The Board also proposed a bonus issue to all shareholders on the basis of 0.5 bonus share (before taxation) for every share (2009: nil), held by capitalization of retained profits, and a separate bonus issue of shares on the basis of 0.5 share for every share (2009: nil) by way of capitalization of the capital reserve fund. Further announcement relating to the arrangement for the aforesaid bonus issue will be made by the Company in due course.

Regarding the distribution of cash dividend, dividends for shareholders of domestic shares will be declared and paid in RMB, whereas dividends for shareholders of H shares will be declared in RMB and paid in Hong Kong dollars.

The proposed appropriation proposal for the year is still subject to the approval by the shareholders of the Company at the annual general meeting for the year ended 31 December 2010 ("2010 AGM"), which will be held on Monday, 13 June 2011.

It is expected that the final dividend for the year ended 31 December 2010 will be paid on or before Thursday, 30 June 2011 to the shareholders whose names appear on the register of members of the Company on Monday, 13 June 2011.

Under the relevant tax rules and regulations of the PRC (collectively the "PRC Tax Law"), the Company is required to withhold corporate income tax at the rate of 10% when distributing the final dividend and bonus shares (held by capitalization of retained profits) to non-resident enterprises (such term shall have the meaning as defined under the PRC Tax Law) whose names appear on the H shares register of members of the Company on Monday, 13 June 2011.

In accordance with the PRC Tax Law, the Company has an obligation to withhold for payment the corporate income tax from the payment of the final dividend and bonus shares (held by capitalization of retained profits) to non-resident enterprises whose names appear on the H shares register of members of the Company on Monday, 13 June 2011. If the resident enterprises (such term shall have the meaning as defined under the PRC Tax Law) whose names appear on the H shares register of members of the Company do not wish to have the corporate income tax withheld by the Company for payment, they should lodge with Computershare Hong Kong Investor Services Limited the relevant documents issued by the relevant PRC tax authority certifying that they are resident enterprises, on or before 4:30 p.m. on Friday, 13 May 2011. The address of Computershare Hong Kong Investor Services Limited is 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

The Company will withhold for payment the corporate income tax strictly in accordance with the PRC Tax Law and the requirements of the relevant government authorities. The Company shall not be liable for any dispute relating to the withholding of corporate income tax which arises from any failure to lodge the relevant documents within the prescribed timeframe as mentioned above.

Business Review

Stable outward expansion with fruitful achievements in mergers and acquisitions

During the Year, the Group persisted on the steady expansion strategy and focused on marketing research on mining industry. Insisting on the development principles of professional on-site investigations, scientific verification, standardized operations, based on strategies of "acquiring large-scale mines, focusing on regional developments, expanding at low cost and high-level collaboration", the Group focused on the existing mining enterprises in three main areas of Shandong, Gansu and Xinjiang, resulting in the integration and acquisition of the external gold resources. Thanks to all our development personnel for their hard work against all odds, and for their dedication in bringing satisfactory performance in our outward expansion.

The total completed investment on external acquisition of the Group for the Year amounted to approximately RMB530,000,000 and the Company had successfully acquired the equity interests in Qinghe County Jindu Mining Development Company Limited (青河縣金都礦業開發有限公司)("Qinghe Mining"), Gansu Hezheng Xinyuan Mining Co., Ltd. (甘肅和政鑫源礦業有限公司)("Hezheng Mining"), Fengcheng City Xinfengyuan Mining Co., Ltd.(鳳城市鑫豐源礦業有限公司)("Xinfengyuan Mining"), Guigang City Longxin Mining Development Co., Ltd. (貴港市龍鑫礦業開發有限公司)("Longxin Mining") and Fengcheng City Baiyun Gold Mining Co., Ltd. (鳳城市白雲黃金礦業有限公司)("Baiyun Mining"), while the acquisition of 50% equity interest in Xinjiang Ruoqiang County Changyun Sanfengshan Gold Mining Co., Ltd. (新疆若羌縣昌運三峰山金礦有限公司)("Sanfengshan Mining") is almost completed. The newly acquired mining rights and exploration area amounted to 10.15 km^2 and 110 km^2 respectively in the Year, while the acquired gold resources was approximately 46.8 tons. Besides, the Company carefully weighed and reviewed the situation, actively captured any investment opportunities arising in overseas mining rights markets. The Company had successfully subscribed 20,000,000 shares of Citigold Corporation Limited with AUD2,000,000 in Australia, and thereby laid down solid foundation for further development of overseas projects.

During the Year, the Company also entered into framework agreements on integration of resources with Aletai Municipal Government, Qinghe County Government of Xinjiang and Guigang Gangbei District Government of Guangxi, respectively, and built a strong foundation for integration of gold resources in these regions and for outward expansion.

Strengthened guidance on technical research and achieved breakthroughs in explorations for increase of reserves

During the Year, based on the general requirements of "adopt new thoughts in exploration, put great effort in projects and pursue new breakthroughs in achievements", and following the guidelines of "focusing on technology, choosing the best of the best and achieving breakthroughs", the Group integrated planning, technology and research, prospecting and survey, development and management, and implemented geological research and development and geological explorations projects. During the Year, the Company planned and implemented a total of fourteen geological research and development projects and invested RMB155,150,000 in geological exploration with an accumulated tunneling of 56,004 meters and drilling of 266,685 meters. The additional gold resources explored during the year amounted to 141.4 tons, while the additional copper resources amounted to 19,000 tons. During the Year, the Company realised the most fruitful achievements on geological explorations. Gold resources explored in Dayingezhuang Gold Mine and Xiadian Gold Mine amounted to 47 tons, attaining substantial breakthroughs in deep and extra deep underground exploration in the major metallogenic belt inside Zhaoyuan. Gold resources explored in Zaozigou Gold Mine and Qinghe Mining were 28.8 tons and 24.7 tons, respectively, signifying that the enterprises outside Zhaoyuan have developed as a major alternative resources base of the Company and another strong resources support for stable gold production and for rapid development.

On 31 December 2010, the Group owned a total of 66 exploration rights with an exploration area of approximately 1,270.02 km^2, and a total of 30 mining rights with a mining area of approximately 69.92 km^2.

Management Discussion and Analysis

According to the Headmen Report (海地人報告), with regard to the standards issued by the Joint Ore Reserves Committee ("JORC") in Australia, the total gold mining resources volume of the Group as at 31 December 2010 amounted to 495.82 tons (approximately 15.941 million ozs) and the minable gold reserves amounted to 251.89 tons (approximately 8.0984 million ozs), representing a substantial increase of 158.02 tons (approximately 5.0805 million ozs) or 46.78% and 33.30 tons (approximately 1.0706 million ozs) or 15.23%, respectively, as compared to the previous year.

Smooth progress in infrastructure and technology reform, continued expansion of production output

During the Year, the Group implemented 30 construction projects in total with an investment amount of RMB850,000,000. The Company scientifically organised resources and made reasonable production schedule in the course of construction, which facilitated implementation of projects in the Year of Construction. The processing factory with processing capacity of 2,000 tons per day in Xiadian Gold Mine was completed and has commenced operation, which laid down a solid foundation for stable gold production, making Xiadian Gold Mine the first gold mine of Zhaojin Mining achieve a production output of 100,000 ozs of gold. The selection and cyanidation expansion project of Jinchiling Gold Mine further reinforced the Company's leading position in the industry. The multi-metal recycling system of Zhaojin Guihe, the mine processing plant of Liangdang Zhaojin, the west ventilating shaft of Tonghui, two ventilating shafts in Daxigou mining area of Fengningjinlong had also been completed and commenced operation.

Adhere to technological innovation and raise cost effectiveness

The Group has emphasised on the innovation and the research and development on technology, and therefore further expanded the Company's technological research and development platform, and contributed to the enhancement of the Company's integrated scientific strengths and the optimization of the industry's structure. Standards for all types of processing techniques have maintained technology advantage in the gold industry in the PRC.

During the Year, the Group invested RMB58,696,200 on technological innovation and implemented 40 technological innovation projects, of which 14 projects were completed and passed the final inspection. During the Year, the Company won 7 awards on promoting the application of innovative technologies at both provincial and municipal level, and developed 35 new processing techniques. The Company was granted 28 patents and applied for a total of 29 new patents, including 5 invention patents. The research on technologies on selection and cyanidation of Zaozigou Gold Mine arsenic-bearing antimony-gold ore achieved great breakthroughs, and thereby brought in much more economic benefits for the Group. The multi-element recycling system of Zhaojin Guihe was successfully applied for as one of the projects in the nation's 863 Program. The laboratory for precious metal separation and comprehensive utilisation of Jinchiling Gold Mine was recognised as one of the provincial key labs, and received financial assistance of RMB30,000,000 on technological research and development from the government. In 2010, the Company also developed a strategic co-operation relationship with Beijing General Research Institute of Mining & Metallurgy, further developing the platform of technological researches of the Company.

Currently, the corporate information technology level and the mechanization level of the Group's mining enterprises have obviously upgraded. Major mining enterprises in Zhaoyuan have basically developed a good ventilation and drainage system for underground works, upgraded system automation and also realised remote control.

Highlight safety and environmental protection work and develop green mines

During the Year, in strong adherence to the Group's safety concept of "gold is precious but life is priceless" and the environmental protection concept of "building a harmonious relationship between gold/silver mining and the environment", the Group fully dedicated to the infrastructure projects, strengthened the site control with an investment of safety fund amounting to RMB47,000,000 to implement the environmental responsibilities to all levels to reinforce on-site operation safety management, emphasise contingency safety protection and establish a safety culture, which helped to ensure safety and environmental protection and raise employee's safety awareness. In 2010, the Group passed the test for "the State's Model Enterprise of Safety Culture" and Xiadian Gold Mine and Jinchiling Gold Mine were amongst the first batch of State-level green mining enterprises.

Perform corporate social responsibilities and build up Zhaojin's brand name as a responsible enterprise

The Group has practically taken its responsibilities as a "corporate citizen" by emphasising on the construction of community relations, and has actively participated in the education development in the rural and depressed area and charity works in the society. The Company fully turns the social responsibilities of "corporate citizen" into actions, and makes an effort in contributing the society. During the Year, the Company had made donations for earthquake in Yushu, the drought in the southwestern region, and Red Cross in Qinghe County, Xinjiang. After knowing the landslide disaster in Zhouqu, Gansu Province, Zaozigou Gold Mine, one of the Company's subsidiaries in Gansu, took immediate step to organise a team to go to the affected area and implemented relief programmes with large excavating equipment. The Company's performance in carrying out relief programmes was highly appreciated by the local people and the government, which contributed to the strengthening of the local community relationships. Starting from 2007, the Company contributes RMB2,000,000 every year to the education development in Gansu Province, PRC, and 2010 is the fourth consecutive years for such donation. All donations were used to renovations of school buildings in the phase of volunteer education in the depressed area of the Gansu Province. During the Year, the Company also made a donation of RMB500,000 to support Hope Project in the Xinjiang Autonomous Region, which was used to promote education development of Xinjiang.

During the Year, the Group contributed RMB4,460,000 for various charity activities.

Awards granted to the Company in the year 2010 include: "Board of Directors of the Year 2010" by the Hong Kong Institute of Directors, "Gold Prize for Social Responsibility and Investor Relations" and "Asia Pacific Business Excellence Standard Award", etc.

Financial Analysis

Revenue

For the year ended 31 December 2010, the Group's revenue was approximately RMB4,097,800,000 (2009: RMB2,796,991,000), representing an increase of approximately 46.51% (2009: approximately 29.93%) as compared to last year. Such increase was primarily attributable to a substantial increase in the gold output and higher gold selling price.

Cost of Sales

For the year ended 31 December 2010, the Group's cost of sales was approximately RMB1,786,958,000, representing an increase of approximately 32.59% (2009: approximately 25.62%) from approximately RMB1,347,704,000 in 2009. Such increase was primarily attributable to the higher volume of gold sales during the Year.

Management Discussion and Analysis

Gross Profit and Gross Profit Margin

During the Year, the Group's gross profit and gross profit margin were approximately RMB2,310,842,000 (2009: RMB1,449,287,000) and approximately 56.39% (2009: approximately 51.82%), representing an increase of approximately 59.45% (2009: approximately 34.20%) and an increase of approximately 4.57% (2009: approximately 1.66%), respectively, as compared to the previous year. The increase in gross profit was primarily attributable to the increases in sales of gold and the high price of gold, while the increase in the gross profit margin was primarily because the unit cost remained stable and the price of gold remained at a higher level during the Year.

Other Revenue and Gains

During the Year, the Group's other revenue and gains were approximately RMB123,146,000 (2009: approximately RMB99,181,000), representing an increase of approximately 24.16% (2009: approximately 70.46%) from the previous year. The increase in the other revenue and gains was primarily attributable to the increase in policy related subsidies and the increase of sales of material.

Selling and Distribution Costs

For the year ended 31 December 2010, the Group's selling and distribution costs were approximately RMB38,220,000 (2009: approximately RMB38,291,000), representing a decrease of approximately 0.19% (2009: an increase of approximately 91.63%) as compared to the previous year.

Administrative and Other Expenses

The Group's administrative and other operating expenses were approximately RMB655,491,000 in 2010 (2009: approximately RMB443,739,000), representing an increase of approximately 47.72% (2009: approximately 12.86%) from 2009. Such increase was primarily attributable to the expansion of the business and the increase in the scope of combination.

Finance Costs

For the year ended 31 December 2010, the Group's finance costs were approximately RMB92,340,000 (2009: approximately RMB23,137,000), representing an increase of approximately 299.10% (2009: approximately 34.05%) from 2009. Such increase was primarily attributable to the distribution of interest of the corporate bond of the Group of RMB1.5 billion issued in December 2009.

Income Tax Expenses

The income tax expenses increased by approximately RMB145,702,000 when compared with the previous year. It is primarily attributable to the increase in net profit on sales. During the Year, income tax of corporate inside PRC has been provided at a rate of 25% (2009: 25%) on the taxable income. Hong Kong profits tax has been provided at the rate of 16.50% (2009: 16.50%) on the estimated assessable profits arising in Hong Kong during the Year. The Group did not incur any Hong Kong profits tax during the Year. The effective tax rate of the Group is 24.80% during the Year (2009: 25.28%).

Profit Attributable to Owners of the Parent

For the year ended 31 December 2010, the Group's profit attributable to the owners of the parent was approximately RMB1,201,731,000, representing an increase of approximately 59.38% (2009: approximately 41.23%) from approximately RMB754,020,000 in 2009.

The net profit margin of the Group for the year ended 31 December 2010 was approximately 30.31% (2009: approximately 26.86%), representing a slight increase from 2009.

Liquidity and Capital Resources

The working capital funding of the Group mainly comes from its cash flows from operations and borrowings, while the Group's capital resources are mainly used to fund its acquisition, capital expenditures, operations and repayment of borrowings.

Cash Flows and Working Capital

The Group's cash and cash equivalents have decreased from approximately RMB2,209,396,000 as at 31 December 2009 to approximately RMB781,888,000 as at 31 December 2010. The decrease was primarily attributable to our aggressive mine acquisition scheme, construction projects, repayment of significant bank borrowings and corporate bond interests in 2010.

At the balance sheet date, the cash and cash equivalents of the Group denominated in Hong Kong dollars amounted to RMB35,433,000 (2009: RMB20,713,000) and those denominated in United States dollars amounted to RMB48,001,000 (2009: RMB24,586,000). All other cash and cash equivalents held by the Group are denominated in RMB.

Borrowings

On 31 December 2010, the Group had outstanding bank loans and other borrowings of RMB440,762,000 (2009: RMB668,846,000), of which RMB370,000,000 (2009: RMB611,056,000) shall be repaid within one year, RMB63,680,000 (2009: RMB50,000,000) shall be repaid within two to five years and RMB7,082,000 (2009: RMB7,790,000) shall be repaid after five years. As at 31 December 2010, the Group had borrowings and corporate bond in excess of cash balance, and hence had gearing on a net basis.

All loans of the Group bear fixed interest rates and denominated in RMB.

Gearing Ratio

Gearing ratio refers to the ratio of consolidated total liabilities to consolidated total assets. As at 31 December 2010, the Group had consolidated total liabilities of RMB3,639,289,000 (2009: RMB3,614,215,000) and total assets of RMB9,414,933,000 (2009: RMB8,581,632,000). The Group's gearing ratio for the year ended 31 December 2010 was 38.65% (2009: 42.12%).

Market Risks

The Group is exposed to various types of market risks, including fluctuation in gold prices, changes in interest rates and foreign exchange rates.

Gold Prices and Other Commodities Prices Risks

The Group's exposure to price risk relates principally to the market price fluctuation on gold, silver and copper which can affect the Group's results of operations. In addition, the Group enters into contracts for the processing of gold and silver concentrates with the liabilities settled through physical delivery of predetermined quantities of gold and silver. Price fluctuations affected the liabilities which are denominated in RMB. The Group's policy is to manage price risk exposure in relation to the tolling liabilities by holding physical inventories of gold and silver for settlement of liabilities.

During the Year, the Group entered into AU(T+D) agreements, which substantially are forward commodity contracts, with the Shanghai Gold Exchange to hedge potential price fluctuations of gold for trading purpose. Under those agreements, the Company could forward buy or sell gold at current day's price by depositing 10% of the total transaction amount. Subsequently, it can complete the deal by either physically delivering the gold or entering into an offsetting agreement. There is no restriction imposed on the settlement period.

Management Discussion and Analysis

The price range of the forward commodity contracts is closely monitored by management. On 31 December 2010, all of the forward commodity contracts of the Group were settled and accordingly, a reasonably possible change of 10% in commodity price would have no material impact on the Group's and the Company's profit and equity for the Year.

Interest Rate Risk

The Group's exposure to interest rate risk relates primarily to the Group's cash holdings and interest-bearing bank loans. The Group manages its interest rate exposure from certain cash holdings through placing them into appropriate short term deposits with a mixture of fixed rates and manages the exposure from all of its interest-bearing loans through the use of fixed rates.

The Group had not used any interest rate swaps to hedge its exposure to interest rate risk during the Year.

Foreign Exchange Risk

All of the Group's transactions are carried out in RMB. The fluctuation of the RMB/USD exchange rate may affect the international and local gold price, which may therefore affect the Group's operating results. Fluctuations in exchange rates may have an adverse effect on our net assets, earnings and any dividend declared, which shall be converted or translated into Hong Kong dollars.

Business Outlook

2011 is the fifth anniversary of Zhaojin Mining's listing. The Company shall adhere to its pure gold production strategy, proactively captures value investment opportunities, enhances ability in operation management and promotes sustainable development of the Company.

Highlight the safety and environmental protection work

In 2011, the Company will strengthen the sense of social responsibility, and focus on safety and environmental protection. Therefore, the Company plans to invest RMB90,000,000 on safety and environmental protection activities. Following the basic requirement of using scientific mining methods, enhancing the efficiency on resources utilisation, standardizing corporate management, applying environmental friendly processing techniques and emphasising on ecological environment of mines, the green mines concept is embodied in the whole process of development and utilisation of mineral resources, and the coordination of economic, social and ecological benefits is achieved. With an objective of promoting mechanization operation of underground tasks, the Company will contribute at least RMB15,000,000 into a safety fund, which will be used to purchase advanced safety equipment in at least five different areas. The Company will also establish an emergency protection system to prevent all kinds of severe accidents. The Company has compulsorily set up "six major systems" for safety operation in implementing underground tasks, which include underground monitoring, personnel positioning, contingent risk-prevention, pressed air self-rescue, water supply and rescue, and communication systems.

Accelerate the progress of exploration works in key regions

In 2011, the Company will focus on the major mining belts and increase exploration and reserves. Within the Zhaoyuan region, the Company aims to achieve breakthroughs in Zhaoping fault, and the main focus will be put on Xiadian Gold Mine and Dayingezhuang Gold Mine. Outside Zhaoyuan region, breakthroughs are expected to be made in large mining belts regions such as Xinjiang, Gansu and Liaoning, and the main focus will be placed on Zhaojin Baiyun and Qinghe Mining. In addition, the Company also strives for achieving breakthroughs on exploration and increasing reserves. In 2011, the Company intends to invest RMB250,000,000 to explore resources and expects to achieve an addition gold resources of 95 tons through exploration.

Develop innovative technologies

Scientific Technology is the major production force, and it also represents the core competitiveness of enterprises. In 2011, the Company will commit in consolidating the technology strengths of Zhaojin, develop closer co-operation with foreign and domestic famous universities and scientific research institutes, so as to fully capitalise its effects as a scientific research platform of the provincial level technical centre. The main focus will be placed on researches on geological deposits theory, exploration methods, processing and smelting technology, comprehensive recollection of multi elements and tailings development, with an objective of striving for greater breakthrough in these areas, and strengthening the core competitiveness of the Company. It is expected that in 2011 the investment in technologies will amount to RMB68,880,000, and 44 planned key topic researches will be carried out.

Infrastructure and technology enhancement

Infrastructure and technology reform gives impetus to the development and growth of enterprises, the Company therefore sets the year 2011 as “the Year of Infrastructure and Technology Enhancement”. Enterprises located within Zhaoyuan have to accelerate the speed of project construction and enhance production efficiency with good management on mining and excavation, while mining enterprises outside Zhaoyuan have to optimize their production systems as soon as practicable in order to expand production output, and speed up the operation schedule of projects. There are 53 planned projects in total for the year and the planned total investment is RMB4.323 billion, of which RMB1.232 billion is planned to be funded in 2011. For mines within Zhaoyuan, the Company will focus on the exploration of deep underground of Dayingezhuang Gold Mine, Hedong Gold Mine, Xiadian Gold Mine and Canzhuang Gold Mine, while for enterprises outside Zhaoyuan, the Company will put great effort on Zaozigou Gold Mine with a daily mining and processing capacity of 2,000 tons, Qinghe Mining with a daily mining and processing capacity of 2,000 tons, and Baiyun Mining with a daily mining and processing capacity of 2,000 tons.

Expand external development

In 2011, the Company will focus its resources on developing three main industrial bases of Xinjiang, Gansu and Shandong in the PRC, and closely monitor the conditions in Liaoning, Inner Mongolia and Guangxi. In the foreign markets, the Company will focus its attention on countries with rich resources, stable policies and flourishing prospects, and will also carry out scientific analysis and arrange reasonable lay out. The Company intends to invest RMB500,000,000 for the acquisition of resources reserves with gold content over 20 tons to ensure healthy and sustainable development of the Company.

The Company will manage to finance above-mentioned projects through operational net cash inflow, bank borrowing or other external financing activities.

Management Discussion and Analysis

Enhance operation management

Good operation management is the foundation for rapid development of enterprises. In 2011, the Company will continue to follow the principle of "six integration" management and focus on rolling out assistance (包幫結對) activities, so as to further enhance the operation management of enterprises inside and outside Zhaoyuan. Besides, the Company will implement the benchmarking management system with domestic and foreign leading enterprises in the industry by making detailed and professional comparisons and observing standards compliance and upgrading, in order to move towards higher level of benchmarking management. The Company shall actively explore new concepts of cost control, strongly promote advanced management experience such as vendor managed inventory, control the financial risks by strengthening financial management, closely monitor the capital of subsidiaries, implement financial auditing, control the market fluctuation risk by making detailed research and analysis on the market, as well as maintain and recruit talents, establish new salary system, highlight efficiency, give considerations to impartiality and share our achievements with staff. At the same time, the Company shall establish and develop human resources comprising of senior management, professional management personnel and technicians so as to lay a solid foundation for the Company's development.

Directors, Supervisors and Senior Management Profile

Details of personnel currently serving as directors (the "Directors"), supervisors (the "Supervisors"), secretary to the Board/company secretary and senior management of the Company during the Year and as of the date of this annual report are as follows:

Executive Directors

Mr. Lu Dongshang, aged 49, the chairman and an executive director of the Company, the Communist Party secretary to the Company, the chairman of and the Communist Party secretary to Zhaojin Group, the vice president of the China Gold Association, the chairman of chairman board of the China Mining Association and a council member of the Shanghai Gold Exchange. Mr. Lu has 29 years of professional experience in the gold mining industry and has made outstanding contribution to the development of China's mining industry. Mr. Lu worked for and held senior positions at several gold mines and mining groups in Zhaoyuan. Mr. Lu has received numerous awards, at the provincial, municipality and national levels, for his achievement in technological advancement. For instance, Mr. Lu was awarded the top award of Science and Technology in Yantai City, Middle-aged and Young Expert with Outstanding Contributions in Shandong Province, the Second Award in National Scientific and Technological Advancement and Gold Medal for Outstanding Entrepreneurs in the National Gold Industry, and granted a special allowance by the State Council. Mr. Lu graduated from the department of mining engineering of Shenyang Gold Institute,

Directors, Supervisors and Senior Management Profile

graduated from the Cheung Kong Graduate School of Business with an EMBA degree in 2007 and qualified as an applied engineering technology researcher. Mr. Lu has been the chairman and executive director of the Company since April 2004.

Mr. Weng Zhanbin, aged 44, an executive Director, president of the Company. Mr. Weng has 22 years of experience in the gold production industry. He had held positions of deputy section chief and mine supervisor of Zhaoyuan Xiadian Gold Mine; deputy mine general manager and Communist Party deputy secretary of Zhaoyuan Jinchiling Gold Mine; the Communist Party deputy secretary, vice chairman and deputy mine general manager of Jinchiling Mining & Metallurgy Co., Ltd. under Zhaojin Group and mine manager of Jinchiling Gold Mine of the Company; the general manager of Zhaojin Group and a non-executive director of the Company. Mr. Weng has been granted numerous provincial and national awards, such as Science & Technology Pacesetter of National Gold Industry in the 10th Five-Year Plan Period, Shandong Provincial People-enrich and Qilu-thriving Labour Medal and Shandong Provincial Excellent Entrepreneur in recognition of his technological and business management achievements. He has obtained national patents for five of his inventions. Mr. Weng graduated from Baotou Steel and Iron College in 1989 with a degree in mining engineering. He obtained a master degree in mining engineering from Northeastern University in 2002 and an EMBA degree from Cheung Kong Graduate School of Business in 2008. Mr. Weng has been an executive Director and president of the Company since November 2010.

Non-executive Directors

Mr. Liang Xinjun, aged 42, a non-executive Director, vice chairman of the Company, and has been an executive director, vice chairman and chief executive officer of Shanghai Fosun Group, and an independent director of Shanghai Oriental Pearl (Group) Co., Ltd. Mr. Liang is a member of the Eleventh Shanghai Committee of Chinese People's Political Consultative Conference; vice chairman of Chinese Young Entrepreneurs' Association; executive vice chairman of China Science and Technology Private Entrepreneurs Association; executive vice president of Chamber of Metallurgy Industry of All-China Federation of Industry and Commerce; chairman of Taizhou Chamber of Commerce in Shanghai and executive chairman of Shanghai Fudan University Alumni Association. In October 2002, Mr. Liang was awarded the "First Session of Innovation Award of Shanghai Science and Technology Entrepreneur". In 2002, 2003, 2004 and 2007, Mr. Liang was named an "Outstanding Entrepreneur of China's Science and Technology Private Entrepreneur". In April 2004, Mr. Liang was named "Shanghai Municipal Labour Model" of the years 2001 to 2003. In December 2005, Mr. Liang was awarded the "First Session of Innovation Management Award for Young Entrepreneurs in China". In June 2006, Mr. Liang was named an "Outstanding Party Member of Shanghai New Economic and Social Organisations". In April 2007, Mr. Liang was named a "Shanghai Outstanding Builder of Socialism with Chinese Characteristics". In July 2008, Mr. Liang was named a "Ten Outstanding Young People in Shanghai". Mr. Liang received a bachelor degree in genetic engineering in 1991 from Fudan University and obtained a master degree in business administration in 2007 from Cheung Kong Graduate School of Business. Mr. Liang has been appointed as a non-executive Director of the Company since April 2007.

Mr. Cong Jianmao, aged 48, a non-executive Director of the Company, and also the deputy director of Zhaoyuan Municipal Finance Bureau. Mr. Cong has been the chief of the Budget and Finance Section of Zhaoyuan Municipal Commerce Bureau, the chairman of the board of supervisors of Zhaoyuan City State-owned Assets Management Limited, and the chairman of the board of supervisors of Zhaojin Group. Mr. Cong graduated from Shandong TV University and Shandong Economic University. Mr. Cong has been a non-executive Director of the Company since April 2004.

Mr. Wang Peifu, aged 54, a non-executive Director of the Company and the general manager of Zhaojin Group. He has over 35 years of experience in the gold production industry. Mr. Wang has served as the deputy mine manager of Zhaoyuan Canzhuang Gold Mine, the mine manager of Xiadian Gold Mine, the chairman and general manger of and the Communist Party secretary to Xiadian Mining Co., Ltd., executive director, the deputy general manager and general manager of the Company. Mr. Wang has received numerous national patents and honors for his achievement in technology and business management. He was awarded Middle-aged and Young Expert with Outstanding Contributions in Shandong Province, Shandong Provincial Labour Model and Outstanding Venture Entrepreneur in China, and granted a special allowance by the State Council. He had been a part-time professor at Kunming University of Science and Technology, Shandong University of Technology, Northeastern University and University of Science & Technology Beijing. Mr. Wang is an engineering technology application researcher and a certified safety engineer. Mr. Wang graduated from Kunming Industry University and Yantai University and obtained an EMBA degree from the Cheung Kong Graduate School of Business in October 2008. Mr. Wang has been a non-executive Director of the Company since November 2010.

Mr. Wu Zhongqing, aged 52, a non-executive Director of the Company, also currently the vice president of Shanghai Yuyuan. He had held positions of deputy manager of business department and manager of investment development department of Shanghai Yuyuan; assistant to general manager and vice president of Shanghai Yuyuan. Mr. Wu obtained a senior business administration master degree from Cheung Kong Graduate School of Business, a master degree in business administration from East Asia School of Business (Macau) and an on-the-job postgraduate degree in economic law from East China University of Political Science and Law. He has extensive experience in business operation and investment. Mr. Wu has been a non-executive Director of the Company since 26 February 2010.

Mr. Chen Guoping, aged 53, a non-executive Director of the Company. He is also the chairman of Hainan Mining Co., Ltd., senior assistant to the president of, and general manager of Mineral Resources Division of Shanghai Fosun High Technology (Group) Co., Ltd. Mr. Chen had held positions as the supervisor of Engineering Project and Technology Division of Shanghai Krupp Stainless Co., Ltd., technology director of Iron and Steel Division and assistant to general manager and deputy general manager of Fosun Group. Mr. Chen has extensive experience in metallurgical industry. Mr. Chen graduated from Shanghai University of Technology with a bachelor degree in technology and engineering. Mr. Chen has been a non-executive Director of the Company since November 2009.

Independent non-executive Directors

Mr. Yan Hongbo, aged 71, an independent non-executive director of the Company, and a supervisor of Beijing Zhonganjian Mining Investment Limited. Mr. Yan was the department head of the construction department of the State Administration for Gold, the chief engineer of the China Gold Company, the chairman of the expert committee of CITIC Guoan Gold Company Limited. Mr. Yan graduated from the Beijing Institute of Steel (currently known as University of Science and Technology Beijing). Mr. Yan has been an independent non-executive director of the Company since October 2004.

Mr. Ye Tianzhu, aged 70, an independent non-executive director of the Company, and a chief engineer of the Administrative Office for the Management of Projects Concerning the Replacing Resources for Mine in Risk in the PRC, a chief engineer of Potential Evaluation Projects of Mining Resources in the PRC, a director of the Chinese Association of Mining Rights Assessors, a committee member of the 38th Committee of the Geological Society of China and a deputy officer of the Third Committee for Land Layers. Mr. Ye has been an engineer and the chief engineer of the Second, the Fifth and the Sixth Geological Brigade of the Bureau

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of Geology of the Jilin Province, the chief engineer of the Bureau of Geology and Mineral Resources of Jilin Province, the deputy chief engineer of the Ministry of Geology and Mineral Resources of the PRC, the deputy director of General Bureau and the China Geological Survey, the head of the Department of Reserves of the Ministry of Land and Resources of the PRC and the Director-General of the China Geological Survey and so on. He received National Awards for Technological Development for various achievements in scientific researches and was once awarded the 9th Li Siguang Awards for Geosciences. Mr. Ye graduated from Beijing College of Geosciences majoring in geological survey and mine exploration. Mr. Ye has been an independent non-executive director of the Company since April 2007.

Ms. Chen Jinrong, aged 51, is an associate professor, an independent non-executive director of the Company, and working in the Training Centre of Senior Management of School of Economics and Management of Tsinghua University, a professor of Beijing Union University, and a part-time professor of University MOTOROLA etc. Ms. Chen is qualified as an accountant in China and an independent director. Ms. Chen mainly focuses on research into, teaching of and counseling on corporate financial management, analysis of financial report for listed companies and operations of corporate capital, corporate organisation and risk control, comprehensive corporate budget management etc. Ms. Chen had served as the deputy head of the finance department of China Information Industry Research Institute (中國信息產業研究院) under the Ministry of Information Industry, the deputy general manager of Beijing Hua Tsing Cai Zhi Corporate Management Counseling Company etc. She has also served as an independent director of Synutra International Inc (Code: SUYT), a senior financial advisor of various companies including Chinatex Corporation, China Merchants Newspaper Group, XianJu Pharmaceutical, Hebei Meihua Group. Ms. Chen has solid experience in aspects such as corporate restructuring, comprehensive corporate budget management, capital operations and corporate internal control. Ms. Chen has gained the reputation as the outstanding middle-aged and young cadre teacher in Beijing City and an outstanding teacher of Economic Committee of Beijing municipal government. Ms. Chen graduated from the Renmin University of China. Ms. Chen has been an independent non-executive director of the Company since April 2007.

Mr. Choy Sze Chung Jojo, aged 51, an independent non-executive director of the Company, and also the vice chairman of National Resources Securities Limited. Mr. Choy is also the chairman of the Institute of Securities Dealers Limited, an independent non-executive director of Chengdu PUTIAN Telecommunications Cable Limited, an independent non-executive director of Sparkle Roll Group Limited, a committee member of Society of Registered Financial Planner Ltd., a fellow member of Institute of Financial Accountants, a fellow member of the Institute of Compliance Officer, a member of CPPCC Shantou, a honorary president of Shantou Overseas Friendship Association, a honorary president of Shantou Overseas Exchanges Association (汕頭市海外交流會), a honorary principal of the school of Chen Po Sum (陳葆心學校) and a council member of Rotary Club Kowloon West. Mr. Choy has extensive experience in the securities industry and business management. Mr. Choy obtained his Master of Business Administration Degree from University of Wales, Newport and his Master of Business Law Degree from Monash University, Australia. Mr. Choy has been an independent non-executive director of the Company since May 2007.

Supervisors

Mr. Wang Xiaojie, aged 37, the chairman of the Supervisory Committee of the Company, and also the secretary of Commission for Disciplinary Inspection of Zhaojin Group and the chairman of the Labour Union. He has served as the deputy manager of Zhaoyuan City Gold Software Science and Technology Co., Ltd., and then the deputy manager and manager of Information Centre of Zhaojin Group. Mr. Wang graduated with a degree in applied electronic technology from Institute of Information Engineering of Shandong, a degree in computer application from Qingdao Chemical & Engineer College, a degree in economics and management from the Party School of the Shandong Provincial Committee of the Communist Party of China and a degree in business and administration from the Capital University of Economics and Business. Mr. Wang has been the chairman of the Supervisory Committee of the Company since April 2007.

Ms. Jin Ting, aged 47, a supervisor of the Company, also currently the assistant to president of Shanghai Yuyuan. She had held positions of deputy manager of finance department, manager of finance department, manager of fund management department and assistant to president of Shanghai Yuyuan. Ms. Jin graduated from Shanghai Light Industry Bureau Vocational University（上海輕工業局職工大學）majoring in finance and accounting. She has extensive experience in finance, audit and human resources. Ms. Jin has been a supervisor of the Company since 26 February 2010.

Mr. Chu Yushan, aged 44, a supervisor of the Company and a deputy general manager of Zhaojin Beijiang Mining Company Limited. Mr. Chu has served in the Xiadian Gold Mine, Dayingezhuang Gold Mine and Hebei Fengning Jinlong Gold Industry Co., Ltd. of the Company. He graduated from Shandong Textile Vocational College. Mr. Chu has been a supervisor of the Company since April 2004.

Secretary to the Board/Company Secretary

Mr. Wang Ligang, aged 38, the Secretary to the Board. Mr. Wang has served as various managerial positions for Zhaoyuan Beijie Gold Mine and Zhaojin Group. Since 2004, he served as a director of the general manager's office and director of the Board office of the Company, assistant to Board secretary of the Company and general manager of Sparky International Trade Co., Ltd. Mr. Wang graduated from Shandong Economic University with majoring in labour economy management. He has the qualification of senior political officer and affiliated person of The Hong Kong Institute of Chartered Secretaries. Mr. Wang has been the Secretary to the Board since December 2007.

Ms. Ma Sau Kuen Gloria, aged 52, a company secretary of the Company. Ms. Ma is a director and Head of Registration and Compliance Services of KCS Hong Kong Limited, a corporate secretarial and accounting services provider in Hong Kong. Ms. Ma has almost 30 years of experience in corporate secretarial work that includes acting as company secretary for companies listed on The Stock Exchange of Hong Kong Limited, setting up companies in different jurisdictions such as Hong Kong, Cayman Islands and British Virgin Islands. She also has extensive knowledge and experience in corporate restructuring and legal compliance issues. She holds a master degree in Business Administration from the University of Strathclyde, Scotland, and is a Fellow member of the Hong Kong Institute of Chartered Secretaries, and the Institute of Chartered Secretaries and Administrators in the United Kingdom. Ms. Ma has been a company secretary of the Company since December 2010.

Senior Management

Mr. Weng Zhanbin, aged 44, president of the Company. For the details of his profiles, please refer to page 22 of this annual report.

Mr. Zhang Banglong, aged 48, the Chief Financial Officer of the Company. Mr. Zhang has served as the deputy chief accountant (acting chief accountant) and chief accountant of the China Yangzi Group Co. Limited, the chief accountant and deputy general manager of the Macat Group Textile Co., Ltd. Mr. Zhang obtained a master degree from Anhui Institute of Business Administration with majoring in Business Administration, and has the qualification

Directors, Supervisors and Senior Management Profile

of accountant. Mr. Zhang has served as the chief financial officer of the Company since March 2005.

Mr. Li Xiuchen, aged 47, the Senior Vice President of the Company. Mr. Li has served as a technician of the production office of Luoshan Gold Mine, the deputy supervisor, co-ordination officer and first deputy mine manager of Daiqinjia Gold Mine, the deputy mine manager and deputy general manager at Beijie Gold Mine and Zhongkuang Gold Industry, the deputy general manager, director and general manager of Xinyuan Gold Technology Development Co., Ltd., the deputy general manager and the Vice President of the Company. Mr. Li graduated from Shenyang Institute of Gold Technology with majoring in mine engineering with the qualification of a senior engineer. Mr. Li has been the deputy general manager of the Company since February 2007.

Mr. Shi Wenge, aged 45, the Vice President of the Company. Mr. Shi has served as the geology officer of the department of geological survey of Xiadian Gold Mine, officer of the main shaft mine area and technical supervisor, the department head of the department of geological survey, the head of the technology centre and the head of the planning and development department of Xiadian Gold Mine of Zhaojin Group, the deputy manager of the audits department and the manager of the department of production technology of the Company, the assistant to the General Manager and the deputy general manager of the Company. Mr. Shi graduated from the China University of Geosciences with majoring in geology and exploration and he has the qualification of senior engineer. Mr. Shi has been the deputy general manager of the Company since February 2007.

Mr. Zhang Shantang, aged 55, the Vice President of the Company. He has served as the accountant of Zhaoyuan Luoshan Gold Mine Zone, the Communist Party secretary to the Mining Group, officer, the committee member of the Mining Party, the chairman of Mining Union, the deputy mine manager of and the Communist Party secretary to Canzhuang Gold Mine, the mine manager of Zhaoyuan Daqinjia Gold Mine, the mine manager of Zhaoyuan Canzhuang Gold Mine. He has a degree in junior college and is qualified as an engineering technology application researcher. Mr. Zhang has been the Vice President of the Company since February 2010.

Mr. Sun Xiduan, aged 46, the Vice President of the Company. He has served as the accountant, engineering technician, deputy mine manager of No. 1 Branch Mine, technical supervisor, chief controller, department head of the department of production, mine zone officer, department head of the department of planning of Zhaoyuan Luoshan Gold Mine, the deputy manager and manager of Mining Company of Shandong Zhaojin Shareholding Company Limited (山東招金股份有限公司採礦公司), the person-in-charge of mines, processing plants, cyanidation plants, production department for Zhongkuang Gold Industry Company Limited (中礦金業股份有限公司), the general manager of Zhaojin Mining Industry Company Limited in Wuhe County, Anhui Province (安徽省五河縣招金礦業有限公司), the general manager and chairman of Min county Tianhao Gold Co., Ltd (岷縣天昊黃金有限責任公司), the chairman of Zaozigou Gold Mine, the general manager of Gansu Zhaojin Mining Company Limited (甘肅省招金礦業有限公司). Mr. Sun graduated from China University of Geosciences, majoring in geology, and qualified as an engineer. Mr. Sun has been the Vice President of the Company since February 2010.

Report of the Directors

The Board hereby presents its report, together with the audited consolidated financial statements for the year ended 31 December 2010 (the "Year").

Corporate Reorganisation

The Company was incorporated as a joint stock limited liability company under the Company Law of the People's Republic of China (the "PRC") on 16 April 2004. The Company is mainly engaged in the mining, processing, smelting and sale of gold and silver products (the "Relevant Business"). Prior to the incorporation of the Company, the Relevant Business was operated by wholly-owned subsidiaries of Shandong Zhaojin Group Company Limited ("Zhaojin Group") (a PRC state-owned corporation). Upon the incorporation of the Company, the Relevant Business together with related assets and liabilities were transferred to the Company from Zhaojin Group.

The Group successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") in December 2006.

Principal Operations

The principal activities of the Company are investment holding and exploration, mining, ore processing, smelting and sale of gold and other metallic products. The Group is mainly engaged in exploration, mining, ore processing, smelting and sale of gold and other metallic products, being a large integrated mining enterprise specialising in the production of gold. The Group principally produces two kinds of gold products, which are Au9999 and Au9995 gold bullions under the brand of "Zhaojin". Details of the principal activities of the subsidiaries are set in note 18 to the financial statements on pages 145 to 148 in this annual report.

During the Year, there was no material change in the principal operations of the Group.

Results

The Group's results for the year ended 31 December 2010 are set out on pages 81 to 82 of the consolidated statement of comprehensive income in this annual report.

Profit Distribution

As of the date of this annual report, the final dividend for the financial year ended 31 December 2009 paid by the Company was approximately RMB320,674,000 (2008: RMB241,933,000).

The Board proposes the payment of a final cash dividend to all shareholders for 2010 of RMB0.3 (before taxation) (2009: RMB0.22 (before taxation)) per share, the cash dividend payout ratio is 39.94% (2009: 48.44%). The Board also proposed a bonus issue to all shareholders on the basis of 0.5 bonus share (before taxation) for every share (2009: nil), held by capitalization of retained profits, and a separate bonus issue of shares on the basis of 0.5 share for every share (2009: nil) by way of capitalization of the capital reserve fund.

The cash dividend for domestic shares will be distributed to the shareholders and paid in Renminbi and the cash dividend for H shares will be declared to the shareholders in Renminbi and paid in Hong Kong dollars (at the average exchange rate of the medium rate of converting Renminbi into Hong Kong dollars as quoted by the People's Bank of China for five business days immediately prior to 13 June 2011).

The proposed distributions are subject to the approval by the Shareholders at the 2010 AGM to be held on 13 June 2011.

Report of the Directors

Major Customers and Suppliers

The sales of the gold products of the Group are conducted through trading and settlement on the Shanghai Gold Exchange, while the number and identity of ultimate customers are unknown.

During the Year, approximately 86.89% (2009: 89.38%) of the total sales was conducted on the Shanghai Gold Exchange. Similar to a stock exchange, the Shanghai Gold Exchange is a trading platform for gold transactions. Under the circumstances where purchasers and sellers are unknown to each other, all transactions are conducted under the coordination and supervision of the Shanghai Gold Exchange. Therefore, the Shanghai Gold Exchange is deemed to be the Group's sole major customer.

Transactions between the Group and its suppliers are conducted on normal commercial terms. The total amount of purchases from the five largest suppliers did not exceed 30% (2009: 30%) of the Group's total amount of purchases.

So far as the Directors are aware, none of the Directors and Supervisors or any of their connected persons or any Shareholders holding 5% or more of the Company's share capital and their associates (as defined in the Rules Governing the Listing of Securities on the Stock Exchange, the "Listing Rules") have had any direct or indirect interests in the sole major customer and the five largest suppliers of the Company for the Year.

Reserves

Details of changes in reserves of the Group as at 31 December 2010 are set out on page 85 of this annual report.

Distributable Reserves

The distributable reserves of the Company as at 31 December 2010 are set out in note 37 to the financial statements on pages 170 to 171 of this annual report.

According to the articles of association of the Company (the "Articles of Association"), distributable reserves are based on the profits of the Company prepared according to the PRC Accounting Standards and HKFRS, whichever is the lower.

According to the PRC Company Law, after transferring appropriate amounts into the statutory surplus reserve fund and statutory public welfare fund, profit after tax can be distributed as dividend.

As at 31 December 2010, in accordance with the PRC Accounting Standards, the relevant Laws of the PRC and the Articles of Association of the Company, the distributable reserves of the Company amounted to approximately RMB1,642,446,472.69 (2009: RMB868,537,180), of which approximately RMB437,229,000 are proposed to be the final cash dividend of the Year (2009: dividend of RMB320,635,000).

Property, Plant, Equipment and Property Investment

Details of changes in property, plant and equipment of the Group during the Year are set out in note 14 to the financial statements on pages 134 to 137 of this annual report.

The Group did not hold any investment property.

Share Capital

During the Year, details of share capital of the Company are set out in note 36 to the financial statements on page 169 of this annual report.

Apart from the above, during the Year, there was no arrangement for issue of bonus shares, placing and issue of shares of the Company. In addition, the share capital structure of the Company had no changes during the Year and the period from 31 December 2010 to the date of this annual report.

Use of Proceeds from the IPO

The net proceeds raised from the Company's newly issued and listed H shares on the Stock Exchange in December 2006 (after deduction of related issuance expenses) amounted to approximately HK$2,360,000,000. On 10 July 2009, the resolution regarding the use of the remaining proceeds received by the Group from the global offering in the sum of approximately HK$526,000,000 for acquisition of domestic and overseas gold mines by the Company in the future has been approved and authorised by the second extraordinary general meeting in 2009. For the year ended 31 December 2010, the net proceeds from the initial offering and listing of our H shares on the Stock Exchange in December 2006 have been fully utilized.

Details of the use of the proceeds raised are set out as follows:

- as to approximately HK$318,000,000 for expanding and improving Dayingezhuang Gold Mine and Xiadian Gold Mine, and enhancing the mines' existing ore processing capacity, with a view to enhancing the ore processing capacity of each of these two mines by approximately 1,000 tons per day;

- as to approximately HK$324,000,000 for expanding the exploration activities, particularly in the Zhaoping fault-line area and other major gold deposits in China with a view to enhancing our gold reserves;

- as to approximately HK$1,132,509,000 for the acquisitions of operating gold mines with a view to expanding our scale and competitiveness and to enhancing our continuing development capacity;

Report of the Directors

- as to approximately HK$324,000,000 for the acquisition of advanced exploration projects with a view to expanding our exploration areas and to enhancing our future gold reserves;
- as to approximately HK$220,000,000 for repayment of bank borrowings with a view to lowering the gearing ratio of the Group and improving the financial position of the Company; and
- as to approximately HK$41,491,000 for revamping the cyanidation systems of Jinchiling Gold Mine.

Charity Donation

During the Year, the Group made charitable donation totalling RMB4,463,820.05 (2009: RMB3,000,000). Details of the donation were set out in the section headed "Social Responsibility" on page 75 of this annual report.

Bank Borrowings

Details of bank borrowings of the Company and the Group are set out in note 29 to the financial statements on pages 159 to 162 of this annual report.

Taxation

During the Year, the Company and its subsidiaries were subject to the PRC enterprise income tax at a rate of 25% of taxable profits according to the requirements under the PRC Enterprise Income Tax Law which became effective on 1 January 2008. The relevant details are set out in note 8 to the consolidated financial statements on page 131 of this annual report.

Pre-emptive Rights

There is no provision or regulation for pre-emptive rights under the Company's Articles of Association or the PRC Laws which requires the Company to issue new shares to the existing shareholders according to their respective proportions of shareholding.

Purchase, Sale or Redemption of the Company's Listed Securities

During the Year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

Directors and Supervisors

During the Year and as at the date of this annual report, the Company's Directors and Supervisors are listed as follows:

Executive Directors

Mr. Lu Dongshang *(Chairman)*
Mr. Weng Zhanbin *(President)* (elected as executive Director of the Company on 10 November 2010)

Non-executive Directors

Mr. Liang Xinjun *(Vice Chairman)*
Mr. Cong Jianmao
Mr. Wang Peifu (elected as non-executive Director of the Company on 10 November 2010)
Mr. Wu Zhongqing
Mr. Chen Guoping

Independent non-executive Directors

Mr. Yan Hongbo
Mr. Ye Tianzhu
Ms. Chen Jinrong
Mr. Choy Sze Chung Jojo

Supervisors

Mr. Wang Xiaojie *(Chairman of the Supervisory Committee)*
Ms. Jin Ting
Mr. Chu Yushan

Profiles of the Directors, Supervisors and Senior Management Personnel

Details of the profiles of the Directors, Supervisors and Senior Management are set out on pages 21 to 26 of this annual report.

The Terms of Service of the Directors and the Supervisors

According to the requirements of the Articles of Association, the terms of service of the Directors and the Supervisors are for three years as from their respective dates of appointment or re-appointment, and the Directors and the Supervisors are subject to re-appointment and re-election upon the expiry of their term.

Report of the Directors

Remuneration of the Directors and Supervisors

The remuneration of each Director and Supervisor is approved at general meetings. Other emoluments will be determined by the Board with reference to the duties, responsibilities, performance of the Directors and Supervisors and the results of the Group.

Details of the remuneration of the Directors and Supervisors are set out in note 7 to the financial statements on pages 126 to 130 of this annual report.

The Service Contracts of the Directors and the Supervisors

Each of the executive Directors, non-executive Directors, Independent non-executive Directors and Supervisors has entered into a service contract with the Company, with a term of 3 years.

Neither the Directors nor the Supervisors have a service contract with the Company with a term specifying that if the Company terminate the contract within one year, the Company has to make compensation apart from statutory compensation.

Material Contracts in which Directors and Supervisors have Substantial Interests

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

Directors' and Supervisors' interests and short positions in shares, underlying shares or debentures of the Company and its associated corporations

As at 31 December 2010, none of the Directors, Supervisors, chief executive of the Company and their respective associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in the Part XV of the Securities and Futures Ordinance of Hong Kong, Chapter 571 of the laws of Hong Kong ("SFO")) which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO or which they were required to notify the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") (for such purposes, the relevant regulations in the SFO were also interpreted as applicable to the Supervisors).

Rights to purchase shares or debentures of Directors and Supervisors

At no time during the Year did any of the Directors or Supervisors hold any shares of the Company. None of the Directors and Supervisors had any interests in the share capital or debt securities of the Company or any of its associated corporations (as defined in the SFO). None of the Directors, Supervisors and their spouses and children below eighteen years old was granted rights to subscribe for the share capital or debt securities of the Company or any of its associated corporations and there was no exercise of such rights by any of such persons.

At no time during the Year had the Company or any of its subsidiaries, holding companies or any fellow subsidiaries entered into any arrangement which enables the Directors and Supervisors to have the right to acquire benefits by means of acquisition of shares or debentures in the Company or any other legal entities.

Five Highest-Paid Personnel

The five highest-paid individuals in the Group during the Year include 2 Directors. Full details of the five highest-paid personnel's remuneration are set out in note 7 to the financial statements on pages 126 to 130 of this annual report.

Share Capital and Shareholders' Information

1. Number of Shareholders

Details of the number of shareholders of the Company recorded in the register of members at 31 December 2010 are as follows:

Classification	**Number of Shareholders**
Domestic shares	5
Overseas-listed foreign shares - H shares	2,106
Total number of shareholders	2,111

2. Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Board confirms that the public float of the Company has reached the requirement of the Listing Rules as at the date of this annual report.

Report of the Directors

Substantial Shareholders

To the best knowledge of the Directors, Supervisors and chief executive of the Company, as at 31 December 2010, the interest and short positions of the substantial shareholders in the issued share capital of the Company which will be required, pursuant to Section 336 of the SFO, to be entered into the register referred to therein, or holding 5% or above in the issued share capital of the Company which will be required to be notified to the Company are as follows:

	Name of shareholders	Class of shares	Capacity	Number of shares held	Approximate percentage of shareholding in the registered capital of the Company %	Approximate percentage of shareholding in the total number of issued domestic shares of the Company %	Approximate percentage of shareholding in the total number of issued H shares of the Company %	Long position/ Short position Lending pool
1	Shandong Zhaojin Group Company Limited	Domestic shares	Beneficial owner	543,257,000 *(Note 1)*	37.27	53.25	–	Long position
		H shares	Beneficial owner	4,998,000 *(Note 1)*	0.34	–	1.14	Long position
2	Shanghai Yuyuan Tourist Mart Co., Ltd.	Domestic shares	Beneficial owner	371,000,000	25.46	36.36	–	Long position
		Domestic shares	Interest of controlled corporation	10,600,000 *(Note 2)*	0.73	1.04	–	Long position
3	Shanghai Fosun Industrial Investment Co., Ltd.	Domestic shares	Beneficial owner	53,000,000 *(Note 3)*	3.64	5.19	–	Long position
4	Shanghai Fosun High Technology (Group) Company Limited	Domestic shares	Beneficial owner	53,000,000 *(Note 3)*	3.64	5.19	–	Long position
5	Fosun International Limited	Domestic shares	Beneficial owner	53,000,000 *(Note 3)*	3.64	5.19	–	Long position
6	Fosun Holdings Limited	Domestic shares	Beneficial owner	53,000,000 *(Note 3)*	3.64	5.19	–	Long position
7	Fosun International Holdings Ltd.	Domestic shares	Beneficial owner	53,000,000 *(Note 3)*	3.64	5.19	–	Long position
8	Guo Guangchang	Domestic shares	Interest of controlled corporation	53,000,000 *(Note 3)*	3.64	5.19	–	Long position

	Name of shareholders	Class of shares	Capacity	Number of shares held	Approximate percentage of shareholding in the registered capital of the Company %	Approximate percentage of shareholding in the total number of issued domestic shares of the Company %	Approximate percentage of shareholding in the total number of issued H shares of the Company %	Long position/ Short position Lending pool
9	Atlantis Investment Management Ltd.	H shares	Investment manager	43,714,500 *(Note 4)*	3.00	–	9.99	Long position
10	Liu Yang	H shares	Investment manager	43,714,500 *(Note 4)*	3.00	–	9.99	Long position
11	JP Morgan Chase & Co	H shares	Beneficial owner	2,010,000 *(Note 5)*	0.14	–	0.46	Long position
		H shares	Beneficial owner	1,305,500 *(Note 5)*	0.09	–	0.30	Short position
		H shares	Custodian corporation/ approved lending agent	43,413,466 *(Note 5)*	2.98	–	9.93	Lending pool
12	FIL Limited	H shares	Investment manager	48,094,500	3.30	–	11.00	Long position
13	Ameriprise Financial Inc	H shares	Interest of controlled corporation	31,232,409 *(Note 6)*	2.14	–	7.14	Long position

Notes:

(1) Pursuant to Section 336 of the SFO, the shareholders of the Company are required to file disclosure of interests forms when certain criteria are fulfilled and the full details of the requirements are available on SFO's official website. When a shareholder's shareholding in the Company changes, it is not necessary for the shareholder to notify the Company and the Stock Exchange unless certain criteria are fulfilled, therefore substantial shareholders' latest shareholding in the Company may be different to the shareholding filed with the Company and the Stock Exchange.

(2) Shanghai Yuyuan Tourist Mart Co., Ltd. ("Shanghai Yuyuan") holds 95% equity interest in Shanghai Laomiao Gold Co., Ltd. ("Laomiao Gold"), therefore the 10,600,000 domestic shares held by Laomiao Gold in the Company is shown as long position of Shanghai Yuyuan.

(3) The 53,000,000 shares represent the same block of shares.

(4) The 43,714,500 shares represent the same block of shares.

(5) JP Morgan Chase & Co holds equity interest in shares of the Company through companies controlled or indirectly controlled by it.

(6) Ameriprise Financial Inc holds equity interest in shares of the Company through companies controlled or indirectly controlled by it.

Report of the Directors

As at 31 December 2010, save as disclosed above and to the best knowledge of the Directors, Supervisors and senior management of the Company, no person had any interests or short positions in the shares or underlying shares of the Company which were required, pursuant to Section 336 of the SFO, to be entered into the register referred to therein, or holding 5% or above in the issued share capital of the Company which will be required to be notified to the Company.

Connected Transactions and Continuing Connected Transactions

During the Year, the Company and the Group had the following connected transactions and continuing connected transactions, details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

1. Continuing Connected Transactions Exempt from the Independent Shareholders' Approval Requirements

(1) On 5 March 2009, the Company and Zhaojin Group entered into the Framework Agreement in relation to the sale of silver by the Group to Zhaojin Group and its subsidiaries. Pursuant to the agreement, the annual caps in relation to the sale of silver by the Group to Zhaojin Group and its subsidiaries for each of the years from 1 January 2009 to 31 December 2011 are RMB77,000,000, RMB85,000,000 and RMB94,000,000, respectively.

On 15 December 2010, the Company entered into the Supplemental Silver Sale Agreement with Zhaojin Group in relation to the sale of silver by the Group to Zhaojin Group and its subsidiaries and the revision of the annual caps of the continuing connected transactions under the Framework Agreement for each of the two years ending 31 December 2011 to RMB98,000,000 and RMB130,000,000 respectively.

Relevant details were set out in the announcements of the Company dated 5 March 2009 and 15 December 2010 and the circular dated 25 March 2009 published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.zhaojin.com.cn.

(2) On 24 June 2009, the Company entered into the Land Lease Agreement with Zhaojin Group in relation to the leasing of land use rights by Zhaojin Group to the Company. Pursuant to the Land Lease Agreement, the annual rents of the land use rights for the year ended 31 December 2009, 2010 and 2011 are approximately RMB3,970,000, RMB3,910,000 and RMB3,790,000, respectively.

On 15 December 2010, the Company entered into the Supplemental Land Lease Agreement with Zhaojin Group in relation to the leasing of land use rights to the Company. Pursuant to the Supplemental Land Lease Agreement, the annual caps of the continuing connected transactions under the Land Lease Agreement for each of the two years ending 31 December 2011 have been increased to RMB3,940,000 and RMB3,840,000, respectively.

(3) On 24 June 2009, the Company entered into the Gold Refinery Agreement with Shandong Zhaojin Gold and Silver Refinery Company Limited ("Zhaojin Refinery", a 80.5% owned subsidiary of Zhaojin Group) in relation to the provision of gold refining services to the Company by Zhaojin Refinery. Pursuant to the Gold Refinery Agreement, the annual caps in relation to the provision of gold refining services for each of the years from 1 January 2009 to 31 December 2011 are RMB4,200,000, RMB4,800,000 and RMB5,500,000 respectively.

On 15 December 2010, the Company entered into the Supplemental Gold Refinery Agreement with Zhaojin Refinery in relation to the provision of gold refining services to the Company by Zhaojin Refinery. Pursuant to the Supplemental Gold Refinery Agreement, the annual caps of the continuing connected transactions under the Gold Refinery Agreement for each of the two years ending 31 December 2011 have been increased to RMB5,200,000 and RMB6,300,000 respectively.

Shandong Zhaojin is the controlling shareholder of the Company, and Zhaojin Refinery (owned as to 80.5% by Zhaojin Group) is an associate of Shandong Zhaojin (as defined under Chapter 14A of the Listing Rules). Accordingly, Shandong Zhaojin and Zhaojin Refinery are connected persons of the Company and the transactions contemplated under the Supplemental Silver Sale Agreement, the Supplemental Land Lease Agreement and the Supplemental Gold Refinery Agreement constitute continuing connected transactions for the Company under the Listing Rules. As the relevant percentage ratios in respect of the proposed revised annual caps of the transactions contemplated under the Framework Agreement, the Land Lease Agreement and the Gold Refinery Agreement (as amended by the Supplemental Silver Sale Agreement, the Supplemental Land Lease Agreement and the Supplemental Gold Refinery Agreement, respectively) for each of the two years ending 31 December 2011 are more than 0.1% but less than 5%, the Supplemental Silver Sale Agreement, the Supplemental Land Lease Agreement and the Supplemental Gold Refinery Agreement are subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and are exempt from the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Relevant details were set out in the announcements of the Company dated 24 June 2009 and 15 December 2010 published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.zhaojin.com.cn.

Report of the Directors

(4) On 24 June 2009, the Company entered into the Digital Mine Construction Technology Services Agreement with Shandong Goldsoft Technology Company Limited ("Goldsoft Technology", a 50% owned associate of Zhaojin Group) in relation to the provision of digital mine construction technology services by Goldsoft Technology to the Group. Pursuant to the digital mine construction technology services agreement, the annual caps in relation to the provision of digital mine construction technology services for each of the years from 1 January 2009 to 31 December 2011 are RMB6,280,000, RMB11,440,000 and RMB10,610,000 respectively.

Goldsoft Technology (owned as to 50% by Zhaojin Group) is an associate of Zhaojin Group. Accordingly, Goldsoft Technology is a connected person of the Company and the transactions contemplated under the Digital Mine Construction Technology Services Agreement constitute continuing connected transactions for the Company under the Listing Rules. As the relevant percentage ratios in respect of the proposed annual caps of the transactions contemplated under the Digital Mine Construction Technology Services Agreement for each of the three years ending 31 December 2011 are less than 2.5%, the transactions contemplated under the Digital Mine Construction Technology Services Agreement and the proposed annual caps are subject to the reporting and announcement requirements and are exempt from the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Relevant details were set out in the announcement of the Company dated 24 June 2009 published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.zhaojin.com.cn.

2. Other Connected Transactions

(1) On 25 November 2010, the Company entered into equity transfer agreements with Zhejiang Zhengxiang Investment Management Company Limited ("Zhejiang Zhengxiang") to acquire 19.23% equity interests in Jiashi Tonghui Mining Company Limited ("Tonghui") and 41% equity interests in Xinjiang Xinhui Copper Company Limited ("Xinhui") at considerations of approximately RMB133,063,000 and RMB23,020,000, respectively. Upon completion of the acquisitions, the Company will hold 92% equity interests in each of Tonghui and Xinhui.

Zhejiang Zhengxiang is a connected person of the Company by virtue of being a substantial shareholder of Tonghui and Xinhui. Accordingly, the acquisitions constitute connected transactions for the Company. As the applicable aggregate percentage ratios in respect of the acquisitions are less than 5%, the acquisitions are only subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Relevant details were set out in the announcement of the Company dated 25 November 2010 published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.zhaojin.com.cn.

Further details of the continuing connected transactions and other connected transactions above are included in note 40 to the financial statements on pages 175 to 176 in this annual report.

Our independent non-executive Directors have reviewed the continuing connected transactions and other transactions set out in note 40 to financial statements in this annual report, and are of the view that the continuing connected transactions have been entered into under the following circumstances:

(1) in the ordinary and usual course of business;

(2) on normal commercial terms or on terms no less favorable to the Group than terms offered to/by independent third parties; and

(3) in accordance with the relevant agreements governing those transactions on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

Our auditor has also reviewed the above non-exempt continuing connected transactions and other transactions and confirmed to our Directors that the continuing connected transactions:

(1) have received the approval of the Board;

(2) are in accordance with the pricing policies of the Company if the transactions involved provision of services by the Group;

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

(4) have not exceeded the adjusted caps disclosed in the Company's previous announcements.

Undertakings and Statements under the Non-competition Agreement

The Company and Zhaojin Group entered into a non-competition agreement on 17 November 2006, pursuant to which the independent non-executive Directors of the Company are required to review, at least once a year, Zhaojin Group's compliance with their undertakings under the non-competition agreement. In addition, Zhaojin Group has also undertaken to the Company to provide an annual compliance statement for incorporation in the annual report of the Company.

The independent non-executive Directors have reviewed Zhaojin Group's compliance with their undertakings under the non-competition agreement in respect of its existing or future competing businesses. The independent non-executive Directors are of the view that Zhaojin Group has complied with those undertakings.

During the Year, independent opinions have been stated by the independent non-executive Directors, concerning the Supplemental Silver Sale Agreement entered by the Group and Zhaojin Group, the Supplemental Land Lease Agreement with Zhaojin Group, the Supplemental Gold Refinery Agreement with Zhaojin Refinery and the connected transactions in relation to the acquisition of equity interests in Tonghui and Xinhui from Zhejiang Zhengxiang.

Report of the Directors

The Company has also received a statement under the non-competition agreement from Zhaojin Group on 6 January 2011, which stated that Zhaojin Group, as the controlling shareholder of the Company, has complied with their undertakings under the non-competition agreement dated 17 November 2006 for the year ended 31 December 2010.

Acquisitions

(1) On 5 March 2010, the Company entered into an equity transfer agreement with two vendors (being independent third parties) to acquire 80% equity interest of Qinghe County Jindu Mining Development Company Limited ("Qinghe Mining") at a consideration of RMB185,000,000.

Qinghe Mining is located in Qinghe County, Xinjiang and is engaged in the mining and sale of gold. Qinghe Mining owns the mining rights of Yemaquan and Kubusu gold mines, with an acquired gold resources of 14,205 kg (approximately 456,701 ozs) covering a mining area of approximately 2.2118 km^2, with an average grade of 5.55 g/t.

The acquisition does not constitute any connected transaction for the Company under Chapter 14A of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), nor does it constitute any notifiable transaction for the Company under Chapter 14 of the Listing Rules.

(2) On 5 March 2010, the Company entered into an equity transfer agreement with a vendor (being independent third party) to acquire 80% equity interest of Hezheng Xinyuan Mining Co., Ltd. ("Hezheng Mining") at a consideration of RMB48,000,000.

Hezheng Mining, located in Hezheng County, Gansu Province, is engaged in exploration, development, operation and sales of mining resources. Hezheng Mining owns the mine exploration right of the project in Hezheng County, Gansu Province with an exploration area of 5.89 km^2. The gold resources were approximately 4,425 kg (approximately 142,267 ozs).

The acquisition does not constitute any connected transaction for the Company under Chapter 14A of the Listing Rules, nor does it constitute any notifiable transaction for the Company under Chapter 14 of the Listing Rules.

(3) On 28 April 2010, the Company entered into an acquisition agreement with an independent third party in relation to acquire 100% equity interest of Guangxi Guigang City Longxin Mining Development Co., Ltd. ("Longxin Mining") at a consideration of RMB47,000,000.

Longxin Mining is based in Guigang Longshan gold mine in Guangxi, with a mining area of 0.65 km^2. The gold resources were 2.4 tons.

The acquisition does not constitute any connected transaction for the Company under Chapter 14A of the Listing Rules, nor does it constitute any notifiable transaction for the Company under Chapter 14 of the Listing Rules.

(4) On 28 May 2010, the Company entered into an equity transfer agreement with seven vendors (being independent third parties) for the transfer of 100% equity interest of Fengcheng City Xinfengyuan Mining Co., Ltd. ("Xinfengyuan Mining") legally held by them to the Company at a consideration of RMB47,600,000.

Xinfengyuan Mining currently owns the exploration right to one gold mine with an area of approximately 104.15 km^2 situated at Hongqi Town, 40 km south of Fengcheng City, Liaoning Province. The mine has a superior geographical location surrounded by mature gold mines, providing a direction for the long-term prospect of the mines in the area. Meanwhile, there are placer mines in the area, indicating the approximate location of the gold ore belt. This further highlights the target region for exploration.

The acquisition does not constitute a connected transaction for the Company under Chapter 14A of the Listing Rules, nor does it constitute a notifiable transaction for the Company under Chapter 14 of the Listing Rules.

(5) On 25 July 2010, Sparky International Trade Company Limited, a wholly-owned subsidiary of the Company, subscribed for 20,000,000 ordinary shares of Citigold Corporation Limited ("Citigold"), representing 2.15% of the total share capital of Citigold as at the acquisition date, at a consideration of AUD2,000,000 (equivalent to approximately RMB11,500,000), and the Company should have one representative in the board of directors of Citigold.

Citigold is a gold producer in Australia controlling Australia's richest major goldfield at Charters Towers in North Queensland. The high-grade deposit contains a gold resources of 10,000,000 ozs (approximately 311 tons), with an average grade of 14 g/t. With great growth potential, Citigold planned to increase gold output to 300,000 ozs per year in the coming four years with gold production costs in cash below AUD350 per oz. Citigold's current mining rights cover an area of 600 km^2. The core mining area covers approximately 100 km^2 in the centre of the mine.

The acquisition does not constitute any connected transaction for the Company under Chapter 14A of the Listing Rules, nor does it constitute any notifiable transaction for the Company under Chapter 14 of the Listing Rules.

Relevant details were set out in the announcement of the Company dated 25 July 2010 published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.zhaojin.com.cn.

(6) On 15 October 2010, the Company entered into the acquisition of 55% equity interest in Fengcheng City Baiyun Gold Mining Co., Ltd. ("Baiyun Mining") at a consideration of RMB200,000,000.

Baiyun Mining is the first gold mining enterprise in Fengcheng City with a daily combined production capacity of 400 tons and gold resources of 22,810 kg (733,358 ozs).

The acquisition does not constitute any connected transaction for the Company under Chapter 14A of the Listing Rules, nor does it constitute any notifiable transaction for the Company under Chapter 14 of the Listing Rules.

Report of the Directors

(7) On 15 October 2010, the Company entered into an agreement with a vendor (who is an independent third party) to acquire 50% equity interest in Xinjiang Ruoqiang County Changyun Sanfengshan Gold Mining Co., Ltd. ("Sanfengshan Mining") at a consideration of RMB100,000,000. The acquisition is underway and is expected to be completed in the first half of 2011.

Sanfengshan Mining, located at the region of Innikelatage Hongshijing (因尼喀拉塔格紅十井地區), the northeastern part of Ruoqiang County, Xinjiang, has a mining area of 4.1454 km^2. The gold resources were 3,318 kg, containing a copper and silver content of 33,620 tons and 49.457 tons, respectively. It resembles an above medium size and the current production scale is 450 tons/day.

The acquisition does not constitute any connected transaction for the Company under Chapter 14A of the Listing Rules, nor does it constitute any notifiable transaction for the Company under Chapter 14 of the Listing Rules.

(8) On 25 November 2010, the Company entered into equity transfer agreements with Zhejiang Zhengxiang Investment Management Company Limited ("Zhejiang Zhengxiang") to acquire 19.23% equity interests in Jiashi Tonghui Mining Company Limited ("Tonghui") and 41% equity interests in Xinjiang Xinhui Copper Company Limited ("Xinhui") at considerations of RMB133,063,000 and RMB23,020,000, respectively. Upon completion of the acquisitions, the Company will hold 92% equity interests in each of Tonghui and Xinhui.

Zhejiang Zhengxiang is a connected person of the Company by virtue of being a substantial shareholder of Tonghui and Xinhui. Accordingly, the acquisitions constitute connected transactions for the Company. As the applicable aggregate percentage ratios in respect of the acquisitions are less than 5%, the acquisitions are only subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Relevant details were set out in the announcement of the Company dated 25 November 2010 published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.zhaojin.com.cn.

Significant Events

1. Change of Session of the Board and Supervisory Committee

At the 2010 first extraordinary general meeting of the Company held on 26 February 2010, Mr. Lu Dongshang, Mr. Wang Peifu, Mr. Liang Xinjun, Mr. Cong Jianmao, Mr. Weng Zhanbin, Mr. Wu Zhongqing, Mr. Chen Guoping, Mr. Yan Hongbo, Mr. Ye Tianzhu, Ms. Chen Jinrong and Mr. Choy Sze Chung Jojo were elected as members of the third session of the Board of the Company; Mr. Wang Xiaojie and Ms. Jin Ting were elected as members of the third session of the Supervisory Committee of the Company; and Mr. Chu Yushan was elected as staff supervisor at the staff representatives' meeting of the Company to form the third session of the Supervisory Committee of the Company. Both Directors and supervisors of the Company have a term of three years with effect from 26 February 2010.

Relevant details were set out in the announcement of the Company dated 26 February 2010 published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.zhaojin.com.cn.

2. Composition of and Changes in Senior Management

The first meeting of the third session of the Board of the Company was held on 26 February 2010 at which Mr. Lu Dongshang was elected as chairman of the third session of the Board of the Company; Mr. Liang Xinjun as vice chairman; Mr. Wang Peifu was appointed as chief executive officer and president of the Company; Mr. Zhang Banglong as chief financial officer; Mr. Li Xiuchen as senior vice president; Mr. Shi Wenge as vice president; Mr. Zhang Shantang as vice president; Mr. Sun Xiduan as vice president; Mr. Li Shanren as vice president; Mr. Wang Ligang was appointed as secretary to the Board; Mr. Ngai Wai Fung as company secretary; Mr. Lu Dongshang (chairman) and Mr. Wang Peifu (director) as authorised representatives of the Company.

On 16 November 2010, the Board announces that Mr. Wang Peifu, the then executive Director of the Company, has been re-designated as the non-executive Director of the Company and has resigned from his position as President, CEO and Authorised Representative with effect from 10 November 2010, and Mr. Weng Zhanbin, the then non-executive Director of the Company, has been re-designated as the executive director of the Company and was appointed as President and Authorised Representative with effect from 10 November 2010.

Relevant details were set out in the announcement of the Company dated 16 November 2010 published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.zhaojin.com.cn.

Note: The Board agreed to release Mr. Li Shanren from his position as vice president of the Company in the fifth meeting of the third session of the Board in view of changes in work allocation.

Report of the Directors

3. Adjustments to the Special Committees of the Board

The following adjustments to the special committees of the Board were made by the Board:

(1) Strategic Committee of the Board

It comprises the executive Directors of Mr. Lu Dongshang and Mr. Weng Zhanbin and the non-executive Director of Mr. Liang Xinjun. Mr. Lu Dongshang acts as chairman of Strategic Committee.

(2) Nomination and Remuneration Committee of the Board

The Nomination and Remuneration Committee comprises executive Director Mr. Lu Dongshang, non-executive Director Mr. Liang Xinjun, independent non-executive Director Mr. Yan Hongbo, Mr. Ye Tianzhu and Ms. Chen Jinrong. The Committee is chaired by Mr. Liang Xinjun.

During the ninth meeting of the third session of the Board of the Company held on 4 March 2011, changes were made to the Nomination and Remuneration Committee, Mr. Cong Jianmao was appointed the member of the Nomination and Remuneration Committee, Mr. Lu Dongshang ceased to be the member of the Nomination and Remuneration Committee.

(3) Audit Committee of the Board

It comprises the non-executive Director of Mr. Chen Guoping and the independent non-executive Directors of Ms. Chen Jinrong and Mr. Choy Sze Chung Jojo. Ms. Chen Jinrong acts as chairman of the Audit Committee.

(4) Geological and Resources Management Committee of the Board

It comprises the executive Director of Mr. Weng Zhanbin and the independent non-executive Directors of Mr. Yan Hongbo and Mr. Ye Tianzhu. Mr. Ye Tianzhu acts as chairman of the Geological and Resources Management Committee.

(5) Safety and Environmental Protection Committee of the Board

It comprises the non-executive Directors of Mr. Cong Jianmao and Mr. Wang Peifu, and the independent non-executive Director of Mr. Yan Hongbo. Mr. Yan Hongbo acts as chairman of the Safety and Environmental Protection Committee.

4. Amendments to the Articles of Association

At the 2010 first extraordinary general meeting of the Company, resolutions were also passed to amend Article 3.5, Article 10.1, Article 10.2, Article 13.2 and Article 14.1 of the Articles of Association of the Company. Such amendments involve amendments to the shareholding structure, composition of the Board, term of office and election of Directors, term of office and election of Supervisors, and the limiting conditions for Directors, Supervisors and senior management.

Relevant details were set out in the announcement of the Company dated 26 February 2010 published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.zhaojin.com.cn.

5. On 3 June 2010, the following proposals, among other things, were reviewed and passed at the 2009 annual general meeting:

(1) The Company's profit distribution proposal for the year ended 31 December 2009 of a cash dividend of RMB0.22 (before taxation) per share to all shareholders. On 21 June 2010, the Company distributed the 2009 cash dividend of RMB0.22 (before taxation) per share to all shareholders;

(2) Authorising the Board to allot, issue and deal with shares of up to a maximum of 20% of the aggregate nominal value of the issued H shares of the Company as at the date of passing such resolution; and

(3) Authorising the Board to repurchase up to a maximum of 10% of the aggregate nominal value of the issued H shares of the Company as at the date of passing such resolution.

Relevant details were set out in the announcement of the Company dated 3 June 2010 published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.zhaojin.com.cn.

6. On 3 June 2010, the following proposals were reviewed at the domestic shares class meeting and H shares class meeting respectively:

(1) Authorising the Board to allot, issue and deal with shares of up to a maximum of 20% of the aggregate nominal value of the issued H shares of the Company at the date of passing such resolution; and

Report of the Directors

(2) Authorising the Board to repurchase up to a maximum of 10% of the aggregate nominal value of the issued H shares of the Company as at the date of passing such resolution.

Both proposals were approved at the domestic shares class meeting. The proposal set out in 6.(2) above was approved at the H shares class meeting, yet the proposal set out in 6.(1) above was not approved at the H shares class meeting.

Relevant details were set out in the announcement of the Company dated 3 June 2010 published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.zhaojin.com.cn.

7. Change of Company Secretary

On 15 December 2010, the Board of the Company announced that Mr. Ngai Wai Fung has tendered his resignation as the company secretary and the authorised representative under the Hong Kong Companies Ordinance of the Company with effect from 15 December 2010 due to personal reason. Ms. Ma Sau Kuen Gloria has been appointed as the company secretary and the authorised representative of the Company and the appointment took effect on 15 December 2010.

Relevant details were set out in the announcement of the Company dated 15 December 2010 published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.zhaojin.com.cn.

8. Distribution of interest of “2009 Corporate Bonds” for the year 2010

On 23 December 2010, the Company has distributed the interest of “2009 Corporate Bonds” in an aggregate sum of RMB75,000,000 for the first distributing year from 23 December 2009 to 22 December 2010.

Relevant details were set out in the announcement of the Company dated 16 December 2010 published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.zhaojin.com.cn.

Extraordinary General Meeting

During the year, the Company held one extraordinary general meeting in relation to the amendment to the Articles of Association, election of members of the third session of the Board and members of the third session of the Supervisory Committee.

Relevant details were set out in items numbered (1) and (4) under the section headed "Significant Events" in this report and the announcement of the Company dated 26 February 2010 published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.zhaojin.com.cn.

Litigation and Arbitration

During the Year, the Company and the Group have not been involved in any material litigation or arbitration. As far as the Directors are aware, the Company does not have any material litigation or arbitration pending or threatened against the Company which may adversely affect the Company's operating results and financial conditions.

Compliance with the Code on Corporate Governance Practices

The Board is of the view that the Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules during the Year. No Director is aware of any information that reasonably reveals that there was any non-compliance with the code provisions of the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules by the Company at any time during the Year.

For details of the Corporate Governance Report, please refer to pages 49 to 72 of this annual report.

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code")

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors and Supervisors.

The Board is pleased to confirm, after making specific enquiries with all Directors and Supervisors, that all Directors and Supervisors have fully complied with standards required according to the Model Code set out in Appendix 10 to the Listing Rules during the Year.

Audit Committee

The audit committee of the third session of the Board of the Company comprises one non-executive Director and two independent non-executive Directors, namely Mr. Chen Guoping, Ms. Chen Jinrong and Mr. Choy Sze Chung Jojo. Ms. Chen Jinrong acts as chairman of the Audit Committee.

Report of the Directors

The audit committee has reviewed the Group's audited consolidated annual results for the year ended 31 December 2010, and is of the view that the Group's audited consolidated annual results for the year ended 31 December 2010 are prepared in accordance with the applicable accounting standards, laws and regulations, and appropriate disclosures have already been made.

Confirmation of Independence of the independent non-executive Directors

The Company confirmed that it has received the annual confirmation of independence from each of the independent non-executive Directors in compliance with Rule 3.13 of the Listing Rules on 4 March 2011. The Company is of the view that the existing independent non-executive Directors remain independent during the year ended 31 December 2010 in accordance with the relevant guidelines of Rule 3.13 of the Listing Rules.

Closure of the Register of Members

In order to determine the H shares shareholders who are entitled to attend the 2010 AGM and receive the final dividend for the year ended 31 December 2010, the H shares registrar and transfer office will be closed from 14 May 2011 to 13 June 2011, both days inclusive, during which period no transfer of shares will be registered.

For qualifying to attend and vote at the 2010 AGM and receive the final dividend, H shares shareholders whose transfer have not been registered must lodge all transfer instruments accompanied by the relevant share certificates with the Company's H shares registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for H shares shareholders, or the registered office of the Company at 299 Jinhui Road, Zhaoyuan City, Shandong Province, the PRC for domestic share shareholders for registration at or before 4:30 p.m. on Friday, 13 May 2011.

Auditor

The financial statements of the Group prepared in accordance with Hong Kong Financial Reporting Standards have been audited by Ernst & Young. The auditor is subject to re-election and the Board resolved to appoint Ernst & Young as the Company's auditor.

A resolution in relation to the appointment of Ernst & Young as the auditor of the Company will be proposed at the 2010 AGM.

By the order of the Board
Lu Dongshang
Chairman

4 March 2011

Corporate Governance Report

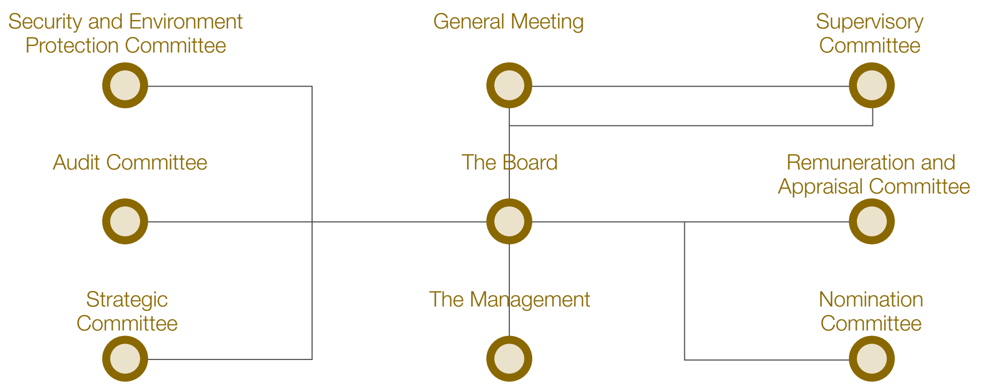
Report of Corporate Governance Practice

As one of the largest gold mining overseas-listed companies in the PRC, the Group is committed to protect shareholders' and staff's interests and create shareholder value. The Board and the management of the Company believe that high standard of corporate governance is essential to the success of the Company and always strive to maintain a high level of corporate governance standard and practice.

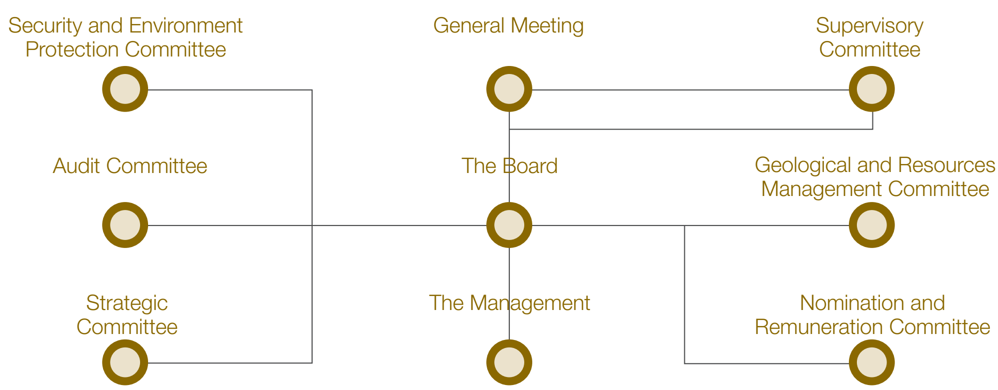
(A) Corporate Governance Practice

For the year ended 31 December 2010, the Company had complied with all the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules with no deviation, and had adopted certain recommended best practices in the Code where they were applicable.

Commencing from 26 February 2010, the corporate governance structure of the Company is updated from:

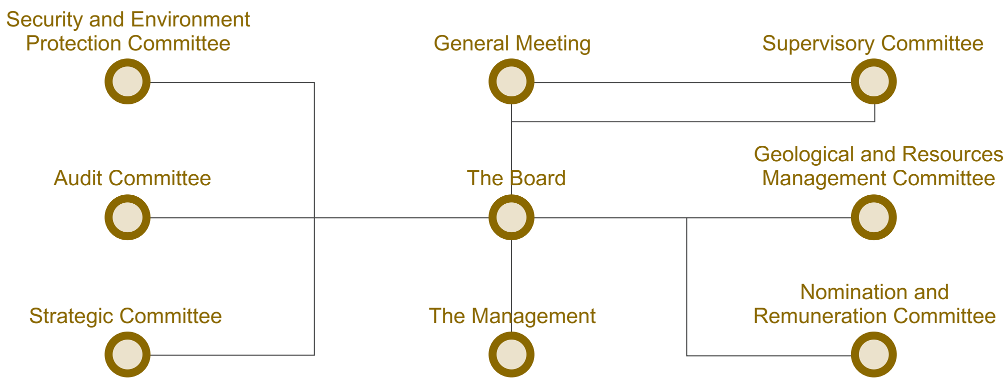


to:



Corporate Governance Report

For the year ended 31 December 2010, the corporate governance structure of the Company is set out as follows:



(B) Securities Transaction of Directors

The Company had adopted all provisions of the Model Code contained in Appendix 10 of the Listing Rules.

None of the Directors had any interest in securities of the Company as at 31 December 2010. Specific enquiries regarding non-compliance of the Model Code were made to all Directors, and they all confirmed that they had fully complied with the provisions contained in the Model Code during the Year.

(C) The Board

The Board is the executive body of the Company and is primarily responsible for formulating the operation plans, managing decisions, establishing the overall strategic direction of the Group. It is responsible for setting objectives and business development plan of the Group, monitoring the performance of senior management and assuming responsibility for corporate governance. The Board is also responsible for the compilation and approval of annual and interim results, risk management, major acquisitions, as well as other material operation and financial matters. The Board acts according to the Rules and Procedures of Board Meetings formulated by the Board. Under the leadership of the Board, the management will be empowered to implement the Group's strategies and business objectives. The Board and management have expressly defined the responsibilities and authorities towards internal controls, policies and day-to-day operation of the Group's business.

Being the third session of the Board since the establishment of the Company, the incumbent Board comprises eleven Directors, of which two are executive Directors, five are non-executive Directors and four are independent non-executive Directors.

In accordance with the Articles of Association of the Company, Directors are elected or replaced by general meetings. Shareholders, the Board or the Supervisory Committee are entitled to nominate a candidate for directorship by written notice. Directors are eligible to offer themselves for re-appointment upon expiry of term.

The third session of the Board was elected at the extraordinary general meeting convened on 26 February 2010. All members of the third session of the Board have a term of three years commencing from 26 February 2010. The list and profiles of Directors (including their names) are set out from pages 21 to 26 of this annual report.

Members of the Board are from different industry backgrounds and have extensive experience in science and technology, securities and finance, mining and metallurgy, corporate management and accounting.

The Company has two executive Directors responsible for specific management duties, representing 18% of the directorship. This helps the Board closely review and monitor the management procedure of the Company. Mr. Lu Dongshang, the Chairman of the Company, and Mr. Weng Zhanbin, an executive Director of the Company, have years of extensive experience in the gold mining management industry and are responsible for the operating management, formulating and implementing important strategies, making daily operation decisions and coordinating overall business operations.

The Company has four independent non-executive Directors, representing 36% of the directorship, which complies with the requirement of Rule 3.10 (1) of the Listing Rules. The Company is of the view that the four independent non-executive Directors have extensive experience in the industry or financial matters and qualifications to perform their responsibilities, which complies with the requirements of Rule 3.10(2) of the Listing Rules which requires that at least one of its independent non-executive Directors have appropriate professional qualifications, accounting or related financial management expertise. Independent non-executive Directors were assumed by the persons who are independent of any Directors, Supervisors, chief executives and substantial shareholders (as defined in the Listing Rules) or such individuals without any connection thereto (the independent third party), which complies with the requirement of independence of Listing Rules. According to the Listing Rules, each independent non-executive Director shall confirm his independence to the Hong Kong Stock Exchange prior to his appointment. As at 1 March 2011, the Company has received the annual confirmation of independence from the four independent non-executive Directors confirming their independent status to the Company in accordance with Rules 3.13 of the Listing Rules. The Company has verified their independence and confirmed that all of the independent non-executive Directors are independent individuals. The four independent non-executive Directors assumed duties in the Audit Committee, Nomination and Remuneration Committee, Geological and Resources Management Committee or Safety and Environmental Protection Committee under the Board.

The Board convenes meetings on a regular basis. A minimum of four meetings with Directors' personal attendance are held each year, and additional meetings will be convened if necessary. The secretary to the Board/Company Secretary is responsible for assisting the Chairman in compiling agendas. Each Director can request to have discussion topics included in the agenda.

The Company convened eight Board meetings of the third session of the Board during the Year and the attendance of each Director is set out as follows:

	Number of meetings convened	Attendance	Of which: attendance by proxy
Executive Directors			
Lu Dongshang	8	8	(0)
Wang Peifu (resigned on 10 November 2010)	8	8	(0)
Weng Zhanbin (appointed on 10 November 2010)	8	8	(0)
Non-executive Directors			
Liang Xinjun	8	8	(2)
Cong Jianmao	8	8	(0)
Wang Peifu (appointed on 10 November 2010)	8	8	(0)
Weng Zhanbin (resigned on 10 November 2010)	8	8	(0)
Wu Zhongqing	8	8	(2)
Chen Guoping	8	8	(1)
Independent non-executive Directors			
Yan Hongbo	8	8	(0)
Ye Tianzhu	8	8	(2)
Chen Jinrong	8	8	(3)
Choy Sze Chung Jojo	8	8	(3)

The Board or special committee circulates the relevant information provided by the senior management, which sets out the matters that require decision by the Board and the report concerning the Group's operation and financial performance prior to each Board meeting. Notices of Board meetings or special committee meetings are delivered to the Directors or special committee at least 14 days before the meetings for the Directors to prepare to attend the relevant meetings and incorporate other matters into the agenda. The meeting documents and the agenda of the Board meeting or special committee meeting are distributed to Directors or special committee at least 3 days before the meetings to allow sufficient time for them to review the relevant documents and prepare for the meetings. Senior management shall be responsible for preparing the documents of the Board and special committee, submitting reports upon request from time to time and addressing or answering potential questions or problems raised by the Board members regarding the reports during the meetings.

The Directors are free to express their views at the meetings. Important decisions will only be made after due and careful discussion at the Board meetings. The Directors confirm that they have responsibility to act in the interests of the public and the Company, particularly in the interests of minority shareholders. In the event of a conflict of interests between shareholders' interests and any other interests, shareholders' interests shall prevail.

Board meetings and special committee meetings are chaired by the Chairman of the Board and the chairman of the special committee, respectively, in order to ensure adequate time is allocated for discussing and considering each agenda item and provide equal opportunities for each Director to express his/her views and ideas.

Detailed minutes of meetings are compiled for the Board meetings or special committee meetings. Minutes of the meetings must record issues in details considered by the Directors during the meeting as well as the resolutions made, including any worries or objections put forward by the Directors.

The Directors can provide comments on the draft minutes within a week after the draft minutes are provided to all Directors or special committee members. Draft minutes will then be approved after confirmation is given by the Chairman of the Board or the chairman of the special committee.

Minutes of Board meetings or special committee meetings are kept by the secretary to the Board/Company Secretary and are available for inspection by the Directors at all time.

All Directors are free to communicate with the secretary to the Board/Company Secretary who is responsible for ensuring and advising on compliance of all procedures in connection with the Board and all applicable rules and regulations.

The management shall on their own accord or upon enquiries provide appropriate and sufficient information to the Directors and special committee members and/or respond as soon as possible, so as to keep them informed of the latest development of the Company to facilitate their performance of duties.

Each Director has been provided with a Director's Handbook containing guidance on practice. Provisions of regulations or Listing Rules are quoted in the Director's Handbook to remind Directors of the need to discharge their responsibilities, including disclosure of their interest to the regulator bodies, potential conflict of interests and details of changes of personal data.

The Board and special committees are provided with sufficient resources for performance of duties including but not limited to hiring external consultants when necessary at the expense of the Company. Individual Directors can also hire consultants for advice on specific issues at the expense of the Company.

All Directors can obtain from the secretary to the Board/Company Secretary timely the information and latest development about rules and regulations and other continual responsibilities Directors of listed companies must observe so as to ensure that each Director is informed of his own duties and that the Company consistently carries out the Board procedures and properly complies with the legislations.

(D) Chairman and President

The roles of the Chairman of the Company and the President are separated and their duties are stated in writing, and are assumed by different individuals who play their distinctive roles. Mr. Lu Dongshang, the Chairman of the Board, is responsible for setting the Group's overall corporate development directions and formulating business development strategies. Mr. Lu also serves to ensure the establishment, implementation and execution of sound corporate governance practices and procedures. Mr. Weng Zhanbin, the President, is responsible for the Group's day-to-day management and execution of approved strategies.

The Chairman is elected by the Board and is primarily responsible for convening and presiding over Board meetings, inspecting the implementation of Board resolutions, presiding over annual general meetings, signing transaction documents in relation to securities issued by the Company and other important documents, and exercising other rights conferred by the Board. The Chairman reports to the Board and is responsible to the Board.

The President is nominated by the Chairman and appointed by the Board. The President is responsible for the day-to-day operations of the Company, including implementing strategies and policies, the Company's operation plans and investment schemes approved by the Board, formulating the Company's internal control structure and fundamental management policies, drawing up basic rules and regulations, proposing to the Board appointment or removal of senior management and exercising other rights granted under the Articles of Association and by the Board. The President takes full responsibility to the Board in respect of the operations of the Company.

(E) Non-executive Directors

The third session of the Board consists of five non-executive Directors and four independent non-executive Directors, accounting for approximately 81.8% of the total number of the Board's members. Non-executive Directors include Mr. Liang Xinjun, Mr. Cong Jianmao, Mr. Wang Peifu, Mr. Wu Zhongqing and Mr. Chen Guoping, and independent non-executive Directors include Mr. Yan Hongbo, Mr. Ye Tianzhu, Ms. Chen Jinrong and Mr. Choy Sze Chung Jojo. Pursuant to the Articles of Association, non-executive Directors and independent non-executive Directors may be re-elected on the expiry of the three-year term commencing from the date of their appointment.

(F) Nomination and Remuneration of Directors

On the first meeting of the third session of the Board of the Company held on 26 February 2010, the Board resolved to combine the Remuneration and Appraisal Committee and the Nomination Committee into the Nomination and Remuneration Committee.

For the year ended 31 December 2010, the Remuneration and Appraisal Committee of the third session of the Board consisted of five members, one of which was executive Director, one was non-executive Director and three were independent non-executive Directors. The chairman of the Remuneration and Appraisal Committee is Mr. Liang Xinjun, a non-executive Director. Other members are Mr. Lu Dongshang, an executive Director, and Ms. Chen Jinrong, Mr. Ye Tianzhu and Mr. Yan Hongbo, independent non-executive Directors. The key roles and duties of the Nomination and Remuneration Committee include:

1. to advise the Board on structure, number of members and composition of the Board in light of the Company's production and business activities, size of assets and shareholding structure;

2. to review criteria and procedure for selection of Directors and general managers and make recommendation to the Board;

3. to extensively seek suitable candidates for Directors and general manager, to conduct examination and make recommendations on candidates of Directors and general managers;

4. to conduct examination and make recommendations on candidates of other senior management position;

5. to assess the independence of independent non-executive Directors;

6. to advise the Board on issues regarding appointment or re-appointment of Directors and succession of Directors (in particular the Chairman and CEO);

7. to advise the Board on remuneration policies and framework of the Directors and senior management of the Company and to formulate such remuneration policies in accordance with formal and transparent procedures;

8. to discharge the duties delegated by the Board, including to determine specific remuneration of all executive Directors and senior management including non-monetary profits, rights to pension and quantum (including compensation for loss or termination of employment or appointment) as well as to advise the Board on remuneration of independent non-executive Directors;

9. to consider the remuneration by comparing with the remuneration paid by other companies that are of similar nature, time contributed by Directors and their duties, terms of employment of other positions within the Group and whether to adjust remuneration according to performance;

10. to review and approve performance-based remuneration and the terms of Directors' service contracts in accordance with the Company's targets and approach approved by the Board from time to time;

11. to review and approve payment of compensation in relation to loss or termination of employment, or appointment, to executive Directors and senior management so as to ensure that such compensation is determined according to the contractual terms;

12. to review and approve compensation arrangements in relation to dismissal or deposition of Directors due to their misconducts so as to ensure that such compensation is determined according to the contractual terms;

13. to formulate remuneration policies and determine remuneration based on formal and transparent procedures, to ensure that the Company attracts, retains and motivates competent staff and this is crucial to the continual development of the Company;

14. to ensure that no Director or any of his/her associates is involved in determining his/her own remuneration;

15. to formulate the standards or plans of the remuneration packages for Directors or senior management in accordance with the duties, responsibilities, importance and remuneration of relevant positions in other relevant enterprises. The remuneration standards or plan principally include but not limited to salaries, bonuses, shares; performance assessment standards, procedures and major assessment system; major plans and systems for awards and punishments;

16. to formulate annual evaluation target and conduct annual performance assessment;

17. to review the duties performed by the Directors and senior management of the Company; and

18. to be responsible for monitoring the implementation of the Company's remuneration system.

Operation procedures of the Nomination and Remuneration Committee include:

1. to actively communicate with the relevant divisions of the Company to research on the demand of the Company for new Directors and managers and to come up with written materials;

2. to extensively look for candidates of Directors and managers within the Company and its controlled companies as well as in the recruitment market;

3. to obtain information of the occupation, education background, job title, detailed working experience and all the part-time positions of the initially proposed candidates and to come up with written materials;

4. to seek the nominees' willingness to accept the nomination, otherwise he or she shall not be put on the list of candidates of Directors and managers;

5. to convene meetings of the Nomination Committee and to check the qualification of initially proposed candidates according to the job requirements of Directors and managers;

6. to put forward the recommendation about the candidates of Directors and managers and relevant materials to the Board one to two months prior to the election of new Directors and the appointment of new managers.

7. to seek professional advice when necessary;

8. remuneration of Directors and Supervisors for the year ended 31 December 2010 are detailed in note 7 to the financial statements on pages 126 to 130 in this annual report in;

9. tasks of the Remuneration and Appraisal Committee during the Year include the implementation of the policy of Directors' remuneration, the assessment of the performance of executive Directors and the approval of contractual terms stipulated in service contracts of executive Directors;

10. the chairman of the Nomination and Remuneration Committee shall report the results of discussion and recommendations of the committee to the Board after each meeting; and

11. to conduct other follow-up work according to the decision and feedback of the Board.

Proposed executive Directors of the Company are nominated mainly through the internal selection and identification of its staff who are familiar with the gold mining industry with extensive management experiences; while non-executive Directors are nominated from those persons who are eligible for being appointed as the Director of the Company based on their independence, their experience in gold mining industry and business management and their technical expertise with reference to the requirements of the laws and regulations in the jurisdiction where the Company is listed, the structure and the reasonability of composition of the Board.

Directors to be appointed and re-elected at the general meeting shall be first considered by the Nomination and Remuneration Committee. A Recommendation from the committee would then be put forward for the Board's decision. Once approved, the proposal will be put forward to the general meeting. Subsequently, all those Directors are subject to the shareholders' approval for appointment or re-election at the general meeting pursuant to the requirements of the Articles of Association of the Company. In considering the new appointment or re-election of Directors, the Nomination Committee shall make its decision based on their attributes such as integrity, loyalty, industry exposure and professional and technical skills together with the commitment to the Company, efficiency and effort to carry out their duties.

In evaluating the performance of the Directors and senior management, the Company used budget targets and audited financial reports as benchmarks. At the same time, sales revenue and net profits were used as key performance indicators for the evaluation. It is the Company's policy that remuneration is linked to the Company's results and performance. Directors' remuneration is determined according to the appraisal by the Nomination and Remuneration Committee. Total income of senior management during the Year includes a basic annual salary and a performance-based annual bonus. The remunerations of Directors and Supervisors are determined in general meetings according to related policies or regulations of the PRC and the actual situation of the Company. The remunerations of Directors and Supervisors of the Company are determined on the basis of their specific management duties undertaken in the Company.

During the Year, the Nomination and Remuneration Committee convened three meetings chaired by the chairman. The attendance of each member of the committee is set out below:

	Number of meetings	Attendance
Liang Xinjun (appointed on 26 February 2010)	2	2
Lu Dongshang (appointed on 26 February 2010)	2	2
Wu Ping (resigned on 26 February 2010)	1	1
Yan Hongbo (appointed on 26 February 2010)	2	2
Ye Tianzhu	3	3
Chen Jinrong	3	3

The summary of the work performed by the Nomination and Remuneration Committee during the Year is as follow:

1. to review and pass the Proposal on Nomination of Candidates to a New Session of the Board;

2. to review and pass the Proposal on Nomination of Candidates to a New Session of the Supervisory Committee;

3. to review and pass the Proposal on Appraisal of Annual Remuneration of President and Other Senior Management in 2009;

4. to review and pass the Proposal on Special Incentive for Management Staff in 2009;

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5. to review and pass the Proposal on Appraisal of Special Incentive for Management Staff in 2010; and

6. to have a debriefing by each member of senior management of the Company as to their respective work performed in 2010 and to prepare a Proposal on Re-appointment of Senior Management based on their respective results and performance.

During the 9th meeting of the third session of the Board of the Company held on 4 March 2011, changes were made to the Nomination and Remuneration Committee, and Mr. Cong Jianmao was elected as a member of the Nomination and Remuneration Committee while Mr. Lu Dongshang ceased to be a member of the Nomination and Remuneration Committee.

The details of the terms of reference of the Nomination and Remuneration Committee are available for inspection on the website of the Company.

(G) Auditors' Remuneration

The overseas auditors engaged by the Company are nominated by the Board and approved in the general meeting. Their remuneration was determined by the Board as authorised by the general meeting. During the Year, the remuneration paid to overseas auditors for their auditing services to the Group was RMB2,600,000 (2009: RMB2,550,000).

(H) Audit Committee of the Board

To attain the goal of best corporate governance, the Company established the Audit Committee on 16 October 2004. The Audit Committee was re-elected at the 1st meeting of the third session of the Board on 26 February 2010. The Audit Committee currently comprises two independent non-executive Directors, including Ms. Chen Jinrong and Mr. Choy Sze Chung Jojo, and one non-executive Director, Mr. Chen Guoping. The committee members are required to have necessary professional qualifications and experiences in financial matters and are well served and well exposed in the accounting and financial areas, such that they can carry out their key roles and functions in full, in compliance with the requirement of the relevant Listing Rules. The members of the Audit Committee shall have a term of three years. The Committee is chaired by Ms. Chen Jinrong.

Terms of reference of the committee are formulated in accordance with recommendations of "A Guide for Effective Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants. Its major duties include: to report to the Board, examine the quality and procedure of the Group's interim and annual reports, review connected transactions, supervise the financial reporting procedures, revise soundness and effectiveness of internal control system of the Company, approve appointment of independent auditors, coordinate and review its efficiency and work quality, review written reports of in-house auditing staff and review the feedback given by the management to such reports.

Besides, the Audit Committee shall also undertake the following duties:

1. to advise the Board on appointment, re-appointment and deposition of external auditors, approve remuneration and terms of appointment of external auditors and to handle any problems in relation to the auditors' resignation or dismissal of auditors;

2. to revise and supervise the work of the external auditors;

3. to formulate and implement policies on non-auditing services provided by auditors and to advise the Board on related issues;

4. to review the Company's financial information and other related information;

5. to monitor the Company's financial reporting system and internal control procedures to ensure that management has fulfilled its duty to establish and maintain an effective internal control system, which include the adequacy of resources, qualifications and experiences of staff in carrying out the Group's accounting and financial reporting function, and their training programmes and budget;

6. to ensure the Board has reviewed the effectiveness of the Group's internal control system; and

7. In case of uncertain events or circumstances which may materially affect the Group's sustainable operation, such uncertain factors should be reported.

During the Year, the Audit Committee had convened two meetings, both of which were chaired by the chairman of the committee. The attendance of each member of the committee is set out below:

	Number of meetings	Attendance
Chen Jinrong	2	2
Choy Sze Chung Jojo	2	2
Chen Guoping	2	1

Major work performed by the Audit Committee during the Year includes:

1. to review the Group's annual report and final results announcement for the year ended 31 December 2010;

2. to review the Group's interim report and interim results announcement for the six-month period ended 30 June 2010;

3. to review recommendations on management put forward by auditors and responses from the Company's management in respect of the recommendations on management;

4. to review the accounting principles and practices adopted by the Group and other reporting matters;

5. to ensure that the connected transactions of the Company comply with the principle of impartiality, fairness and openness, and to fully protect interests of minority shareholders;

6. to assist the Board in making independent assessment of the effectiveness of the Group's financial reporting procedures and internal control system;

7. to supervise internal auditing of the Company;

8. to advise on significant events of the Company or remind the management of related risks; and

9. to engage an external auditor (being an independent third party) to review on the withdrawal and use of safety expenses, production safety incidents, environmental protection issues and changes of staff in subsidiaries of the Group in the past two years.

During the Year, the Audit Committee together with the Supervisory Committee also engaged an external auditor (being an independent third party) to carry out independent review on the environmental protection issues and changes of staff of the Company.

All matters considered during the Audit Committee meetings were duly recorded in accordance with related rules, and the records were filed upon review by all members of the Audit Committee with amendments. After each meeting, the chairman had submitted reports on the significant matters discussed to the Board.

The details of the terms of reference of the Audit Committee are available for inspection on the website of the Company.

(I) Directors' Responsibilities for the Financial Statements

The Directors acknowledge their responsibilities for the preparation of the financial statements for each financial year, which give a true and fair view of the state of financial affairs of the Group and of the results and cash flow for that year and in compliance with relevant laws and disclosure provisions of the Listing Rules.

In preparing the financial statements for the year ended 31 December 2010, the Directors have selected appropriate accounting policies and applied them consistently; made judgments and estimates that are prudent and reasonable; and have prepared the financial statements on a going concern basis. The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group.

The statement of the auditors of the Company about their reporting responsibilities on the accounts of the Group is set out in the Auditors' Report on pages 79 to 80 of this Annual Report.

(J) Strategic Committee

The Company has established the Strategic Committee of the Board which is mainly responsible for conducting research and proposing recommendations on the strategies of long-term development and material investment decisions of the Company. On 26 February 2010, at the first meeting of the third session of the Board, the Committee was re-elected. For the year ended 31 December 2010, the Committee comprised three members, with executive Director Mr. Lu Dongshang being the chairman. Other members were executive Director Mr. Weng Zhanbin and non-executive Director Mr. Liang Xinjun. The key duties and responsibilities of the Strategic Committee include:

1. conducting research and proposing recommendations on the strategies of long-term development of the Company;

2. conducting research and proposing recommendations on the material investment financing projects which are subject to approval of the Board as required by the Articles of Association of the Company;

3. conducting research and proposing recommendations on the significant capital operations and asset operation projects which are subject to approval of the Board as required by the Articles of Association of the Company;

4. conducting research and proposing recommendations on other material matters that affect the Company's development;

5. examining the above matters; and

6. other duties authorised by the Board.

During the Year, the Strategic Committee convened one meeting to discuss the directions of future development of the Company. The attendance of each member of the committee is 100%.

Details of the terms of reference of the Strategic Committee are available on the website of the Company.

(K) Geological and Resources Management Committee

The Company has established Geological and Resources Management Committee on 26 February 2010 which is mainly responsible for the management of geological exploration and gold mineral resources, providing accurate storage basis to the Company, reviewing geological exploration plans, the usage condition of new storage and proved storage, enhancing the decision making ability, reducing enterprise operation risk and enhancing Company's governance structure. The Geological and Resources Management Committee comprises three members, with independent non-executive Director Mr. Ye Tianzhu being the chairman of the committee. Other members are executive Director Mr. Weng Zhanbin and independent non-executive Director Mr. Yan Hongbo.

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For the year ended 31 December 2010, the Geological and Resources Management Committee comprised three members, with independent non-executive Director Mr. Ye Tianzhu being the chairman of the committee. Other members were executive Director Mr. Weng Zhanbin and independent non-executive Director Mr. Yan Hongbo. The key duties and responsibilities of the Geological and Resources Management Committee include:

1. standardizing the Company's classification of gold mineral reserves, the scope of application of the reserves classification, the specifications on preparation of geological exploration summary report and the procedural requirement in submitting the reserves report, etc in accordance with the relevant national requirement;

2. analyzing the trend of gold mine resources, establishing the long-term strategy and year plan of geological exploration and consumption of reserves;

3. reviewing the Company's annual report of geological exploration, exploration activities and changes in reserves;

4. reviewing annual consumption of reserves and the quantity of reserves, and reviewing the additional reserves of various mines;

5. reviewing and approving the Company's geological exploration plan and implementation scheme, proposal of usage and exploration of resources and annual reservation report;

6. other duties authorised by the Board.

During the Year, the Geological and Resources Management Committee convened one meeting chaired by the chairman to verify the amount of additional geological reserves of the Company in 2010. The attendance of each member of the committee is 100%.

Details of the terms of reference of the Geological and Resources Management Committee are available on the website of the Company.

(L) Safety and Environmental Protection Committee

The Safety and Environmental Protection Committee of the Board is mainly responsible for conducting research and proposing recommendations on material safety and environmental protection decisions of the Company. On 26 February 2010, at the first meeting of the third session of the Board, the committee was re-elected. For the year ended 31 December 2010, the Safety and Environmental Protection Committee comprised three members, with independent non-executive Director Mr. Yan Hongbo being the chairman. Other members were non-executive Director Mr. Cong Jianmao and Mr. Wang Peifu. The key responsibilities and authorities of the Safety and Environmental Protection Committee include:

1. conducting research on significant safety and environmental protection investment projects during the year;

2. setting annual safety and environmental protection objectives and goals;

3. formulating the long-term plan and annual plan of safety and environmental protection;

4. proposing safety and environmental protection requirements in accordance with the convention of international safety and environmental protection;

5. carrying out investigation and examination on the above matters; and

6. other duties authorised by the Board.

During the Year, the Safety and Environmental Protection Committee convened three meetings, all of which were chaired by the chairman of the committee. The attendance of each member of the committee is set out below:

	Number of meetings	Attendance
Yan Hongbo	3	3
Cong Jianmao	3	3
Wang Peifu	3	3

A summary of the duties carried out by the Safety and Environmental Protection Committee during the Year is set out below:

1. to review and pass the Summary of Safety and Environmental Protection Work of 2009;

2. to review and pass Communications on Safety and Environmental Protection Work in the first half of 2010;

3. to review and pass the Summary of Safety and Environmental Protection Work of 2010;

4. to review and pass the Work Plan on Safety and Environmental Protection Work of 2011; and

5. to review and pass the Accountability System on Safety and Environmental Protection Work of 2011.

Details of the terms of reference of the Safety and Environmental Protection Committee are available on the website of the Company.

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Monitoring Mechanism

Supervisory Committee

The Supervisory Committee was established in accordance with the PRC law. The Supervisory Committee consists of three members, one of whom is the chairman. The Supervisor have a term of three years, who are subject to and eligible for re-election.

For the year ended 31 December 2010, the third session of the Supervisory Committee comprising Mr. Wang Xiaojie, Ms. Jin Ting and Mr. Chu Yushan. Mr. Chu Yushan is a representative supervisor from the staff, and Mr. Wang Xiaojie is the chairman of the Supervisory Committee. The number of members and composition of the Supervisory Committee of the Company are in accordance with the laws and regulations.

The third Supervisory Committee was established through election at the extraordinary general meeting convened on 26 February 2010, comprising Mr. Wang Xiaojie, Ms. Jin Ting and Mr. Chu Yushan. Mr. Wang Xiaojie was the chairman of the Supervisory Committee.

The Supervisory Committee is granted with powers in accordance with the laws to perform the following duties independently: to examine the financial position of the Company, to monitor whether the Directors, President, Vice Presidents and other senior management act in contravention to the laws and regulations, the Articles of Association and the resolutions of the general meetings, to demand rectification from the above officers when their acts are detrimental to the interests of the Company, to review the financial information such as the financial report, results report and plans for distribution of profits to be submitted by the Board to the general meetings and to authorise a re-examination by the auditors of the Company for the time being in the name of the Company, to propose the convening of a shareholders' extraordinary general meeting and propose resolutions on shareholders' meetings, to represent the Company in negotiations with, or bringing an action against, Directors, and to perform other duties required by laws, regulations and rules imposed by national and overseas supervisory bodies at the place of listing.

The Supervisory Committee is accountable to the shareholders. Each year, the Supervisory Committee presents the Report of the Supervisory Committee and reports their work performed according to the laws at the annual general meetings. The Supervisory Committee also reviews the performance and integrity of the Directors, President, Vice President and other senior management, and reviews the auditors' reports issued by the auditors in accordance with the generally accepted accounting principles.

In addition, the Supervisory Committee together with the Audit Committee also engaged an external auditor (being an independent third party) to review on the withdrawal and use of safety expenses, production safety incidents, environmental protection issues and changes of staff in subsidiaries of the Group in the past two years.

During the Year, the third session of Supervisory Committee convened three meetings. The attendance rate of the three Supervisors was 100%.

All Supervisors attended all the Board meetings and performed their monitoring obligations on behalf of the shareholders to monitor the compliance of the financial activities of the Company, the performance of duties of Directors and senior management and the decision making procedures of the Board with the laws and regulations. The Supervisors had performed their statutory duties impartially.

Internal Control and Internal Review

The Board acknowledges its responsibilities for the Group's internal control system and has established and maintained the Company's internal control system for reviewing the effectiveness of relevant financial, operating and supervisory control procedures to ensure that all internal control measures are in place to safeguard the Group's assets and to comply with relevant regulations and the best practices.

The Board authorises the operating management to promote such internal control system mentioned above, and the effectiveness of which is reviewed by the Audit Committee.

The internal control system includes a management framework with clearly defined duties for the purposes of:

1. assisting the Company in accomplishing various business objectives and ensuring that corporate assets will not be defalcated or disposed of;

2. ensuring that the Company's accounting record provides reliable financial data for internal use or public disclosure; and

3. ensuring compliance with related legislations and requirements.

Aiming at more effective review on the effectiveness of the internal control system, the Company set up an internal audit department in April 2004 to review, monitor and assess the disclosure of financial information, operations and internal control activities of the Company and its associates on a regular basis and when necessary, based on potential risks and the importance of internal control systems for different businesses and workflows. This can ensure the transparency of information disclosure, operating efficiency and effectiveness of the corporate monitoring mechanism. The independent and objective evaluation and recommendation are provided in the form of an audit report. The internal auditors are entitled to have access to all information of the Company and to make enquiries to relevant persons in performing their duties. The manager of the audit department directly reports the relevant outcomes and his/her opinions to the Audit Committee for consideration. After reviewing their reports, the Audit Committee puts forward its recommendation to the management of the Company and regularly reports to the Board.

The Company concerns the importance of the internal control and had set up relevant internal management systems and procedures for corporate governance, operation, construction, finance, and administrative personnel. In December 2004, an internal control system was approved by the Board. It summarises and clarifies the objectives, content, methods and obligations of the internal control system. This will facilitate the Company's continuing review and assessment on compliance with of the existing systems and the effectiveness of internal controls.

During the Year, the Board made comprehensive review to the effectiveness of the internal control system of the Company, which include the Company's finance control, operation control, compliance control and risk management function, etc. To further promote effective internal control, the Board set up the following major procedures:

- The accountability of the Company's organisation structure is definite and has distinguishable monitor level. All department heads participate in formulating strategic plans and determining the Company's corporate strategies so formulated to achieve objectives set out in the annual operation plan and annual operational and financial targets in next three years. Both the strategic plan and annual operational plan are the basis of formulating annual budgets; the Company allocates resources depending on the definability and priority of business opportunities based on annual budgets. Other than the three-year plan which is approved by the Board and subject to annual review, the annual operational plan and annual budget should also be approved by the Board annually.

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- The Company already has a comprehensive accounting system in place, such system provides the management with an indicator to measure finance and operation performance, as well as relevant financial information that can be used for reporting and disclosure. The budget gap, if any, shall be analysed and explained, and appropriate actions shall be taken to remedy the problems found as necessary.

- The Company also has systems and procedures in place to identify, measure, deal with and control risks which include legal, credit, market, centralised, operational, environmental, behaviour risks as well as others which may influence the development of the Company.

- The audit department will carry out independent review on identified risks and control system so as to reasonably guarantee the management and Audit Committee that the risks are satisfactorily handled and the control is fully effected.

During the Year, the Company continued to appoint an internal control and assessment advisor who is an independent third party to conduct detailed assessment about our internal control system for the Year. The assessment method applied the COSO Internal Control Structure of American COSO Committee. The introduction of COSO Internal Control Structure can reveal the effectiveness of the Company's internal control system and we can take this chance to rationalise our management workflow, regulate management and raise the overall management standard. According to the assessment report from internal control and assessment advisor, the Board had reviewed the internal control system of the Company and its subsidiaries and verified the effectiveness of this system, also the audit committee has not found material deficiencies on the internal control system.

Chief Financial Officer

Chief Financial Officer is in charge of the financial operation of the Company and reports to the President of the Company.

Chief Financial Officer is responsible for preparing financial statements in accordance with accounting principles generally accepted in the PRC and in Hong Kong, and to ensure compliance with disclosure requirements as stipulated by the Hong Kong Stock Exchange. The Board has the ultimate responsibility towards the financial statements prepared by him.

Chief Financial Officer is also responsible for preparing the Company's annual budget scheme and the budget implementation proposal, as well as monitoring the implementation of the Company's annual financial and operating plans. In addition, the chief financial officer shall work with and make recommendations to the Board on the establishment of relevant internal control systems.

Relations with shareholders, investors and other concerned parties

The Company is committed to ensuring that all shareholders, especially the minority shareholders, can enjoy equal status and fully exercise their own rights.

General Meeting

As the highest authority of the Company, the general meeting exercises its rights under the law to make decisions on significant events of the Company. The Company establishes and maintains various communication channels by way of publication of annual reports, interim reports and information announcements. To promote effective communication, shareholders can choose to receive corporate communications via electronic means. The information is also published on the website of the Company.

The annual general meeting or extraordinary general meeting (if any) serves as a direct communication channel between the Board and the shareholders. All Directors understand that general meetings provide an effective platform for direct communication between Directors, Supervisors and other senior management and shareholders, where they shall report to shareholders with regard to the Group's operations, answer shareholders' queries and maintain effective communications with shareholders. Accordingly, the Company attaches much importance to general meetings. In addition to a 45-day notice before the holding of a general meeting, the Company requires that all Directors and senior management shall employ their best endeavors to attend the general meetings. Also, all shareholders are encouraged to attend general meetings. At the general meetings, the shareholders can make enquiries about the Company's operation status or financial information and the shareholders are welcome to express their views therein.

Details about the polling procedure and the shareholders' rights to request for voting by poll are included in notices or circulars issued to the shareholders together with the annual reports. Results of polls are not only announced at the meeting, but also available for inspection on the websites of the Company and the Hong Kong Stock Exchange.

In 2010, the Company had convened one annual general meeting, one domestic shares class meeting, one H shares class meeting and one extraordinary general meeting.

Controlling Shareholder

At the end of 2010, 543,257,000 domestic shares and 4,998,000 H shares were held by Zhaojin Group, the controlling shareholder of the Company, representing 37.61% of the total issued ordinary shares of the Company.

As the controlling shareholder of the Company, Zhaojin Group has never overridden the general meeting to directly or indirectly intervene in the Company's decision-making and operation. The Company has always kept independent from controlling shareholder in terms of assets, finance, organisation and business.

Independence from Zhaojin Group

The Directors are satisfied that the Company can be independent of Zhaojin Group's business:

- **Management independence:** On 16 November 2010, the Board of the Company announced that Mr. Wang Peifu, the executive Director, has been re-designated as the non-executive Director of the Company and has resigned from his position as President, CEO and Authorised Representative of the Company with effect from 10 November 2010; and Mr. Weng Zhanbin, the non-executive Director, has been re-designated as the executive Director of the Company and was appointed as President and Authorised Representative of the Company by the Board with effect from 10 November 2010.

  Among the Board of the Company, two executive Directors held positions in Zhaojin Group, however, it does not affect the management independence of Zhaojin Mining. The independent non-executive Directors will have greater influence over the Board's decisions, and those overlapping directors shall abstain from voting on any resolution regarding the interests of Zhaojin Group in board meetings. Therefore, the participation of independent non-executive Directors would be sufficient for managing the material conflicts of interests arising from the overlap of management.

  Apart from the above Directors, none of the executive Directors or members of senior management of the Company (excluding the Supervisors of the Company) hold positions concurrently in Zhaojin Group.

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- **Production and operational independence:** Since its incorporation, the Group has operated its business independently of Zhaojin Group, and has not shared its production teams, production facilities and equipments, or marketing, sales and general administration resources with Zhaojin Group or its associates, except as described in the section of "Connected Transactions" with respect to the provision of gold refinery and gold bullion trading services by Zhaojin Group, which are conducted on an arm's length basis and normal commercial terms. Zhaojin Group operates gold bullion trading agency business through its Shanghai Gold Exchange membership and had approximately 208 customers in addition to the Company as at 31 December 2010 (31 December 2009: approximately 1,100 customers).

  The refinery business owned by Zhaojin Group through its majority interest in Zhaojin Refinery provides gold refinery services to gold production enterprises and had approximately 146 customers in addition to the Company as at 31 December 2010 (31 December 2009: approximately 140 customers). Under the terms of the agreements with Zhaojin Group for these services, the Company may terminate the agreements at any time and the Company is not prohibited from engaging other service providers during the term of the agreements.

  In the Yantai region, there are more than three other qualified refineries and more than five other Shanghai Gold Exchange members that the Company can readily engage on comparable terms as those the Company has agreed with Zhaojin Group to provide the Company with refinery or trading agency services, if necessary.

- **Independence of access to supplies and raw materials:** The Group's principal supplies and raw materials for production, namely, electricity and water, gold and silver concentrates, and auxiliary materials, are sourced from independent suppliers not related to Zhaojin Group.

- **Independence of access to customers:** The Group's customers mainly comprise purchasers of its standard gold bullion on the Shanghai Gold Exchange. The anonymity and market-driven nature of Shanghai Gold Exchange trades ensure that there is no customer independence issue. As far as the Directors are aware, the Group's other customers, being metallurgical enterprises that purchase silver and sulphur and other metals concentrates from it, are independent of Zhaojin Group.

- **Financial independence:** The Group has an independent financial department that is independent of and does not share functions or resources with Zhaojin Group. The Group's financial auditing is undertaken separately from that of Zhaojin Group by its own staff. The Group has separate bank accounts and tax registration. While the Group has, in the past, enjoyed the benefit of shareholder loans from and/or bank loans guaranteed by Zhaojin Group, all the shareholder loans have been repaid and most of such guarantees have been released. In their place, the Group has obtained bank financing at market rates from independent financial institutions and did not experience any difficulties in doing so. Given the Group's financial and cash flow position, the Directors believe that, if required, the Group is able to obtain further loans and credit facilities from financial institutions at market rates without material difficulty.

Non-Competition Agreement and Excluded Businesses

On 17 November 2006, the Company and Zhaojin Group entered into a non-competition agreement which set out arrangements to minimise the competitive impact on the Company of the investments of Zhaojin Group in gold related assets and businesses. The investments were as follows:

1. various exploration and mining permits with respect to gold mine resources in the Zhaoyuan district; and

2. a 45.1% interest in Zhongkuang Gold Industry Company Limited ("Zhongkuang Gold"), a 45.22% interest in Shandong Guoda Gold Co., Ltd. ("Shandong Guoda Gold"). a 51% interest in Xixia Zhaojin Mining Co., Ltd. ("Xixia Zhaojin"), a 90% interest in Zhaojin Beijiang and a 80% interest in Minxian Tianhao Gold Co., Ltd. ("Minxian Tianhao") (collectively referred to as the "Excluded Businesses").

Under the non-competition agreement, the Company also has an option and right of first refusal to acquire the interests in the Excluded Businesses. The option can be exercised at any time during the term of the non-competition agreement, which only expires when the Company ceases to be a listed company, or Zhaojin Group ceases to be its controlling shareholder. Should the Company decide not to exercise such option, it has the right to require Zhaojin Group to dispose of its interests in the Excluded Businesses to independent third parties. In addition, under the terms of the non-competition agreement, Zhaojin Group has undertaken not to engage in further competitive activities, apart from the Excluded Businesses.

In 2007, Zhaojin Group had transferred all of its 45.1% equity interest in Zhongkuang Gold to an independent third party. The non-competition agreement made between the Company and Zhaojin Group on 17 November 2006 for the option to acquire the 45.1% equity interest in Zhongkuang Gold lapsed accordingly.

In 2007, the Company exercised that option with respect to the 51% interest in Xixia Zhaojin, the 90% interest in Zhaojin Beijiang and the 80% interest in Minxian Tianhao (for details, please refer to page 38 of the 2007 annual report).

In 2008, the Company exercised that option with respect to four exploration rights of Zhaojin Group (for details, please refer to "Acquisitions" on pages 38 to 39 of the 2008 annual report).

During the Year, the Company has not exercised its option to acquire the 45.22% interest in Shandong Guoda Gold for the reasons set out below:

During the Year, Zhaojin Group indirectly held 45.22% equity interest in Shandong Guoda Gold through its wholly-owned subsidiary Zhaoyuan Gold Smelting Co., Ltd.

Shandong Guoda Gold is principally engaged in the business of gold smelting. It is not authorised to engage in gold exploration or mining operations. Zhaojin Group has confirmed that it is only a passive investor in Shandong Guoda Gold with no board representation therein, no specific right to appoint its own board representatives (except for its general right as a PRC shareholder to vote for PRC director nominees), and no participation in the management of Shandong Guoda Gold, and that it will remain as a passive investor and does not participate in the daily management of Shandong Guoda Gold following the Company's listing.

Corporate Governance Report

Directors of the Company believe that the extent of competition from the business of Shandong Guoda Gold, if any, would not have a material impact on our business as a whole, for the following reasons:

1. Smelting is not the core business of the Company.

2. Although it has traditionally concentrated on gold smelting, Shandong Guoda Gold is in the process of changing its principle business from gold smelting to copper smelting.

3. The Company and Shandong Guoda Gold own and operate their respective gold smelting plants independent of each other, and the management of the Group is distinct from and remains independent of that of Shandong Guoda Gold. The Company's cyanidation and smelting plants have sufficient capacity to process all gold concentrates produced from its own mines, as well as concentrates from third parties as an ancillary business. There is no sharing of services or resources, including production technique and patent, between the Company and Shandong Guoda Gold. Therefore, the Company conducts its business independently of the business of Shandong Guoda Gold.

During the Year, the Company did not exercise the option to acquire any exploration right owned by Zhaojin Group as stated in Appendix 2 to the Non-competition Agreement. The reasons are set out below:

The Company has conducted an analysis to the exploration rights owned by Zhongjin Group as stated in Appendix 2 to the Non-competition Agreement and is of the view that, since no thorough exploration work has been done before and the level of resources reserves is uncertain at the moment, the Company could have exposed itself to bigger risks to acquire them. To avoid such risks the Company has no present intention to acquire them and instead, the Company will exercise its option when Zhaojin Group has proven the level of resources reserves and if it meets our criteria.

Zhaojin Group also undertakes to transfer such exploration rights to the Company once the level of resources reserves is proven and if it meets the Company's criteria.

Reasons for not transferring Zhaojin Group's interest in the Excluded Businesses to the Company:

Our Directors believe that there is limited conflict between Zhaojin Group's interest in Shandong Guoda Gold's smelting business and Zhaojin Group's interests in the business of the Company, on the basis that (i) smelting is not the principle business of the Company, and (ii) the Company's smelting operations at Jinchiling Gold Mine have sufficiently satisfied its purposes. In addition, Zhaojin Group is only a passive investor in Shandong Guoda Gold with no board representation or management participation. Accordingly, the Directors of the Company do not consider it necessary for the Company to acquire Zhaojin Group's interest in Shandong Guoda Gold.

The independent non-executive Directors have reviewed the controlling shareholder, Zhaojin Group's compliance with its undertakings under the non-competition agreement in respect of its existing or future competing businesses. The independent non-executive Directors are of the view that none of the controlling shareholder or Directors of the Group held any interests in any business, apart from the Group's business, which competes or is likely to compete, directly or indirectly with Group's business.

The Company has also received a statement under the non-competition agreement from Zhaojin Group on 6 January 2010, which stated that Zhaojin Group, as the controlling shareholder of the Company, has complied with its undertakings under the non-competition agreement dated 17 November 2006 for the year ended 31 December 2010.

Investor Relations

The Company places great importance to the proactive communication with its shareholders and investors and investor relations management measures are positively implemented by Office of the Secretary of the Board, in order to maintain the close communication between shareholders and investors, to ensure the investors and shareholders have received the updated news of the Company in a fair and timely manner and to facilitate them to make the best investment decision. Meanwhile, the Company also emphasizes on the nourishment of potential investors. To enhance its relations and communications with its shareholders, the Company has established and maintained intensive communication channels with analysts and fund managers through field trips, one-on-one meetings, road shows and telephone conferences during the Year. Our mines have received a total of 30 on-site visitors during the Year to expose ourselves to analysts and fund managers for further understandings. Since the listing of the Company, executive Directors and senior management of the Company regularly attend various kinds of press conference held in Hong Kong subsequent to the publication of final results and interim results announcements, when they offer themselves to questions in relation the operational and financial performance of the Company. Subsequent non-trading road shows will also be held with an aim to leave investors a good impression that we are serious and responsible. In addition, the Group also actively attends various investment forums and investors meetings held in the PRC where they communicate with investors and present the latest developing information of our Company to the market. Designated senior management and professionals of the Company are given the specific responsibilities to maintain regular dialogues with institutional investors, potential institutional investors, fund managers, shareholders and analysts to keep them abreast of the Company's development. The Company was awarded "the Best Investor Relationship and Social Responsibility of the Year 2010" by The Asset in December 2010 for its remarkable performance in investors relationship. In addition, the 2009 annual report of the Company was awarded the ARC Annual Report Awards, a name highly regarded as "the Oscars in the annual report stream". The award signifies the achievement of the overall standard of our annual reports to a higher level.

The Company regards the annual general meeting as an important event as it provides an important opportunity for direct communications between the Board and the Company's shareholders in the presence of the Company's external auditors. All the Directors and senior management of the Group will make special effort to attend the meetings. External auditors' presence at the meeting would also allow them to address shareholders' queries. All shareholders will be given at least 45 days' notice of the AGM and they are encouraged to attend the AGM and other shareholders' meetings.

The Secretary to the Board/Company Secretary and professionals are responsible for information disclosure of the Company and reception of visits of its shareholders and investors. Investor relations enquiry hotline and mailbox have been set up to respond to the problems raised by investors. The Company had formulated Information Disclosure Management System and the system for the Investors Relations Management to ensure information disclosure on an open, fair and impartial basis and to improve the Company's transparency.

Investors and the public are welcome to visit the "Investor Relations" section on the Company's website (www.zhaojin.com.cn) for the latest news and announcements. The Company provides detailed information, latest operational and developing news to shareholders on the website.

Corporate Governance Report

Other Interested Parties

The Company is committed to providing satisfactory services to customers and room for development to employees. The Company is committed to improving its profitability while maintaining its honesty and faithfulness with a high sense of responsibility toward its shareholders, investors, employees, customers, suppliers and the society. Meanwhile, the Company oversees and develops its businesses in compliance with local rules and environmental protection regulations to improve its corporate governance, and actively participates in public welfare and environmental protection.

Continuous Enhancement of Corporate Governance

The Company has been striving to improve its corporate governance and composition of the Board, and to study advanced model of corporate governance around the globe. The Board of the Company was awarded the "Board of the Year Award" during the Year, and the chairman was awarded the "Executive Directors of the Year Award" by the Hong Kong Institute of Directors recognising our relentless pursuit to quality corporate governance. The Company will take this opportunity to proactively explore and perfect a new corporate governance model to listed companies with an aim to lift corporate governance level and for the sake of our company development. The Company will follow the model of corporate governance developed by the world's leading corporations as what it has done previously so as to comply with the requirements of the regulatory authorities. The Company will regularly review and enhance its corporate governance procedures and implementations to ensure the sustainable development of the Company.

Corporate Social Responsibility

Since the listing of the Company, the Company has always borne its corporate social responsibilities in mind while striving to corporate development and improving economy of scales. The Company insists on its core values of "Practice", "Innovation","Integrity" and "Devotion". The Company has adhered to our ethical strategy to embrace with our ultimate goals of benefiting the society through scientific developments, and committed to the mission of corporate citizenship and the performance of social responsibilities.

Obligations for Economic Development

Prosperous Local Economic

We have been undergoing our operations subject to laws and in full compliance with all taxes required, and making great contributions to the fiscal resources of the places at which our enterprises located.

Enhancing Local Employment

Most of the mineral enterprises newly acquired by the Company are located at the underdeveloped areas in the central and western parts. We insist to employ local workers that the enterprises are located, resulting in an efficient increase of the local employment rate.

Strengthening Technology Innovation

We have been adopting "developing gold mining with scientific technology" as our strategy and advocating "scientific gold as our new development mission, and continuously stepping up our innovation dependence. The quality of scientific technologies, the core competitive strength, and the new economic growth momentums, of our Company have seen improvements by technologies. The enterprises have achieved rapid growths by the powerful drive of technological innovation, resulting great successes in the arena of innovation dependence.

Obligations of Environmental Safety

Ensuring Production Safety

"Mining gold with no blood stains" has always been our safety principle. During the year, the Group strived hard to improve the level of production safety of the Company in view of its expanding production scale. In 2010, the Group fully dedicated to the infrastructure projects and strengthened the site control as the main theme. Through serious account and implementation of safety precautions, strengthened on-site safety management, better emergency measures and the establishment of safety administration, the level of safety and environmental protection work is maintained steadily. The awareness of safety and skills of production safety of our staff has been further improved. In 2010, the Group successfully passed the Safety Administration Demonstration Corporate Examination of the Nation (國家安全文化建設示範企業驗收).

Corporate Social Responsibility

Ecological Protection

"Exploring gold and silver, Maintaining clear water and clean sky" has been our environmental philosophy. The Company believes that an excellent and sustainable enterprise should care for the environment, environmental protection and improvement besides economic development. During the Year, the Company had persistently committed to the environmental burden and complied with the environmental laws and regulations enacted by the central and local governments. In the process of production, energy saving and emissions reduction had been strictly exercised and clean production had been fully implemented. Series of powerful and efficient measures for strengthening the "three wastes" management and the tailings safety management had been reinforced for purposes of the realization of positive life cycle of the ecological environment.

Development of Economic Cycle

Safe and sustainable development has been the trend to modern mining businesses. The Company endeavors to achieve the concept of green mining development and spares no effort to develop a cyclical mode of economy. It also encourages the integrated use of waste production to fully utilize of our resources. The Company has achieved remarkable results in terms of land reclamation, ecology preservation, greening and environment optimization, energy saving and emission reduction. The Company also forges the path towards an energy-saving, clean, safe and sustainable development. Xiadian Gold Mine and Jinchiling Gold Mine of the Group were among the first to be awarded the title of "Green Mining Company of the Nation" due to their exceptional results in developing a cyclical mode of economy.

Obligations for Growth of Staff

"Soliciting talents and growing together" has been maintained as our talents vision. We make much of the positive role of our talents in the course of our corporate development, and we see talents as our first line of resources for corporate development purposes. We strive to improve occupational skills and morality of our staff by putting various staff training program in place to realize the mutual growth of corporate values and individual values.

Protecting Interests of Staff

The Company has treated our staff on an equal basis and adhered to our employment policy on a fair and justice manner. For the enactments of scientific salaries and incentives mechanism, multi-graded social security system and better vacation system, we have also entered labour contracts with our staff by laws and confined on the labour employment.

Enhancing the Growth of Staff

By striving for the creation of a better environment and mechanism for the continuous growth and development of various talents and individuals, the Company has provided different training opportunities to encourage active learning and hence lifting their individual values, and realized the growing together of the individual staff and the enterprises.

Ensuring the Occupational Health of Staff

The Company stood on its principle of "staff-oriented" and has always placed the health and safety of the staff on the first priority, as well as continuously improved the working environment and strengthened the protection of occupational hazard. Social security of working injury insurance for staff has been covered. Qualified articles for individual protection have been provided and regular health check for the staff has been exercised.

Democracy Management

A comprehensive staff representatives system has been established and improved for widely collecting the staff opinions in relation to important matters of the staff benefits and the development of the Company, etc. An exchange platform for the enterprise and the staff has also been set up which brings channels for the staff appeals. The Company has placed "Opinion Box" for fully consulting the staff opinions, and, for understanding the preference of the staff, conducted surveys on staff satisfaction in returning with no name record.

Importing Talents

The Company attaches great importance to the growth of its staff, meanwhile, it also advocates to introduce brilliant talents into the Company on a continuous basis. To establish a team of high quality talents, the Company has gradually increased the strength on the introduction of professionals in recent years, and recruited with a global vision talents from all over the world to accumulate a pool of human resources.

Enriching Cultural Life of Staff

The Company has actively organised various kinds of cultural activities as an effective platform for coordinating, harmonizing, attracting as well as inspiring the staff to further improve cohesion and loyalty of our staff.

Obligations of Enterprise Citizenship

Society is the rich soil for the sustainable development of the corporate. The corporate grows with wealth creation and becomes valuable by returning to the society .

Supporting Development of Education

The Company has practically taken our responsibilities as a "corporate citizen" by making great contributions to the society, and has actively participated in the education development. Since 2007, the Company has annually contributed RMB2,000,000 to the education development in Gansu province, China, and the year of 2010 had been the fourth straight year of the contributions. During the year, All donations of RMB500,000 were used to renovations of school buildings in the phase of volunteer education in Gansu province.

Support to and Reconstruction in Disaster Areas

During the year, the Company made various donations to areas ruined by the earthquake in Yushu and the drought in southwest regions in the PRC. The Company has also made donation to Red Cross in Qinghe, Xinjiang. Upon the occurrence of a landslide disaster in Zhouqu, Gansu Province, Zaozigou Gold Mine, a subsidiary of the Company in Gansu, proactively participated in the rescue by immediately mobilizing its human resources and heavy-duty excavating machines to the affected areas. The move has been highly applauded by local community and government, which helped foster our relationship with the local community. Donations by the Company during the year reached a total of RMB4.46 million.

Report of the Supervisory Committee

To the Shareholders,

During the Year, all members of the Supervisory Committee of the Company duly discharged their duties of supervision stipulated by various laws and regulations, which include the Company Law, the Listing Rules and the Articles of Association. They fully discharged the Supervisory Committee's monitoring function and attended all the Board meetings, general meetings and the major meetings of the Company in which decisions were made with due care and diligence. They strengthened the supervision on the level of compliance of the work of the Board and the operational decision of the management of operations, as well as the implementation by the Board of the resolutions approved by the general meetings. The Supervisors formed their opinions and recommendations through their inspection of the operation for the Company and of the implementation of the internal systems, as well as their efficient supervision over the fulfillment of duties by the Directors and the senior management. The supervisors have reviewed and analyzed the Company's financial position and the annual report with due care.

Set out below are the independent opinions of the Supervisory Committee to the Shareholders:

1. Level of Working of the Supervisory Committee

The convention of meeting of Supervisory Committee and the general meeting topic of the Supervisory Committee:

(1) The 1st meeting of the third session of the Supervisory Committee on 26 February 2010

Electing a chairman for the third session of the Supervisory Committee.

(2) The 2nd meeting of the third session of the Supervisory Committee on 25 March 2010

Reviewing and passing Board report, financial report, proposal of profits allocation in 2009 and other resolutions, and reviewing the annual report of Supervisory Committee in 2009.

(3) The 3rd meeting of the third session of the Supervisory Committee on 12 August 2010

Reviewing and passing the interim results announcement 2010, interim financial report 2010 and the proposal of interim profits allocation in 2010.

(4) Review on the safety and environmental protection work and human resources of the Company together with the Audit Committee

The Supervisory Committee has conducted a review on production safety, environmental protection and human resources of the Company for the year ended 2009 and the six months ended June 2010 together with the Audit Committee with the assistance from our auditor (being an independent third party). A relevant audit report has been prepared on 15 October 2010.

2. Level of Compliance of the Company

During the Year, the Company operated in accordance with the requirements of the Company Law, the Listing Rules, the Articles of Association and other applicable laws and regulations. It has established and continuously improved the internal control systems. Its decision-making procedures are in compliance with laws. The Company strictly implemented the resolutions of the general meetings.

3. Performance of Duties by the Directors, General Manager and Other Senior Management

The Directors, General Manager and other senior management performed their duties to the Company diligently, prudently and faithfully and guarantee the growth of performance through excellent corporate management level to ensure the interests of shareholders. It is not aware of any action of abusing powers, in breach of the laws and regulations of the PRC and the Articles of Association Law or of prejudicial to or against the interests of the Shareholders, the Company and its staff.

4. Report of the Board

The Supervisory Committee reviewed the report of the Board intended to be submitted to the forthcoming Annual General Meeting for approval with due care. It is of the opinion that the report gives an objective and true picture of the works performed by the Company during the Year.

5. Financial Reporting

The Supervisory Committee reviewed the Company's financial systems and the audited annual financial report with due care and diligence. In the opinion of the Supervisory Committee, the financial report gives a true and fair view of the financial position, assets and operational affairs of the Company. It is not aware of any breach of laws, regulations or the financial systems of the Company. The financial report audited by the auditor gives an objective and fair view of the Group's financial position.

6. Connected Transactions and Continuing Connected Transactions

The Supervisory Committee is of the view that, during the Year, the connected transactions and continuing connected transactions of the Company are normal and ordinary transactions, dealt in accordance with the principle of impartiality, fairness and reasonableness, are fair and reasonable as far as the Shareholders are concerned, are in the interests of the Company and the Shareholders as a whole, and do not prejudice the interests of the medium and minority shareholders of the Company.

Report of the Supervisory Committee

7. The independent opinions of the Supervisory Committee regarding the acquisition of the Company

During the Year, the acquisition of assets of the Company were based on the principle of marketization, decision making processes were carried out legally and of compliance, and did not find any insider dealings or any behaviours which damage the interests of shareholders.

8. Litigations

During the Year, the Company has not been involved in any material litigation or arbitration. As far as the Supervisors are aware, the Company does not have any material litigation or claim which are pending or threatened against the Company so as to materially and adversely affect the Company's operating results or financial conditions.

In year 2011, the Supervisory Committee will continue to fully perform its supervisory function on the decision-making, finance and the Directors and senior management of the Company. It will carry out its supervisory duties diligently and devote efforts to assisting the Company to achieve its goals as well as to enhance the operational efficiency of the Company.

Wang Xiaojie
Chairman of the Supervisory Committee

4 March 2011

Independent Auditors' Report

ERNST & YOUNG
安 永

To the shareholders of Zhaojin Mining Industry Company Limited
(A joint stock company established in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Zhaojin Mining Industry Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 81 to 189, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

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

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

Independent Auditors' Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

18th Floor, Two International Finance Centre,
8 Finance Street, Central,
Hong Kong

4 March 2011

Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
CONTINUING OPERATIONS			
REVENUE	5	**4,097,800**	2,796,991
Cost of sales		**(1,786,958)**	(1,347,704)
Gross profit		**2,310,842**	1,449,287
Other revenue and gains	5	**123,146**	99,181
Selling and distribution costs		**(38,220)**	(38,291)
Administrative expenses		**(546,650)**	(381,603)
Other expenses		**(108,841)**	(62,136)
Finance costs		**(92,340)**	(23,137)
Share of profit of an associate		**3,961**	1,331
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	6	**1,651,898**	1,044,632
Income tax expense	8	**(409,737)**	(264,035)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**1,242,161**	780,597
DISCONTINUED OPERATION			
Loss for the year from a discontinued operation		**–**	(29,264)
PROFIT FOR THE YEAR		**1,242,161**	751,333
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of a foreign operation		**(884)**	(12)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(884)**	(12)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,241,277**	751,321

Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Profit attributable to:			
Owners of the parent		**1,201,731**	754,020
Non-controlling interests		**40,430**	(2,687)
		1,242,161	751,333
Total comprehensive income attributable to:			
Owners of the parent		**1,200,847**	754,008
Non-controlling interests		**40,430**	(2,687)
		1,241,277	751,321
Earnings per share (RMB) attributable to ordinary equity holders of the parent	13		
Basic			
For profit for the year		**0.82**	0.52
For profit from continuing operations		**0.82**	0.54

Details of the dividends payable and proposed for the year are disclosed in note 12 to the financial statements.

Lu Dongshang
(Director)

Weng Zhanbin
(Director)

Consolidated Statement of Financial Position

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**3,691,080**	2,763,461
Goodwill	15	**559,197**	360,422
Other intangible assets	16	**2,373,730**	2,004,092
Investment in an associate	17	**38,735**	37,980
Long-term deposits	20	**7,659**	6,882
Land lease prepayments	21	**176,045**	131,483
Deferred tax assets	22	**119,454**	94,924
Other long-term assets	23	**266,046**	164,646
Total non-current assets		**7,231,946**	5,563,890
CURRENT ASSETS			
Cash and cash equivalents	24	**781,888**	2,209,396
Trade and notes receivables	25	**199,189**	10,797
Prepayments and other receivables	26	**373,245**	197,556
Inventories	27	**779,185**	475,111
Equity investments at fair value through profit or loss	28	**16,196**	–
Pledged deposit		**–**	59,396
		2,149,703	2,952,256
Assets of a disposal group classified as held for sale	11	**33,284**	65,486
Total current assets		**2,182,987**	3,017,742
CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	29	**370,000**	611,056
Trade payables	30	**446,532**	373,295
Other payables and accruals	31	**483,034**	460,224
Provisions	32	**16,964**	12,966
Tax payable		**161,908**	66,505
		1,478,438	1,524,046
Liabilities directly associated with the assets classified as held for sale	11	**6,784**	26,986
Total current liabilities		**1,485,222**	1,551,032
NET CURRENT ASSETS		**697,765**	1,466,710
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,929,711**	7,030,600

Consolidated Statement of Financial Position

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	29	**70,762**	57,790
Provisions	32	**67,782**	62,361
Deferred income	33	**33,997**	39,969
Corporate bond	34	**1,489,504**	1,488,036
Deferred tax liabilities	22	**457,022**	375,027
Other long-term liability	35	**35,000**	40,000
Total non-current liabilities		**2,154,067**	2,063,183
NET ASSETS		**5,775,644**	4,967,417
EQUITY			
Equity attributable to owners of the parent			
Issued share capital	36	**1,457,430**	1,457,430
Reserves	37	**3,492,676**	2,789,391
Proposed final dividend	12	**437,229**	320,635
		5,387,335	4,567,456
Non-controlling interests		**388,309**	399,961
TOTAL EQUITY		**5,775,644**	4,967,417

Lu Dongshang
(Director)

Weng Zhanbin
(Director)

Consolidated Statement of Changes in Equity

Year ended 31 December 2010

	Attributable to owners of the parent								
	Issued share capital RMB'000 (note 36)	Capital reserve RMB'000 (note 37)	Statutory and distributable reserves RMB'000 (note 37)	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
And 1 January 2009	1,457,430	1,566,884	148,778	(5,396)	645,752	241,933	4,055,381	353,288	4,408,669
Profit/(loss) for the year	–	–	–	–	754,020	–	754,020	(2,687)	751,333
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	–	–	–	(12)	–	–	(12)	–	(12)
Total comprehensive income/(loss) for the year	–	–	–	(12)	754,020	–	754,008	(2,687)	751,321
Acquisition of subsidiaries	–	–	–	–	–	–	–	58,194	58,194
Transfer to reserves	–	–	77,735	–	(77,735)	–	–	–	–
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	(8,834)	(8,834)
Dividends									
– 2009 final proposed	–	–	–	–	(320,635)	320,635	–	–	–
– 2008 final paid	–	–	–	–	–	(241,933)	(241,933)	–	(241,933)
At 31 December 2009	1,457,430	1,566,884	226,513	(5,408)	1,001,402	320,635	4,567,456	399,961	4,967,417
At 31 December 2009 and 1 January 2010	1,457,430	1,566,884	226,513	(5,408)	1,001,402	320,635	4,567,456	399,961	4,967,417
Profit for the year	–	–	–	–	1,201,731	–	1,201,731	40,430	1,242,161
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	–	–	–	(884)	–	–	(884)	–	(884)
Total comprehensive income/(loss) for the year	–	–	–	(884)	1,201,731	–	1,200,847	40,430	1,241,277
Acquisition of subsidiaries	–	–	–	–	–	–	–	92,826	92,826
Disposal of a subsidiary	–	–	–	–	–	–	–	(15,971)	(15,971)
Capital injection from non-controlling interests	–	–	–	–	–	–	–	8,300	8,300
Acquisition of a non-controlling interests	–	(60,333)	–	–	–	–	(60,333)	(99,309)	(159,642)
Transfer to reserves	–	–	106,542	–	(106,542)	–	–	–	–
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	(37,928)	(37,928)
Dividend									
– 2010 final proposed	–	–	–	–	(437,229)	437,229	–	–	–
– 2009 final paid	–	–	–	–	–	(320,635)	(320,635)	–	(320,635)
At 31 December 2010	**1,457,430**	**1,506,551***	**333,055***	**(6,292)***	**1,659,362***	**437,229**	**5,387,335**	**388,309**	**5,775,644**

* These reserve accounts comprise the consolidated reserves of RMB3,492,676,000 (2009: RMB2,789,391,000) in the consolidated statement of financial position.

The accompanying notes on page 91 to 189 form an integral part of the financial statements.

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:			
From continuing operations		**1,651,898**	1,044,632
From a discontinued operation		**–**	(29,640)
Adjustments for:			
Depreciation of property, plant and equipment	14	**278,356**	172,951
Amortisation of mining rights and reserves	16	**100,363**	57,668
Amortisation of land lease prepayments	21	**5,403**	3,247
Net loss on disposal of property, plant and equipment		**11,736**	14,394
Exploration rights and assets written off	16	**6,692**	16,821
Impairment of other receivables		**12,061**	2,326
Impairment of held for sale assets		**–**	31,342
Deferred income recognised	33	**(37,036)**	(24,590)
Interest expenses		**92,144**	23,117
Foreign exchange (gain)/loss		**(127)**	698
Bank interest income		**(13,715)**	(12,097)
Gain on bargain purchase	41	**(6,184)**	(2,979)
Gains on disposal of held-to-maturity investments		**–**	(341)
Share of profit of an associate		**(3,961)**	(3,563)
Fair value loss/(gain) of equity investments at fair value through profit or loss, net		**23,116**	(25,774)
		2,120,746	1,268,212
(Increase)/Decrease in trade and notes receivables		**(188,392)**	24,565
(Increase)/Decrease in prepayments and other receivables other than an amount due from a related party		**(202,449)**	13,392
Increase in inventories		**(278,628)**	(49,183)
(Increase)/Decrease in an amount due from a related party		**(78)**	2,770
Increase in trade payables		**73,237**	156,691
Decrease in other payables and accruals other than an amount due to a related party		**2,783**	(242,135)
(Decrease)/Increase in an amount due to a related party		**(95,713)**	107,041
Increase in provisions		**9,419**	3,178
CASH GENERATED FROM OPERATIONS		**1,440,925**	1,284,531
Income taxes paid		**(356,844)**	(332,391)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**1,084,081**	952,140

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(1,082,537)**	(310,191)
Purchase of other intangible assets		**(253,622)**	(184,523)
Increase in land lease prepayments		**(4,474)**	(44,924)
Proceeds from disposal of property, plant and equipment		**13,730**	421
Acquisition of subsidiaries	41, 42	**(427,600)**	(423,669)
Payment for acquisition of non-controlling interests		**(159,642)**	–
Proceeds from disposal of a subsidiary	43	**11,838**	–
Receipt of government grants		**29,972**	16,779
Proceeds from disposal of held-to-maturity investments		**–**	140,341
Interest received		**13,715**	12,097
Dividend received from an associate		**3,206**	2,232
Deposits paid for acquisition of subsidiaries	23	**(38,000)**	(19,680)
Proceeds from disposal of equity investments at fair value through profit or loss		**–**	47,617
Purchase of equity investments at fair value through profit or loss		**(39,312)**	–
Decrease in pledged deposit		**59,396**	(59,396)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(1,873,330)**	(822,896)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**775,490**	1,245,596
Repayment of bank borrowings		**(1,016,754)**	(1,075,980)
Proceeds from issuance of a corporate bond		**–**	1,488,000
Capital contribution from non-controlling shareholders		**8,300**	–
Dividends paid		**(320,635)**	(241,933)
Interest paid		**(84,949)**	(18,882)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		**(638,548)**	1,396,801
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(1,427,797)**	1,526,045
Cash and cash equivalents at beginning of year		**2,214,111**	688,764
Effect of foreign exchange rate changes, net		**127**	(698)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**786,441**	2,214,111

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS:			
Cash and bank balances	24	**746,888**	1,518,386
Non-pledged time deposits with original maturity of less than three months when acquired	24	**35,000**	691,010
Cash and short-term deposits attributable to a discontinued operation		**4,553**	4,715
Cash and cash equivalents as stated in the consolidated statement of cash flows		**786,441**	2,214,111

Statement of Financial Position

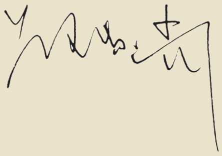
31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,706,108**	1,166,167
Goodwill	15	**84,333**	–
Other intangible assets	16	**929,069**	545,637
Investment in an associate	17	**34,650**	34,650
Investments in subsidiaries	18	**2,558,687**	2,172,900
Loans receivable	19	**341,600**	783,985
Long-term deposits	20	**7,662**	6,880
Land lease prepayments	21	**70,753**	57,781
Deferred tax assets	22	**7,017**	3,399
Other long-term assets	23	**193,336**	152,187
Total non-current assets		**5,933,215**	4,923,586
CURRENT ASSETS			
Cash and cash equivalents	24	**500,850**	1,914,623
Trade and notes receivables	25	**6,469**	3,144
Prepayments and other receivables	26	**535,352**	208,236
Inventories	27	**443,033**	318,110
Loans receivable	19	**805,705**	61,670
Pledged deposit		**–**	59,396
Total current assets		**2,291,409**	2,565,179
CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	29	**250,000**	566,996
Trade payables	30	**325,840**	301,164
Other payables and accruals	31	**291,359**	179,771
Provisions	32	**15,419**	11,514
Tax payable		**102,049**	50,787
Total current liabilities		**984,667**	1,110,232
NET CURRENT ASSETS		**1,306,742**	1,454,947
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,239,957**	6,378,533

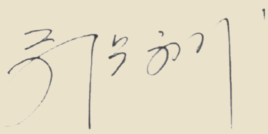
Statement of Financial Position

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	29	**8,732**	7,790
Provisions	32	**60,757**	48,983
Deferred income	33	**32,705**	26,169
Corporate bond	34	**1,489,504**	1,488,036
Deferred tax liabilities	22	**95,548**	–
Total non-current liabilities		**1,687,246**	1,570,978
NET ASSETS		**5,552,711**	4,807,555
EQUITY			
Issued share capital	36	**1,457,430**	1,457,430
Reserves	37	**3,658,052**	3,029,490
Proposed final dividend	12	**437,229**	320,635
TOTAL EQUITY		**5,552,711**	4,807,555



Lu Dongshang
(Director)



Weng Zhanbin
(Director)

Notes to Financial Statements

31 December 2010

1. Corporate Reorganisation and Information

The Company was established as a joint stock limited liability company under the Company Law of the People's Republic of China (the "PRC") on 16 April 2004. It is principally engaged in the businesses of the mining, processing, smelting of gold and the sale of gold, silver and copper products.

In December 2006, the Company issued 198.7 million H shares to the public at a price of HK$12.68 per share (equivalent to approximately RMB12.74 per share) and the H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited ("SEHK") (the "IPO"). In addition, 19.8 million H shares converted from certain domestic shares were transferred to the National Council for the Social Security Fund.

During the year, the Company and its subsidiaries were principally engaged in the exploration, mining, processing, smelting of gold, the sale of gold products and mining, processing and sale of copper products in the PRC. In addition, the Company processed and sold silver in the PRC. The registered office of the Company is located at 299 Jinhui Road, Zhaoyuan, Shandong, China.

Prior to the IPO, the parent and ultimate controlling party of the Company was Shandong Zhaojin Group Company Limited ("Zhaojin Group"), a state-owned enterprise established in the PRC. Subsequent to the IPO, the Company does not have a parent or ultimate controlling party. However, Zhaojin Group is in a position to exercise significant influence over the Company.

2.1 Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain equity investments, which have been measured at fair value. Disposal groups held for sale are stated at the lower of their carrying amounts and fair values less costs to sell. These financial statements are presented in Renminbi ("RMB"), with values rounded to the nearest thousand.

Basis of consolidation

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010. The financial statements of subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Notes to Financial Statements

31 December 2010

2.1 Basis of Preparation (Continued)

Basis of consolidation (Continued)

Basis of consolidation from 1 January 2010 (Continued)

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabiliti4es of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognizes (i) the fair value of the consideration received. (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

Basis of consolidation prior 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

– Acquisitions of non-controlling interests, prior to 1 January 2010, were accounted for using parent entity extension method, whereby the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.

– Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

– Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

2.2 Changes in Accounting Policy and Disclosures

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4	Amendment to HK Interpretation 4 *Leases – Amendment Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

Other than as further explained below regarding the impact of HKFRS 3 (Revised), HKAS 27 (Revised), amendments to HKAS 7 and HKAS 17 included in *Improvements to HKFRSs 2009* and HK Interpretation 4 (Revised in December 2009), the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

Notes to Financial Statements

31 December 2010

2.2 Changes in Accounting Policy and Disclosures (Continued)

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

(a) HKFRS 3 (Revised) *Business Combinations* and HKAS 27 (Revised) *Consolidated and Separate Financial Statements*

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to HKAS 7 *Statement of Cash Flows,* HKAS 12 *Income Taxes,* HKAS 21 *The Effects of Changes in Foreign Exchange Rates,* HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures.*

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) *Improvements to HKFRSs 2009* issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- HKAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

- HKAS 17 *Leases*: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in HKAS 17.

- Amendment to HK Interpretation 4 *Lease – Determination of the Length of Lease Term in respect of Hong Kong Land Lease* is revised as a consequence of the amendment to HKAS 17 *Leases* included in *improvements to HKFRS 2009*. Following this amendment, the scope of HK Interpretation 4 has been expanded to cover all land leases, including those classified as finance leases. As a result, this interpretation is applicable to all leases of property accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40.

2.3 Issued but not yet Effective Hong Kong Financial Reporting Standards

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

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*[2]
HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Serve Hyperinflation and Removal of Fixed Dates to-First-time Adopters*[4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[4]
HKFRS 9	*Financial Instruments*[5]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes-Deferred Tax:Recovery of underlying Assets*[5]
HKAS 24 (Revised)	*Related Party Disclosures*[3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*[3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 February 2010
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 July 2011
5 Effective for annual periods beginning on or after 1 January 2013

Notes to Financial Statements

31 December 2010

2.3 Issued but not yet Effective Hong Kong Financial Reporting Standards (Continued)

Further information about those changes that are expected to significantly affect the Group is as follows:

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 Financial Instruments: Recognition and Measurement. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2013.

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly.

While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group currently does not have any significant transactions with government-related entities.

2.3 Issued but not yet Effective Hong Kong Financial Reporting Standards (Continued)

Improvements to HKFRSs 2010 issued in May 2010 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) HKFRS 3 *Business Combinations*: Clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

(b) HKAS 1 *Presentation of Financial Statements*: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

(c) HKAS 27 *Consolidated and Separate Financial Statements*: Clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

Notes to Financial Statements

31 December 2010

2.4 Summary of Significant Accounting Policies

Subsidiaries

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

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's interests in subsidiaries that are not classified as held for sales in accordance with HKFRS5 are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interest in associates is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of an associate is included in the consolidated profit or loss and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in an associate, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates, is included as part of the Group's interests in associates and is not individually tested for impairment.

The results of the associate are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's interest in an associate is treated as a non-current asset and is stated at cost less any impairment losses.

Business combinations and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

2.4 Summary of Significant Accounting Policies (Continued)

Business combinations and goodwill (Continued)

Business combinations from 1 January 2010 (Continued)

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquire over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group perform its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

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

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

Notes to Financial Statements

31 December 2010

2.4 Summary of Significant Accounting Policies (Continued)

Business combinations and goodwill (Continued)

Business combination prior to 1 January 2010 but after 1 January 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquire were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group has a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, goodwill and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises (only if there are revalued assets in the financial statements), unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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2.4 Summary of Significant Accounting Policies (Continued)

Related parties

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

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

(b) the party is an associate;

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

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

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

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

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

2.4 Summary of Significant Accounting Policies (Continued)

Property, plant and equipment and depreciation (Continued)

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

The estimated useful lives of property, plant and equipment are as follows:

Buildings	Mine life for mine specific, 15 to 30 years for non-mine specific
Plant and machinery	10 years
Office equipment	5 years
Motor vehicles	6 years

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents property, plant and equipment under construction and pending installation including mining infrastructure. Construction in progress is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Notes to Financial Statements

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2.4 Summary of Significant Accounting Policies (Continued)

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than deferred tax assets and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at lease at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such assets are not amortised. The useful life of an intangible asset with indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Mining rights and reserves

Mining rights and reserves are stated at cost less accumulated amortisation and any impairment losses. Mining rights and reserves include the cost of acquiring mining licences and exploration and evaluation costs transferred from exploration rights and assets upon determination that an exploration property is capable of commercial production, and the cost of acquiring interests in the mining reserves of existing mining properties. The mining rights and reserves are amortised over the estimated useful lives of the mines, ranging from 2 to 32 years, in accordance with the production plans of the entities concerned and the proven and probable mineral reserves of the mines using the UOP method. Mining rights and reserves are written off to profit or loss if the mining property is abandoned.

2.4 Summary of Significant Accounting Policies (Continued)

Intangible assets (other than goodwill) (Continued)

Exploration rights and assets

Exploration rights and assets are stated at cost less impairment losses. Exploration rights and assets include the cost of acquiring exploration rights, topographical and geological surveys, exploratory drilling, sampling and trenching and activities in relation to commercial and technical feasibility studies, and amortisation and depreciation charges in respect of assets consumed during the exploration activities.

Exploration and evaluation costs include expenditure incurred to secure further mineralisation in existing ore bodies as well as in new areas of interest. Expenditure incurred prior to accruing legal rights to explore an area is written off as incurred.

When it can be reasonably ascertained that an exploration property is capable of commercial production, exploration and evaluation costs capitalised are transferred to either mining infrastructure or mining rights and reserves and depreciated/amortised by the UOP method based on the proven and probable mineral reserves. Costs incurred for exploration which can be directly attributable to the development of mining infrastructure are transferred to mining infrastructure when the exploration reaches the stage of commercial production. All other costs will be transferred to mining rights and reserves. Exploration rights and assets are written off to profit or loss if the exploration property is abandoned.

Leases

Operating leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance lease. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance lease, but are depreciated over their estimated useful lives.

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

Notes to Financial Statements

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2.4 Summary of Significant Accounting Policies (Continued)

Leases (Continued)

Land lease prepayments

Land lease prepayments represent the purchase costs of land use rights in Mainland China. Land use rights are stated at cost less accumulated amortisation and any accumulated impairment losses and are amortised on the straight-line basis over the shorter of the unexpired period of the rights and the mine lives.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and held-to-maturity investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

The Group's financial assets include cash and bank balances as well as trade, notes and other receivables, and quoted financial instruments.

2.4 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets (Continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in profit or loss. These net fair value changes does not include any dividends on these financial assets, which are recognised in accordance with the policy set out for “Revenue recognition” below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management’s intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other revenue and gains in the statement of comprehensive income. The loss arising from impairment is recognised in profit or loss.

Notes to Financial Statements

31 December 2010

2.4 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets (Continued)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other revenue and gains in the statement of comprehensive income. The loss arising from impairment is recognised in profit or loss.

Derecognition of financial assets

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

– the rights to receive cash flows from the asset have expired; or

– the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

Notes to Financial Statements

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2.4 Summary of Significant Accounting Policies (Continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, corporate bond and interest-bearing loans and other borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of comprehensive income.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

2.4 Summary of Significant Accounting Policies (Continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations(bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of commodity contracts that meet the definition of a derivative as defined by HKAS 39 but are entered into in accordance with the Group's expected purchase requirements is recognised in the income statement in cost of sales.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

None of the derivative financial instruments held by the Group qualifies for hedge accounting.

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2.4 Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents

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

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

Inventories

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

By-products arising during the course of production are allocated a share of production costs.

Net realisable value is based on estimated selling price less any estimated costs to be incurred completion and disposal.

Trade and other payables

Liabilities for trade and other payables which are normally settled on credit terms ranging from 30 to 60 days are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

The Company provides tolling services to process concentrates for third parties. The Company recognises a liability for the value of gold or silver which it contracts to deliver to the customer, at the market value of the product, in recognition of its obligations under the tolling contracts. A corresponding asset is included in inventories. Upon delivery of the processed product, the asset is offset against the liability. As the Company has no ownership interest in the concentrates processed, these transactions are not brought to accounts as sales and purchases. Instead, the Company recognises the processing fees earned.

Provisions

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

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

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost in the statement of comprehensive income.

2.4 Summary of Significant Accounting Policies (Continued)

Provisions (Continued)

Provisions for the Group's obligations for land reclamation are based on estimates of required expenditure at the mines in accordance with PRC rules and regulations. The Group estimates its liabilities for final reclamation and mine closure based upon detailed calculations of the amount and timing of the future cash expenditure to perform the required work. Spending estimates are escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability such that the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation. The Group records a corresponding asset in the period in which the liability is incurred. The asset is depreciated using the UOP method over its expected life and the liability is accreted to the projected expenditure date. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation and asset are recognised at the appropriate discount rate.

Revenue recognition

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

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

(b) processing income, when the relevant services have been rendered;

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

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2.4 Summary of Significant Accounting Policies (Continued)

Government grants

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

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

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

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

(b) in respect of taxable temporary differences associated with investments in subsidiaries and an associate, where the timing of the reversal of temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 Summary of Significant Accounting Policies (Continued)

Income tax (Continued)

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

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

(b) in respect of deductible temporary differences associated with investments in subsidiaries and an associate, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

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31 December 2010

2.4 Summary of Significant Accounting Policies (Continued)

Dividends

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

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Employee benefits

Pension obligations

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

Early retirement benefits

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

Medical benefit costs

The Group participates in government-organised defined contribution medical benefit plans, under which it pays contributions to the plans at a fixed percentage of wages and salaries of the existing full time employees in Mainland China and has no further legal or constructive obligations to pay additional contributions. The contributions are charged as an expense to the statement of comprehensive income as incurred.

Housing fund

The Group contributes on a monthly basis to defined contribution housing fund plans organised by the PRC government. Contributions to these plans by the Group are expensed as incurred.

2.4 Summary of Significant Accounting Policies (Continued)

Foreign currencies

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

The functional currencies of non-PRC incorporated subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income and expenses are translated into RMB at the weighted average rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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

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3. Significant Accounting Judgements and Estimates

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

Estimation uncertainty

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

(a) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets at 31 December 2010 was approximately RMB119,454,000 (2009: RMB94,924,000). Further details are contained in note 22 to the financial statements.

(b) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2010 was RMB559,198,000 (2009: RMB360,422,000). Further details are given in note15.

3. Significant Accounting Judgements and Estimates (Continued)

Estimation uncertainty (Continued)

(c) Impairment of mining and exploration assets and property, plant and equipment

The carrying value of mining and exploration assets and property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed in note 2.4 to the financial statements. The recoverable amount of these assets, or, where appropriate, the cash-generating unit to which they belong, is the higher of its fair value less costs to sell and value in use. Estimating the value in use requires the Group to estimate the expected future cash flows from the cash-generating units and to choose a suitable discount rate in order to calculate the present value of those cash flows. The aggregate carrying value of mining and exploration assets and property, plant and equipment was RMB6,064,810,000 (2009: RMB4,767,553,000).

(d) Provisions

Provisions are based on estimates of future payments made by management and are discounted at rates in the range of 5.8% to 6.4% (2009: 5.3% to 5.9%). Changes in assumptions could significantly affect these estimates. The aggregate carrying value of provisions was RMB84,746,000 (2009: RMB75,327,000).

(e) Mine reserves

Engineering estimates of the Group's mine reserves are inherently imprecise and represent only approximate amounts because of the significant judgements involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated mine reserves can be designated as "proved" and "probable". Proved and probable mine reserve estimates are updated on regular intervals taking 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 mine reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis at related depreciation rates.

Notes to Financial Statements

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4. Operating Segment Information

For management purposes, the Group is organized into business units based on their products and services and has three reportable operating segments as follows:

(a) Gold operations segment consists of the mining and smelting operation;

(b) Copper operations segment consists of the copper mining and smelting operation;

(c) The "Others" segment comprise, principally, the Group's other investment activities.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax from continuing operations. The adjusted profit/(loss) before tax from continuing operations is measured consistently with the Group's profit before tax from continuing operations except that interest income, finance costs, fair value gains/(losses) from the Group's financial instruments as well as corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, pledged deposits, cash and cash equivalents, equity investments at fair value through profit or loss and other unallocated head office corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, corporate bond, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfer are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

4. Operating Segment Information (Continued)

The Group's operation by business segment is as follows:

Group

Year ended 31 December 2010

	Gold operations RMB'000	Copper operations RMB'000	Others RMB'000	Total RMB'000
Segment revenue				
Revenues from external customers	3,772,193	325,607	–	4,097,800
Segment results	1,612,217	185,250	(43,955)	1,753,512
Reconciliation:				
Interest income				13,715
Fair value lose on equity investments at fair value through profit or loss				(23,116)
Finance costs				(92,340)
Foreign exchange gain				127
Profit before tax from continuing operations				1,651,898
Segment assets	7,675,383	652,904	169,108	8,497,395
Reconciliation:				
Corporate and other unallocated assets				917,538
Total assets				9,414,933
Segment liabilities	735,968	232,607	107,117	1,075,692
Reconciliation:				
Corporate and other unallocated liabilities				2,563,597
Total liabilities				3,639,289
Other segment information				
Capital expenditure*	1,697,871	152,563	62,412	1,912,846
Interest in an associate	38,735	–	–	38,735
Deposit paid for acquisition of subsidiaries and property, plant and equipment	62,680	–	–	62,680
Impairment losses recognised in profit or loss	12,061	–	–	12,061
Share of profit of an associate	3,961	–	–	3,961
Depreciation and amortisation	365,092	17,017	2,013	384,122
Exploration assets written off	6,692	–	–	6,692

* Capital expenditure consists of additions to property, plant and equipment, goodwill and other intangible assets, including assets from the business combination and acquisition of a subsidiary.

Notes to Financial Statements

31 December 2010

4. Operating Segment Information (Continued)

Geographical information

As over 99% of the assets of the Group are located in the PRC and over 99% of the sales are made to the PRC customers, no further geographical segment information has been presented.

Information about major customers

Revenue from continuing operation of approximately RMB3,561,000,000 (2009:RMB2,514,000,000) was derived from sales by the gold operation segment to a single customer.

Group

Year ended 31 December 2009

	Gold operations RMB'000	Copper operations RMB'000	Others RMB'000	Total RMB'000
Segment revenue				
Revenues from external customers	2,644,821	152,170	–	2,796,991
Segment results	1,002,053	29,861	(1,318)	1,030,596
Reconciliation:				
Interest income				12,097
Fair value gain on equity investments at fair value through profit or loss				25,774
Finance costs				(23,137)
Foreign exchange loss				(698)
Profit before tax from continuing operations				1,044,632
Segment assets	5,540,481	626,300	51,135	6,217,916
Reconciliation:				
Corporate and other unallocated assets				2,363,716
Total assets				8,581,632
Segment liabilities	783,310	94,325	28,052	905,687
Reconciliation:				
Corporate and other unallocated liabilities				2,708,528
Total liabilities				3,614,215

4. Operating Segment Information (Continued)

Group

Year ended 31 December 2009

	Gold operations RMB'000	Copper operations RMB'000	Others RMB'000	Total RMB'000
Other segment information				
Capital expenditure	1,501,059	43,909	–	1,544,968
Interest in an associate	37,980	–	–	37,980
Deposit paid for acquisition of subsidiaries and property, plant and equipment	164,646	–	–	164,646
Impairment losses recognised in profit or loss	5,654	–	–	5,654
Share of profit of an associate	1,331	–	–	1,331
Depreciation and amortisation	198,001	35,446	52	233,499
Exploration assets written off	16,821	–	–	16,821

Notes to Financial Statements

31 December 2010

5. Revenue, other Revenue and Gains

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, net of trade discounts and returns and various types of government surcharges where applicable, and the value of service rendered:

	2010 RMB'000	2009 RMB'000
Revenue		
Sale of goods:		
Gold	3,624,404	2,521,057
Copper	280,763	158,266
Silver	114,950	66,493
Sulphur	37,596	13,333
Other by-products	50,862	45,157
Rendering of service:		
Processing of gold and silver	19,263	18,070
	4,127,838	2,822,376
Less:		
Government surcharges	(30,038)	(25,385)
Revenue	4,097,800	2,796,991
Other revenue and gains		
Sale of raw materials	40,074	11,229
Government grants	37,036	24,590
Hotel service fees	16,270	15,046
Bank interest income	13,715	12,097
Gain on bargain purchase	6,184	2,979
Fair value gain, net:		
Equity investments at fair value through profit or loss	5,699	25,774
Gain on disposal of items of property, plant and equipment	986	421
Foreign exchange gain	127	–
Gains on disposal of held-to-maturity investments	–	341
Others	3,055	6,704
Other revenue and gains	123,146	99,181

6. Profit Before Tax

The Group's profit before tax from continuing operations is arrived at after charging the following:

	2010 RMB'000	2009 RMB'000
Cost of inventories sold and services provided	**1,786,958**	1,347,704
Interest on bank and other borrowings		
– wholly repayable within five years	**11,617**	17,472
– repayable over five years	**180**	199
Interest for a corporate bond	**76,468**	1,885
Total interest expense on financial liabilities not at fair value through profit or loss	**88,265**	19,556
Incremental interest on provisions	**3,879**	3,485
Bank charges and other finance costs	**196**	96
Finance costs	**92,340**	23,137
Staff costs		
Wages and salaries (including directors' remuneration)	**290,106**	258,503
Early retirement benefits	**26,277**	12,825
Defined contribution fund:		
– Retirement costs	**46,357**	34,288
– Other staff benefits	**46,858**	31,790
Total staff costs	**409,598**	337,406
Foreign exchange loss	**–**	698
Auditors' remuneration	**2,600**	2,550
Amortisation of land lease prepayments*	**5,403**	3,247
Amortisation of mining rights and reserves*	**100,363**	57,668
Depreciation	**278,356**	172,584
Loss on disposal of property, plant and equipment	**12,722**	14,815
Operating lease rentals in respect of:		
– Land	**6,809**	6,173
– Office	**–**	662
Impairment of other receivables	**12,061**	2,326
Exploration assets written off	**6,692**	16,821
Fair value losses, net:		
– Equity investments at fair value through profit or loss	**28,815**	–

* The amortisation of land lease prepayments and mining rights and reserves for the year is included in "Cost of sales" on the face of the consolidated statement of comprehensive income.

Notes to Financial Statements

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7. Directors' and Supervisors' Emoluments

Details of the remuneration of directors and supervisors of the Company during the year are as follows:

	2010 RMB'000	2009 RMB'000
Fees:		
– Non-executive directors	–	–
– Independent non-executive directors	640	640
– Supervisors	–	–
	640	640
Salaries, allowances and benefits in kind	2,430	1,546
Performance related bonuses*	1,352	645
Pension scheme contributions	125	91
	3,907	2,282
	4,547	2,922

* Certain directors' bonus payments are determined as a percentage of the profit after tax of the Group.

7. Directors' and Supervisors' Emoluments (Continued)

(a) (i) Executive directors, non-executive directors (excluding independent non-executive directors) and supervisors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
For the year ended 31 December 2010					
Executive directors:					
– Lu Dong Shang	–	1,049	708	44	1,801
– Wang Pei Fu (resigned on 10 Nov 2010)	–	893	644	39	1,576
– Weng Zhan Bin (appointed on 10 Nov 2010)	–	19	–	3	22
– Ma Yu Shan (retired on 26 Feb 2010)	–	321	–	30	351
	–	2,282	1,352	116	3,750
Non-executive directors:					
– Liang Xin Jun	–	–	–	–	–
– Wu Ping (resigned on 26 Feb 2010)	–	–	–	–	–
– Wu Zhong Qing	–	–	–	–	–
– Cong Jian Mao	–	–	–	–	–
– Wang Pei Fu (appointed on 10 Nov 2010)	–	–	–	–	–
– Chen Guo Ping	–	–	–	–	–
	–	–	–	–	–
Supervisors:					
– Cheng Bing Hai (resigned on 26 Feb 2010)	–	–	–	–	–
– Jin Ting (appointed on 26 Feb 2010)	–	–	–	–	–
– Wang Xiao Jie	–	–	–	–	–
– Chu Yu Shan	–	148	–	9	157
	–	–	–	–	–
	–	2,430	1,352	125	3,907

Notes to Financial Statements

31 December 2010

7. Directors' and Supervisors' Emoluments (Continued)

(a) (i) Executive directors, non-executive directors (excluding independent non-executive directors) and supervisors (Continued)

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
For the year ended 31 December 2009					
Executive directors:					
– Lu Dong Shang	–	584	278	28	890
– Wang Pei Fu	–	540	307	24	871
– Ma Yu Shan	–	334	60	31	425
	–	1,458	645	83	2,186
Non-executive directors:					
– Liang Xin Jun	–	–	–	–	–
– Wu Ping	–	–	–	–	–
– Liu Gen Dong (resigned on 1 Nov 2009)	–	–	–	–	–
– Cong Jian Mao	–	–	–	–	–
– Chen Guo Ping	–	–	–	–	–
	–	–	–	–	–
Supervisors:					
– Cheng Bing Hai	–	–	–	–	–
– Wang Xiao Jie	–	–	–	–	–
– Chu Yu Shan	–	88	–	8	96
	–	88	–	8	96
	–	1,546	645	91	2,282

7. Directors' and Supervisors' Emoluments (Continued)

(a) (ii) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2010 RMB'000	2009 RMB'000
Independent non-executive directors		
Yan Hong Bo	160	160
Cai Si Cong	160	160
Chen Jin Rong	160	160
Ye Tian Zhu	160	160
	640	640

There were no other emoluments payable to the independent non-executive directors during the year (2009: Nil).

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

(b) Five highest paid employees

The five highest paid employees during the year fell into the following categories:

	2010	2009
Directors	2	2
Non-director and non-supervisory employees	3	3
	5	5

Details of directors' remuneration are set out in notes 7(a) and 7(b) to the financial statements.

Notes to Financial Statements

31 December 2010

7. Directors' and Supervisors' Emoluments (Continued)

(b) Five highest paid employees (Continued)

Details of the remuneration of the non-director and non-supervisory, highest paid employees during the year are as follows:

	2010 RMB'000	2009 RMB'000
Salaries, allowances and benefits in kind	**1,885**	1,049
Performance related bonuses	**1,634**	496
Pension scheme contributions	**133**	71
	3,652	1,616

The number of the non-director and non-supervisory, highest paid employees whose remuneration fell within the following bands is as follows:

	2010	2009
Nil to HK$1,000,000 (Equivalent up to RMB880,400)	**–**	3
HK$1,000,000 to HK$2,000,000 (Equivalent to RMB880,400-RMB1,702,000)	**3**	–

During the year, no emoluments were paid by the Group to any of the persons who are directors of the Company, or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the persons who are directors of the Company waived or agreed to waive any emoluments during the year.

8. Income Tax Expense

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

PRC corporate income tax ("CIT") has been provided at a rate of 25% (2009: 25%) on the taxable income as reported in the statutory accounts of the companies comprising the Group, which are prepared in accordance with PRC GAAP, as adjusted for income and expense items which are not assessable or deductible for income tax purposes. Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

The major components of income tax expense for the year are as follows:

	2010 RMB'000	2009 RMB'000
Group:		
PRC corporate income tax		
– Charge for the year	**452,247**	290,775
Deferred tax *(note 22)*	**(42,510)**	(26,740)
	409,737	264,035

A reconciliation of income tax expense applicable to profit before tax at the statutory income tax rate in Mainland China to the income tax expense at the Group's effective income tax rate for the year is as follows:

	Note	**2010 %**	**2010 RMB'000**	2009 %	2009 RMB'000
Profit before tax from continuing operations			**1,651,898**		1,044,632
Statutory tax rate applied to profit before tax		**25.0**	**412,975**	25.0	261,158
Reconciling items:					
Expenses not deductible for tax		**0.3**	**4,555**	0.5	5,661
Tax losses not recognised	(i)	**–**	**–**	0.1	999
Income not subject to tax		**(0.1)**	**(1,212)**	(0.1)	(964)
Others		**(0.4)**	**(6,581)**	(0.2)	(2,819)
Total tax charge for the year		**24.8**	**409,737**	25.3	264,035

(i) Accumulated unused tax losses of approximately RMB26,324,000(2009: 3,996,000) arising from subsidiaries of the Group have not been recognised as deferred tax assets in the financial statements as it is not probable that the subsidiaries will generate future taxable income to utilise the tax benefits. The unused tax losses will expire within five years.

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9. Profit Attributable to Owners of the Parent

The consolidated profit attributable to owners of the parent for the year ended 31 December 2010 includes a profit of RMB1,055,660,000 (2009:RMB791,083,000) which has been dealt with in the financial statements of the Company(note 37).

10. Disposal of a Subsidiary

On 6 January 2010, the Company entered into an agreement to dispose its entire interest in Starry Company Limited ("Starry"), a wholly-owned subsidiary of the Company, for a consideration of RMB12,000,000 which has been satisfied by cash. The transaction was completed in February 2010.

11. Other Assets and Liabilities Classified as Held for Sale

Since December 2009, the Company has been undergoing a negotiation with a third party for the disposal of its 100% equity interest in Fukang Mining Industry Company Limited ("Fu Kang"). The proposed consideration is around RMB26,500,000. Due to the unexpected event beyond the Company's control, the disposal of Fu Kang has not been completed as at 31 December 2010. As the management is committed to disposing the equity interest in Fu Kang, and is undergoing negotiation with another potential buyer, the relevant assets and liabilities continue to be disclosed as group held for sale in the 2010 annual report.

The major classes of assets and liabilities classified as held for sale as at year end are as follows:

	2010	2009
	RMB'000	RMB'000
Assets		
Property, plant and equipment	**6,423**	7,659
Intangible assets	**22,190**	52,134
Cash and cash equivalents	**4,553**	4,715
Inventories	**118**	157
Prepayments and other receivables	**–**	6
Deferred tax assets	**–**	815
Assets classified as held for sale	**33,284**	65,486
Liabilities		
Other payables and accruals	**(205)**	(8,265)
Deferred income	**(1,500)**	(1,500)
Deferred tax liabilities	**(5,079)**	(17,221)
Liabilities directly associated with assets classified as held for sale	**(6,784)**	(26,986)
Net assets directly associated with the disposal group	**26,500**	38,500

12. Dividends

	2010 RMB'000	2009 RMB'000
Ordinary:		
Proposed final – RMB0.3 per share (2009: RMB0.22 per share)	**437,229**	320,635

The board of directors recommends a cash dividend to all shareholders on the basis of RMB0.3 per share (2009: RMB0.22 per share). In addition to the cash dividend, the board of directors recommends a stock dividend to all shareholders on basis of 0.5 share and 0.5 share for every share held by way of capitalisation of capital reserve and retained profits of RMB728,715,000 and RMB728,715,000, respectively into 1,457,430,000 shares at a par value of RMB1 each.

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. Earnings Per Share Attributable to Ordinary Equity Holders of the Parents

The calculation of basic earnings per share amount is based on the profit for the year attributable to owners of the parent, and the weighted average number of ordinary shares in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during 2009 and 2010.

The calculation of basic earnings per share is based on:

	2010 RMB'000	2009 RMB'000
Earnings:		
Profit attributable to owners of the parent		
From a continuing operations	**1,201,731**	783,284
From a discontinued operation	**–**	(29,264)
	1,201,731	754,020

	2010 '000	2009 '000
Shares:		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,457,430**	1,457,430

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14. Property, Plant and Equipment

Group

31 December 2010

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Mining infrastructure RMB'000	Construction in progress (CIP) RMB'000	Total RMB'000
Cost:							
At 1 January 2010	904,507	712,910	50,591	105,894	1,691,100	212,046	3,677,048
Additions	108,121	117,034	25,725	37,077	41,827	624,783	954,567
Transferred from CIP	127,998	86,331	3,927	1,884	233,630	(453,770)	–
Transferred from exploration rights and assets *(note 16)*	–	–	–	–	127,292	–	127,292
Acquisition of subsidiaries *(note 41)*	56,050	24,371	1,443	2,093	48,970	22,593	155,520
Disposals/write-off	(10,449)	(32,083)	(3,869)	(11,567)	(7,489)	–	(65,457)
At 31 December 2010	1,186,227	908,563	77,817	135,381	2,135,330	405,652	4,848,970
Accumulated depreciation:							
At 1 January 2010	252,199	211,976	26,099	53,327	369,986	–	913,587
Charge for the year	31,687	66,277	14,169	19,653	146,570	–	278,356
Acquisition of subsidiaries *(note 41)*	2,762	2,311	44	179	642	–	5,938
Disposals/write-off	(8,285)	(13,497)	(1,555)	(10,925)	(5,729)	–	(39,991)
At 31 December 2010	278,363	267,067	38,757	62,234	511,469	–	1,157,890
Net book value:							
At 31 December 2010	907,864	641,496	39,060	73,147	1,623,861	405,652	3,691,080

14. Property, Plant and Equipment (Continued)

Group

31 December 2009

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Mining infrastructure RMB'000	Construction in progress (CIP) RMB'000	Total RMB'000
Cost:							
At 1 January 2009	646,502	481,263	41,649	73,696	1,214,516	371,713	2,829,339
Additions	17,738	35,588	8,194	19,630	15,572	374,505	471,227
Transferred from CIP	159,783	170,186	1,515	6,201	224,661	(562,346)	–
Transferred from exploration rights and assets *(note 16)*	–	–	–	–	93,971	–	93,971
Acquisition of subsidiaries	95,104	45,274	1,645	10,737	148,135	28,578	329,473
Reclassification to a group of assets held for sale *(note 11)*	(1,079)	(4,233)	(167)	(1,458)	(2,949)	(404)	(10,290)
Disposals/write-off	(13,541)	(15,168)	(2,245)	(2,912)	(2,806)	–	(36,672)
At 31 December 2009	904,507	712,910	50,591	105,894	1,691,100	212,046	3,677,048
Accumulated depreciation:							
At 1 January 2009	178,952	157,492	21,593	42,126	281,249	–	681,412
Charge for the year	29,387	49,570	6,003	9,773	78,218	–	172,951
Acquisition of subsidiaries	49,902	16,618	768	5,012	11,412	–	83,712
Reclassification to a group of assets held for sale *(note 11)*	(105)	(1,454)	(110)	(962)	–	–	(2,631)
Disposals/write-off	(5,937)	(10,250)	(2,155)	(2,622)	(893)	–	(21,857)
At 31 December 2009	252,199	211,976	26,099	53,327	369,986	–	913,587
Net book value:							
At 31 December 2009	652,308	500,934	24,492	52,567	1,321,114	212,046	2,763,461

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14. Property, Plant and Equipment (Continued)

Company

31 December 2010

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Mining infrastructure RMB'000	Construction in progress (CIP) RMB'000	Total RMB'000
Cost:							
At 1 January 2010	443,131	372,414	34,724	56,067	772,513	63,455	1,742,304
Additions	4,392	31,714	9,189	9,740	187	308,019	363,241
Merger of a subsidiary	86,005	48,372	1,041	9,993	119,651	–	265,062
Transferred from CIP	30,110	14,099	3,225	1,408	121,272	(170,114)	–
Transferred from exploration assets *(note 16)*	–	–	–	–	127,292	–	127,292
Disposals/write-off	(8,635)	(19,186)	(1,107)	(9,473)	(6,752)	–	(45,153)
At 31 December 2010	555,003	447,413	47,072	67,735	1,134,163	201,360	2,452,746
Accumulated depreciation:							
At 1 January 2010	146,110	146,085	19,500	35,747	228,695	–	576,137
Charge for the year	13,745	32,726	9,595	12,059	66,262	–	134,387
Merger of a subsidiary	51,088	16,671	238	5,477	–	–	73,474
Disposals/write-off	(5,161)	(16,909)	(1,061)	(8,261)	(5,968)	–	(37,360)
At 31 December 2010	205,782	178,573	28,272	45,022	288,989	–	746,638
Net book value:							
At 31 December 2010	349,221	268,840	18,800	22,713	845,174	201,360	1,706,108

14. Property, Plant and Equipment (Continued)

Company

31 December 2009

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Mining infrastructure RMB'000	Construction in progress (CIP) RMB'000	Total RMB'000
Cost:							
At 1 January 2009	421,225	337,270	32,115	50,532	575,206	293,148	1,709,496
Additions	401	12,932	3,620	6,294	3,769	95,363	122,379
Transferred from CIP	33,664	36,286	1,216	1,540	118,528	(191,234)	–
Transferred from exploration asset *(note 16)*	–	–	–	–	76,537	–	76,537
Transferred to subsidiaries	–	–	–	–	–	(133,822)	(133,822)
Disposals/write-off	(12,159)	(14,074)	(2,227)	(2,299)	(1,527)	–	(32,286)
At 31 December 2009	443,131	372,414	34,724	56,067	772,513	63,455	1,742,304
Accumulated depreciation:							
At 1 January 2009	135,310	124,973	17,191	33,769	192,756	–	503,999
Charge for the year	16,456	31,140	4,462	4,343	36,832	–	93,233
Disposals/write- off	(5,656)	(10,028)	(2,153)	(2,365)	(893)	–	(21,095)
At 31 December 2009	146,110	146,085	19,500	35,747	228,695	–	576,137
Net book value:							
At 31 December 2009	297,021	226,329	15,224	20,320	543,818	63,455	1,166,167

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15. Goodwill

Group

	RMB'000
At 1 January 2009:	262,725
Cost	–
Acquisition of subsidiaries	97,697
Accumulated impairment	–
Net carrying amount	360,422
Cost at 1 January 2009, net of accumulated impairment	360,422
Impairment during 2009	–
At 31 December 2009	360,422
At 31 December 2009:	
Cost	360,422
Accumulated impairment	–
Net carrying amount	360,422
Cost at 1 January 2010, net of accumulated impairment	**360,422**
Acquisition of subsidiaries *(note 41)*	**198,775**
Impairment during the year	**–**
Cost and net carrying amount at 31 December 2010	**559,197**
At 31 December 2010:	
Cost	**559,197**
Accumulated impairment	**–**
Net carrying amount	**559,197**

15. Goodwill (Continued)

Company

	RMB'000
Cost at 1 January 2010, net of accumulated impairment	–
Merger of a subsidiary	84,333
Impairment during the year	–
Cost and net carrying amount at 31 December 2010	84,333
At 31 December 2010:	
Cost	84,333
Accumulated impairment	–
Net carrying amount	84,333

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the related cash-generating units of gold production.

The recoverable amounts of the cash-generating units has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 10.71% (2009: 10.66%).

Key assumptions used in the value in use calculation for the year ended 31 December 2010 and 31 December 2009 are as follows:

Gold output

The basis used to determine the values assigned to the future revenues is estimated based on the annual ore output and gold production, which is in line with the processing capacity of each cash-generating unit, taking into consideration of the expected future capital expenditure and capacity expansion.

Mining costs

The basis used to determine the values assigned to the mining costs is the input requirements in accordance with the long-term mining plan at real unit costs.

Commodity price

Future commodity prices in the valuation model are estimated by management based on their industry experience, historic price trends and independent expert reports and commentaries.

Notes to Financial Statements

31 December 2010

15. Goodwill (Continued)

Discount rates

The discount rates used are based on a weighted average cost of capital, and are real rates, before tax reflecting specific risks relating to the relevant cash-generating units.

The values assigned to key assumptions are consistent with external information sources.

16. Other Intangible Assets

Group

31 December 2010

	Exploration rights and assets RMB'000	Mining rights and reserves RMB'000	Total RMB'000
Cost:			
At 1 January 2010	899,238	1,347,833	2,247,071
Additions	241,011	7,611	248,622
Acquisition of subsidiaries *(note 41,42)*	80,719	274,644	355,363
Write-off	(6,692)	–	(6,692)
Transferred to property, plant and equipment *(note 14)*	(127,292)	–	(127,292)
At 31 December 2010	1,086,984	1,630,088	2,717,072
Accumulated amortisation:			
At 1 January 2010	39,163	203,816	242,979
Provided during the year	–	100,363	100,363
At 31 December 2010	39,163	304,179	343,342
Net book value:			
At 31 December 2010	1,047,821	1,325,909	2,373,730

16. Other Intangible Assets (Continued)

Group

31 December 2009

	Exploration rights and assets RMB'000	Mining rights and reserves RMB'000	Total RMB'000
Cost:			
At 1 January 2009	708,974	1,044,420	1,753,394
Additions	188,719	51,857	240,576
Acquisition of subsidiaries *(note 41,42)*	170,416	276,953	447,369
Reclassification to a group of assets held for sale *(note 9,10)*	(58,079)	(25,397)	(83,476)
Write-off	(16,821)	–	(16,821)
Transferred to property, plant and equipment *(note 14)*	(93,971)	–	(93,971)
At 31 December 2009	899,238	1,347,833	2,247,071
Accumulated amortisation:			
At 1 January 2009	23,111	146,148	169,259
Provided during the year	16,052	57,668	73,720
At 31 December 2009	39,163	203,816	242,979
Net book value:			
At 31 December 2009	860,075	1,144,017	2,004,092

16. Other Intangible Assets (Continued)

Company

31 December 2010

	Exploration rights and assets RMB'000	Mining rights and reserves RMB'000	Total RMB'000
Cost:			
At 1 January 2010	251,462	441,437	692,899
Additions	147,704	–	147,704
Merger of a subsidiary	232,904	163,382	396,286
Write-off	(6,692)	–	(6,692)
Transferred to property, plant and equipment *(note 14)*	(127,292)	–	(127,292)
At 31 December 2010	498,086	604,819	1,102,905
Accumulated amortisation:			
At 1 January 2010	15,909	131,353	147,262
Provided during the year	–	26,574	26,574
At 31 December 2010	15,909	157,927	173,836
Net book value:			
At 31 December 2010	482,177	446,892	929,069

16. Other Intangible Assets (Continued)

Company

31 December 2009

	Exploration rights and assets RMB'000	Mining rights and reserves RMB'000	Total RMB'000
Cost:			
At 1 January 2009	207,136	441,062	648,198
Additions	134,115	375	134,490
Write-off	(13,252)	–	(13,252)
Transferred to property, plant and equipment *(note 14)*	(76,537)	–	(76,537)
At 31 December 2009	251,462	441,437	692,899
Accumulated amortisation:			
At 1 January 2009	15,909	104,738	120,647
Provided during the year	–	26,615	26,615
At 31 December 2009	15,909	131,353	147,262
Net book value:			
At 31 December 2009	235,553	310,084	545,637

Notes to Financial Statements

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17. Investment in an Associate

Group

	2010 RMB'000	2009 RMB'000
Share of net assets	**38,735**	37,980

Company

	2010 RMB'000	2009 RMB'000
Unlisted shares, at cost	**34,650**	34,650

Particulars of the associate are as follows:

Company name	Place and date of establishment	Paid-up/ registered capital RMB'000	Percentage of equity interest directly attributable to the Group	Principal activities
Aletai Zhengyuan International Mining Company Limited (阿勒泰正元國際礦業有限公司)*	PRC 20 May 2005	90,000	38.5%	Mining and processing of gold products

The percentages of the Company's voting power held and profit sharing are both 38.5% (2009: 38.5%).

* The statutory financial statements of the associate were not audited by Ernst & Young, Hong Kong or any other member firm of the Ernst & Young global network.

The following table illustrates the summarised financial information of the Group's associate extracted from its management accounts:

	2010 RMB'000	2009 RMB'000
Assets	**135,614**	114,795
Liabilities	**35,004**	16,146
Revenue	**62,106**	61,574
Profit	**10,289**	9,255

18. Investments in Subsidiaries

Company

	2010 RMB'000	2009 RMB'000
Unlisted shares, at cost	**2,558,687**	2,172,900

Particulars of the subsidiaries are as follows:

Company name	Place and date of incorporation/ registration and operations	Nominal value of paid-up/ registered capital RMB'000	Percentage of equity interest attributable to the Company Direct %	Indirect %	Principal activities
Zhaoyuan Jintingling Mining Industry Company Limited (招遠市金亭嶺礦業有限公司)	PRC/Mainland China 10 October 2002	45,000	100	–	Mining and processing of gold products
Hainan Dongfang Zhaojin Mining Industry Company Limited (海南東方招金礦業有限公司)	PRC/Mainland China 13 May 2004	5,800	95	–	Mining and processing of gold products
Minxian Tianhao Gold Company Limited (岷縣天昊黃金有限責任公司)	PRC/Mainland China 16 May 2001	46,670	100	–	Mining and processing of gold products
Tuoli Zhaojin Beijiang Mining Company Limited ("TZB") (托里縣招金北疆礦業有限公司)	PRC/Mainland China 16 April 2004	30,000	100	–	Mining and processing of gold products
Subsidiary of TZB:					
Xinyuan Gold Mining Industry Co., Ltd. ("Xinyuan Gold Company") (托里縣鑫源黃金礦業有限公司)	PRC/Mainland China 7 January 2004	33,400	–	80	Mining and processing of gold products
Tuoli Hami Mining Industry Co., Ltd. ("Zhaojin Taihe") (哈密市招金泰合礦業有限公司)	PRC/Mainland China 25 February 2009	20,000	–	100	Purchasing and sale of gold products
Xinjiang Xingta Mining Company Limited (新疆星塔礦業有限公司)	PRC/Mainland China 24 November 2005	160,000	100	–	Smelting of gold products

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31 December 2010

18. Interests in Subsidiaries (Continued)

Company name	Place and date of incorporation/ registration and operations	Nominal value of paid-up/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
		RMB'000	%	%	
Kunhe Zhaojin Mining Company Limited ("Kunhe") (阿勒泰市招金昆合礦業有限公司)****	PRC/Mainland China 27 August 2007	10,000	100	–	Mining and processing of gold products
Fukang Mining Industry Company Limited ("Fu Kang") (康定縣富康礦業有限責任公司)	PRC/Mainland China 16 August 2002	6,680	100	–	Mining and processing of gold products
Huabei Zhaojin Mining Investment Company Limited ("HZMI") (華北招金礦業投資有限公司)	PRC/Mainland China 20 June 2007	50,000	100	–	Investment holding
Subsidiaries of HZMI:					
Heilongjiang Zhaojin Mining Company Limited (黑龍江招金礦業開發有限公司)	PRC/Mainland China 10 September 2007	10,000	–	70	Investment holding
Beijing Zhongse Mining Technology Company Limited (北京中色鴻鑫礦業科技有限責任公司)	PRC/Mainland China 26 September 2007	30,000	–	90	Investment holding
Gansu Zhaojin Mining Company Limited ("GSZJ") (甘肅招金礦業有限公司)	PRC/Mainland China 14 August 2007	10,000	100	–	Investment holding
Subsidiary of GSZJ:					
Liangdang Zhaojin Mining Industry Company Limited (兩當縣招金礦業有限公司)	PRC/Mainland China 28 March 2008	6,000	–	55	Mining and processing of gold products
Sparky International Trade Company Limited ("SIT") (斯派柯國際貿易有限公司)	Hong Kong 31 May 2007	68,598	100	–	Purchase of gold concentrates from outside China

18. Interests in Subsidiaries (Continued)

Company name	Place and date of incorporation/ registration and operations	Nominal value of paid-up/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
		RMB'000	%	%	
Fengningjinlong Mining Company Limited ("FNJL") (豐寧金龍黃金工業有限公司)	PRC/Mainland China 14 September 2000	94,519	52	–	Mining, smelting and processing of gold products
Zhaojin Guihe Technical Company Limited ("Guihe") (招遠市招金貴合科技有限公司)	PRC/Mainland China 9 October 2009	50,000	100	–	Manufacturing and sale of sulphur acid and noble metal; electricity generation
Gansu Hezuo Zaozigou Mining Industry Company Limited ("ZGM") (甘肅省合作早子溝金礦有限責任公司)	PRC/Mainland China 29 October 2008	2,000	52	–	Mining, smelting and processing of gold products
Jiashi Tonghui Mining Company Limited ("TCM") (伽師縣銅輝礦業有限責任公司)*****	PRC/Mainland China 5 January 2004	9,000	92	–	Mining and processing of copper products
Xinjiang Xinhui Copper Company Limited ("Xinhui") (新疆鑫慧銅業有限公司)*****	PRC/Mainland China 16 November 2006	30,000	92	–	Smelting of copper products
Qinghe Jindu Mining Company Limited("Qinghe Ming") (青河縣金都礦業開發有限公司)*	PRC/Mainland China 4 August 2005	10,000	80	–	Mining, smelting and processing of gold products
Xinfengyuan Mining Company Limited ("Xinfengyuan Mining") (鳳城市鑫豐源礦業有限公司)***	PRC/Mainland China 12 December 2007	10,000	100	–	Mining, exploration and processing of gold products
Hezheng Xinyuan Mining Company Limited ("Hezheng Ming") (和政鑫源礦業有限公司)*	PRC/Mainland China 7 December 2006	5,000	100	–	Exploration and sales of gold products

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18. Interests in Subsidiaries (Continued)

Company name	Place and date of incorporation/ registration and operations	Nominal value of paid-up/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
		RMB'000	%	%	
Xingjiang Zhaojin Mining Company Limited ("XJKF") (新疆招金礦業開發有限公司)**	PRC/Mainland China 19 May 2010	30,000	100	–	Mining investment and sales of gold products
Guigang Longxin Mining Company Limited ("Longxin Mining") (廣西貴港市龍鑫礦業開發有限公司)*	PRC/Mainland China 19 December 2005	5,000	100	–	Sales of gold products
Zhaojin Zhengyuan Mining Company Limited ("Zhengyuan") (山東招金正元礦業有限公司)**	PRC/Mainland China 18 August 2010	10,000	100	–	Mining investment and exploration
Zhaojin Baiyun Mining Company Limited ("Baiyun Mining") (遼寧招金白雲黃金礦業有限公司)*	PRC/Mainland China 20 December 1983	30,000	55	–	Exploration and sales of gold products

The above subsidiaries incorporated/established in the PRC are registered as companies with limited liability under PRC law.

* Details of the acquisition of subsidiaries are included in note 41 to the financial statements.

** During the year, the Company established these two subsidiaries with equity investments at a total consideration of RMB38,000,000.

*** Details of the acquisition of Xingfengyuan Mining is included in note 42 to the financial statements.

**** The Company purchased 100% share of Kunhe from TZB and its non-controlling interests, with a consideration of RMB12,000,000 in July 2010.

***** The Company acquired the shares 41% equity interests of TCM and Xinhui from their non-controlling interests in October 2010.

****** Zhaojin Canzhuang Gold Mine ("Canzhuang") merged and became the branch of the Company in 2010. Canzhuang was acquired as a subsidiary in 2009.

Tuoli Tianshanze Mining Industry Co., Ltd. and Tuoli Tianyun Mining Industry Co., Ltd., two acquired subsidiaries by the Company in 2009, became the branches of TZB in 2010.

19. Loans Receivable

Company

	2010 RMB'000	2009 RMB'000
Entrustment loans receivable	**1,147,305**	845,655
Less: Due within 12 months	**(805,705)**	(61,670)
Due after 12 months	**341,600**	783,985

The Company entered into entrustment loan agreements with its subsidiaries and a bank. Pursuant to the entrustment loan agreements, the Company extended loans to its subsidiaries through the bank. The loans are unsecured, bearing fixed interest rates ranging from 6.11% to 8.69% per annum and have maturity dates in 2011 till 2012.

The fair value of loans receivable with a carrying value of RMB1,147,305,000 (2009: RMB845,655,000) was approximately RMB1,128,000,000 (2009: RMB814,000,000) at the end of reporting period and has been calculated by discounting the expected future cash flows at prevailing interest rates.

20. Long-Term Deposits

Long-term deposits of the Company represent utilities and environmental rehabilitation deposits paid to service providers and the government respectively. The amounts are not expected to be refunded within the next 12 months.

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21. Land Lease Prepayments

Group

	2010 **RMB'000**	2009 RMB'000
At cost:		
At beginning of year	**147,007**	88,617
Additions during the year	**4,474**	44,924
Acquisition of subsidiaries *(note 41)*	**45,491**	13,466
At end of year	**196,972**	147,007
Accumulated amortisation:		
At beginning of year	**15,524**	12,277
Amortisation for the year	**5,403**	3,247
At end of year	**20,927**	15,524
Net book value:		
At end of year	**176,045**	131,483

Company

	2010 **RMB'000**	2009 RMB'000
At cost:		
At beginning of year	**67,250**	55,225
Merger of a subsidiary	**13,431**	–
Additions during the year	**2,258**	12,025
At end of year	**82,939**	67,250
Accumulated amortisation:		
At beginning of year	**9,469**	7,750
Amortisation for the year	**2,717**	1,719
At end of year	**12,186**	9,469
Net book value:		
At end of year	**70,753**	57,781

21. Land Lease Prepayments (Continued)

The Group's and the Company's leasehold lands are located in Mainland China. In 2004 and 2005, the Group and the Company were formally granted by the relevant PRC authorities certain rights to use the land on which the Group's factories and gold mines are erected, for periods generally ranging between 44 and 64 years from the grant date.

22. Deferred Tax

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

Group

31 December 2010

	At 1 January RMB'000	(Charged)/ credited to profit or loss *(Note 8)* RMB'000	Arising on acquisitions RMB'000	Reclassi-fication to assets/ liabilities classified as held for sale RMB'000	At 31 December RMB'000
Deferred tax assets:					
Income received on share subscription funds	(3,216)	3,216	–	–	–
Excess tax depreciation over book value					
– Intangible assets	30,166	(17,162)	–	–	13,004
– Property, plant and equipment	(9,179)	10,241	–	–	1,062
Provision for early retirement and rehabilitation	21,437	660	–	–	22,097
Other temporary differences	55,716	27,575	–	–	83,291
Deferred tax assets	94,924	24,530	–	–	119,454
Deferred tax liabilities:					
Fair value adjustments arising from acquisition of subsidiaries	(375,027)	17,980	(99,975)	–	(457,022)
Deferred tax liabilities	(375,027)	17,980	(99,975)	–	(457,022)
Total	(280,103)	42,510	(99,975)	–	(337,568)

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22. Deferred Tax (Continued)

Group

31 December 2009

	At 1 January RMB'000	(Charged)/ credited to profit or loss *(Note 8)* RMB'000	Arising on acquisitions RMB'000	Reclassi-fication to assets/ liabilities classified as held for sale RMB'000	At 31 December RMB'000
Deferred tax assets:					
Income received on share subscription funds	(7,624)	4,408	–	–	(3,216)
Excess tax depreciation over book value					
– Intangible assets	41,006	(10,840)	–	–	30,166
– Property, plant and equipment	(7,435)	(1,744)	–	–	(9,179)
Provision for early retirement and rehabilitation	19,610	1,827	–	–	21,437
Other temporary differences	33,700	22,831	–	(815)	55,716
	79,257	16,482	–	(815)	94,924
Deferred tax liabilities:					
Fair value adjustments arising from acquisition of subsidiaries	(298,831)	10,258	(103,675)	17,221	(375,027)
	(298,831)	10,258	(103,675)	17,221	(375,027)
Total	(219,574)	26,740	(103,675)	16,406	(280,103)

22. Deferred Tax (Continued)

Company

31 December 2010

	At 1 January RMB'000	Merger of a subsidiary RMB'000	(Charged)/ credited to profit or loss RMB'000	At 31 December RMB'000
Deferred tax assets:				
Income received on share application funds	(3,216)	–	3,216	–
Excess tax depreciation over book value				
– Intangible assets	(13,927)	–	(13,951)	(27,878)
– Property, plant and equipment	(13,355)	–	(1,108)	(14,463)
Fair value adjustments arising from merger of an acquired subsidiary	–	(99,522)	3,974	(95,548)
	(30,498)	(99,522)	(7,869)	(137,889)
Provision for early retirement and rehabilitation	16,330	–	987	17,317
Other temporary differences	17,567	–	14,474	32,041
	33,897	–	15,461	49,358
Total	3,399	(99,522)	7,592	(88,531)

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22. Deferred Tax (Continued)

Company

31 December 2009

	At 1 January RMB'000	(Charged)/ credited to profit or loss RMB'000	At 31 December RMB'000
Deferred tax assets/(liabilities):			
Income received on share application funds	(7,624)	4,408	(3,216)
Excess tax depreciation over book value			
– Intangible assets	(5,300)	(8,627)	(13,927)
– Property, plant and equipment	(8,207)	(5,148)	(13,355)
	(21,131)	(9,367)	(30,498)
Provision for early retirement and rehabilitation	16,086	244	16,330
Other temporary differences	10,103	7,464	17,567
	26,189	7,708	33,897
Total	5,058	(1,659)	3,399

23. Other Long-term Assets

Group

	2010 RMB'000	2009 RMB'000
Deposits paid for purchases of subsidiaries	**62,680**	114,680
Advance payment for purchases of property, plant and equipment	**203,366**	49,966
	266,046	164,646

Company

	2010 RMB'000	2009 RMB'000
Deposits paid for purchases of subsidiaries	**62,680**	114,680
Advance payment for purchases of property, plant and equipment	**130,656**	37,507
	193,336	152,187

24. Cash and Cash Equivalents

Group

	2010 RMB'000	2009 RMB'000
Cash and bank balances	**751,441**	1,523,101
Time deposits	**35,000**	691,010
	786,441	2,214,111
Reclassification to a group of assets held for sale *(note 11)*	**(4,553)**	(4,715)
Cash and cash equivalent	**781,888**	2,209,396

Company

	2010 RMB'000	2009 RMB'000
Cash and bank balances	**465,850**	1,275,623
Time deposit	**35,000**	639,000
	500,850	1,914,623

At the end of the reporting period, the cash and cash equivalents of the Group denominated in Hong Kong dollars ("HK$") amounted to RMB35,433,000 (2009: RMB20,713,000) and those denominated in United States dollars ("US$") amounted to RMB48,001,000 (2009: RMB24,586,000). All other cash and cash equivalents held by the Company and the Group are denominated in RMB. The RMB is not freely convertible into other currencies; however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulation, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash in banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the time deposit rates. Time deposits can be withdrawn at the discretion of the Group with seven days' notice. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

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25. Trade and Notes Receivables

Group

	2010 RMB'000	2009 RMB'000
Trade receivables	186,930	3,351
Notes receivable	12,259	7,446
	199,189	10,797

An aging analysis of trade and notes receivables, based on the invoice date, is as follows:

	2010 RMB'000	2009 RMB'000
Outstanding balances due within 90 days	199,189	10,797

Company

	2010 RMB'000	2009 RMB'000
Trade receivables	1,358	224
Notes receivable	5,111	2,920
	6,469	3,144

An aging analysis of trade and notes receivables, based on the invoice date, is as follows:

	2010 RMB'000	2009 RMB'000
Outstanding balances due within 90 days	6,469	3,144

Trade and notes receivables are non-interest-bearing. There were no receivables that were overdue or impaired. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of the receivables as they have no history of default. In addition, 98% (2009:99%) of total gold sales are made through the Shanghai Gold Exchange ("SGE"), or through physical delivery of gold and silver in settlement of liabilities to suppliers of gold and silver concentrates, or in the form of cash. The credit term given to other customers is 30 days.

26. Prepayments and Other Receivables

Group

	2010 RMB'000	2009 RMB'000
Prepayments	**256,800**	155,367
Other receivables	**115,287**	41,115
Amount due from a related party:		
– which can exercise significant influence over the Group	**1,158**	1,080
	373,245	197,562
Reclassification to a group of assets held for sale *(note 11)*	**–**	(6)
	373,245	197,556

Company

	2010 RMB'000	2009 RMB'000
Prepayments	**106,442**	70,071
Other receivables	**86,907**	11,350
Amounts due from related parties:		
– A party with significant influence over the Group	**83**	10
– Subsidiaries of the Company	**341,920**	126,805
	535,352	208,236

The amounts due from related parties are unsecured, interest-free and have no fixed terms of repayment.

None of the above assets is either overdue or impaired. Prepayments and other receivables relate to receivables from individuals and entities that have no recent history of default.

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27. Inventories

Group

	2010 RMB'000	2009 RMB'000
Raw materials	**83,226**	46,587
Work in progress	**645,527**	374,831
Finished goods	**50,550**	53,850
	779,303	475,268
Reclassification to a group of assets held for sale *(note 11)*	**(118)**	(157)
	779,185	475,111
Included in the above balances are:		
Inventories processed for third parties	**271,186**	165,673

Company

	2010 RMB'000	2009 RMB'000
Raw materials	**29,800**	23,301
Work in progress	**406,775**	282,973
Finished goods	**6,458**	11,836
	443,033	318,110
Included in the above balances are:		
Inventories processed for third parties	**271,186**	165,673

28. Equity Investments at Fair Value through Profit or Loss

Group

	2010 RMB'000	2009 RMB'000
Listed equity investments at market value	**16,196**	–

29. Interest-bearing Bank and Other Borrowings

Group

	2010 RMB'000	2009 RMB'000
Unsecured:		
– Bank loans	**420,000**	596,200
– Other borrowings	**20,762**	13,250
	440,762	609,450
Secured:		
– Bank loans	**–**	59,396
Total	**440,762**	668,846
Analysed into:		
Bank loans repayable:		
– Within one year	**370,000**	605,596
– In the second year	**50,000**	–
– In the third to fifth years	**–**	50,000
– Over five years	**–**	–
	420,000	655,596
Other borrowings repayable:		
– Within one year	**–**	5,460
– In the second year	**–**	–
– In the third to fifth years	**13,680**	–
– Over five years	**7,082**	7,790
	20,762	13,250
Portion classified as:		
– Current	**(370,000)**	(611,056)
– Non-current	**70,762**	57,790

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29. Interest-bearing Bank and Other Borrowings (Continued)

Group

Notes:

(a) Effective interest rates and maturity dates

An analysis of the effective interest rates per annum and maturity dates is as follows:

		2010	2009
(i)	Bank loans – fixed rate		
	– Effective interest rate (%)	**4.95**	4.06
	– Maturity (year)	**2011 – 2012**	2010-2012
(ii)	Other borrowings – fixed rate		
	– Effective interest rate (%)	**2.28**	2.95
	– Maturity (year)	**2011 – 2021**	2010 – 2021

(b) Unutilised limit of bank loans

	2010 RMB'000	2009 RMB'000
Banking facilities:		
– Available	**5,460,000**	2,595,596
– Utilised	**(420,000)**	(655,596)
Unutilised	**5,040,000**	1,940,000

29. Interest-Bearing Bank and Other Borrowings (Continued)

Company

	2010 RMB'000	2009 RMB'000
Unsecured:		
– Bank loans	**250,000**	565,596
– Other borrowings	**8,732**	9,190
	258,732	574,786
Repayable:		
– Within one year	**250,000**	566,996
– In the second year	**–**	–
– In the third to fifth years	**1,650**	–
– Over five years	**7,082**	7,790
	258,732	574,786
Portion classified as:		
– Current	**(250,000)**	(566,996)
– Non-current	**8,732**	7,790

Notes:

(a) Effective interest rates and maturity dates

An analysis of the effective interest rates per annum and the maturity dates is as follows:

	2010	2009
(i) Bank loans – fixed rate		
– Effective interest rate (%)	**5.00**	3.91
– Maturity (year)	**2011**	2010
(ii) Other borrowings – fixed rate		
– Effective interest rate (%)	**4.16**	2.16
– Maturity (year)	**2011 – 2021**	2010 – 2021

Notes to Financial Statements

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29. Interest-Bearing Bank and Other Borrowings (Continued)

Company

Notes: (Continued)

(b) Unutilised limit of bank loans

	2010 RMB'000	2009 RMB'000
Banking facilities:		
– Available	5,090,000	2,475,596
– Utilised	(250,000)	(565,596)
Unutilised	4,840,000	1,910,000

All borrowings of the Group and of the Company are denominated in RMB.

The carrying amounts of the Group's and the Company's current borrowings approximate to their fair values due to their short-term maturity. The carrying amounts and fair values of the Group's non-current borrowings are as follows:

Group

	Carrying amounts		Fair values	
	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Fixed rate bank loans	50,000	50,000	49,731	48,619
Other borrowings	20,762	7,790	16,478	5,527
	70,762	57,790	66,209	54,146

Company

	2010 RMB'000	2009 RMB'000	2010 RMB'000	2009 RMB'000
Fixed rate bank loans	–	–	–	–
Other borrowings	8,732	7,790	6,169	5,527
	8,732	7,790	6,169	5,527

The fair values of the above were calculated by discounting the expected future cash flows at prevailing interest rates.

30. Trade Payables

Group

	2010 RMB'000	2009 RMB'000
Trade payables	**175,346**	102,809
Payable under tolling arrangements	**271,186**	270,486
	446,532	373,295

An aging analysis of trade payables, based on the invoice date, is as follows:

	2010 RMB'000	2009 RMB'000
Outstanding balances with ages:		
Within one year	**424,874**	357,431
Over one year but within two years	**8,192**	14,160
Over two years but within three years	**5,111**	634
Over three years	**8,355**	1,070
	446,532	373,295

30. Trade Payables (Continued)

Company

	2010 RMB'000	2009 RMB'000
Trade payables	**54,654**	30,678
Payable under tolling arrangements	**271,186**	270,486
	325,840	301,164

An ageing analysis of trade payables, based on the invoice date, is as follows:

	2010 RMB'000	2009 RMB'000
Outstanding balances with ages:		
Within one year	**310,594**	297,452
Over one year but within two years	**13,114**	3,712
Over two years but within three years	**2,132**	–
Over three years	**–**	–
	325,840	301,164

The trade payables of the Group and the Company are non-interest-bearing and have terms ranging from 30 to 60 days.

31. Other Payables and Accruals

Group

	2010 RMB'000	2009 RMB'000
Accrued taxes other than income tax	**82,270**	10,450
Accrued expenses and other payables	**281,564**	223,567
Capital expenditure payables	**105,004**	124,358
	468,838	358,375
Reclassification to a group of assets held for sales *(note 11)*	**(205)**	(8,265)
	468,633	350,110
Amount due to a related party – which can exercise significant influence over the Group	**14,401**	110,114
	483,034	460,224

Company

	2010 RMB'000	2009 RMB'000
Accrued taxes other than income tax	**62,508**	4,262
Accrued expenses and other payables	**199,554**	146,573
Capital expenditure payables	**29,297**	28,936
	291,359	179,771

The amounts due to related parties are unsecured, interest-free and have no fixed terms of repayment.

Other payables are non-interest-bearing and have terms ranging from 30 to 60 days.

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32. Provisions

Group

	2010	2009
	RMB'000	RMB'000
Provision for rehabilitation		
At beginning of year	**7,146**	7,015
Interest incremental	**240**	211
Change in discount rate	**(193)**	646
Decrease	**1,024**	(726)
At end of year	**8,217**	7,146
Provision for early retirement		
At beginning of year	**68,181**	61,649
Additional early retirees	**26,277**	12,508
Change in discount rate	**(1,322)**	317
Interest incremental	**3,639**	3,274
Acquisition of a subsidiary	**–**	5,553
Utilised during the year	**(20,246)**	(15,120)
At end of year	**76,529**	68,181
Total	**84,746**	75,327
Analysis of total provisions		
Current	**16,964**	12,966
Non-current	**67,782**	62,361
	84,746	75,327

32. Provisions (Continued)

Company

	2010 RMB'000	2009 RMB'000
Provision for rehabilitation		
At beginning of year	**5,774**	5,602
Interest increment	**182**	159
Change in discount rate	**(151)**	524
Decrease	**1,331**	(511)
At end of year	**7,136**	5,774
Provision for early retirement		
At beginning of year	**54,723**	54,279
Merge of subsidiary	**5,553**	–
Additional early retirees	**25,345**	11,396
Change in discount rate	**(1,190)**	272
Interest increment	**3,502**	2,882
Utilised during the year	**(18,893)**	(14,106)
At end of year	**69,040**	54,723
Total	**76,176**	60,497
Analysis of total provisions		
Current	**15,419**	11,514
Non-current	**60,757**	48,983
	76,176	60,497

The provisions are based on estimates of future payments made by management and are discounted at rates in the range of 5.8% to 6.4% (2009: 5.3% to 5.9%). Changes in assumptions could significantly affect these estimates.

The provision for rehabilitation is in relation to the estimated costs of complying with the Group's obligations for land reclamation. These costs are expected to be incurred on mine closure, which, based on current mineral reserve estimates, ranges from 1 to 36 years.

The provision for early retirement is made 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 2034.

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33. Deferred Income

Deferred income represents unconditional government grants received in respect of property, plant and equipment, geological exploration activities and the mining of low grade ore. The movements in deferred income during the year are as follows:

Group

	Notes	2010 RMB'000	2009 RMB'000
At beginning of year		39,969	49,280
Received during the year		29,972	16,779
Acquisition of subsidiary		1,092	–
Recognised as income during the year	5	(37,036)	(24,590)
		33,997	41,469
Reclassification to a group of liabilities held for sale		–	(1,500)
At end of year		33,997	39,969

Company

	2010 RMB'000	2009 RMB'000
At beginning of year	26,169	34,352
Received during the year	20,253	3,930
Recognised as income during the year	(13,717)	(12,113)
At end of year	32,705	26,169

34. Corporate Bond

On 23 December 2009, the Company issued a domestic corporate bond to the public in Shanghai Stock Exchange with a par value of RMB1.5 billion. The bond carries interest at 5% per annum with a term of seven years, which is payable annually in arrears on 23 December each year. The bond is redeemable, at the option of bondholders, at par value on 23 December 2014.

Group and Company

	2010 RMB'000
Corporate bond at beginning of year	**1,488,036**
Increase arising from amortisation method	**1,468**
Corporate bond at end of year	**1,489,504**

The fair value of the Company's corporate bonds approximated its carrying amount as at 31 December 2010. It is calculated by discounting the expected future cash flows at prevailing interest rate for similar grade corporate bond with similar duration.

35. Other Long-term Liability

The balance represents the payable for the renewal of mining right which is not to be settled within twelve months after the end of the reporting period. The fair value of the long-term liability is RMB30,171,000 (2009:RMB34,522,000) which is calculated by discounting the expected future cash flows at market interest rate.

36. Share Capital

	2010 RMB'000	2009 RMB'000
Registered, issued and fully paid:		
Domestic shares of RMB1.00 each	**1,020,256**	1,020,256
H shares of RMB1.00 each	**437,174**	437,174
	1,457,430	1,457,430

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37. Reserves

(a) Group

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

(b) Company

	Capital reserve RMB'000	**Statutory reserves** RMB'000	**Retained profits** RMB'000	**Proposed final dividend** RMB'000	**Total** RMB'000
At 1 January 2009	1,895,589	147,751	515,702	241,933	2,800,975
Total comprehensive income for the year	–	–	791,083	–	791,083
Transfer to reserves	–	52,422	(52,422)	–	–
Dividends					
– 2009 final proposed	–	–	(320,635)	320,635	–
– 2008 final paid	–	–	–	(241,933)	(241,933)
At 31 December 2009 and 1 January 2010	1,895,589	200,173	933,728	320,635	3,350,125
Total comprehensive income for the year	–	–	1,055,660	–	1,055,660
Transfer to reserves	–	106,542	(106,542)	–	–
Merger of a subsidiary	–	–	10,131	–	10,131
Dividends					
– 2010 final proposed	–	–	(437,229)	437,229	–
– 2009 final paid	–	–	–	(320,635)	(320,635)
At 31 December 2010	**1,895,589**	**306,715**	**1,455,748**	**437,229**	**4,095,281**

37. Reserves (Continued)

Capital reserve

Share premium, which represented the difference between the nominal value and the issue price of the new H Shares issued to the public upon listing of the Company's H Shares on the Main Board of SEHK, amounting to RMB2,332,418,000 was recognised in the capital reserve. In addition, share subscription expenses of RMB163,665,000 were set off against the share premium.

On 16 May 2008, the shareholders approved a bonus issue of 546,536,000 shares of RMB1 each on the basis of 0.75 share for every share held by capitalising capital reserve of RMB546,536,000 to share capital.

There was no movement in the share premium of the Group and of the Company during the year.

Statutory reserves

In accordance with the Articles of Association of the Company approved by the relevant government authorities on 16 April 2004, the net profit after tax of the Company for the purpose of profit distribution will be deemed to be the lesser of (i) the net profit determined in accordance with PRC GAAP and (ii) the net profit determined in accordance with HKFRSs. Under the PRC Company Law and the Company's Articles of Association, net profit after tax can only be distributed as dividends after allowance has been made for the following:

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

(ii) Allocations to the statutory common reserve fund of at least 10% of after tax profit, until the fund aggregates 50% of the Company's share capital. For the purpose of calculating the transfer to the reserve, the profit after tax shall be the amount determined under PRC GAAP. The transfer to this reserve must be made before any distribution of dividends to shareholders.

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

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

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

For dividend purposes, the amount which the Company and its subsidiaries can legally distribute by way of a dividend is determined with reference to their profits available for distribution as reflected in the respective PRC statutory financial statements which are prepared in accordance with PRC GAAP. These profits differ from those reflected in this report which is prepared in accordance with HKFRSs.

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38. Commitments

(a) Capital commitments

Group

	2010 RMB'000	2009 RMB'000
Contracted, but not provided for:		
– Land and buildings	**41,001**	1,549
– Plant and machinery	**14,488**	6,656
– Prepayment for potential acquisitions	**83,120**	–
	138,609	8,205
Authorised, but not contracted for:		
– Land and buildings	**2,206,330**	328,450
– Plant and machinery	**2,036,710**	418,950
– Exploration and evaluation assets	**315,100**	766,400
	4,558,140	1,513,800

Company

	2010 RMB'000	2009 RMB'000
Contracted, but not provided for:		
In respect of:		
– Land and buildings	**41,001**	1,549
– Plant and machinery	**14,488**	6,656
– Unlisted equity investments in subsidiaries	**83,120**	–
	138,609	8,205
Authorised, but not contracted for:		
In respect of		
– Land and buildings	**986,000**	137,950
– Plant and machinery	**367,100**	189,650
– Exploration and evaluation assets	**72,030**	549,800
	1,425,130	877,400

38. Commitments (Continued)

(b) Operating lease commitments

The Group leases certain of its land and offices under operating lease arrangements. Leases for properties are negotiated for terms ranging between one and two years.

Future minimum lease payments of the Group and of the Company under non-cancellable operating leases are as follows:

Group

	2010 RMB'000	2009 RMB'000
Within one year	4,087	4,526
In the second to fifth years, inclusive	4,127	4,364
	8,214	8,890

Company

	2010 RMB'000	2009 RMB'000
Within one year	3,827	3,909
In the second to fifth years, inclusive	4,000	3,787
	7,827	7,696

Notes to Financial Statements

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39. Contingent Liabilities

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

(a) Guarantees

Company

	2010 RMB'000	2009 RMB'000
Guarantees provided to bank for loan facilities granted to subsidiaries:		
– Tonghui Mining Company Limited	50,000	–
– Kunhe Zhaojin Mining Company Limited	50,000	50,000
	100,000	50,000

(b) Indemnities from Zhaojin Group

The Group and the Company have received indemnities from Zhaojin Group in respect of certain State levies totalling RMB45.6 million and RMB33.4 million respectively for the period from 24 December 1999 to 8 December 2006 (listing date) and certain government funding arrangements amounting to RMB49.3 million, which predated the Company's formation on 16 April 2004. The directors are of the opinion that the Group and the Company do not have any financial liability in respect of these arrangements.

40. Related Party Transactions

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

	2010 RMB'000	2009 RMB'000
Nature of relationships/transactions		
(i) Zhaojin Group, a party which can exercise significant influence over the Group		
Sale of silver	**96,427**	37,510
Expenses:		
– Payment of ground rent	**3,938**	3,962
– Payment of house rent	**18**	–
– Gold exchange commission fee	**997**	715
Capital transactions:		
– Payment of ground transfer	**2,203**	–
(ii) Subsidiaries of Zhaojin Group		
Expenses:		
– Fees for refining services	**4,227**	4,175
– Fees for mining construction activities	**39**	39
Capital transactions:		
– Purchase of property, plant and equipment	**254**	4
– Purchase of software	**2,911**	1,362

(b) Outstanding balances with related parties

As disclosed in notes 26 and 31 to the financial statements, the Group had outstanding advances receivable/payable from/to related parties at the end of the reporting period. The advances are unsecured, interest-free and have no fixed terms of repayment.

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40. Related Party Transactions (Continued)

(c) Compensation of key management personnel of the Group:

	2010 RMB'000	2009 RMB'000
Short-term employee benefits	**5,318**	1,522
Post-employment benefits	**–**	–
Total compensation paid to key management personnel	**5,318**	1,522

Further details of directors' emoluments are included in note 7 to the financial statements.

(d) During the year, no fees were paid to non-executive directors and supervisors.

(e) Connected transactions

The transactions disclosed in items (a) to (d) above also constitute connected transactions and/or continuing connected transactions as referred to in Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

41. Business Combinations

Acquisitions of subsidiaries during the year were as follows:

(a) On 10 May 2010, the Company completed an acquisition of an 80% equity interest in Qinghe Mining at a consideration of RMB185,000,000, satisfied by cash. Qinghe Mining is engaged in exploration and sale of gold products.

The fair values of the identifiable assets and liabilities of Qinghe Mining as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair value recognised on acquisition	**Previous carrying amount**
	RMB'000	RMB'000
Property, plant and equipment	38,625	18,370
Intangible assets	181,365	–
Inventories	274	–
Deferred tax liabilities	(50,474)	–
Non-controlling interests	(33,958)	–
	135,832	18,370
Goodwill	49,168	
Satisfied by:		
Cash	185,000	

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41. Business Combinations (Continued)

(b) On 7 April 2010, the Company completed an acquisition of an 80% equity interests in Hezheng Mining at a consideration of RMB48,000,000, satisfied by cash. Hezheng Mining is engaged in exploration and sale of related products.

The fair values of the identifiable assets and liabilities of Hezheng Mining as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair value recognised on acquisition RMB'000	**Previous carrying amount** RMB'000
Property, plant and equipment	17,620	7,584
Intangible assets	43,119	–
Inventories	205	–
Deferred tax liabilities	(13,340)	–
Non-controlling interests	(9,522)	–
	38,082	7,584
Goodwill	9,918	
Satisfied by:		
Cash	48,000	

41. Business Combinations (Continued)

(c) On 1 July 2010, the Company completed an acquisition of a 100% equity interest in Longxin Mining at a consideration of RMB47,000,000, satisfied by cash. Longxin Mining is engaged in sale of gold products.

The fair values of the identifiable assets and liabilities of Longxin Mining as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair value recognised on acquisition RMB'000	**Previous carrying amount** RMB'000
Property, plant and equipment	30,615	28,914
Intangible assets	12,405	4,480
Other receivables	12,314	12,310
Inventories	410	511
Other payables	(178)	(178)
Deferred tax liabilities	(2,382)	–
	53,184	46,037
Gain on bargain purchase	(6,184)	
Satisfied by:		
Cash	47,000	

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41. Business Combinations (Continued)

(d) On 29 October 2010, the Company completed an acquisition of a 55% equity interest in Baiyun Mining at a consideration of RMB200,000,000, satisfied by cash. Baiyun Mining is engaged in mining, processing and sale of gold products.

The fair values of the identifiable assets and liabilities of Baiyun Mining as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair value recognised on acquisition RMB'000	**Previous carrying amount** RMB'000
Property, plant and equipment	62,722	46,246
Intangible assets	80,874	7,978
Land lease prepayments	45,491	–
Other receivables	–	1,157
Inventories	24,560	24,545
Interest-bearing bank and other borrowing	(13,180)	–
Other payables	(55,939)	(70,449)
Deferred income	(1,092)	–
Deferred tax liabilities	(33,779)	–
Non-controlling interests	(49,346)	–
	60,311	9,477
Goodwill	139,689	
Satisfied by:		
Cash	200,000	

41. Business Combinations (Continued)

An analysis of the net outflow of cash and cash equivalents in respect of the above acquisitions are as follows:

	2010 RMB'000
Cash consideration	**480,000**
Prepaid in 2009	**(90,000)**
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**390,000**

Since the acquisitions, the above subsidiaries contributed approximately RMB17,444,000 to the Group's revenue and approximately loss of RMB9,006,000 to the Group's profit for the year ended 31 December 2010. Had the combinations taken place at the beginning of the year, the revenue from continuing operations and the profit for the year of the Group would have been increased by RMB87,221,000 and RMB4,309,000, respectively.

42. Acquisition of a Subsidiary

On 17 June 2010, the Company completed its acquisition of a 100% equity interest in Xinfengyuan Mining Company ("Xinfengyuan Mining") Limited, a company incorporated in the PRC, at consideration of RMB47.6 million. The purchase consideration was fully settled in cash. The acquisition of Xinfengyuan Mining has been accounted for as an acquisition of assets in the Group's consolidated financial statements.

The financial assets acquired at the date of acquisition was as follows:

	Carrying amounts RMB'000
Cash and cash equivalents	10,000
Intangible assets *(note 14)*	37,600
	47,600
Satisfied by:	
Cash	47,600

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42. Acquisition of a Subsidiary (Continued)

An analysis of the net outflow of cash and cash equivalents in respect of the above acquisition is as follows:

	2010 RMB'000
Cash consideration	47,600
Cash acquired	(10,000)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	37,600

From the date of acquisition, the results of the new acquired subsidiary has no significant impact on the Group's consolidated revenue or net profit for the year ended 31 December 2010.

43. Disposal of a Subsidiary

On 6 January 2010, the Company entered into an agreement to dispose its entire interest in Starry Company Limited ("Starry"), a wholly-owned subsidiary of the Company at a consideration of RMB12,000,000 which has been satisfied by cash. The assets and liabilities of Starry were presented as net assets directly associated with the disposal group as at 31 December 2009.

44. Acquisition of Non Controlling Interests

The Company entered into the equity transfer agreements with Zhejiang Zhengxiang Investment Co., Ltd ("Zhejiang Zhengxiang") on 25 November 2010. Pursuant to the equity transfer agreements, the Company agreed to acquire additional 19.23% equity interests in TCM and 41% equity interests in Xinhui from Zhejiang Zhengxiang at cash considerations of RMB133,062,668 and RMB23,020,000 respectively. The total consideration has been fully settled by cash in 2010. The transactions were completed in, the December 2010 and the Company now holds 92% equity interests both TCM and Xinhui.

45. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of reporting period are as follows:

Group

Financial assets

	2010			2009	
	Loans and Receivables RMB'000	**Held for trading RMB'000**	**Total RMB'000**	Loans and receivables RMB'000	Total RMB'000
Long-term deposits	**7,659**	**–**	**7,659**	6,882	6,882
Trade and notes receivables	**199,189**	**–**	**199,189**	10,797	10,797
Financial assets included in other receivables	**116,445**	**–**	**116,445**	42,195	42,195
Equity investments at fair value through profit or loss	**–**	**16,196**	**16,196**	–	–
Cash and cash equivalents	**781,888**	**–**	**781,888**	2,209,396	2,209,396
	1,105,181	**16,196**	**1,121,377**	2,269,270	2,269,270

Financial liabilities

	2010 Financial liabilities at amortised cost RMB'000	2009 Financial liabilities at amortised cost RMB'000
Trade payables	**446,532**	373,295
Financial liabilities included in other payables	**120,052**	374,582
Interest-bearing bank and other borrowings	**440,762**	668,846
Corporate bond	**1,489,504**	1,488,036
Other long-term liability	**35,000**	40,000
	2,531,850	2,944,759

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31 December 2010

45. Financial Instruments by Category (Continued)

The carrying amounts of each of the categories of financial instruments as at the end of reporting period are as follows (Continued)

Company

Financial assets

	2010		2009	
	Loans and receivables RMB'000	**Total RMB'000**	Loans and receivables RMB'000	Total RMB'000
Long-term deposits	**7,662**	**7,662**	6,880	6,880
Trade and notes receivables	**6,469**	**6,469**	3,144	3,144
Financial assets included in other receivables	**428,910**	**428,910**	138,165	138,165
Cash and cash equivalents	**500,850**	**500,850**	1,914,623	1,914,623
	943,891	**943,891**	2,062,812	2,062,812

Financial liabilities

	2010 Financial liabilities at amortised cost RMB'000	2009 Financial liabilities at amortised cost RMB'000
Trade payables	**325,840**	301,164
Financial liabilities included in other payables	**131,610**	117,869
Interest-bearing bank and other borrowings	**258,732**	574,786
Corporate bond	**1,489,504**	1,488,036
	2,205,686	2,481,855

46. Financial Risk Management Objectives and Policies

Financial assets of the Group mainly include cash and cash equivalents, trade and notes receivables, deposits and other receivables, equity investments at fair value through profit or loss. Financial liabilities of the Group include bank and other borrowings, trade payables and other payables, a corporate bond and other long-term liability.

The main risks arising from the Group's financial instruments were liquidity risk, interest rate risk, commodity price risk and credit risk. The directors review and agree policies for managing each of these risks and they are summarised below.

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed facilities from banks to meet its commitments over the foreseeable future in accordance with its strategic plan.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
2010					
Interest-bearing bank and other borrowings	**–**	**370,000**	**63,680**	**7,082**	**440,762**
Trade payables	**446,532**	**–**	**–**	**–**	**446,532**
Other payables	**120,052**	**–**	**–**	**–**	**120,052**
Corporate bond	**–**	**75,000**	**300,000**	**1,575,000**	**1,950,000**
Other long-term liability	**–**	**5,000**	**30,000**	**–**	**35,000***
	566,584	**450,000**	**393,680**	**1,582,082**	**2,992,346**
2009					
Interest-bearing bank and other borrowings	206,200	404,856	50,000	7,790	668,846
Trade payables	373,295	–	–	–	373,295
Other payables	374,582	–	–	–	374,582
Corporate bond	–	75,000	300,000	1,650,000	2,025,000
Other long-term liability	–	10,000	30,000	–	40,000*
	954,077	489,856	380,000	1,657,790	3,481,723

* The amount represents the contractual amount to be paid in installments according to the loan commitment.

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46. Financial Risk Management Objectives and Policies (Continued)

Liquidity risk (Continued)

Company

	3 months RMB'000	Less than than 12 months RMB'000	3 to less years RMB'000	1 to 5 years RMB'000	Over 5 Total RMB'000
2010					
Interest-bearing bank and other borrowings	**–**	**250,000**	**1,650**	**7,082**	**258,732**
Trade payables	**325,840**	**–**	**–**	**–**	**325,840**
Other payables	**131,610**	**–**	**–**	**–**	**131,610**
Corporate bond	**–**	**75,000**	**300,000**	**1,575,000**	**1,950,000**
	457,450	**325,000**	**301,650**	**1,582,082**	**2,666,182**
2009					
Interest-bearing bank and other borrowings	206,200	360,796	–	7,790	574,786
Trade payables	301,164	–	–	–	301,164
Other payables	117,869	–	–	–	117,869
Corporate bond	–	75,000	300,000	1,650,000	2,025,000
	625,233	435,796	300,000	1,657,790	3,018,819

46. Financial Risk Management Objectives and Policies (Continued)

Interest rate risk

The Group's exposure to interest rate risk relates primarily to the Group's cash holdings, interest-bearing bank loans and a corporate bond. The Group manages its interest rate exposure from certain cash holdings through placing them into appropriate short-term deposits at a mixture of variable and fixed rates and manages the exposure from all of its interest-bearing loans through the use of fixed rates.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

A reasonably possible change of 100 basis points in interest rates would have no material impact on the Group's profit and equity for the year.

Price risk

The Group's exposure to price risk relates principally to the market price fluctuation on gold, silver and copper which can affect the Group's results of operations. In addition, the Group enters into contracts for the processing of gold and silver concentrates with the liabilities settled through physical delivery of predetermined quantities of gold and silver. Price fluctuations affect the RMB denominated amounts of these liabilities. The Group's policy is to manage price risk exposure in relation to the tolling liabilities by holding physical inventories of gold and silver to settle the liabilities.

During the year, the Group entered into AU(T+D) agreements, which substantially are forward commodity contracts, on the SGE to hedge potential price fluctuations of gold for trading purposes. Under those agreements, the Company can forward buy or sell gold at the current day's price by depositing 10% of the total transaction amount. Subsequently, it can close the deal by either physically delivering the gold or entering into an offsetting agreement. There is no restriction imposed on the settlement period. During the year, the Group had not entered into any long position under the AU(T+D) framework.

The price range of the forward commodity contracts is closely monitored by management. At 31 December 2010, substantially all of the forward commodity contracts of the Group were settled through physical delivery of gold and accordingly, a reasonably possible change of 10% in commodity prices would have no material impact on the Group's and Company's profit and equity for the year.

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46. Financial Risk Management Objectives and Policies (Continued)

Credit risk

The Group has no significant credit risk with customers since all gold and silver sales are made through the SGE, or through physical delivery of gold and silver in settlement of liabilities to suppliers of gold and silver concentrate, and substantially all copper sales are made in cash.

The Group's notes receivable are guaranteed by banks and the risk for default in payment is minimal. The carrying amounts of cash and cash equivalents, trade and notes receivables, and other receivables represent the Group's maximum exposure to credit risk attributable to its financial assets.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, other receivables, arises from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments.

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

The Group has no significant concentration of credit risk with any single counterparty.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. The Group makes no change to its capital structure between 2009 and 2010.

The Group is currently funding its capital expenditure through corporate bond and new bank borrowings. Under normal circumstances, the Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. The Group's policy is to maintain the gearing ratio between 20% and 35%. Net debt is defined as liability funding of the Group's long-term operating assets, net of cash and cash equivalents. It excludes liabilities incurred for working capital purposes. Capital includes equity attributable to the owners of the Company.

46. Financial Risk Management Objectives and Policies (Continued)

Capital management (Continued)

The excess of cash and cash equivalents over net debt is as follows:

Group

	2010 RMB'000	2009 RMB'000
Interest-bearing bank and other borrowings	**440,762**	668,846
Corporate bond	**1,489,504**	1,488,036
Less: Cash and cash equivalents	**(781,888)**	(2,209,396)
Net debt	**1,148,378**	(52,514)
Equity and total capital	**5,775,644**	4,967,417
Total capital and net debt	**6,924,022**	4,914,903
Gearing ratio	**16.6%**	N/A

47. Comparative Amounts

As further explained in note 2.2 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the presentation of certain items and balances in the financial statements have been revised to comply with the new requirements.

48. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 4 March 2011.

Five Years Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements is set out below:

	Year ended 31 December				
	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000
REVENUE	**4,097,800**	2,796,991	2,152,731	1,512,273	1,164,415
Cost of sales	**(1,786,958)**	(1,347,704)	(1,072,814)	(757,452)	(541,240)
Gross profit	**2,310,842**	1,449,287	1,079,917	754,821	623,175
Other revenue and gains	**123,146**	99,181	58,185	155,031	16,411
Selling and distribution costs	**(38,220)**	(38,291)	(19,982)	(9,581)	(5,669)
Administrative expenses	**(546,650)**	(381,603)	(295,952)	(216,039)	(143,488)
Other expenses	**(108,841)**	(62,136)	(97,241)	(105,471)	(5,801)
Finance costs	**(92,340)**	(23,137)	(17,260)	(20,745)	(54,346)
Share of profit/(loss) of an associate	**3,961**	1,331	2,672	1,979	(1,935)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	**1,651,898**	1,044,632	710,339	559,995	428,347
Interest income arising from share application funds	**–**	–	–	–	89,403
PROFIT BEFORE TAX	**1,651,898**	1,044,632	710,339	559,995	517,750
Income tax expense:					
– On profit before interest income arising from share application funds	**(409,737)**	(264,035)	(170,734)	(184,072)	(139,216)
– On interest income arising from share application funds	**–**	–	–	–	(28,883)
Total income tax expense	**(409,737)**	(264,035)	(170,734)	(184,072)	(168,099)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**1,242,161**	780,597	539,605	375,923	349,651
DISCONTINUED OPERATION					
Loss for the year from a discontinued operation	**–**	(29,264)	(1,483)	–	–
PROFIT FOR THE YEAR	**1,242,161**	751,333	538,122	375,923	349,651
Attributable to:					
Owners of the parent	**1,201,731**	754,020	533,905	388,447	351,190
Non-controlling interests	**40,430**	(2,687)	4,217	(12,524)	(1,539)
	1,242,161	751,333	538,122	375,923	349,651
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**9,414,933**	8,581,632	5,930,985	5,013,877	4,907,558
TOTAL LIABILITIES	**(3,639,289)**	(3,614,215)	(1,522,316)	(1,260,663)	(1,443,134)
NON-CONTROLLING INTERESTS	**(388,309)**	(399,961)	(353,288)	(69,729)	(56,911)
	5,387,335	4,567,456	4,055,381	3,683,485	3,407,513

ZHAOJIN MINING INDUSTRY COMPANY LIMITED*
招金礦業股份有限公司