(Stock Code 股份代號：1818)

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)

Annual Report **2011** 年報

* For identification purposes only
* 僅供識別

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.

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摶，
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。

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)*
Mr. Li Xiuchen

Non-executive Directors
Mr. Liang Xinjun *(Vice Chairman)*
Mr. Cong Jianmao
Mr. Ye Kai
Mr. Kong Fanhe

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. Ye Kai
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. Yan Hongbo
(Chairman of the Nomination and Remuneration Committee)
Mr. Liang Xinjun
Mr. Cong Jianmao
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 Environmental Protection Committee Members

Mr. Yan Hongbo
(Chairman of the Safety and Environmental Protection Committee)
Mr. Li Xiuchen
Mr. Cong Jianmao

Auditors

International Auditors:

Ernst & Young
22nd Floor
CITIC Tower
1 Tim Mei Avenue
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 equipments 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 the 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 39 subsidiaries, joint ventures and associates nationwide, with their businesses covering major gold production regions in the PRC, amongst them we possess 7 operating mines within the Zhaoyuan district ("Inside Zhaoyuan"), namely Dayingezhuang Gold Mine, Jinchiling Gold Mine, Xiadian Gold Mine, Hedong Gold Mine, Jintingling Gold Mine, Canzhuang Gold Mine and Zhaoyuan Zhaojin-Daqinjia Mining Company Limited. As at 31 December 2011, our gold ore resources reserve under the Code of the Joint Ore Reserves Committee in Australia (the "JORC") were approximately 17,940 kozs (as at 31 December 2010: 15,941 kozs), and our minable gold reserves were approximately 9,551 kozs (as at 31 December 2010: 8,098 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 entire issued share capital of the Company.

FINANCIAL SUMMARY

Summary of Operating Results

	For the year ended 31 December				
	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000
Revenue	**5,741,105**	4,097,800	2,796,991	2,152,731	1,512,273
Gross profit	**3,063,743**	2,310,842	1,449,287	1,079,917	754,821
Share of profit/(loss) of associates	**6,940**	3,961	1,331	2,672	1,979
Profit before tax	**2,286,519**	1,651,898	1,044,632	710,339	559,995
Profit from discontinued operations	**–**	–	(29,264)	(1,483)	–
Profit attributable to equity holders of the Company	**1,661,578**	1,201,731	754,020	533,905	388,447
Earnings per share (RMB)	**0.57**	0.41	0.26	0.18	0.13

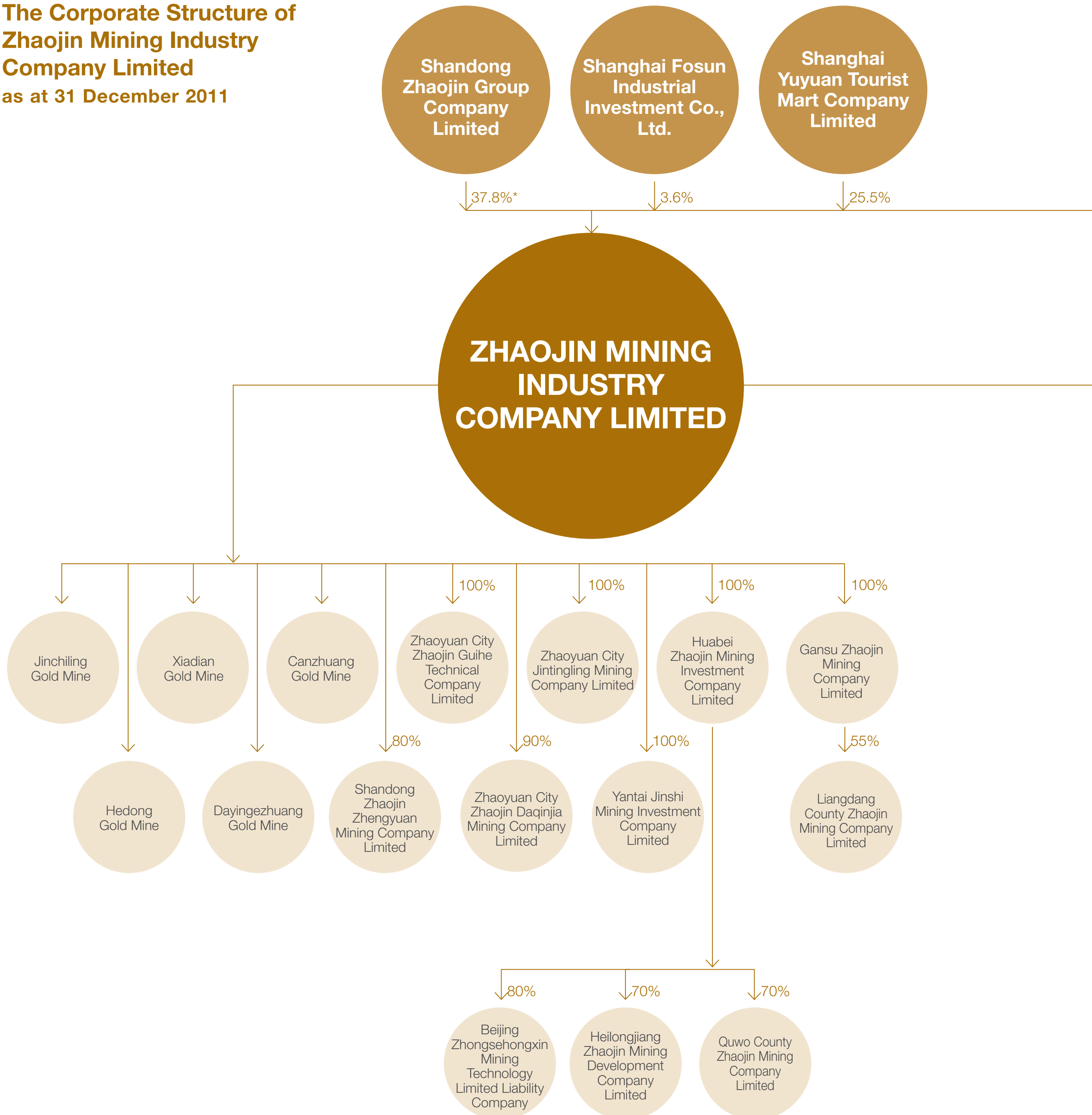
Summary of Assets

	As at 31 December				
	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000
Total assets	**13,291,087**	9,414,933	8,581,632	5,930,985	5,013,877
Cash and cash equivalents	**1,245,872**	781,888	2,209,396	688,764	1,625,689
Cash and cash equivalents listed as assets of disposal groups held for sale	**–**	4,553	4,715	–	–
Total liabilities	**(6,293,640)**	(3,639,289)	(3,614,215)	(1,522,316)	(1,260,663)
Net assets	**6,997,447**	5,775,644	4,967,417	4,408,669	3,753,214
Net assets per share (RMB)	**2.40**	1.98	1.70	1.51	1.29

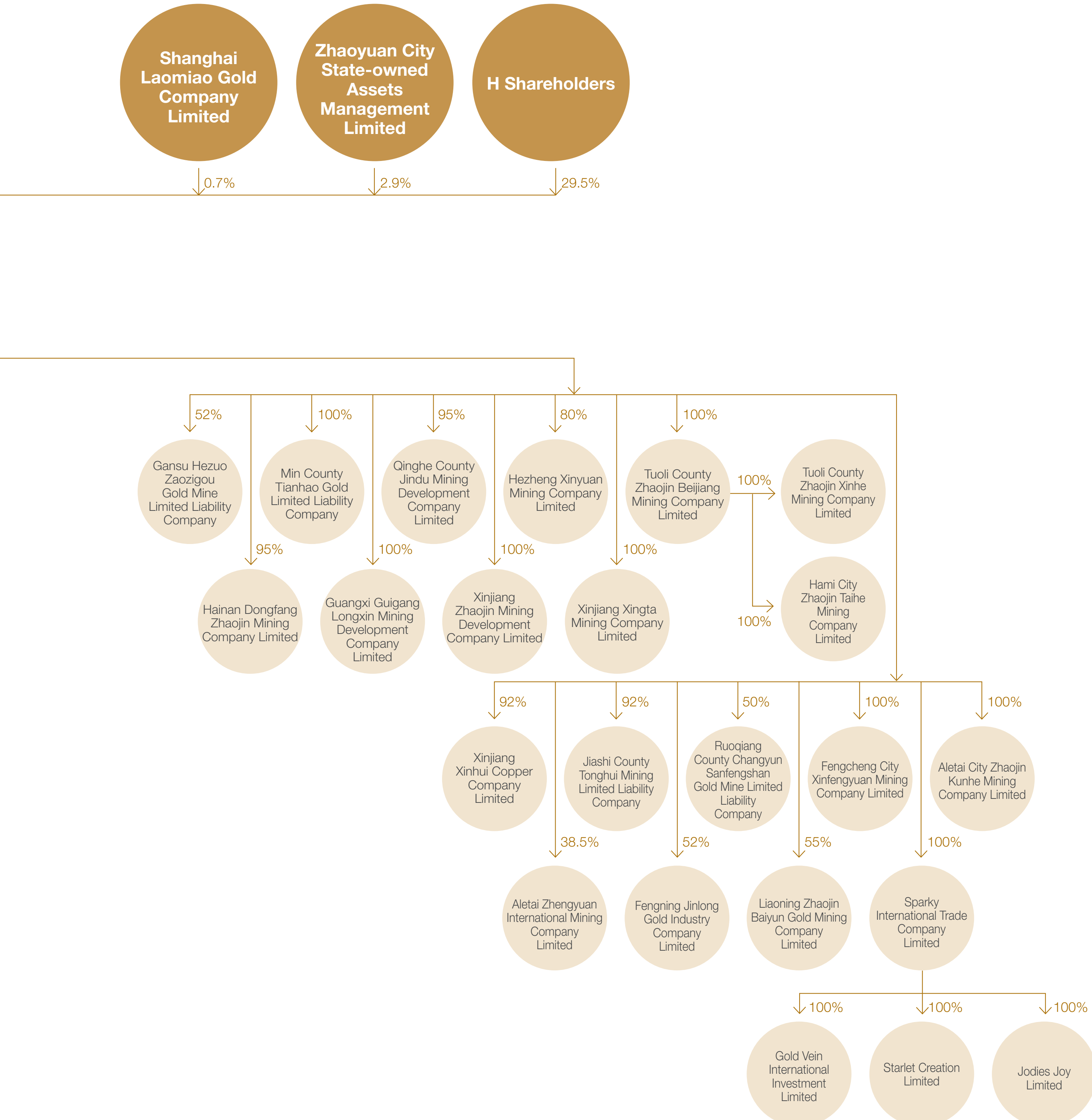
The above profit before tax and profit from discontinued operations for 2008, 2009 and 2010 have been restated according to the HKFRS while the profit before tax and profit from discontinued operations for 2007 have not been restated as the materiality was insignificant for investors' decision. The above earnings per share and net assets per share for 2007, 2008, 2009 and 2010 have been restated according to the total number of issued shares of 2,914,860,000 shares as at 31 December 2011.

CORPORATE STRUCTURE

The Corporate Structure of Zhaojin Mining Industry Company Limited
as at 31 December 2011



* As at 31 December 2011, 1,086,514,000 domestic shares and 16,510,000 H shares are held by Shandong Zhaojin Group Company Limited, the controlling Shareholder of the Company, representing totally 37.8% of the total issued ordinary shares of the Company.



Shanghai Laomiao Gold Company Limited
Zhaoyuan City State-owned Assets Management Limited
H Shareholders
0.7%
2.9%
29.5%
52%
Gansu Hezuo Zaozigou Gold Mine Limited Liability Company
95%
Hainan Dongfang Zhaojin Mining Company Limited
100%
Min County Tianhao Gold Limited Liability Company
100%
Guangxi Guigang Longxin Mining Development Company Limited
95%
Qinghe County Jindu Mining Development Company Limited
100%
Xinjiang Zhaojin Mining Development Company Limited
80%
Hezheng Xinyuan Mining Company Limited
100%
Xinjiang Xingta Mining Company Limited
100%
Tuoli County Zhaojin Beijiang Mining Company Limited
100%
Tuoli County Zhaojin Xinhe Mining Company Limited
100%
Hami City Zhaojin Taihe Mining Company Limited
92%
Xinjiang Xinhui Copper Company Limited
38.5%
Aletai Zhengyuan International Mining Company Limited
92%
Jiashi County Tonghui Mining Limited Liability Company
52%
Fengning Jinlong Gold Industry Company Limited
50%
Ruoqiang County Changyun Sanfengshan Gold Mine Limited Liability Company
55%
Liaoning Zhaojin Baiyun Gold Mining Company Limited
100%
Fengcheng City Xinfengyuan Mining Company Limited
100%
Sparky International Trade Company Limited
100%
Aletai City Zhaojin Kunhe Mining Company Limited
100%
Gold Vein International Investment Limited
100%
Starlet Creation Limited
100%
Jodies Joy 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 2011 (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.

2011 marked the 5th anniversary of the listing of Zhaojin Mining in Hong Kong, it is also a milestone in its development history. Over the past five years, Zhaojin Mining has been committed to its industry position as a pure gold player and fulfilling its commitment to repay the shareholders with better results and the society with its corporate social responsibilities, and has achieved a rapid and healthy growth and harmonious development.

Annual Review

Looking back to 2011, the world economy went through turbulent times under the impact of European debt crisis. There is an increasingly obvious indication that the global economy will step into a second recession and a worldwide economic depression is overhanging. Under such adverse economic circumstances, gold prices experienced violent fluctuations and remained at a high level. On 6 September 2011, the international gold price hit a record high at US$1,920.8/oz, which was followed by a downward vibration. As at the end of 2011, the international gold price closed at an adjusted price of US$1,564.73/oz.

In 2011, considering the global economic situation and gold price trend and based on its scientific forecast, Zhaojin Mining adjusted its business strategy in a timely manner while adhering to its pure gold development direction, to actively respond to the market volatility and achieved remarkable results in 2011. For the year ended 31 December 2011, the Group's total sales revenue for the Year was RMB5,741,105,000, representing a rise of 40.10% over the last corresponding period. The total output of gold amounted to approximately 758,020.19 ozs, representing an increase of 12.66% over the previous corresponding period, of which the output of mined gold was 512,352.73 ozs, representing an increase of 15.60% over the previous corresponding period. Net profit of the Group amounted to RMB1,722,735,000, representing an increase of 38.69% over the last corresponding period.

Facing a fluctuating capital market in 2011, Zhaojin Mining attached great importance to corporate governance and focused on value creation and realization, by which Zhaojin Mining has attracted market attention and recognition and its shares has become one of the most influential gold stocks in China and even in Asia-Pacific region. In 2011, Zhaojin Mining was listed in Forbes 200 SMEs in Asia and received the "Golden Bauhinia Awards 2011--Listed Company with Highest Investment Value during 12th Five-year Plan Period "from China Securities and "2011 Gold Awards for Investor Relations & Corporate Social Responsibility" from The Asset magazine.

Outlook

Looking forward to 2012, the global economy is becoming more complicated under the impact of obviously increasing uncertainties, including the US and European debt crisis, the government elections in the United States, Germany, France, Russia and etc. As such, the global economy is facing many new challenges and at the risk of a double dip. However, we should keep an optimistic attitude towards the pessimistic market sentiment. It is just because of the complexity and uncertainty and the pervading influence of geopolitics and regional crisis that have tested and proved the value of gold. Gold has been the best choice of the global capital for safe-haven investment. In view of this, we estimate that gold prices in 2012 will remain relatively high and volatile.

In 2012, the Group will, through constantly improving its abilities in corporate governance, business management and capital operation, continue to adhere to its pure gold development strategy and strive to build itself into an international mining company with modern business civilization and a pure gold producer focusing on both economic benefits and corporate social responsibilities.

Acknowledgement

In 2011, with a steady growth in the Group's gold output and further increase in resource reserves, the Company has maintained a sound and healthy development. These achievements were benefiting not only from the hard work and efforts of the staff, but also from the contributions and support 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 who showed highly concern for the Group, and also extend my heartfelt tribute to all our directors, supervisors and the staff for their dedication and excellence.

Looking forward to 2012, our hearts are filled with ever shining hopes;

Looking forward to 2012, our hearts are full of lofty sentiments;

We, the courageous staff of Zhaojin Mining, will pursue excellence with hundredfold confidence and write a glorious chapter in its leap-forward development!

Lu Dongshang
Chairman

23 March 2012

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 "safe haven" function of U.S. dollar subsided, gold became a risk prevention investment vehicle that attracted huge interest from investors in 2011. International gold price hit record highs repeatedly before retreating towards the end of the year. Looking back at 2011, after a slight drop in the beginning of the year to the year low of US$1,307.9 per oz on 28 January 2011, gold price steadily went up and broke through several critical thresholds, and finally hit a new record high of US$1,920.8 per oz on 6 September 2011. Gold price plunged thereafter and dropped below US$1,600 per oz within 14 trading days before fluctuating thereafter in a range between US$1,500 per oz to US$1,800 per oz, and ended the year at US$1,564.73 per oz. The opening price of the "9995 gold" in the SGE ("SGE") was RMB301.90 per gram and reached the highest at RMB396.00 per gram and the lowest at RMB228.70 per gram while the closing price was RMB319.80 per gram. The average gold price for the Year was approximately RMB327.53 per gram.

China's gold production continued to increase steadily in 2011 and made the nation remain the No. 1 gold production country in the world for five consecutive years. According to the statistics of the China Gold Association, gold production of China for 2011 reached 360.96 tons, representing an increase of approximately 5.89% as compared to last year.

The average price of gold sold by the Group in the SGE during the Year was approximately RMB332.75 per gram, representing an increase of approximately 20.18% as compared to RMB276.87 per gram in the previous year and was RMB5.22 per gram higher than the average price of gold in the SGE.

Principal Business

For the year ended 31 December 2011, 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 2011, the Group's total output of gold amounted to 23,577 kg (approximately 758,020.19 ozs), representing an increase of 12.66% as compared to the previous year. Among which, 15,936 kg (approximately 512,352.63 ozs) of gold was mine-produced gold, representing a rise of approximately 15.60% as compared to the previous year, and 7,641.1 kg (approximately 245,667.46 ozs) was smelted and processed gold, representing an increase of approximately 7.00% as compared to the previous year. In 2011, the subsidiaries outside Zhaoyuan recorded a rapid growth and the total gold output amounted to 3,309 kg (approximately 106,385.74 ozs), representing an increase of approximately 49.93% as compared to the previous year.

Revenue

For the year ended 31 December 2011, the Group's revenue was approximately RMB5,741,105,000 (2010: RMB4,097,800,000), representing an increase of approximately 40.10% as compared to the previous year.

Net Profit

For the year ended 31 December 2011, the Group's net profit was approximately RMB1,722,735,000 (2010: RMB1,242,161,000), representing an increase of approximately 38.69% as compared to the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS

Earnings Per Share

For the year ended 31 December 2011, the basic and diluted earnings per share attributable to ordinary equity holders of the parent amounted to approximately RMB0.57 (2010: RMB0.41), increased by approximately 39.02% as compared to the previous year.

Analysis of Results

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

Appropriation Proposal

The Board proposed the payment of a cash dividend of RMB0.21 (tax included) per share (2010: RMB0.30 (tax included)) to all Shareholders.

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 subject to the approval by the Shareholders of the Company at the annual general meeting for the year ended 31 December 2011 ("2011 AGM"), which will be held on Tuesday, 29 May 2012.

If the proposed appropriation proposal is approved at the 2011 AGM, it is expected that the final dividend for the year ended 31 December 2011 will be paid on or before Saturday, 30 June 2012 to the Shareholders whose names appear on the register of members of the Company on Wednesday, 6 June 2012.

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 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 Wednesday, 6 June 2012.

In accordance with the PRC Tax Law, the Company is required to withhold individual income tax when distributing the final dividend to individual shareholders whose names appear on the H shares register of members of the Company on Wednesday, 6 June 2012. The individual H shareholders are entitled to certain tax preferential treatments according to the double tax treaties between those countries where the individual H shareholders are residents and China and the provisions in respect of double tax treaties between the mainland China and Hong Kong or Macau. The Company would withhold and pay the individual income tax at the tax rates of 10% on behalf of the individual H shareholders who are Hong Kong residents, Macau residents or residents of those countries having double tax treaties with China for personal income tax rates in respect of dividend of 10%. For individual H shareholders who are residents of those countries having agreements with China for personal income tax rates in respect of dividend of lower than 10%, the Company would make applications on their behalf to seek entitlement of the relevant agreed preferential treatments pursuant to the Notice of the State Administration of Taxation in relation to the Administrative Measures on Preferential Treatment Entitled by Non-residents under

Tax Treaties (Tentative) (Guo Shui Fa [2009] No. 124) (《國家稅務總局關於印發〈非居民享受稅收協議待遇管理辦法(試行)〉的通知》(國稅發[2009]124號)). For individual H shareholders who are residents of those countries having double tax treaties with China for personal income tax rates in respect of dividend of higher than 10% but lower than 20%, the Company would withhold the individual income tax at the agreed-upon effective tax rate. For individual H shareholders who are residents of those countries without any double tax treaties with China or having double tax treaties with China for personal income tax in respect of dividend of 20% and other situations, the Company would withhold the individual income tax at a tax rate of 20%.

In accordance with the PRC Tax Law, the Company has an obligation to withhold and to pay the corporate income tax and individual income tax for payment of the final dividend to non-resident enterprises and individual shareholders whose names appear on the H shares register of members of the Company on Wednesday, 6 June 2012. If the resident enterprises (such term shall have the meaning as defined under the PRC Tax Law) and overseas resident individual shareholders whose names appear on the H shares register of members of the Company on Wednesday, 6 June 2012 do not wish to have the corporate income tax and individual 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 or individual shareholders, on or before 4:30 p.m. on Friday, 1 June 2012. 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 and individual 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 and individual income tax which arises from any failure of any non-resident corporate and individual shareholders to lodge the relevant documents within the prescribed timeframe as mentioned above.

Business Review

Solid and Effective Work in Safety Production and Environmental Protection

During the Year, in strong adherence to the 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 gave emphasis to safety production and environmental protection work. By investing RMB132,530,000 and initiating such activities as "Year of Safety Production" and "Year of Deepening Basic Foundation for Safety Production", the Group fortified the safety infrastructure and strengthened the site control, so as to establish a culture of corporate safety production through implementing main accountability system on safety, strengthening construction of safety infrastructure, unifying the standards for safety inspection, devoting more efforts in investigation and rectification, and thereby providing strong assurance for safe production. There were no serious injuries or deaths, fires, explosions, transportation accidents, poisoning or environmental pollution throughout the year, thus maintaining steady development momentum in safety production. The new development model of energy-saving and environmental-friendly mining, the so-called green mining, was initially established. The Company was recognized as one of the first batch of State-level demonstration bases in comprehensive utilisation of energy and a model enterprise for safe culture construction, and our Xiadian Gold Mine and Jinchiling Gold Mine (both located inside Zhaoyuan city) were amongst the first batch of State-level green mining enterprises.

MANAGEMENT DISCUSSION AND ANALYSIS

Steady Increase in Gold Output

In 2011, the Group overcame difficulties caused by negative factors such as production suspension, power rationing, limited explosives supply and bad weather outside Zhaoyuan city, and achieved steady increase in gold output. Various operating mines of the Company managed to make progress despite all these difficulties and attained higher output through scientific organization, thus making valuable contribution to the gold production of the Group. Among which, Xiadian Gold Mine's gold production volume exceed 120,000 ozs, became one of the top ten gold mines in the PRC.

New Progress in Resource Integration

As for resource integration, the Company has increased investment in and enlarged shareholdings of the existing projects, accelerated screening and hoarding quality projects, and speeded up acquiring resources through such arrangement as private placement since 2011. During the period from 1 January 2011 to the date of this annual report, the Group paid the acquisition consideration of equity investment amounting to approximately RMB739,000,000. In Xinjiang, the Group completed the acquisition of 50% equity interest in Sanfengshan Mining in Ruoqiang County of Xinjiang; the acquisition of 79% equity interest in Dishui Copper Mine Development Company in Baicheng County; the acquisition of additional 15% equity interest in Qinghe Ming, thus increasing shareholdings therein to 95%; and the acquisition of additional 20% equity interest in Zhaojin Xinhe. In Gansu, the Group completed the acquisition of additional 15% equity interest in Hezheng Ming. In Shandong, the Group successfully acquired and integrated Daqinjia Gold mine, Ji Shan Gold Mine and Zaoyangshan Gold Mine. At the same time, the Company also signed seven framework agreements on resource integration respectively with Xinjiang Ruoqiang County Government, Inner Mongolia Alashan Administrative Office and Shanxi Quwo County Government, laying a solid foundation for resource integration within these regions in the future. In 2011, the Group obtained additional gold resources of 7.077 tons through acquisition.

More Outstanding Results Achieved in Geological Exploration

The geological exploration of the Group achieved outstanding results again during the Year. The Company implemented Results Projects and Hope Projects for overall geological explorations at both frontlines inside and outside Zhaoyuan city, and completed investment of approximately RMB195,000,000 on geological exploration, tunnel exploration of 77,318 meters, drilling exploration of 290,319 meters, which brought gold resources explored amounted to approximately 98.9 tons. Resources reserves were further significantly increased as a result.

As at 31 December 2011, the Group owned a total of 37 exploration rights with an exploration area of approximately 1,315.43 km^2, and a total of 35 mining rights with a mining area of approximately 74.5842 km^2.

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 2011 amounted to 558.01 tons (approximately 17.94 million ozs) and the minable gold reserves amounted to 297.06 tons (approximately 9.551 million ozs), representing a substantial increase of 62.19 tons (approximately 1.999 million ozs) or 12.54% and 45.17 tons (approximately 1.4526 million ozs) or 17.93%, respectively, as compared to the previous year.

Steady Progress Made in Infrastructure Construction and Technology Reform

2011 was "the Year of Infrastructure Construction and Technology Reform" of the Group. Adhering to the guiding principles of "excellent technology design, excellent equipment and facilities, excellent construction team, excellent management and excellent economic benefits", the Company commenced the construction of 43 infrastructure projects during the Year, and completed a total investment of approximately RMB936,000,000. The completion of a series of projects, including the mining and processing complement project and tailing project of Xiadian Gold Mine, the mining and processing complement project of Dayingezhuang Gold Mine, the optimization of the production system in Hedong mining area of Hedong Gold Mine, the sewage treatment project of Jinchiling Gold Mine, and the modification works of the acid-making and burned-slag production system of Zhaojin Guihe, have further enhanced the production capability of the Company. The expansion of the processing factory (with a capacity of 2,000 tons per day) owned by Tonghui Copper Mining commenced operation one month ahead of schedule, and the commencement of works of various technology reform projects outside Zhaoyuan, such as the technology reform project of Qinghe Mining and the construction of main shaft of Zhaojin Beijiang, have given new impetus to the Company's future development of gold production.

Fruitful Results Achieved in Scientific and Technological Innovation

During the Year, the Group proactively took advantage of scientific and technological innovation, and the level of production technology has been improved significantly. Scientific and technological innovation has become a powerful booster for our corporate development. By taking advantage of the opportunity of the Group being recognized as one of the first batch of State-level demonstration bases in comprehensive utilisation of energy, in 2011, the Group invested approximately RMB50,000,000 in aggregate on technological innovation and implemented 36 technological innovation projects. The Group won 5 awards on scientific research at or above provincial level, and was granted 26 new patents. The technical centre of Zhaojin Mining that was established at high standards by the Group has officially commenced operation, while the implementation of various technological innovation programmes including the "Development of Monitoring and Pre-warning System for New Tailing" of Xiadian Gold Mine, "Underground Ventilation Network System and Tracing and Positioning System" of Zhaojin Beijiang, as well as "Technological Research on Recovery Ratio of Ore Processing and Grade of Concentrates" of Minxian Tianhao, have further enhanced the Company's level of modernization and technicalization. The various technological indices of the Company were still at the top in the gold mining industry of the PRC, which enable the Company to start a new march of "developing gold mining with scientific technology".

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Analysis

Revenue

For the year ended 31 December 2011, the Group's revenue was approximately RMB5,741,105,000 (2010: RMB4,097,800,000), representing an increase of approximately 40.10% (2010: an increase of 46.51%) as compared to last year. Such increase was primarily attributable to a substantial increase in the output quantity and selling price of gold.

Cost of Sales

For the year ended 31 December 2011, the Group's cost of sales was approximately RMB2,677,362,000 (2010: RMB1,786,958,000), representing an increase of approximately 49.83% (2010: an increase of 32.59%) as compared to the previous year. Such increase was primarily attributable to the increase of sales quantity and unit cost of gold during the Year.

Gross Profit and Gross Profit Margin

During the Year, the Group's gross profit and gross profit margin were approximately RMB3,063,743,000 (2010: RMB2,310,842,000) and approximately 53.37% (2010: 56.39%), respectively, representing an increase in gross profit of approximately 32.58% (2010: an increase of approximately 59.45%) and a decrease in gross profit margin of approximately 3.03% (2010: an increase of 4.57%), respectively, as compared to the previous year. The increase in gross profit was primarily attributable to the increases in the sales quantity and the selling price of gold, while the decrease in the gross profit margin was primarily due to the slight increase in the unit production cost of gold.

Other Revenue and Gains

During the Year, the Group's other revenue and gains were approximately RMB122,213,000 (2010: RMB123,146,000), representing a decrease of approximately 0.76% (2010: an increase of 24.16%) from the previous year and remaining stable compared with the amount of the last year.

Selling and Distribution Costs

For the year ended 31 December 2011, the Group's selling and distribution costs were approximately RMB55,805,000 (2010: RMB38,220,000), representing an increase of approximately 46.01% (2010: a decrease of 0.19%) as compared to the previous year. Such increase was mainly due to the incremental transportation expense during the year.

Administrative and Other Expenses

The Group's administrative and other operating expenses were approximately RMB752,556,000 in 2011 (2010: RMB655,491,000), representing an increase of approximately 14.81% (2010: an increase of 47.72%) from 2010. Such increase was mainly attributable to the increase in staff cost due to the business expansion and adjustment of individual salary level of staff.

Finance Costs

For the year ended 31 December 2011, the Group's finance costs were approximately RMB98,016,000 (2010: RMB92,340,000), representing an increase of approximately 6.15% (2010: an increase of 299.10%) from 2010, and remaining stable compared with the amount in 2010.

Income Tax Expenses

The income tax expenses increased by approximately RMB154,047,000 when compared with the previous year. It is attributable to the increase in profit before taxation of the Group. During the Year, income tax of corporate inside PRC has been provided at a rate of 25% (2010: 25%) on the taxable income. Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) 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 24.66% during the Year (2010: 24.80%).

Profit Attributable to Owners of the Parent

For the year ended 31 December 2011, the Group's profit attributable to the owners of the parent was approximately RMB1,661,578,000, representing an increase of approximately 38.27% (2010: an increase of 59.38%) from approximately RMB1,201,731,000 in 2010.

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 utilized to provide funding to the acquisition activities, capital expenditures, operations and repayment of borrowings of the Group.

Cash Flows and Working Capital

The Group's cash and cash equivalents have increased from approximately RMB781,888,000 as at 31 December 2010 to approximately RMB1,245,872,000 as at 31 December 2011. The increase was mainly attributable to the increase of net cash inflows from operating activities of the Group in 2011.

At the balance sheet date, the cash and cash equivalents of the Group denominated in Hong Kong dollars amounted to approximately RMB16,495,000 (2010: RMB35,433,000) and those denominated in United States dollars amounted to approximately RMB50,026,000 (2010: RMB48,001,000). All other cash and cash equivalents held by the Group are denominated in RMB.

Borrowings

As at 31 December 2011, the Group had outstanding bank and other borrowings of approximately RMB1,668,269,000 (2010: RMB440,762,000), of which approximately RMB1,510,160,000 (2010: RMB370,000,000) shall be repaid within one year, approximately RMB151,735,000 (2010: RMB63,680,000) shall be repaid within two to five years, inclusive and approximately RMB6,374,000 (2010: RMB7,082,000) shall be repaid after five years. As at 31 December 2011, the Group had outstanding corporate bond of approximately RMB1,491,047,000 (2010: RMB1,489,504,000). The bond should be repaid within two to five years, inclusive. The increase in the Group's borrowings during the year was mainly attributable to the incremental demand of the resource acquisition activities, capital expenditure and working capital of the Group.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Gearing Ratio

The Group monitors capital using a gearing ratio, which is net debt divided by the total equity plus net debt. Net debt includes interest-bearing bank and other borrowings and corporate bond, less cash and cash equivalents. As at 31 December 2011, the gearing ration of the Group was 21.5%, which was 16.6% as at 31 December 2010. Following the business expansion of the Group, the gearing ratio recorded reasonable increase while the financing channels were continually broadened.

Market Risks

The Group is exposed to various types of market risks, including fluctuation in gold prices and other commodities 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 SGE 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.

The price range of the forward commodity contracts is closely monitored by the management. On 31 December 2011, all of the forward commodity contracts (other than copper futures) of the Group were settled and accordingly, a reasonable 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 and other borrowings and corporate bond. The Group manages its interest rate risk exposure from its 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 bank and other borrowings and corporate bond 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 of foreign exchange rate may have an adverse effect on net assets, earnings and any dividend declared of the Group, which shall be converted or translated into Hong Kong dollars. Furthermore, the Group had not entered into any hedge activities during the Year due to fluctuations of foreign exchange rate.

Business Outlook

Further Consolidate the Fundaments of the Safety and Environmental Protection Work

In 2012, the Group will continue to adhere to the safety and environmental protection concepts of "gold is precious but life is priceless" and "prioritizing environmental protection over gold/silver mining". The Group intend to invest RMB100,000,000 on safety and environmental protection activities so that the fundamental management and on-site management become systematic and standardized and have their procedures; focus on three key parts, namely safety investment, safety design and training on safety, and strengthen the construction of safety standardization, "six major systems" for safe operation, safety and environmental protection system and safety cultures to enhance the construction of the hardware and software for our overall safety management; and highlight specific safety responsibility, safety special rectification actions, emergency rescue, supervision of engineering teams, prevention against and control of occupational hazards and administration of environmental protection work. All these efforts will be put together to build a platform to manage safety production and achieve the goal of safe production and "zero accident" throughout the year, thereby laying a solid foundation for building a safe and modern mining enterprise that is essentially safe, green and harmonious.

Strengthen Geological Exploration

In 2012, the Group will continue to focus on exploration at depth of underground and blind zone in compliance with the "five unified (五統一) requirements", namely "unified planning, unified management, unified scientific research, unified exploration and unified exploitation". In particular, we will focus our efforts on Xiadian and Dayingezhuang inside Zhaoyuan city, and Zaozigou and Zhaojin Baiyun outside Zhaoyuan city. Meanwhile, we will conduct scientific research for geological exploration in the undeveloped areas surrounding Zhaoping fault zone, Liangdang Zhaojin, Qinghe and Sanfengshan. We intend to invest RMB200,000,000 in the year to explore resources and expect to achieve additional gold resources of 80 tons.

Continuously Promote Technological Innovation

In 2012, the Group will make full use of the platform of Zhaojin Mining Technology Center for technological innovation and technology reform, and take the combined form of joint research on major projects, independent research and development, and introduction and utilization of new technologies to achieve breakthroughs in technological innovation; organize research on some key projects, such as recovery rate refractory ores during processing and the comprehensive recycle project of resources, and pool our superior resources and leverage on our technological advantage to drive the Company's overall research and innovation. It is expected that in 2012 the technological investment will amount to approximately RMB125,000,000, and 59 planned key topic researches will be carried out.

MANAGEMENT DISCUSSION AND ANALYSIS

Accelerate the Process of Infrastructure and Technology Reform

Infrastructure and technology reform is an important way for the Group to achieve incremental production capacity; the Group therefore sets the year 2012 as "the Year of Infrastructure and Technology Reform Intensification". It is expected that the investment in infrastructure and technology reform will amount to approximately RMB1,360,000,000, and 30 planned projects will be carried out. The Company will focus on construction of the demonstration base for the comprehensive recycle use of golden resources for mines inside Zhaoyuan and take the demonstration project of safe and high-efficient exploration and exploitation under high-temperature and high-pressure environment at the depth of Xiadian Gold Mine, the demonstration project of exploration and exploitation of low-grade resources at Dayingezhuang Gold Mine, and the demonstration project of hot-pressure oxidation at Jinchiling Gold Mine as key projects for increasing production capacity. The Company aims to accelerate project construction, expand production size for mines outside Zhaoyuan, especially Qinghe Mining, Zhaojin Baiyun, Fengning Jinlong and Zaozigou Gold Mine with a daily mining and processing capacity of 2,000 tons per day, and thus achieve economies of scale.

Steadily Expand External Development

In 2012, the Group will continue to follow the principles of "low-cost exploration, high-level cooperation and scalized operation". The Company intends to invest RMB800,000,000 to follow up and implement high-quality resource projects with huge reserves, in concentrating on the regions/provinces of Xinjiang, Gansu, Inner Mongolia and Shandong. Meanwhile, the Group will further our efforts on the strategic research and promotion of overseas expansion, conduct thorough verification and tracking of overseas projects that are in line with the Group's cooperation intention, and make acquisition when and as appropriate. The Group will continuously increase gold production and resources reserves. The Group intends to increase resources by 50 tons through external development in 2012 to lay a resource base for the Group's long-term healthy and steady 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 50, 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 SGE. Mr. Lu has 30 years of professional experience in the gold mining industry and has made outstanding contributions 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

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT PROFILE

of mining engineering of Shenyang Gold Institute, graduated from 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 an executive Director of the Company since April 2004. Presently Mr. Lu is the chairman (legal representative) of Xinjiang Ruoqiang County Changyun Sanfengshan Gold Mine Limited Liability Company.

Mr. Weng Zhanbin, aged 45, an executive Director, president of the Company. Mr. Weng has 23 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, Science & Technology Outstanding Contribution Award of National Gold Industry in the 11th Five-Year Plan Period, Labour Model of National Gold Industry in the 11th 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 the president of the Company since November 2010. Presently Mr. Weng is the chairman (legal representative) of Fengning Jinlong Gold Industry Company Limited, a director of Quwo County Zhaojin Mining Company Limited, and a director and chairman of Sparky International Trade Company Limited.

Mr. Li Xiuchen, aged 48. He 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, chairman and general manager of Xinyuan Gold Technology Development Co., Ltd. He began to serve as the Vice President of the Company since February 2007. Presently Mr. Li is an executive Director (legal representative) of Xinjiang Zhaojin Mining Development Company Limited, director and chairman (legal representative) of Qinghe County Jindu Mining Development Company Limited, executive Director (legal representative) of Hami City Zhaojin Taihe Mining Company Limited, executive Director (legal representative) of Aletai City Zhaojin Kunhe Mining Company Limited, director and chairman (legal representative) of Liaoning Zhaojin Baiyun Gold Mining Company Limited, director of Ruoqiang County Changyun Sanfengshan Gold Mine Limited Liability Company, director of Aletai Zhengyuan International Mining Company Limited, director of Zhaoyuan City Zhaojin Daqinjia Mining Company Limited and director of Zhaoyuan Zhaojin Jishan Mining Limited. Mr. Li graduated from Shenyang Institute of Gold Technology with majoring in mine engineering with the qualification of a senior engineer.

Non-executive Directors

Mr. Liang Xinjun, aged 43, 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 49, 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 Supervisory Committee of Zhaoyuan City State-owned Assets Management Limited, and the chairman of the Supervisory Committee 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. Ye Kai, aged 49. Mr. Ye has held positions of the deputy general manager and the secretary to board of directors of Shanghai Friendship Group Incorporated Company, the deputy general manager of Shanghai Friendship Department Store Co., Ltd., the general manager and the chairman of Shanghai Bailian Xijiao Shopping Mall, the assistant to general manager and the deputy general manager of Shanghai Bailian Group Company Limited and the vice chairman of Shanghai Yu Garden. From September 2010 up to now, he has been the general manager of the retail commercial real estate department of Shanghai Fuxing High-tech (Group) Company Limited. He has been the chairman of Shanghai Yu Garden since August 2011. Mr Ye is an on-the-job postgraduate and has extensive experience in business operation. Mr. Ye has been a non-executive Director of the Company since 23 March 2012 and his further appointment will be subject to the approval by the shareholders at the 2011 AGM.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT PROFILE

Mr. Kong Fanhe, aged 45. Mr. Kong has held positions of the general manager of Shanghai Yinhong Investment Management Co., Ltd., the chief investment officer of Sanpower Group Co., Ltd., the deputy general manager of Commercial Business of Fuxing Group and the vice president and chief executive officer of Shanghai Yu Garden. Mr. Kong graduated from Nanjing University of Science and Technology with a master's degree in economics and has extensive experience in investment. Mr. Kong has been a non-executive Director of the Company since 23 March 2012 and his further appointment will be subject to the approval by the shareholder at the 2011 AGM.

Independent Non-executive Directors

Mr. Yan Hongbo, aged 72, an independent non-executive Director of the Company, and a supervisor of Beijing Zhonganjian Mining Investment Limited. Mr. Yan has served as 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 71, an independent non-executive Director of the Company, a chief engineer of Potential Evaluation Projects of Mining Resources in the PRC, a director of the Chinese Association of Mining Rights Assessors 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 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 52, 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 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 52, 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 (financial service industry) of 2011 HKSAR Election Committee, 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 38, the chairman of the Supervisory Committee of the Company, and also the Communist Party vice secretary to Zhaojin Group, 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 48, a supervisor of the Company, also currently the assistant to president and the financial controller of Shanghai Yuyuan. She has 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.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT PROFILE

Mr. Chu Yushan, aged 45, a supervisor of the Company and a deputy general manager of Zhaojin Beijiang Mining Company Limited. He also serves as a deputy general manager of Xinjiang Xingta Mining Co. Ltd.. 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 39, the Secretary to the Board of the Company. 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 and obtained an EMBA degree from Tsinghua University. Mr. Wang has been the Secretary to the Board since December 2007.

Ms. Ma Sau Kuen Gloria, aged 53, a company secretary of the Company. Ms. Ma is a director and Head of Registration and Compliance Services of KCS Hong Kong Limited. Ms. Ma has over 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 45, the president of the Company. His biographical details are set out on page 22 of this annual report.

Mr. Zhang Banglong, aged 49, 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 majoring in Business Administration and an EMBA degree from Cheung Kong Graduate School of Business. Mr. Zhang has the qualifications of accountant and senior gold investment analyst. Mr. Zhang has served as the chief financial officer of the Company since March 2005.

Mr. Li Xiuchen, aged 48, the Senior Vice President of the Company. His biographical details are set out on page 22 of this annual report.

Mr. Zhang Shantang, aged 56, the Vice President of the Company and the mine manager of Canzhuang Gold Mine. 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 47, 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.

Mr. Cong Peizhang, aged 49, the Vice President of the Company. He has served as a technician, the geology head and the director of the general labour office of Zhaoyuan Gold Geological Brigade, the manager of the resources department, the vice director of the technology center, the manager of the planning and development department, the manager of the department outside of Shandong province of Zhaojin Group, the general manager of Hainan Dongfang Zhaojin Mining Industry Company Limited, the manager of the planning and development department, the deputy chief engineer and the manager of geological exploration department and the assistant to president of the Company. Mr. Cong graduated from Shandong Mining Institute (currently known as Shandong University of Science and Technology) majoring in geology exploration. He has the qualification of senior engineer. Mr. Cong has been the Vice President of the Company since March 2012.

REPORT OF THE DIRECTORS

The Board hereby presents its report, together with the audited consolidated financial statements for the year ended 31 December 2011.

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 specializing 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 147 to 151 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 2011 are set out on pages 86 to 87 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 2010 paid by the Company was approximately RMB437,229,000 (2009: RMB320,674,000).

The Board proposes the payment of a final cash dividend to all shareholders for 2011 of RMB0.21 (tax included) (2010: RMB0.30 (tax included)) per share.

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 29 May 2012).

The proposed distributions are subject to the approval by the Shareholders at the 2011 AGM to be held on 29 May 2012.

Major Customers and Suppliers

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

During the Year, approximately 77.51% (2010: 86.89%) of the total sales was conducted on the SGE. Similar to a stock exchange, the SGE 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 SGE. Therefore, the SGE 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% (2010: 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 2011 are set out on page 90 of this annual report.

Distributable Reserves

The distributable reserves of the Company as at 31 December 2011 are set out in note 39 to the financial statements on pages 175 to 176 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.

REPORT OF THE DIRECTORS

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 2011, 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 RMB2,008,180,584.55 (2010: RMB1,642,446,472.69), of which approximately RMB612,121,000 are proposed to be the final cash dividend of the Year (2010: dividend of RMB437,229,000).

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 135 to 138 of this annual report.

The Group did not hold any investment property.

Share Capital

During the Year, details of changes in share capital of the Company are set out in note 38 to the financial statements on page 174 of this annual report.

On 13 June 2011, the 2010 annual general meeting, the domestic shares class meeting and the H shares class meeting of the Company considered and approved, respectively, that the Company would issue bonus shares to its shareholders whose names appeared on the register of members of the Company on 13 June 2011(the "Record Date") on the basis of one bonus share to be issued (0.5 made by way of capitalization of retained profits and 0.5 made by way of capitalization of the capital reserve) for every one share held by such shareholders at the Record Date (i.e., one bonus H share and one bonus domestic share to be issued in respect of every one H share and every one domestic share held by its shareholders, respectively), thus a total of 1,457,430,000 bonus shares were distributed.

The distribution of the bonus shares was completed on 30 June 2011 and the listing and trading of the bonus H shares commenced on the Stock Exchange on 5 July 2011. The registration of the bonus domestic shares relating to the non-foreign listing shareholders at the China Securities Depository and Clearing Corporation Limited was completed.

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 period from 31 December 2011 to the date of this annual report.

Use of Proceeds from the Initial Public Offering

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. As at 31 December 2011, the net proceeds from the initial offering and listing of the H shares of the Company 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;
- 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 totaling RMB22,100,000 (2010: RMB4,463,820.05). Details of the donation were set out in the section headed "Social Responsibility" on page 80 of this annual report.

Bank Borrowings

Details of bank borrowings of the Company and the Group are set out in note 33 to the financial statements on pages 167 to 170 of this annual report.

REPORT OF THE DIRECTORS

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 9 to the consolidated financial statements on page 132 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)*
Mr. Li Xiuchen (appointed as an executive Director of the Company with effect from 23 March 2012)

Non-executive Directors
Mr. Liang Xinjun *(Vice Chairman)*
Mr. Cong Jianmao
Mr. Wang Peifu (resigned as a non-executive Director of the Company with effect from 23 March 2012)
Mr. Ye Kai (appointed as a non-executive Director of the Company with effect from 23 March 2012)
Mr. Chen Guoping (resigned as a non-executive Director of the Company with effect from 23 March 2012)
Mr. Kong Fanhe (appointed as a non-executive Director of the Company with effect from 23 March 2012)
Mr. Wu Zhongqing (resigned as a non-executive Director of the Company with effect from 23 March 2012)

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 27 of this annual report.

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 of the Company 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.

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 operating results of the Group.

Details of the remuneration of the Directors and Supervisors are set out in note 8 to the financial statements on pages 127 to 131 of this annual report.

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 2011, 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

REPORT OF THE DIRECTORS

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 8 to the financial statements on pages 127 to 131 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 as at 31 December 2011 are as follows:

Classification	Number of Shareholders
Domestic shares	5
Overseas-listed foreign shares – H shares	2,025
Total number of shareholders	2,030

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.

Substantial Shareholders

To the best knowledge of the Directors, Supervisors and chief executive of the Company, as at 31 December 2011, 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	1,086,514,000 *(Note 1)*	37.27	53.25	–	Long position
		H shares	Beneficial owner	16,510,000 *(Note 1)*	0.57	–	1.89	Long position
2	Shanghai Yuyuan Tourist Mart Co., Ltd.	Domestic shares	Beneficial owner	742,000,000	25.46	36.36	–	Long position
		Domestic shares	Interest of controlled corporation	21,200,000 *(Note 1 & 2)*	0.73	1.04	–	Long position
3	Shanghai Fosun Industrial Investment Co., Ltd.	Domestic shares	Beneficial owner	106,000,000 *(Note 1 & 3)*	3.64	5.19	–	Long position
4	Shanghai Fosun High Technology (Group) Company Limited	Domestic shares	Beneficial owner	106,000,000 *(Note 1 & 3)*	3.64	5.19	–	Long position
5	Fosun International Limited	Domestic shares	Beneficial owner	106,000,000 *(Note 1 & 3)*	3.64	5.19	–	Long position

REPORT OF THE DIRECTORS

	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
6	Fosun Holdings Limited	Domestic shares	Beneficial owner	106,000,000 *(Note 1 & 3)*	3.64	5.19	–	Long position
7	Fosun International Holdings Ltd.	Domestic shares	Beneficial owner	106,000,000 *(Note 1 & 3)*	3.64	5.19	–	Long position
8	Guo Guangchang	Domestic shares	Interest of controlled corporation	106,000,000 *(Note 1 & 3)*	3.64	5.19	–	Long position
9	Atlantis Capital Holdings Limited	H shares	Interest of controlled corporation	80,000,000 *(Note 4)*	2.74	–	9.15	Long position
10	Liu Yang	H shares	Interest of controlled corporation	80,000,000 *(Note 4)*	2.74	–	9.15	Long position
11	JP Morgan Chase & Co.	H shares	Beneficial owner	3,012,350 *(Note 5)*	0.10	–	0.34	Long position
		H shares	Beneficial owner	1,079,233 *(Note 5)*	0.04	–	0.12	Short position
		H shares	Custodian corporation/ approved lending agent	84,454,422 *(Note 5)*	2.90	–	9.66	Lending pool
12	FIL Limited	H shares	Investment manager	95,550,500	3.28	–	10.93	Long position
13	Ameriprise Financial Inc	H shares	Interest of controlled corporation	61,351,814 *(Note 6)*	2.10	–	7.02	Long position
14	Norges Bank	H shares	Beneficial owner	61,742,500	2.12	–	7.06	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 21,200,000 domestic shares held by Laomiao Gold in the Company is shown as long position of Shanghai Yuyuan.

(3) The 106,000,000 shares represent the same block of shares.

(4) The 80,000,000 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.

As at 31 December 2011, 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 were 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 whereby the annual caps of the continuing connected transactions under the Framework Agreement for each of the two years ending 31 December 2011 were increased to RMB98,000,000 and RMB130,000,000 respectively.

REPORT OF THE DIRECTORS

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 were 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.

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.

(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 were 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.

Zhaojin Group 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.

(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 were 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 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.

(5) On 26 July 2011, the Company entered into the Exploration Services Agreement with Shandong Zhaojin Geological Prospecting Co., Ltd ("Shandong Zhaojin Geological", a wholly-owned subsidiary of Zhaojin Group) in relation to the provision of exploration services by Shandong Zhaojin Geological to the Company for the period from 26 July 2011 to 31 December 2013, in which the annual caps of the Group in respect of the transactions contemplated thereunder for the three years ending 31 December 2011, 31 December 2012 and 31 December 2013 were determined to be RMB65,000,000, RMB100,000,000 and RMB110,000,000, respectively.

REPORT OF THE DIRECTORS

Zhaojin Group is the controlling Shareholder of the Company and Shandong Zhaojin Geological is a wholly-owned subsidiary of Zhaojin Group. Shandong Zhaojin Geological is therefore a connected person of the Company and the transactions contemplated under the Exploration Services Agreement constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules. As each of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Exploration Services Agreement is more than 0.1% but less than 5%, the Exploration Services Agreement and the transactions contemplated thereunder are subject to the annual review, 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 announcements of the Company dated 26 July 2011 published on the website of the Stock Exchange at www.hkexnews.com.hk and the website of the Company at www.zhaojin.com.cn.

(6) On 28 December 2011, the Company entered into the Land Lease Agreement with Zhaojin Group ("Zhaojin Group", being the controlling Shareholder of the Company) in relation to the lease of land use rights by Zhaojin Group to the Company for the term of three years commencing from 1 January 2012. According to the Land Lease Agreement, the annual rental caps for the land use rights for the three years ending 31 December 2012, 31 December 2013 and 31 December 2014 will be approximately RMB4,590,000, RMB4,520,000 and RMB4,440,000, respectively.

(7) On 28 December 2011, the Company entered into the Gold Refinery Agreement with 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 by Zhaojin Refinery to the Company for the term of three years commencing from 1 January 2012. According to the Gold Refinery Agreement, the annual caps for the provision of gold refinery services for the three years ending 31 December 2012, 31 December 2013 and 31 December 2014 will be RMB7,300,000, RMB8,400,000 and RMB9,700,000, respectively.

(8) On 28 December 2011, the Company entered into the Digital Mine Construction Technology Services Agreement with Shandong Goldsoft Technology Company Limited ("Goldsoft Technology", a 77.04% owned subsidiary of Zhaojin Group) in relation to the provision of Digital Mine Construction Technology Services by Goldsoft Technology to the Group for the term of three years commencing from 1 January 2012. According to the Digital Mine Construction Technology Services Agreement, the annual caps for the provision of Digital Mine Construction Technology Services for the three years ending 31 December 2012, 31 December 2013 and 31 December 2014 will be RMB37,700,000, RMB43,100,000 and RMB38,500,000, respectively.

(9) On 28 December 2011, the Company entered into the Framework Agreement for Sale of Silver with Shandong Zhaojin Import and Export Company Limited ("Zhaojin Import and Export", a 30% owned subsidiary of Zhaojin Group) in relation to the sale of silver by the Group to Zhaojin Import and Export for the term of three years commencing from 1 January 2012. According to the Framework Agreement for Sale of Silver, the annual caps for the sale of silver for each of the three years ending 31 December 2012, 31 December 2013 and 31 December 2014 will be RMB160,000,000, RMB180,000,000 and RMB200,000,000, respectively.

Zhaojin Group is the controlling Shareholder of the Company, Zhaojin Refinery, Goldsoft Technology and Zhaojin Import and Export are Associates of Zhaojin Group and are therefore connected persons of the Company and the transactions contemplated under the Land Lease Agreement, the Gold Refinery Agreement, the Digital Mine Construction Technology Services Agreement and the Framework Agreement for Sale of Silver constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Given that each of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of each of the Land Lease Agreement, the Gold Refinery Agreement, the Digital Mine Construction Technology Services Agreement and the Framework Agreement for Sale of Silver are less than 5%, the transactions under the Land Lease Agreement, the Gold Refinery Agreement, the Digital Mine Construction Technology Services Agreement and the Framework Agreement for Sale of Silver are subject to the reporting and announcement requirements but 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 28 December 2011 published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.zhaojin.com.cn.

2. Other Connected Transactions

(1) On 2 May 2011, the Company entered into the Equity Transfer Agreement with Liu Jiangjie, pursuant to which the Company acquired 15% equity interests in Qinghe County Jindu Mining Development Company Limited at a consideration of RMB46,000,000, upon completion of the equity transfer, the Company held an aggregate of 95% equity interests in Qinghe County Jindu Mining Development Company Limited.

Liu Jiangjie is a connected person of the Company by virtue of being a Shareholder of Qinghe County Jindu Mining Development Company Limited. Accordingly, the acquisition constitutes a connected transaction for the Company. The aggregate percentage ratios in respect of the acquisition is less than that required for announcement and reporting, and the acquisition is exempt from the independent Shareholders' approval requirements.

(2) On 2 May 2011, the Company entered into the Equity Transfer Agreement with Yantai Jingtai Investment Consulting Co., Ltd. (煙台景泰投資諮詢有限公司), pursuant to which the Company agreed to acquire 15% equity interests in Hezheng Xinyuan Mining Co., Ltd. at a consideration of RMB9,000,000, upon completion of the equity transfer, the Company would hold an aggregate of 95% equity interests in Hezheng Xinyuan Mining Co., Ltd..

Yantai Jingtai Investment Consulting Co., Ltd. is a connected person of the Company by virtue of being a Shareholder of Hezheng Xinyuan Mining Co., Ltd.. Accordingly, the acquisition constitutes a connected transaction for the Company. The aggregate percentage ratios in respect of the acquisition is less than that required for announcement and reporting, and the acquisition is exempt from the independent Shareholders' approval requirements.

REPORT OF THE DIRECTORS

(3) On 28 May 2011, the Company entered into the Equity Transfer Agreement with four natural persons being Liang Fubin, Fu Anling, Lin Mouhua and Dai Junmin, pursuant to which the Company acquired 20% equity interests in Tuoli Xinyuan Gold Mining Industry Co., Ltd. at a consideration of RMB7,300,000, upon completion of the equity transfer, the name of Toli Xinyuan Gold Mining Co., Ltd. was changed into Tuoli Zhaojin Xinhe Ming Company Limited (托里縣招金鑫合礦業有限公司), becoming a wholly-owned subsidiary of Tuoli Zhaojin Beijiang Mining Company Limited which is a wholly-owned subsidiary of the Company.

Liang Fubin, Fu Anling, Lin Mouhua and Dai Junmin are connected persons of the Company by virtue of being shareholders of Tuoli Xinyuan Gold Mining Industry Co., Ltd.. Accordingly, the acquisition constitutes a connected transaction for the Company. The aggregate percentage ratios in respect of the acquisition is less than that required for announcement and reporting, and the acquisition is exempt from the independent Shareholders' approval requirements.

(4) On 21 December 2011, Zhaoyuan Jintingling Mining Industry Company Limited, a wholly-owned subsidiary of the Company, acquired the Zaoyangshan Exploration Right and its ancillary assets at a consideration of RMB28,000,000 from Zhaoyuan Gold Smelting Company Limited, a wholly-owned subsidiary of Zhaojin Group ("Zhaojin Group", being the controlling Shareholder of the Company) by bidding at Yantai Joint Property Right Exchange Center. The mine involved in the Zaoyangshan Exploration Right occupies an area of 16.20 square kilometers, and possesses good ore-forming conditions and development prospects as well as good infrastructure and facilities. Based on previous exploration works conducted in the mine, the indicated and inferred ore resources are approximately 379,881 tonnes, gold metal resources are approximately 1,267 kilograms and average grade is approximately 3.34 gram per ton.

The acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Relevant details were set out in the announcement of the Company dated 21 December 2011 published on the website of the Stock Exchange at www.hkexnews.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 44 to the financial statements on pages 184 to 185 in this annual report.

Our independent non-executive Directors have reviewed the continuing connected transactions and other transactions set out in note 44 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 the Board 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 Company;

(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 given by the independent non-executive Directors, concerning the Exploration Services Agreement entered into by the Group and Shandong Zhaojin Geological, the Framework Agreement for Sale of Silver with Zhaojin Import and Export, the Land Lease Agreement with Zhaojin Group, the Gold Refinery Agreement with Zhaojin Refinery and the Digital Mine Construction Technology Services Agreement with Goldsoft Technology.

REPORT OF THE DIRECTORS

The Company has also received a statement under the non-competition agreement from Zhaojin Group on 2 January 2012, 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 2011.

Acquisitions

(1) On 15 October 2010, the Company entered into an agreement with a vendor (an independent third party) for acquisition of 50% equity interests in Xinjiang Ruoqiang County Changyun Sanfengshan Gold Mining Co., Ltd ("Sanfengshan Mining") at a consideration of RMB100,000,000. This acquisition was completed on 13 January 2011.

Sanfengshan Mining, located at the region of Innikelatage Hongshijing, the north-eastern 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 per 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.

(2) On 2 May 2011, the Company entered into the equity transfer agreement with Liu Jiangjie, pursuant to which the Company acquired 15% equity interests in Qinghe County Jindu Mining Development Company Limited at a consideration of RMB46,000,000, upon completion of the equity transfer, the Company will hold an aggregate of 95% equity interests in Qinghe County Jindu Mining Development Company Limited.

Liu Jiangjie is a connected person of the Company by virtue of being a substantial Shareholder of Qinghe County Jindu Mining Development Company Limited. Accordingly, the acquisition constitutes a connected transaction for the Company. As each of the applicable percentage ratios in respect of the acquisition is below the de minimis threshold and is exempt from the announcement, reporting, and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(3) On 2 May 2011, the Company entered into the equity transfer agreement with Yantai Jingtai Investment Consulting Co., Ltd. (煙台景泰投資諮詢有限公司), pursuant to which the Company acquired 15% equity interests in Hezheng Xinyuan Mining Co., Ltd. at a consideration of RMB9,000,000, upon completion of the equity transfer, the Company held an aggregate of 95% equity interests in Hezheng Xinyuan Mining Co., Ltd..

Yantai Jingtai Investment Consulting Co., Ltd. is a connected person of the Company by virtue of being a substantial Shareholder of Hezheng Xinyuan Mining Co., Ltd.. Accordingly, the acquisition constitutes a connected transaction for the Company. As each of the applicable percentage ratios in respect of the acquisition is below the de minimis threshold and is exempt from the announcement, reporting, and the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

As at 10 January 2012, the registration procedures associated with the equity transfer with relevant local industry and commerce authority were completed, resulting in the completion of this transaction.

(4) On 28 May 2011, the Company entered into the equity transfer agreement with four natural persons being Liang Fubin, Fu Anling, Lin Mouhua and Dai Junmin, pursuant to which the Company acquired 20% equity interests in Tuoli Xinyuan Gold Mining Industry Co., Ltd. at a consideration of RMB7,300,000, upon completion of the equity transfer, the name of Tuoli Xinyuan Gold Mining Industry Co., Ltd. will be changed into Tuoli County Zhaojin Xinhe Ming Company Limited (托里縣招金鑫合礦業有限公司), and became a wholly-owned subsidiary of Tuoli County Zhaojin Beijiang Mining Company Limited which is a wholly-owned subsidiary of the Company.

Liang Fubin, Fu Anling, Lin Mouhua and Dai Junmin are connected persons of the Company by virtue of being the substantial shareholders of Tuoli Xinyuan Gold Mining Industry Co., Ltd.. Accordingly, the acquisition constitutes a connected transaction for the Company. As each of the aggregate percentage ratios in respect of the acquisition is below the de minimis threshold and is exempt from the announcement and reporting, and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(5) On 1 December 2011, the Company entered into the Jishan JV Agreement with Zhaoyuan Zhangxing Town People's Government (招遠市張星鎮人民政府). Pursuant to the Jishan JV Agreement, the parties have agreed to establish the Jishan JV which will be principally engaged in the exploration and exploitation of gold in Zhaoyuan, Shandong Province, the PRC. The registered capital of the Jishan JV will be owned as to 95% and 5% by the Company and Zhaoyuan Zhangxing Town People's Government respectively. It is estimated by the geological experts that the gold content of Jishan JV is approximately 1,510 kg, the ore quantity is approximately 368,867 tonnes and the average grade is 4.09 gram per ton.

As at the date of this annual report, the registration of change of this joint venture with relevant local industry and commerce authority is still in progress.

The acquisition did not constitute a 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 7 December 2011 published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.zhaojin.com.cn.

(6) The Company entered into the DQJ JV Agreement and the Supplemental DQJ JV Agreement regarding the formation of Zhaoyuan Zhaojin – Daqinjia Mining Company Limited ("Daqinjia") with Zhaoyuan People's Government Daqinjia Town Sub-District (招遠市人民政府大秦家街道辦事處) on 1 January 2011 and 1 November 2011, respectively. Pursuant to the framework and principles of the DQJ JV Agreement (as further supplemented by the Supplemental DQJ JV Agreement), the parties have agreed to establish Daqinjia, a non wholly-owned subsidiary which will be principally engaged in the mining of gold and its associated ore, and processing and sale of mine products. The registered capital of the Daqinjia will be owned as to 90% and 10% by the Company and Zhaoyuan Qinjin Enterprise Development Company respectively. It is estimated by the geological experts that the gold metal reserve owned by Daqinjia are approximately 4,300 kg, the gold ore resource owned by Daqinjia are approximately 1,068,000 tonnes and average grade is 4.03 gram per ton.

REPORT OF THE DIRECTORS

The acquisition did not constitute a 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 7 December 2011 published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.zhaojin.com.cn.

(7) On 21 December 2011, Zhaoyuan Jintingling Mining Industry Company Limited ("Jintingling", a wholly-owned subsidiary of the Group), entered into the asset transfer agreement with Zhaoyuan Gold Smelting Company Limited to acquire the Zaoyangshan Exploration Right and its ancillary assets at a consideration of RMB28,000,000 by bidding at Yantai Joint Property Right Exchange Center. The mine involved in the Zaoyangshan Exploration Right occupies an area of 16.20 km^2, and possesses good ore-forming conditions and development prospects as well as good infrastructure and facilities. Based on previous exploration works conducted in the mine, the indicated and inferred ore resources are approximately 379,881 tonnes, gold metal resources are approximately 1,267 kg and average grade is approximately 3.34 gram per ton.

As at the date of this annual report, the registration of change of property rights of this project is still in progress.

The acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Relevant details were set out in the announcement of the Company dated 21 December 2011 published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.zhaojin.com.cn.

(8) On 30 December 2011, the Company entered into the equity transfer agreement with five natural persons being Fu Xiaoliang, Shi Chengyong, Zhou Jian, Ni Peiai and Han Xiaosong, whereby the Company acquired 79% equity interest in Baicheng Xian Di Shui Copper Mine Development Company (拜城縣滴水銅礦開發有限責任公司) at a cash consideration of RMB600,000,000.

Dishui Gold-Copper Mine is a gold-copper mine project, where the gold grade is 0.41 gram per ton, with a gold content of 2,757 kg; the silver grade is 9.39 gram per ton, with a silver content of 235,312 kg; the copper grade is 1.06%, with a copper content of 265,600 tons.

As at 5 January 2012, the registration procedures associated with the equity interest transfer with relevant local industry and commerce authority was completed, resulting in the completion of this transaction.

The acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. Relevant details were set out in the announcement of the Company dated 30 December 2011 published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.zhaojin.com.cn.

Significant Events

1. On 13 June 2011, the following proposals, among other things, were reviewed and passed at the 2010 annual general meeting:

   (1) Declaration and payment of final dividends for the year ended 31 December 2010 of RMB0.30 (tax included) per share to the shareholders whose names appear on the register of members of the Company on 13 June 2011, and distribution of bonus shares of the Company to all shareholders on the basis of one bonus share to be issued for every one share held by the shareholders whose names appear on the register of members of the Company on 13 June 2011. On 30 June 2011, the Company distributed the 2010 final dividend of RMB0.30 (tax included) per share to the shareholders whose names appear on the register of members of the Company on 13 June 2011. On 30 June 2011, the Company distributed bonus shares to all shareholders whose names appear on the register of members of the Company on 13 June 2011.

   (2) Authorising the Board to allot, issue and deal with H 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.

   (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.

   (4) Amending Article 2.2, Article 3.5 and Article 3.8 of the Articles of Association, such amendments involve the scope of business, share capital structure and registered capital.

   (5) Registration and issue of short-term bonds of not more than RMB700,000,000 with a term of issue of not more than one year, and authorising the Chairman of the Company to determine and handle all matters relating to the issue of short term bonds in his absolute discretion within the scope specified in this proposal.

   Relevant details were set out in the announcement of the Company dated 13 June 2011 published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.zhaojin.com.cn.

2. On 13 June 2011, the following proposals were reviewed at the domestic shares class meeting and H shares class meeting respectively:

   (1) Issuing bonus shares and increasing in registered capital;

   (2) Authorising the Board to allot, issue and deal with H 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;

REPORT OF THE DIRECTORS

(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.

All the three proposals were approved at the domestic shares class meeting. The proposals set out in 2.(1) and 2.(3) above were approved at the H shares class meeting, yet the proposal set out in 2.(2) above was not approved at the H shares class meeting.

Relevant details were set out in the announcement of the Company dated 13 June 2011 published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.zhaojin.com.cn.

3. Issue of Short Term Bonds

The 2011 first tranche of the short term bonds of the Company were issued on 3 November 2011 which bear interest accruing from 7 November 2011 and will be repaid on 7 November 2012. The short term bonds with a principal amount of RMB700,000,000 were issued with an interest rate of 6.11% for a term of 366 days. The fixed interest rate was determined in accordance with the prevailing market rates on the issue date. The issue of the short term bonds was underwritten by the joint lead managers of Agricultural Bank of China Limited and China Merchants Bank Co., Ltd.

Relevant details were set out in the announcement of the Company dated 8 November 2011 published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.zhaojin.com.cn.

4. Distribution of Interest of “09 Corporate Bonds” for the Year 2011

On 23 December 2011, the Company has distributed the interest of “09 Corporate Bonds” in an aggregate sum of RMB75,000,000 for the second distributing year from 23 December 2010 to 22 December 2011.

Relevant details were set out in the announcement of the Company dated 16 December 2011 published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.zhaojin.com.cn.

5. Changes in Senior Management

The Company held the sixteenth meeting of the third session of the Board on 5 March 2012, at which the Company agreed to release Mr. Shi Wenge from his position as the vice president of the Company due to the changes in work allocation, with effect from 29 January 2012, and Mr. Cong Peizhang was approved at the meeting to be the vice president of the Company, with effect from 5 March 2012.

6. Changes in Composition of the Board

The Company held the seventeenth meeting of the third session of the Board on 23 March 2012, at which the Company agreed Mr. Wu Zhongqing to resign from his position as a non-executive director, agreed Mr. Chen Guoping to resign from his positions as a non-executive director and a member of the Audit Committee and agreed Mr. Wang Peifu to resign from his position as a non-executive director and member of Safety and Environmental Protection Committee due to reallocation of work arrangement, all with effect from 23 March 2012. Mr. Wu, Mr. Chen and Mr. Wang confirmed that they have no disagreement with the Board and there is no matter relating to Mr. Wu's, Mr. Chen's and Mr. Wang's resignations that need to be brought to the attention of the shareholders of the Company. In accordance with the requirements of the articles of association of the Company, the Board appointed Mr. Li Xiuchen as an executive director of the Company and a member of Safety and Environmental Protection Committee, appointed Mr. Ye Kai as a non-executive director of the Company and a member of the Audit Committee, and appointed Mr. Kong Fanhe as a non-executive director of the Company. Please refer to the announcement of the Company dated 23 March 2012 for details of the changes in the composition of the Board.

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 52 to 77 of this annual report.

Compliance with the 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.

REPORT OF THE DIRECTORS

Audit Committee

During the year, 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.

The audit committee has reviewed the Group's audited consolidated annual results for the year ended 31 December 2011, and is of the view that the Group's audited consolidated annual results for the year ended 31 December 2011 are prepared in accordance with the applicable accounting standards, laws and regulations, and appropriate disclosures have already been made.

The Company held the seventeenth meeting of the third session of the Board on 23 March 2012, at which the Company agreed Mr. Chen Guoping to resign from his position as a member of the audit committee and appointed Mr. Ye Kai as a member of the audit committee.

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 23 March 2012. The Company is of the view that the independent non-executive Directors remain independent during the Year in accordance with the relevant requirements 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 2011 AGM, the H shares registrar and transfer office will be closed from 29 April 2012 to 29 May 2012, both days inclusive, during which no transfer of shares will be registered. In order to determine the H shares shareholders who are entitled to receive the final dividend for the year ended 31 December 2011, the H shares registrar and transfer office will be closed from 2 June 2012 to 6 June 2012, both days inclusive, during which no transfer of shares will be registered.

For qualifying to attend and vote at the 2011 AGM, 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, 27 April 2012.

For qualifying to receive the final dividend for the year 2011, 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, 1 June 2012.

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 2011 AGM.

By the order of the Board
Lu Dongshang
Chairman

23 March 2012

CORPORATE GOVERNANCE REPORT

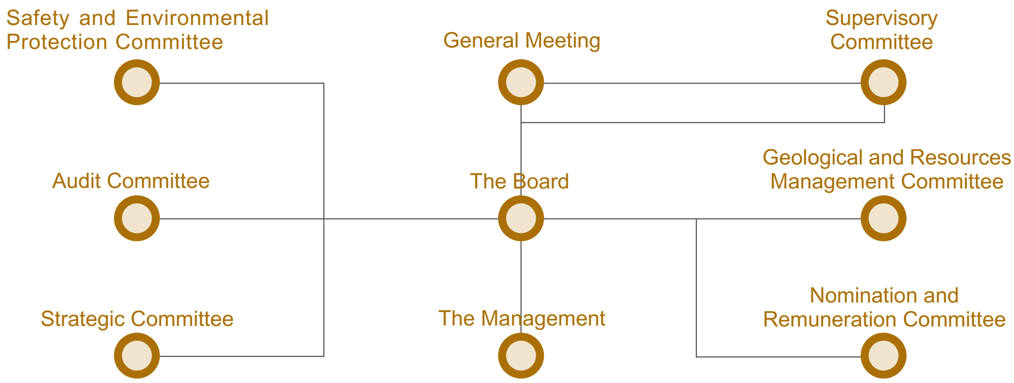
Report of Corporate Governance Practice

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 Shareholders' 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 2011, the Company had complied with all the code provisions set out in the Code on Corporate Governance Practices (the "Code") set out in in Appendix 14 of the Listing Rules with no deviation, and had adopted certain recommended best practices in the Code where they were applicable.

For the year ended 31 December 2011, 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 set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors and Supervisors.

None of the Directors had any interest in securities of the Company as at 31 December 2011. Specific enquiries regarding non-compliance of the Model Code were made to all Directors and Supervisors, 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 and monitoring the performance of the senior management. 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 three are executive Directors, four 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 be re-elected 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 Company held the seventeenth meeting of the third session of the Board on 23 March 2012, at which the Company agreed Mr. Wu Zhongqing to resign from his position as a non-executive Director, agreed Mr. Chen Guoping to resign from his positions as a non-executive Director and a member of the Audit Committee and agreed Mr. Wang Peifu to resign from his position as a non-executive Director and member of Safety and Environmental Protection Committee due to reallocation of work arrangement, with effect from 23 March 2012. Mr. Wu, Mr. Chen and Mr. Wang confirmed that there is no disagreement with the Board and there is no matter relating to Mr. Wu's, Mr. Chen's and Mr. Wang's resignations that need to be brought to the attention of the shareholders of the Company. In accordance with the requirements of the articles of association of the Company, the Board appointed Mr. Li Xiuchen as an executive Director of the Company and a member of Safety and Environmental Protection Committee, appointed Mr. Ye Kai as a non-executive Director of the Company and a member of the audit committee, and appointed Mr. Kong Fanhe as a non-executive Director of the Company. The list and profiles of Directors (including their names) are set out from pages 21 to 25 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.

CORPORATE GOVERNANCE REPORT

The Company has three executive Directors responsible for specific management duties, representing 27% 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, Mr. Weng Zhanbin and Mr. Li Xiuchen, both being executive Directors of the Company, have years of extensive experience in the gold mining management industry and are responsible for the business management, formulating and implementing important strategies, making day-to-day business 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 the independent non-executive Directors have appropriate professional qualifications, accounting or related financial management expertise. Independent non-executive Directors are 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 Stock Exchange prior to his appointment. As at 23 March 2012, the Company had received the annual confirmation of independence from the four independent non-executive Directors confirming their independent status in accordance with Rules 3.13 of the Listing Rules. The Company had verified their independence and confirmed that all of the independent non-executive Directors were independent individuals. The four independent non-executive Directors held office 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' attendance in person 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 six Board meetings of the third session of the Board during the Year and the record of attendance of each Director is set out as follows:

	Number of meetings convened	Attendance	Of which: attendance by proxy
Executive Directors			
Lu Dongshang *(Chairman)*	6	6	(0)
Weng Zhanbin *(Note 1)*	6	6	(0)
Non-executive Directors			
Liang Xinjun	6	5	(1)
Cong Jianmao	6	6	(0)
Wang Peifu *(Note 2)*	6	5	(1)
Wu Zhongqing	6	5	(1)
Chen Guoping	6	5	(1)
Independent Non-executive Directors			
Yan Hongbo	6	6	(0)
Ye Tianzhu	6	6	(0)
Chen Jinrong	6	6	(0)
Choy Sze Chung Jojo	6	6	(0)

Note 1: Mr. Weng Zhanbin was appointed as non-executive Director of the third session of the Board of the Company at the extraordinary general meeting held on 26 February 2010 and was re-appointed as executive Director of the Company on 10 November 2010.

Note 2: Mr. Wang Peifu was appointed as executive Director of the third session of the Board of the Company at the extraordinary general meeting held on 26 February 2010 and was re-appointed as non-executive Director of the Company on 10 November 2010.

The Board or special committees circulate the relevant information provided by the senior management, which sets out the matters that require to be decided 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 members 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 members at least 3 days before the meetings to allow them to have sufficient time 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 any potential questions raised by the Board members regarding the reports during the meetings.

CORPORATE GOVERNANCE REPORT

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 discussion and consideration of 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 in detail issues considered by the Directors during the meeting as well as the resolutions made, including any doubts 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 times.

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 relevant chapters of the Listing Rules are quoted in the Director's Handbook to remind Directors of the responsibilities they must discharge, including disclosure of their interest to the regulatory bodies, potential conflict of interests and changes of details of personal data.

The Board and special committees are provided with sufficient resources for performance of duties including but not limited to appointing external consultants when necessary at the expense of the Company. Individual Directors can also appoint external 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 continuing 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 implement the Board procedures and properly complies with the legislations.

No relationship (including financial, business, family or other material/relevant relationship) exist between members of the Board.

(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 is also responsible for ensuring 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 accountable to the Board.

The President is nominated by the Chairman and appointed by the Board. The President is responsible for the day-to-day operation 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 of the Company, proposing to the Board the 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 for the operation of the Company.

(E) Non-executive Directors

The third session of the Board currently consists of four non-executive Directors and four independent non-executive Directors, accounting for approximately 72.7% of the total number of the Board members. Non-executive Directors include Mr. Liang Xinjun, Mr. Cong Jianmao, Mr. Ye Kai and Mr. Kong Fanhe, 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 respective appointment.

(F) Nomination and Remuneration of Directors

As at 31 December 2011, the Nomination and Remuneration Committee of the third session of the Board consisted of five members, two of which were non-executive Director and three were independent non-executive Directors. The chairman of the Nomination and Remuneration Committee is Mr. Liang Xinjun, a non-executive Director. Other members are Mr. Cong Jianmao, a non-executive Director, and Ms. Chen Jinrong, Mr. Ye Tianzhu and Mr. Yan Hongbo, all of them are independent non-executive Directors.

CORPORATE GOVERNANCE REPORT

On 5 March 2012, after consideration and approval by the sixteenth meeting of the third session of the Board, Mr. Yan Hongbo, an independent non-executive Director, was elected as the chairman of the Nomination and Remuneration Committee of the third session of the Board and Mr. Liang Xinjun ceased to hold the office of chairman of the Nomination and Remuneration Committee. This change aimed to comply with the newly amended Listing Rules of the Stock Exchange which requires the position of the chairman of the Nomination and Remuneration Committee to be held by an independent non-executive Director. The sixteenth meeting of the third session of the Board also considered and approved the revised terms of reference of the Nomination and Remuneration Committee.

The key roles and duties of the Nomination and Remuneration Committee include:

(1) to advise the Board on the size and composition of the Board in light of the Company's operation and business activities, size of assets and shareholding structure; and to review the structure, size and composition of the Board at least once a year in order to implement the strategies of the Company;

(2) to review the criteria and procedures for selection of Directors and senior management and make recommendation to the Board;

(3) to extensively seek qualified candidates for Directors and senior management;

(4) to conduct examination and make recommendations on candidates for Directors and managers;

(5) to conduct examination and make recommendations on candidates for other senior executives proposed to the Board for appointment;

(6) to formulate the standard or proposal for the remuneration package for Directors and senior management, based on their scope of work, responsibilities, importance of work and the remuneration level of other related positions, the standard or proposal of remuneration included but not limited to the amount of remuneration and bonus, performance evaluation standards, procedures and major evaluation system, major plans and systems for reward and punishment; and the standard or proposal of remuneration shall be determined with reference to the remuneration paid by comparable companies, time commitment and responsibilities;

(7) to assess the independence of independent non-executive Directors;

(8) to review and approve the 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 consistent with the terms of the contract, if not, the compensation payment shall be otherwise fair and reasonable, but not excessive;

(9) to review and approve the compensation arrangements in relation to dismissal or removal of Directors due to misconduct, so as to ensure that such compensation is consistent with the terms of the contract, if not, the compensation payment shall be otherwise reasonable and appropriate;

(10) to ensure that no Director or any of his/her associates is involved in determining his/her own remuneration;

(11) to formulate annual evaluation target and conduct annual performance evaluation;

(12) to review the performance of duties by the Directors and senior management of the Company;

(13) to be responsible for annual evaluation of the senior management during their terms of office and propose the views on annual reappointment to the Board for consideration;

(14) to be responsible for monitoring the implementation of the Company's remuneration system; and

(15) other matters authorized by the Board.

Working 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 formulate 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 and Remuneration Committee and to check the qualification of initially proposed candidates according to the job requirements of Directors and managers;

6. to make 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.

CORPORATE GOVERNANCE REPORT

7. to seek professional advice when necessary;

8. remuneration of Directors and Supervisors for the year ended 31 December 2011 are detailed in note 8 to the financial statements on pages 127 to 131 in this annual report;

9. tasks of the Nomination and Remuneration Committee during the Year include the implementation of the policy of Directors' remuneration, the evaluation 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 make recommendations to the Board after each meeting; and

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

Nomination of executive Directors of the Company is mainly through the internal selection and identification of the Group's staff who are familiar with the gold mining industry with extensive management experiences; while nomination of non-executive Directors is based on their independence, their experience in gold mining industry and business management and their technical expertise, and reference is also made to the requirements of the laws and regulations in the jurisdiction where the Company is listed, and the reasonability of the structure and composition of the Board when selecting eligible persons for Directors.

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 and Remuneration Committee shall make its decision based on their attributes such as integrity, loyalty, industry experience 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 annual income of senior management 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 posts held by them in the Company.

During the Year, the Nomination and Remuneration Committee convened one meeting which was chaired by the chairman of the committee. The record of attendance of each member of the committee is set out below:

	Number of meetings	Attendance
Liang Xinjun	1	1
Lu Dongshang (resigned on 4 March 2011)	1	1
Cong Jianmao (appointed on 4 March 2011)	0	0
Yan Hongbo *(Chairman)*	1	1
Ye Tianzhu	1	1
Chen Jinrong	1	1

In 2011, the Nomination and Remuneration Committee discussed and formulated the remuneration policy for executive Directors, evaluated the performance of executive Directors, approved the terms of service contracts with executive directors and set forth policies in relation to nomination of candidates for directors. The following resolutions were reviewed and passed:

1. reviewed and passed the Resolution on Appraisal of Annual Remuneration of the President and Other Senior Management in 2010;

2. reviewed and passed the Resolution on Applying for Special Incentive for Management Personnel in 2010;

3. reviewed and passed the Resolution on Appraisal of Annual Remuneration of the President and Senior Management in 2011; and

4. reviewed and passed the Resolution on Special Incentive for Management Personnel in 2011.

The details of the terms of reference of the Nomination and Remuneration Committee are available on the websites of the Company.

(G) Auditors' Remuneration

The overseas auditors appointed 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 the overseas auditors for their auditing services to the Group was RMB2,200,000 (2010: RMB2,600,000).

No fee was incurred by the Company for provision of non-audit services provided by auditors.

CORPORATE GOVERNANCE REPORT

(H) Audit Committee of the Board

To achieve best corporate governance practice, 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, namely Ms. Chen Jinrong and Mr. Choy Sze Chung Jojo, and one non-executive Director, Mr. Chen Guoping. The committee members have necessary professional qualifications and experience in financial matters and are familiar with the accounting and financial affairs, so that they can perform functions and powers in full, in compliance with the requirement of the relevant Listing Rules. The members of the Audit Committee shall have a term of office of three years. The chairman is Ms. Chen Jinrong.

On 23 March 2012, the 17th meeting of the third session of the Board of Directors of the Company approved the resignation of Mr. Chen Guoping as a member of the Audit Committee and appointed Mr. Ye Kai as a member of the Audit Committee.

On 5 March 2012, the revised working system and terms of reference of the Audit Committee considered and approved at the 16th meeting of the third session of the Board is set out as follows:

(1) to propose the engagement, reappointment or replacement of external auditors, approve the remuneration and engagement terms of the external auditors, and deal with any issues regarding the resignation or dismissal of the external auditors;

(2) to oversee the Company's internal audit system and its implementation;

(3) to co-ordinate the communication between the internal audit department and external auditors;

(4) to oversee the completeness of the Company's financial statements and annual reports, interim reports and accounts, and to review the significant opinion on financial reporting as set out in the financial statements and reports. In this respect, the committee shall pay special attention to the following areas in reviewing the relevant annual reports and accounts and interim reports before the same are submitted to the Board:

   (i) any changes in accounting policies and practices;

   (ii) areas which require material judgement;

   (iii) significant adjustment resulting from the audit;

   (iv) the assumptions on the ongoing status of the Company and any qualified opinion;

   (v) whether the applicable accounting principles are observed;

   (vi) whether the requirements of the Listing Rules and relevant laws on financial reporting are observed;

(5) For the purpose of item (4) above:

(i) committee members shall communicate with the Board and senior management personnel of the Company. The committee shall hold at least two meetings each year with the auditors of the Company, and shall meet the auditors at least once each year without the presence of the management of the Company;

(ii) the committee shall consider any significant or unusual matters reflected or required to be reflected in those financial reports and accounts, and shall properly consider any issues raised by the employees responsible for accounting and financial reporting of the Company, the compliance officer or auditors of the Company;

(6) to review the Company's financial control, internal control and risk management systems;

(7) to discuss with the management on the internal control system to ensure that the management has performed its duties to establish an effective internal control system, and the scope of discussion shall include whether the Group has adequate resources in accounting and financial reporting functions, whether the employees have adequate qualifications and experience, and whether the training courses provided to employees and the relevant budgets are adequate;

(8) to study any findings of major investigations relating to internal control and the response of the management to such findings;

(9) to ensure coordination between internal and external auditors and that the internal audit function has adequate resource to be operated and has appropriate standing within the Company, and to review and monitor its effectiveness;

(10) to examine the financial and accounting policies and practices of the Group;

(11) to examine the external auditors' letter to the management, any major queries raised by the auditors to the management in respect of accounting records, financial accounts or systems of control and the management's response;

(12) to ensure that the board of directors will respond to the matters raised in the external auditors' letter to the management in a timely manner;

(13) to review and monitor the independence and objectivity of the external auditors and the effectiveness of the audit process. The Audit Committee shall discuss with the auditors the nature and scope of the audit and relevant reporting obligations prior to commencement of the audit;

(14) to formulate and implement policies on the non-audit services provided by the external auditors;

CORPORATE GOVERNANCE REPORT

(15) to examine the following arrangements set by the Company on concerns towards or reports against possible hidden misconduct of the Company's employees in respect of financial reporting, internal control or other aspects. The audit committee shall ensure that appropriate arrangements have been made to enable a fair and independent investigation of such matters and appropriate actions are to be taken;

(16) to act as the main coordinator between the Company and its external auditors and shall be responsible for overseeing the relation between them;

(17) to report to the Board of Directors any issues set out in these terms of reference;

(18) to review and examine the internal control system of the Company and conduct an audit on material connected transactions;

(19) to be responsible for corporate governance functions of the Company:

(a) to formulate and review corporate governance policies and practices of the Company and make recommendations to the Board;

(b) to review and oversee the trainings and continuing professional development of the Directors and senior management of the Company;

(c) to review and oversee the Company's policies and practices on compliance of laws and regulatory policies and requirements;

(d) to formulate, review and oversee the Code of Conduct and compliance manual for the employees and Directors of the Company (if any);

(e) to review the compliance by the Company of the "Code of Conduct" and the disclosure in the "Corporate Governance Report".

(20) other issues or subjects authorized by the Board of the Company.

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

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

	Number of meetings	Attendance
Chen Jinrong *(Chairman)*	2	2
Choy Sze Chung Jojo	2	2
Chen Guoping	2	2

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

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

2. reviewed the Group's interim report and interim results announcement for the six-month period ended 30 June 2011;

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

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

5. ensured that the connected transactions of the Company complied with the principles of impartiality, fairness and openness, and the interests of minority shareholders were fully protected;

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

7. supervised internal audit work of the Company;

8. advised on significant events of the Company or reminded the management of related risks;

9. evaluated the performance of our PRC and international auditors, considered and passed the resolution to re-appoint Ernst & Young and Shulun Pan Certified Public Accountants as our PRC and international auditors for 2012; and

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.

(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 2011, the Directors have selected appropriate accounting policies and applied them consistently; made prudent and reasonable judgments and estimates; and have prepared the financial statements on a going concern basis. The Directors are responsible for keeping proper accounting records in order to make reasonable and accurate disclosure of the financial position of the Group at any time.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

CORPORATE GOVERNANCE REPORT

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 84 to 85 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 Strategic Committee was re-elected. For the year ended 31 December 2011, the Strategic Committee comprised three members, with executive Director Mr. Lu Dongshang as the chairman. Other members included executive Director Mr. Weng Zhanbin and non-executive Director Mr. Liang Xinjun. The key duties and powers 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 implementation of the above matters; and

6. other matters authorised by the Board.

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 established the 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 the corporate governance structure.

For the year ended 31 December 2011, the Geological and Resources Management Committee comprised three members, with independent non-executive Director Mr. Ye Tianzhu as the chairman of the committee. Other members included executive Director Mr. Weng Zhanbin and independent non-executive Director Mr. Yan Hongbo. The key duties and powers 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 standards 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 situation of gold mine resources, establishing the long-term strategy and yearly plan of geological exploration and utilisation of reserves;

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

4. reviewing annual utilisation of reserves and the quantity of reserves, and reviewing the new 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 matters authorised by the Board.

During the Year, the Geological and Resources Management Committee convened one meeting chaired by the chairman of the committee to discuss the amount of new geological reserves of the Company in 2011, and to make proposals on the exploration and reserve increase plan for 2012. The attendance of each member of the committee was 100%. The record of attendance of each member of the committee is set out below:

	Number of meetings	Attendance
Ye Tianzhu *(Chairman)*	1	1
Weng Zhanbin	1	1
Yan Hongbo	1	1

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 2011, the Safety and Environmental Protection Committee comprised three members, with independent non-executive Director Mr. Yan Hongbo as the chairman. Other members included non-executive Directors Mr. Cong Jianmao and Mr. Wang Peifu. On 23 March 2012, the 17th meeting of the third session of the Board of Directors of the Company approved the resignation of Mr. Wang Peifu as a member of the Safety and Environmental Protection Committee and appointed Mr. Li Xiuchen to replace him. The working system and terms of reference of the Safety and Environmental Protection Committee include:

CORPORATE GOVERNANCE REPORT

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 research and examination on the above matters; and

6. other matters authorised by the Board.

During the Year, the Safety and Environmental Protection Committee convened one meeting, which was chaired by the chairman of the committee. The record of attendance of each member of the committee is set out below:

	Number of meeting	Attendance
Yan Hongbo *(Chairman)*	1	1
Cong Jianmao	1	1
Wang Peifu	1	1

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

1. reviewed and passed the Summary of Safety and Environmental Protection Work of 2011; and

2. reviewed and passed the Plan on Safety and Environmental Protection Work in 2012.

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

Monitoring Mechanism

Supervisory Committee

The Supervisory Committee was established in accordance with the PRC laws. The Supervisory Committee consists of three members, one of whom is the chairman. The Supervisors have a term of three years, and are subject to and eligible for re-election upon expiry of their terms.

The third session of the Supervisory Committee was established through election at the extraordinary general meeting convened on 26 February 2010, the committee members comprised Mr. Wang Xiaojie, Ms. Jin Ting and Mr. Chu Yushan for the year ended 31 December 2011, among which Mr. Chu Yushan is a employee representative supervisor and Mr. Wang Xiaojie is the chairman of the Supervisory Committee. The number of members and composition of the Supervisory Committee of the Company were in compliance with the laws and regulations.

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 Code of Conduct, 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 when it considers necessary, to authorise a re-examination by the auditors of the Company in the name of the Company, to propose the convening of a shareholders' extraordinary general meeting and propose resolutions to 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 domestic and overseas supervisory bodies at the place of listing.

The Supervisory Committee is accountable to the general meeting. Each year, the Supervisory Committee presents the Report of the Supervisory Committee and reports their performance of duties according to the laws to the annual general meetings. The Supervisory Committee also evaluates 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.

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

All Supervisors attended all the Board meetings and monitored on behalf of the shareholders the compliance with the laws and regulations in respect of the financial activities of the Company, the performance of duties by Directors and senior management and supervised the decision making procedures of the Board. The Supervisors had performed their statutory duties impartially.

Internal Control and Internal Audit

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 implement 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 the Company's assets will not be appropriated 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 relevant legislations and requirements.

CORPORATE GOVERNANCE REPORT

Aiming at more effective review of 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 associated companies 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 also 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 the reports, the Audit Committee makes its recommendation to the management of the Company and regularly reports to the Board.

The Company emphasized the internal control and had set up relevant internal management systems and procedures for corporate governance, operation, construction, finance, and administration and human resources. In December 2004, an internal control system was approved by the Board. It summarises and states the objectives, content, methods and duties of the internal control system. This will facilitate the Company's continuing review and assessment on compliance with the existing systems and the effectiveness of internal control.

During the Year, the Board made comprehensive review of the effectiveness of the internal control system of the Company, which included the Company's financial 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 power and responsibility of the Company's organizational structure are clearly defined and have distinguishable monitoring 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.

- The Company establishes a comprehensive management and accounting system to provide 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, centralisation, 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 provide reasonable guarantee to the management and the Audit Committee that the risks are satisfactorily handled and the control is fully effective.

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. 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 confirmed the effectiveness of this system, and the Audit Committee had not found material deficiencies on the internal control system.

Chief Financial Officer

Chief Financial Officer is in charge of the financial affairs of the Company and accountable 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 comply with disclosure requirements as stipulated by the Stock Exchange. The Board takes the ultimate responsibility towards the financial statements prepared by him.

Chief Financial Officer is also responsible for preparing the Company's annual budget plan and the final account proposal, as well as monitoring the implementation of the Company's annual financial and operating plans. In addition, the Chief Financial Officer shall assist the Board in the establishment of relevant internal control systems and make recommendations to the Board.

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 matters 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, and 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 issue of notice of the meeting 45 days prior to the 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.

CORPORATE GOVERNANCE REPORT

Details about the voting procedure and the shareholders' rights to request for voting by poll are set out in notices or circulars of the general meeting issued to the shareholders together with the annual reports. Voting results are not only announced at the meeting, but also available for inspection on the websites of the Company and the Stock Exchange.

In 2011, the Company had convened one annual general meeting, one domestic shares class meeting and one H shares class meeting.

Controlling Shareholder

At the end of 2011, 1,086,514,000 domestic shares and 16,510,000 H shares were held by Zhaojin Group, the controlling Shareholder of the Company, representing 37.84% 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 believe that the Company is independent of Zhaojin Group's business:

- **Management independence**: The Board of the Company has two executive Directors who also held management positions in Zhaojin Group. However, this does not affect the management independence of the Company. The independent non-executive Directors have relatively great influence over the Board's decisions, and those related 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 in Zhaojin Group concurrently.

- **Production and operation 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 associated companies, 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 were conducted on an arm's length basis and normal commercial terms. Zhaojin Group operates gold bullion trading agency business through its SGE membership and had approximately 240 customers in addition to the Company as at 31 December 2011 (as at 31 December 2010: approximately 208 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 155 customers in addition to the Company as at 31 December 2011 (31 December 2010: approximately 146 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 eight other qualified refineries and more than seven other SGE 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 SGE. The anonymity and market-driven nature of SGE 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").

CORPORATE GOVERNANCE REPORT

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, Zhaoyuan Jintingling Mining Industry Company Limited, a wholly-owned subsidiary of the Company, acquired Zaoyangshan Exploration Right and its ancillary assets held by Zhaoyuan Gold Smelting Co., Ltd(a subsidiary of Shandong Zhaojin Group) by means of public auction in Yantai Joint Property Right Exchange Center at a consideration of RMB28,000,000. (Relevant details were set out in the announcements of the Company dated 21 December 2011 published on the website of the Stock Exchange at www.hkexnews.com.hk and the website of the Company at www.zhaojin.com.cn.)

During the Year, Zhaojin Group indirectly held 46.2% equity interest in Shandong Guoda Gold through its wholly-owned subsidiary Zhaoyuan Gold Smelting Co., Ltd.

During the Year, the Company has not exercised its option to acquire the 46.2% equity interest in Shandong Guoda Gold for the reasons set out below:

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.

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 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 of 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, acquisition of such exploration rights by the Company could have exposed itself to serious risks. 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 if Zhaojin Group(the controlling Shareholder of the Company) has complied 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 Company 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.

CORPORATE GOVERNANCE REPORT

The Company has also received a statement under the non-competition agreement from Zhaojin Group dated 2 January 2012, 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 2011.

Investor Relations

The Company places great importance to the proactive communication with its shareholders and investors. The Board recognized that the effective communication with its investors plays a crucial role in maintaining existing investors' confidence and attracting new investors. 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 through active and regular communication, 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. The Company formulated the System for the Investors Relations Management of Zhaojin Mining Industry Company Limited, set up an investor relation hotline for answering investors' inquiries and gave a warm reception to visits of investors. The Company maintained extensive communication channels with analysts and fund managers through various means like field trips, one-on-one meetings. Our mines have received a total of 28 on-site visits of investors during the Year, which has exposed ourselves to analysts and fund managers for further understandings. Since the listing of the Company, the senior management of the Company, including our chairman, chief financial officer and secretary to the board would hold a press conference in Hong Kong subsequent to the publication of final results and interim results announcements, hold subsequent non-trading road shows and initiate communication with investors on the Company's development strategy, operational and financial performance and significant events with an aim to impress investors that we are a serious and responsible enterprise. In addition, we also actively attend various investment forums and investors meetings held in the PRC where they communicate with investors and present the latest development of our Company to the market. The Company was awarded "Corporate Awards 2011 – Gold Award for Investor Relations" and "China's Enterprise with Greatest Potential" by The Asset in December 2011 for another time for its remarkable performance in investors relationship.

The Company regards the annual general meeting as an important event as it provides an important opportunity for direct communication 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 Company shall try their best to attend the meetings. External auditors present at the meeting are also obliged to answer shareholders' queries. All shareholders will be given at least 45 days' notice of the AGM and are invited to attend the AGM and other shareholders' meetings.

The Secretary to the Board/Company Secretary and designated personnel are responsible for information disclosure of the Company and reception of visits of shareholders and investors. Investor relations enquiry hotline and mailbox have been set up to respond to the questions 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. Information about the latest business development and news of the Company are also available to shareholders on the website.

Other Interested Parties

The Company is committed to providing satisfactory services to customers and offering development latitude 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 Company was awarded “Asia’s 200 Best Under A Billion by Forbes Asia Magazine” in September 2011 and “Listed Company with Most Investment Value during the 12th Five-Year Plan Period” under “China Securities Golden Bauhinia Awards” in November 2011. The chairman was awarded the “Most Influential Leadership Award” recognising our relentless pursuit of quality corporate governance. The Company will take this opportunity to proactively explore and perfect a new corporate governance model of listed companies with an aim to improve its corporate governance and for the sake of our Company’s development. The Company will follow the corporate governance model 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 their implementations to ensure the sustainable development of the Company.

CORPORATE SOCIAL RESPONSIBILITY

Since its establishment, the Company has been pursuing its core values of “Pragmatism”, “Innovation”, “Integrity” and “Devotion”. Leveraging on our philosophy of taking virtues from others, the Company has adhered to our ethical strategy to prioritize with the practice of social responsibility, constantly strengthen its focus on safety and environmental protection and actively got involved in community services, which in turn contributed to the establishment of Zhaojin’s good public image as a responsible enterprise.

Obligations for Economic Development

Making Local Economy Prosperous

The Company has been conducting our operations according to laws and regulations and paying all taxes in an active manner, and thus making great contribution to the fiscal revenues of the jurisdictions where our enterprises are 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 of China. We insist to employ local workers from where the enterprises are located, resulting in an efficient increase in the local employment rate and laying a solid social foundation for its rapid development in that place.

Obligations for Safety and Environmental Protection

Ensuring Safe Production

During the year, we adhered to the safe production guideline of “safety first, precaution-oriented and integrated management”, firmly set up the concept of “people-oriented, scientific and safe development”, launched a number of activities such as “National Safety Production Year” and “Enhancement of Safety Production from Grass-Root Level and Basic Level Year” and focused on the consolidation of safety base and improvement of on-site control. The implementation of primary responsibilities on safe production, enhancement of the construction of safety infrastructure, standardization of safety inspection standards,increased elimination of hidden dangers and rectification as well as promotion of the construction of safety culture in depth ensured that the safety and environmental protection remain stable. In 2011, the Group was honored with an award of “the State’s Model Enterprise of Safety Culture” by State Administration of Work Safety (“SAWS”). Xiadian Gold Mine of the Group won an award of “Emergency Management Demonstration in Shandong Province” for its excellent performance on the enterprise safety and environmental protection.

Protection of Ecological Environment

“Conserving clear water and verdant hills first and exploring gold and silver second” has been our environmental philosophy. The Company believes that an excellent and sustainable enterprise should care for, protect and improve the environment while seeking economic development. Since its establishment, the Company had been persistently committed to the environmental protection and complied with the environmental laws and regulations enacted by the central and local governments. In the process of production, energy saving and emission 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 safety management of tailings had been reinforced for purposes of the realization of benign life cycle of the ecological environment.

Development of Cyclic Economy

Safe and sustainable development has been the development trend of modern mining businesses. The Company endeavors to reinforce the concept of green mining development and spares no effort to develop a cyclic mining economy, encourages the integrated use of mine wastes to promote the utilization of our resources and has achieved remarkable results in land reclamation, ecological restoration, green and beautification of environment, energy saving and emission reduction. These efforts have kept the Company on a path towards an energy saving, clean, safe and sustainable development.

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. 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 the staff, encouraged active learning to lift their individual values, thereby improving their occupational skills and morality, and realizing the parallel growth of the individual staff and the enterprises and their respective values.

Protecting Legal Interests of Staff and Ensuring Physical and Mental 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 prevention and protection against occupational hazards. The Company has treated our staff on an equal basis and adhered to our policy of employment in a fair and just manner. We have also entered labour contracts with our staff by laws and conformed our labour employment to the laws. The Company has developed a scientific remuneration and incentives mechanism, multi-graded social security system and rational vacation system, and maintained work-related injury social security insurance for the staff. Qualified articles for individual protection have been provided and regular health check for the staff has been exercised. The Company has actively organised various kinds of cultural activities on an annual basis as an effective platform for coordinating, harmonizing, attracting as well as inspiring the staff to further improve cohesion and loyalty of our staff.

CORPORATE SOCIAL RESPONSIBILITY

Democratic Management

The Company has established and improved a staff representatives congress system and staff's opinions will be sought for important matters in relation to the staff's benefits and the development of the Company, etc. An exchange platform for the enterprise and the staff has also been set up to provide a channel for the staff to express their appeals. The Company has set up a "Suggestion Box" for garnering the staff's inputs, 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 human resources and proactively solicits talents to consolidate its strength. The Company follows a policy of developing talents from among its existing staff and import of excellent talents concurrently. The Company has constantly increased its efforts in introducing professionals in recent years. We have created a team of high-quality talents, and recruited with a global vision talents from all over the world to accumulate a pool of human resources.

Obligations of Enterprise Citizenship

Society is the rich soil for the sustainable development of a corporation. A corporation grows as it creates wealth and becomes valuable as it returns to the society.

Supporting Development of Education and the Construction of Community

The Company has practically fulfilled 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 donated RMB2,000,000 to the education development in Gansu province, China, and the year of 2011 had been the fifth straight year of the contributions. All the donations had been used for the remodification of school buildings in Gansu Province at compulsory education stage. During the Year, the Company donated 33 school buses to Zhaoyuan city for support of the development of local education. Donations by the Company during the year reached a total of RMB22.10 million.

Awards Granted to the Company in the Year 2011 Include:

"Asia's 200 Best Under A Billion by Forbes Asia Magazine"
"Listed Company with Most Investment Value during the 12th Five-Year Plan Period"
"Gold Award for Social Responsibilities and Investor Relations"
"2011 China's Most Promising Companies"
"Excellent Corporate Membership"
"Credit Evaluation on Chinese Enterprises – AAA Grade Credit Enterprise"
"the State's Model Enterprise of Safety Culture"
"the Advanced Enterprise for Safe Production From Grass-Root Level and Basic Level in Shandong Province"

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 topics of general meeting of the Supervisory Committee:

(1) The 4th Meeting of the Third Session of the Supervisory Committee on 3 March 2011
Reviewing and passing Board report, financial report in 2010 and other resolutions, and reviewed the annual report of Supervisory Committee 2010.

(2) The 5th Meeting of the Third Session of the Supervisory Committee on 11 August 2011
Reviewing and passing the interim results announcement 2011, interim financial report 2011, the proposal of interim profits allocation in 2011 and the resolution on acquiring Zaoyangshan Exploration Right by Zhaoyuan Jintingling Mining Industry Company Limited.

2. Level of Compliance of the Company's Operations with Laws

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.

REPORT OF THE SUPERVISORY COMMITTEE

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 guaranteed the growth of performance and ensured the interests of shareholders through excellent corporate management level. 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.

7. The Independent Opinions of the Supervisory Committee Regarding the Acquisitions Made by the Company

During the Year, the acquisition of assets made by the Company were based on the principle of marketization. The decision making processes were carried out in accordance with laws and regulations, and no insider dealings or behaviours which damage the interests of shareholders were found.

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 2012, 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 assist the Company to achieve its goals as well as to enhance the operational efficiency of the Company.

Chairman of the Supervisory Committee
Wang Xiaojie

23 March 2012

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 86 to 196, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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' judgement, 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.

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 2011, 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

22nd Floor, CITIC Tower,
1 Tim Mei Avenue, Central,
Hong Kong

23 March 2012

Consolidated Statement of Comprehensive Income

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
REVENUE	5	5,741,105	4,097,800
Cost of sales		(2,677,362)	(1,786,958)
Gross profit		3,063,743	2,310,842
Other income and gains	5	122,213	123,146
Selling and distribution costs		(55,805)	(38,220)
Administrative expenses		(614,646)	(546,650)
Other expenses		(137,910)	(108,841)
Finance costs	6	(98,016)	(92,340)
Share of profit of an associate		6,940	3,961
PROFIT BEFORE TAX	7	2,286,519	1,651,898
Income tax expense	9	(563,784)	(409,737)
PROFIT FOR THE YEAR		1,722,735	1,242,161
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		(1,640)	(884)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		(1,640)	(884)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,721,095	1,241,277

	Notes	2011 RMB'000	2010 RMB'000
Profit attributable to:			
Owners of the parent	10	**1,661,578**	1,201,731
Non-controlling interests		**61,157**	40,430
		1,722,735	1,242,161
Total comprehensive income attributable to:			
Owners of the parent		**1,659,938**	1,200,847
Non-controlling interests		**61,157**	40,430
		1,721,095	1,241,277
EARNINGS PER SHARE (RMB) ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic and diluted			
– For profit for the year		**0.57**	0.41

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

Consolidated Statement of Financial Position

31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**4,926,700**	3,691,080
Prepaid land lease payments	15	**236,604**	176,045
Goodwill	16	**586,674**	559,197
Other intangible assets	17	**2,591,403**	2,373,730
Investment in an associate	20	**42,220**	38,735
Long-term deposits	22	**24,856**	7,659
Deferred tax assets	23	**159,196**	119,454
Other long-term assets	24	**761,635**	266,046
Total non-current assets		**9,329,288**	7,231,946
CURRENT ASSETS			
Inventories	25	**2,131,257**	779,185
Trade and notes receivables	26	**45,620**	199,189
Prepayments and other receivables	27	**520,951**	373,245
Equity investments at fair value through profit or loss	28	**8,732**	16,196
Derivative financial instruments	29	**9,367**	–
Cash and cash equivalents	30	**1,245,872**	781,888
		3,961,799	2,149,703
Assets of a disposal group classified as held for sale	11	**–**	33,284
Total current assets		**3,961,799**	2,182,987
CURRENT LIABILITIES			
Trade payables	31	**1,537,825**	446,532
Other payables and accruals	32	**501,170**	483,034
Interest-bearing bank and other borrowings	33	**1,510,160**	370,000
Tax payable		**341,913**	161,908
Provision	37	**19,827**	16,964
		3,910,895	1,478,438
Liabilities directly associated with a disposal group classified as held for sale	11	**–**	6,784
Total current liabilities		**3,910,895**	1,485,222
NET CURRENT ASSETS		**50,904**	697,765
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,380,192**	7,929,711

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	33	**158,109**	70,762
Corporate bond	34	**1,491,047**	1,489,504
Deferred tax liabilities	23	**476,190**	457,022
Deferred income	35	**149,672**	33,997
Provision	37	**77,727**	67,782
Other long-term liability	36	**30,000**	35,000
Total non-current liabilities		**2,382,745**	2,154,067
NET ASSETS		**6,997,447**	5,775,644
EQUITY			
Equity attributable to owners of the parent			
Issued share capital	38	**2,914,860**	1,457,430
Reserves	39	**3,056,674**	3,492,676
Proposed final dividend	12	**612,121**	437,229
		6,583,655	5,387,335
Non-controlling interests		**413,792**	388,309
TOTAL EQUITY		**6,997,447**	5,775,644

Lu Dongshang
(Director)

Weng Zhanbin
(Director)

Consolidated Statement of Changes in Equity

Year ended 31 December 2011

	Attributable to owners of the parent								
	Issued share capital RMB'000 *(note 38)*	Capital reserve RMB'000 *(note 39)*	Statutory and distributable reserves RMB'000 *(note 39)*	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
At 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 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 contribution from non-controlling interests of subsidiaries	–	–	–	–	–	–	–	8,300	8,300
Acquisition of non-controlling interests	–	(60,333)	–	–	–	–	(60,333)	(99,309)	(159,642)
Transfer to reserves	–	–	106,542	–	(106,542)	–	–	–	–
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	–	(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
At 31 December 2010 and 1 January 2011	1,457,430	1,506,551	333,055	(6,292)	1,659,362	437,229	5,387,335	388,309	5,775,644
Profit for the year	–	–	–	–	1,661,578	–	1,661,578	61,157	1,722,735
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	–	–	–	(1,640)	–	–	(1,640)	–	(1,640)
Total comprehensive income for the year	–	–	–	(1,640)	1,661,578	–	1,659,938	61,157	1,721,095
Acquisition of non-controlling interests	–	(26,389)	–	–	–	–	(26,389)	(26,911)	(53,300)
Dividend paid to non-controlling shareholders	–	–	–	–	–	–	–	(20,710)	(20,710)
Partial disposal of equity interest of a subsidiary to a non-controlling Shareholder without losing control	–	–	–	–	–	–	–	3,000	3,000
Capital contribution from non-controlling shareholders of a subsidiary	–	–	–	–	–	–	–	9,000	9,000
Acquisition of a subsidiary	–	–	–	–	–	–	–	(53)	(53)
Transfer to share capital	1,457,430	(728,715)	–	–	(728,715)	–	–	–	–
Transfer to reserves	–	–	131,901	–	(131,901)	–	–	–	–
Dividend									
– 2011 final proposed	–	–	–	–	(612,121)	612,121	–	–	–
– 2010 final paid	–	–	–	–	–	(437,229)	(437,229)	–	(437,229)
At 31 December 2011	**2,914,860**	**751,447***	**464,956***	**(7,932)***	**1,848,203***	**612,121**	**6,583,655**	**413,792**	**6,997,447**

* These reserve accounts comprise the consolidated reserves of RMB3,056,674,000 (2010: RMB3,492,676,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:		**2,286,519**	1,651,898
Adjustments for:			
Finance costs	6	**98,016**	92,144
Bank interest income	5	**(12,357)**	(13,715)
Share of profit of an associate		**(6,940)**	(3,961)
Net loss on disposal of property, plant and equipment		**13,855**	11,736
Gain on disposal of a subsidiary	41	**(300)**	–
Gain on bargain purchase	5	**(13,840)**	(6,184)
Fair value losses, net:			
– Equity investments at fair value through profit or loss	7	**43,814**	23,116
– Derivative financial instruments	7	**633**	–
Depreciation of property, plant and equipment	14	**388,675**	278,356
Amortisation of mining rights and reserves	17	**83,113**	100,363
Amortisation of prepaid land lease payments	15	**8,443**	5,403
Exploration assets written off	17	**7,444**	6,692
Impairment of other receivables	7	**2,587**	12,061
Deferred income recognised	5,35	**(27,612)**	(37,036)
		2,872,050	2,120,873
Increase in inventories		**(1,335,980)**	(278,628)
Decrease/(Increase) in trade and notes receivables		**153,569**	(188,392)
Increase in prepayments and other receivables		**(163,742)**	(202,527)
Increase in trade payables		**1,083,445**	73,237
Decrease in other payables and accruals		**(77,591)**	(97,483)
(Decrease)/Increase in provisions		**(7,119)**	9,419
CASH GENERATED FROM OPERATIONS		**2,524,632**	1,436,499
Income taxes paid		**(445,890)**	(356,844)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**2,078,742**	1,079,655

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	5	12,357	13,715
Dividend received from an associate		3,455	3,206
Purchase of property, plant and equipment		(1,527,603)	(1,082,537)
Proceeds from disposal of property, plant and equipment		1,159	13,730
Increase in land lease payments		(69,002)	(4,474)
Receipt of government grants	35	143,287	29,972
Increase in other intangible assets		(182,850)	(253,622)
Acquisition of a subsidiary and a jointly-controlled entity	40	(65,608)	(427,600)
Deposits paid for acquisition of subsidiaries		(511,000)	(38,000)
Payment for acquisition of non-controlling interests		(53,300)	(159,642)
Net proceeds from disposal of a subsidiary	41	26,800	11,838
Purchase of equity investments at fair value through profit or loss		(46,350)	(39,312)
Decrease in a pledged deposit		–	59,396
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(2,268,655)	(1,873,330)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other borrowings		896,757	775,490
Issuance of a short-term bond		697,200	–
Repayment of bank borrowings		(370,000)	(1,016,754)
Proceeds from partial disposal of equity interest of a subsidiary to non-controlling Shareholder		3,000	–
Capital contribution from a non-controlling shareholders of a subsidiary		9,000	8,300
Dividends paid		(457,939)	(320,635)
Interest paid		(124,121)	(84,949)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		653,897	(638,548)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		463,984	(1,432,223)
Cash and cash equivalents at beginning of year		781,888	2,214,111
CASH AND CASH EQUIVALENTS AT END OF YEAR		1,245,872	781,888

	Notes	2011 RMB'000	2010 RMB'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS:			
Cash and bank balances	30	**1,241,372**	746,888
Non-pledged time deposits with original maturity of less than three months when acquired	30	**4,500**	35,000
Cash and cash equivalents as stated in the consolidated statement of cash flows		**1,245,872**	781,888

Statement of Financial Position

31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**2,101,234**	1,706,108
Prepaid land lease payments	15	**130,123**	70,753
Goodwill	16	**84,333**	84,333
Other intangible assets	17	**961,417**	929,069
Investments in subsidiaries	18	**2,622,196**	2,558,687
Investment in a jointly-controlled entity	19	**100,000**	–
Investment in an associate	20	**34,650**	34,650
Deferred tax assets	23	**17,221**	7,017
Loans receivable	21	**641,491**	341,600
Long-term deposits	22	**24,856**	7,662
Other long-term assets	24	**675,054**	193,336
Total non-current assets		**7,392,575**	5,933,215
CURRENT ASSETS			
Inventories	25	**1,501,732**	443,033
Trade and notes receivables	26	**21,686**	6,469
Prepayments and other receivables	27	**866,127**	535,352
Loans receivable	21	**1,014,320**	805,705
Cash and cash equivalents	30	**766,942**	500,850
Total current assets		**4,170,807**	2,291,409
CURRENT LIABILITIES			
Trade payables	31	**1,320,342**	325,840
Other payables and accruals	32	**300,989**	291,359
Interest-bearing bank and other borrowings	33	**1,452,200**	250,000
Tax payable		**244,676**	102,049
Provisions	37	**15,915**	15,419
Total current liabilities		**3,334,122**	984,667
NET CURRENT ASSETS		**836,685**	1,306,742
TOTAL ASSETS LESS CURRENT LIABILITIES		**8,229,260**	7,239,957

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	33	**8,024**	8,732
Corporate bond	34	**1,491,047**	1,489,504
Deferred tax liabilities	23	**91,721**	95,548
Deferred income	35	**135,270**	32,705
Provision	37	**55,973**	60,757
Total non-current liabilities		**1,782,035**	1,687,246
NET ASSETS		**6,447,225**	5,552,711
EQUITY			
Issued share capital	38	**2,914,860**	1,457,430
Reserves	39	**2,920,244**	3,658,052
Proposed final dividend	12	**612,121**	437,229
TOTAL EQUITY		**6,447,225**	5,552,711

Lu Dongshang
(Director)

Weng Zhanbin
(Director)

Notes to Financial Statements

31 December 2011

1. Corporate 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 (the "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 the mining, processing of copper and sale of copper products in the Mainland China. In addition, the Company processed and sold silver in the Mainland China. 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 and derivative financial instruments, 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 as further explained in note 2.4. These financial statements are presented in Renminbi ("RMB"), with values rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

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 2011. 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.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

2.1 Basis of Preparation (Continued)

Basis of consolidation (Continued)

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 liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (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.

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 Amendment	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters*
HKAS 24 (Revised)	*Related Party Disclosures*
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in *Improvements to HKFRSs 2010*, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these HKFRSs are as follows:

(a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 44 to the consolidated financial statements.

Notes to Financial Statements

31 December 2011

2.2 Changes in Accounting Policy and Disclosures (Continued)

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. 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 has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 3 *Business Combinations:* The amendment 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 amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

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

- HKAS 1 *Presentation of Financial Statements:* The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements:* The amendment 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.

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 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[4]
HKFRS 32 Amendments	Amendments to HKFRS 32 *Financial Instruments: Presentation -Offsetting Financial Assets and Financial Liabilities* [5]
HKFRS 9	*Financial Instruments*[6]
HKFRS 10	*Consolidated Financial Statements*[4]
HKFRS 11	*Joint Arrangements*[4]
HKFRS 12	*Disclosure of Interests in Other Entities*[4]
HKFRS 13	*Fair Value Measurement*[4]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2]
HKAS 19 (2011)	*Employee Benefits*[4]
HKAS 27 (2011)	*Separate Financial Statements*[4]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

1 Effective for annual periods beginning on or after 1 July 2011

2 Effective for annual periods beginning on or after 1 January 2012

3 Effective for annual periods beginning on or after 1 July 2012

4 Effective for annual periods beginning on or after 1 January 2013

5 Effective for annual periods beginning on or after 1 January 2014

6 Effective for annual periods beginning on or after 1 January 2015

Notes to Financial Statements

31 December 2011

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 2015.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

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

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

Notes to Financial Statements

31 December 2011

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 investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investment in its jointly-controlled entity is accounted for by the proportionate consolidation method, which involves recognising its share of the jointly-controlled entity's assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entity are eliminated to the extent of the Group's investment in the jointly-controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

2.4 Summary of Significant Accounting Policies (Continued)

Business combinations and goodwill

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 Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. 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.

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 will be 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 will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

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 identifiable net 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 performs 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.

Notes to Financial Statements

31 December 2011

2.4 Summary of Significant Accounting Policies (Continued)

Business combinations and goodwill (Continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is 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.

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, 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.

2.4 Summary of Significant Accounting Policies (Continued)

Related parties

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

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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.

Notes to Financial Statements

31 December 2011

2.4 Summary of Significant Accounting Policies (Continued)

Property, plant and equipment and depreciation (Continued)

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 depreciates them accordingly.

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.

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 least 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 an 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.

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.

Notes to Financial Statements

31 December 2011

2.4 Summary of Significant Accounting Policies (Continued)

Intangible assets (other than goodwill) (Continued)

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 62 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.

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 leases. 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 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 leases, but are depreciated over their estimated useful lives.

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

Prepaid land lease payments 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.

2.4 Summary of Significant Accounting Policies (Continued)

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 and loans and receivables 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 transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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, trade and other receivables, loans receivable, quoted financial instruments, and derivative financial instruments.

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. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in other income and gains or finance costs. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under HKAS 39 are satisfied.

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, in rare circumstances, 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. 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 as these instruments cannot be reclassified after initial recognition.

Notes to Financial Statements

31 December 2011

2.4 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets (Continued)

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

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 finance cost. The loss arising from impairment is recognised in in finance costs for loans and in other expenses for receivables.

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, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it 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 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 and all collateral has been realised or has been transferred to the Group.

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 other expenses.

Notes to Financial Statements

31 December 2011

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 plus, in the case of loans and borrowings, directly attributable transaction costs.

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

Subsequent measurement

The subsequent 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 the income statement when the liabilities are derecognised as well as through the effective interest rate 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 income statement.

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 the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

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

Initial recognition and subsequent measurement

The Group uses derivative financial instruments to hedge its commodity price risk. The Group's derivative financial instruments mainly include commodity derivative contracts (mainly standardised copper cathode future contracts in the Shanghai Futures Exchange ("SHFE"). 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. Any gains or losses arising from changes in fair value of derivatives are taken directly to the income statement.

Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements are held at cost.

None of Group's derivative financial instruments is qualified as hedge accounting.

Notes to Financial Statements

31 December 2011

2.4 Summary of Significant Accounting Policies (Continued)

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.

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.

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.

2.4 Summary of Significant Accounting Policies (Continued)

Provisions (Continued)

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.

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 the timing of the performance of reclamation activities), the revisions to the obligation and asset are recognised at the appropriate discount rate.

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) when 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, an associate and a jointly-controlled entity, when 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.

Notes to Financial Statements

31 December 2011

2.4 Summary of Significant Accounting Policies (Continued)

Income tax (Continued)

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

(a) when 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, an associate and a jointly-controlled entity, 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.

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. When 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.

2.4 Summary of Significant Accounting Policies (Continued)

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.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, a capitalisation rate ranging between 4.0% and 6.1% has been applied to the expenditure on the individual assets.

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.

Notes to Financial Statements

31 December 2011

2.4 Summary of Significant Accounting Policies (Continued)

Employee benefits

Pension obligations

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by the 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 arising on settlement or translation of monetary items 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.

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 foreign operations, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of foreign operations 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.

Notes to Financial Statements

31 December 2011

3. Significant Accounting Judgements and Estimates

The preparation of the Group's financial statements requires management to make judgements, 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 described 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 utilised. 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 2011 was approximately RMB159,196,000 (2010: RMB119,454,000). Further details are contained in note 23 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 2011 was RMB586,674,000 (2010: RMB559,197,000). Further details are contained in note 16 to the financial statements.

(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 their 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 at 31 December 2011 was RMB7,518,103,000 (2010: RMB6,064,810,000).

3. Significant Accounting Judgements and Estimates (Continued)

Estimation uncertainty (Continued)

(d) Provisions

Provisions are based on estimates of future payments made by management and are discounted at rates in the range of 6.6% to 7.1% (2010: 5.8% to 6.4%). Changes in assumptions could significantly affect these estimates. The aggregate carrying value of provisions at 31 December 2011 was RMB97,554,000 (2010: RMB84,746,000).

(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 at 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 estimates for accounting purposes and is reflected on a prospective basis at related depreciation rates.

4. Operating Segment Information

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

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

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

(c) The "others" segment comprises, 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. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, as well as corporate expenses are excluded from such measurement.

Segment assets exclude cash and cash equivalents, deferred tax assets and other unallocated corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, a corporate bond, deferred tax liabilities and other unallocated 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.

Notes to Financial Statements

31 December 2011

4. Operating Segment Information (Continued)

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

Year ended 31 December 2011

	Gold operations RMB'000	Copper operations RMB'000	Others RMB'000	Total RMB'000
Segment revenue				
Revenues from external customers	5,094,331	646,774	–	5,741,105
Segment results	2,105,022	287,899	(20,743)	2,372,178
Reconciliation:				
Interest income				12,357
Finance costs				(98,016)
Profit before tax				2,286,519
Segment assets	11,115,126	753,417	17,476	11,886,019
Reconciliation:				
Corporate and other unallocated assets				1,405,068
Total assets				13,291,087
Segment liabilities	2,436,695	209,875	11,564	2,658,134
Reconciliation:				
Corporate and other unallocated liabilities				3,635,506
Total liabilities				6,293,640
Other segment information				
Capital expenditure *	1,846,005	197,573	440	2,044,018
Interest in an associate	42,220	–	–	42,220
Impairment losses recognised in profit or loss	1,851	736	–	2,587
Share of profit of an associate	6,940	–	–	6,940
Depreciation and amortisation	450,513	29,657	61	480,231
Exploration assets written off	7,444	–	–	7,444

* Capital expenditure consists of additions to property, plant and equipment, goodwill, other intangible assets and prepaid land lease payments, including assets from the acquisition of a subsidiary and a jointly-controlled entity.

4. Operating Segment Information (Continued)

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	1,573,011	171,825	(14,313)	1,730,523
Reconciliation:				
Interest income				13,715
Finance costs				(92,340)
Profit before tax				1,651,898
Segment assets	7,842,212	652,904	18,475	8,513,591
Reconciliation:				
Corporate and other unallocated assets				901,342
Total assets				9,414,933
Segment liabilities	985,111	242,908	9,581	1,237,600
Reconciliation:				
Corporate and other unallocated liabilities				2,401,689
Total liabilities				3,639,289
Other segment information				
Capital expenditure *	1,760,211	152,563	72	1,912,846
Interest in an associate	38,735	–	–	38,735
Impairment losses recognised in profit or loss	12,061	–	–	12,061
Share of profit of an associate	3,961	–	–	3,961
Depreciation and amortisation	367,053	17,017	52	384,122
Exploration assets written off	6,692	–	–	6,692

* Capital expenditure consists of additions to property, plant and equipment, goodwill, other intangible assets and prepaid land lease payments, including assets from the acquisition of subsidiaries.

Notes to Financial Statements

31 December 2011

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 Mainland China customers, no further geographical segment information has been presented.

Information about a major customer

Revenue of approximately RMB4,450,000,000 (2010: RMB3,561,000,000) was derived from sales by the gold operations segment to a single customer.

5. Revenue, other Income and Gains

Revenue represents the net invoiced value of goods sold, after allowance for returns and discounts and net of various types of government surcharges where applicable, and the value of services rendered.

An analysis of revenue, other income and gains is as follows:

	2011 RMB'000	2010 RMB'000
Revenue		
Sale of goods:		
Gold	**4,825,511**	3,624,404
Copper	**587,953**	280,763
Silver	**105,531**	114,950
Sulphur	**36,747**	37,596
Other by-products	**199,896**	50,862
Rendering of services:		
Processing of gold and silver	**32,662**	19,263
	5,788,300	4,127,838
Less:		
Government surcharges	**(47,195)**	(30,038)
Revenue	**5,741,105**	4,097,800

5. Revenue, other Income and Gains (Continued)

	2011 RMB'000	2010 RMB'000
Other income and gains		
Sale of raw materials	**43,158**	40,074
Government grants	**27,612**	37,036
Hotel service fees	**18,108**	16,270
Gain on bargain purchase	**13,840**	6,184
Interest income	**12,357**	13,715
Fair value gain, net:		
Equity investments at fair value through profit or loss	**–**	5,699
Gain on disposal of a subsidiary	**300**	–
Gain on disposal of items of property, plant and equipment	**289**	986
Others	**6,549**	3,182
Other income and gains	**122,213**	123,146

6. Finance Costs

An analysis of finance costs is as follows:

	2011 RMB'000	2010 RMB'000
Interest on bank and other borrowings		
– wholly repayable within five years	**42,416**	11,813
– repayable over five years	**171**	180
Interest on a short-term bond	**6,534**	–
Interest on a corporate bond	**76,543**	76,468
Subtotal	**125,664**	88,461
Less: Interest capitalised	**(33,194)**	–
Incremental interest on provisions	**5,546**	3,879
Total	**98,016**	92,340

Notes to Financial Statements

31 December 2011

7. Profit Before Tax

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

	2011 RMB'000	2010 RMB'000
Cost of inventories sold and services provided	**2,677,362**	1,786,958
Staff costs:		
Wages and salaries (including directors' remuneration)	**426,250**	290,106
Early retirement benefits	**16,416**	26,277
Defined contribution fund:		
– Retirement costs	**61,380**	46,357
– Other staff benefits	**61,863**	46,858
Total staff costs	**565,909**	409,598
Auditors' remuneration	**2,200**	2,600
Amortisation of prepaid land lease payments*	**8,443**	5,403
Amortisation of mining rights and reserves*	**83,113**	100,363
Depreciation	**388,675**	278,356
Loss on disposal of property, plant and equipment	**14,144**	12,722
Operating land lease rentals	**7,233**	6,809
Impairment of other receivables	**2,587**	12,061
Exploration assets written off	**7,444**	6,692
Fair value losses, net:		
– Equity investments at fair value through profit or loss,	**43,814**	28,815
– Derivative financial instruments	**633**	–

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

8. Directors' and Supervisors' Emoluments

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

	2011 RMB'000	2010 RMB'000
Fees:		
– Non-executive directors	–	–
– Independent non-executive directors	640	640
– Supervisors	–	–
	640	640
Salaries, allowances and benefits in kind	2,840	2,430
Performance related bonuses	1,463	1,352
Pension scheme contributions	113	125
	4,416	3,907
	5,056	4,547

Notes to Financial Statements

31 December 2011

8. 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 2011					
Executive directors:					
– Lu Dong Shang	–	1,057	650	35	1,742
– Weng Zhan Bin	–	702	180	35	917
	–	1,759	830	70	2,659
Non-executive directors:					
– Liang Xin Jun	–	–	–	–	–
– Wu Zhong Qing	–	–	–	–	–
– Cong Jian Mao	–	–	–	–	–
– Wang Pei Fu	–	944	550	35	1,529
– Chen Guo Ping	–	–	–	–	–
	–	944	550	35	1,529
Supervisors:					
– Jin Ting	–	–	–	–	–
– Wang Xiao Jie	–	–	–	–	–
– Chu Yu Shan	–	137	83	8	228
	–	137	83	8	228
	–	2,840	1,463	113	4,416

8. 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 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
	–	148	–	9	157
	–	2,430	1,352	125	3,907

Notes to Financial Statements

31 December 2011

8. 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:

	2011 RMB'000	2010 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 (2010: 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:

	2011	2010
Directors	**2**	2
Non-director and non-supervisory employees	**3**	3
	5	5

Details of directors' remuneration are set out in notes 8(a) to the financial statements.

8. 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:

	2011 RMB'000	2010 RMB'000
Salaries, allowances and benefits in kind	2,458	1,885
Performance related bonuses	400	1,634
Pension scheme contributions	102	133
	2,960	3,652

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

	2011	2010
NIL to HK$1,000,000 (Equivalent to RMB810,700)	–	–
HK$1,000,001 to HK$2,000,000 (Equivalent to RMB810,700 to RMB1,621,400)	3	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.

Notes to Financial Statements

31 December 2011

9. 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.

The provision for Mainland China current income tax is based on a statutory rate of 25% (2010: 25%) of the assessable profit of the Group as determined in accordance with the PRC Corporate Income Tax Law, which was approved and became effective on 1 January 2008. Hong Kong profits tax has been provided at the rate of 16.5% (2010: 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:

	2011 RMB'000	2010 RMB'000
Group:		
Current – Mainland China		
– Charge for the year	625,895	452,247
Deferred tax *(note 23)*	(62,111)	(42,510)
Total tax charge for the year	563,784	409,737

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:

	2011		2010	
	%	RMB'000	%	RMB'000
Profit before tax		2,286,519		1,651,898
Statutory tax rate applied to profit before tax	25.0	571,630	25.0	412,975
Reconciling items:				
Expenses not deductible for tax	0.5	10,611	0.3	4,555
Income not subject to tax	(0.1)	(2,263)	(0.1)	(1,212)
Overprovision in prior years	(0.7)	(16,194)	–	–
Others	–	–	(0.4)	(6,581)
Total tax charge for the year	24.7	563,784	24.8	409,737

10. Profit Attributable to Owners of the Parent

The consolidated profit attributable to owners of the parent for the year ended 31 December 2011 includes a profit of RMB1,331,743,000 (2010: RMB1,055,660,000) which has been dealt with in the financial statements of the Company (note 39).

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 ("Fukang"). Due to an unexpected event beyond the Company's control, the disposal of FuKang has not been completed as at 31 December 2010. The carrying amounts of the assets and liabilities of Fukang were classified as held for sale in the consolidated statement of financial position as at 31 December 2010. On 7 August 2011, the Company entered into an agreement to dispose of its entire interest in Fukang to a third party. As at 31 December 2011, the disposal transaction has been completed, as set out in note 41 to the financial statements.

12. Dividends

	2011 **RMB'000**	2010 RMB'000
Ordinary:		
Proposed final – RMB0.21 per share (2010: RMB0.30 per share)	**612,121**	437,229

The board of directors recommends a cash dividend to all shareholders on the basis of RMB0.21 per share (tax included) (2010: RMB0.30 per share (tax included)).

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

Notes to Financial Statements

31 December 2011

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

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 of 2,914,860,000 (2010: 2,914,860,000) in issue during the year.

Diluted earnings per share amount is equal to basic earnings per share amount for the years ended 31 December 2011 and 2010, as no diluting events existed during these years.

The calculation of basic and diluted earnings per share is based on:

	2011 RMB'000	2010 RMB'000
Earnings:		
Profit attributable to owners of the parent	**1,661,578**	1,201,731

	2011 '000	2010 '000
Shares:		
Weighted average number of ordinary shares in issue during the year used in the basic and diluted earnings per share calculation	**2,914,860**	2,914,860

14. Property, Plant and Equipment

Group

31 December 2011

	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 2011	1,186,227	908,563	77,817	135,381	2,135,330	405,652	4,848,970
Additions	75,018	129,411	18,381	24,561	33,230	1,254,050	1,534,651
Transferred from CIP	231,783	197,489	3,486	7,187	214,313	(654,258)	–
Transferred from exploration rights and assets *(note 17)*	–	–	–	–	48,021	–	48,021
Acquisition of a subsidiary and a jointly-controlled entity *(note 40)*	9,975	6,012	6,923	6,205	29,317	14,916	73,348
Disposals/write-off	(7,378)	(11,665)	(471)	(5,903)	(7,051)	–	(32,468)
At 31 December 2011	1,495,625	1,229,810	106,136	167,431	2,453,160	1,020,360	6,472,522
Accumulated depreciation:							
At 1 January 2011	278,363	267,067	38,757	62,234	511,469	–	1,157,890
Charge for the year	45,933	88,121	13,533	15,058	226,030	–	388,675
Acquisition of a subsidiary and a jointly-controlled entity *(note 40)*	3,961	2,818	831	2,974	6,127	–	16,711
Disposals/write-off	(1,839)	(4,295)	(285)	(5,585)	(5,450)	–	(17,454)
At 31 December 2011	326,418	353,711	52,836	74,681	738,176	–	1,545,822
Net book value:							
At 31 December 2011	1,169,207	876,099	53,300	92,750	1,714,984	1,020,360	4,926,700

Notes to Financial Statements

31 December 2011

14. Property, Plant and Equipment (Continued)

Group

31 December 2010

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Mining infrastructure RMB'000	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	–	–	–	–	127,292	–	127,292
Acquisition of subsidiaries	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	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

At 31 December 2011, certain of the Group's mining assets with a net carrying amount of approximately RMB7,270,000 (2010: NIL) were pledged to secure certain of Group's bank borrowings (note 33).

14. Property, Plant and Equipment (Continued)

Company

31 December 2011

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Mining infrastructure RMB'000	CIP RMB'000	Total RMB'000
Cost:							
At 1 January 2011	555,003	447,413	47,072	67,735	1,134,163	201,360	2,452,746
Additions	–	–	10,056	6,281	31,675	438,292	486,304
Transferred from exploration assets *(note 17)*	–	–	–	–	48,021	–	48,021
Transferred from CIP	138,203	148,332	3,103	2,229	81,270	(373,137)	–
Disposals/write-off	(2,359)	(8,621)	(228)	(256)	(3,686)	–	(15,150)
At 31 December 2011	690,847	587,124	60,003	75,989	1,291,443	266,515	2,971,921
Accumulated depreciation:							
At 1 January 2011	205,782	178,573	28,272	45,022	288,989	–	746,638
Charge for the year	13,064	42,985	6,532	1,047	72,716	–	136,344
Disposals/write-off	(1,720)	(7,251)	(219)	(28)	(3,077)	–	(12,295)
At 31 December 2011	217,126	214,307	34,585	46,041	358,628	–	870,687
Net book value:							
At 31 December 2011	473,721	372,817	25,418	29,948	932,815	266,515	2,101,234

Notes to Financial Statements

31 December 2011

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	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	–	–	–	–	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

15. Prepaid Land Lease Payments

Group

	2011 RMB'000	2010 RMB'000
At cost:		
At beginning of year	**196,972**	147,007
Additions during the year	**69,002**	4,474
Acquisition of subsidiaries	**–**	45,491
At end of year	**265,974**	196,972
Accumulated amortisation:		
At beginning of year	**20,927**	15,524
Amortisation for the year	**8,443**	5,403
At end of year	**29,370**	20,927
Net book value:		
At end of year	**236,604**	176,045

Company

	2011 RMB'000	2010 RMB'000
At cost:		
At beginning of year	**82,939**	67,250
Additions during the year	**63,657**	2,258
Merger of a subsidiary	**–**	13,431
At end of year	**146,596**	82,939
Accumulated amortisation:		
At beginning of year	**12,186**	9,469
Amortisation for the year	**4,287**	2,717
At end of year	**16,473**	12,186
Net book value:		
At end of year	**130,123**	70,753

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.

Notes to Financial Statements

31 December 2011

16. Goodwill

Group

	RMB'000
Cost at 1 January 2010, net of accumulated impairment	360,422
Acquisition of subsidiaries	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
Cost at 1 January 2011, net of accumulated impairment	**559,197**
Acquisition of a subsidiary *(note 40)*	**27,477**
Impairment during the year	**–**
Cost and net carrying amount at 31 December 2011	**586,674**
At 31 December 2011:	
Cost	**586,674**
Accumulated impairment	**–**
Net carrying amount	**586,674**

16. 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
Cost at 1 January 2011, net of accumulated impairment	**84,333**
Impairment during the year	**–**
Cost and net carrying amount at 31 December 2011	**84,333**
At 31 December 2011:	
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 productions.

The recoverable amounts of the cash-generating units have 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 8.24% (2010: 10.71%).

Key assumptions used in the value in use calculation for the years ended 31 December 2011 and 31 December 2010 are as follows:

Notes to Financial Statements

31 December 2011

16. Goodwill (Continued)

Gold output

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 units, taking into consideration 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.

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 cash-generating units.

The values assigned to key assumptions are consistent with external information sources.

17. Other Intangible Assets

Group

31 December 2011

	Exploration rights and assets RMB'000	Mining rights and reserves RMB'000	Total RMB'000
Cost:			
At 1 January 2011	1,086,984	1,630,088	2,717,072
Additions	194,125	3,405	197,530
Acquisition of a subsidiary and a jointly-controlled entity *(note 40)*	4,288	154,433	158,721
Write-off	(7,444)	–	(7,444)
Transferred to property, plant and equipment *(note 14)*	(48,021)	–	(48,021)
At 31 December 2011	1,229,932	1,787,926	3,017,858
Accumulated amortisation:			
At 1 January 2011	39,163	304,179	343,342
Provided during the year	–	83,113	83,113
At 31 December 2011	39,163	387,292	426,455
Net book value:			
At 31 December 2011	1,190,769	1,400,634	2,591,403

Notes to Financial Statements

31 December 2011

17. Other Intangible Assets (Continued)

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	80,719	274,644	355,363
Write-off	(6,692)	–	(6,692)
Transferred to property, plant and equipment	(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

17. Other Intangible Assets (Continued)

Company

31 December 2011

	Exploration rights and assets RMB'000	Mining rights and reserves RMB'000	Total RMB'000
Cost:			
At 1 January 2011	498,086	604,819	1,102,905
Additions	109,963	567	110,530
Write-off	(7,444)	–	(7,444)
Transferred to property, plant and equipment *(note 14)*	(48,021)	–	(48,021)
At 31 December 2011	552,584	605,386	1,157,970
Accumulated amortisation:			
At 1 January 2011	15,909	157,927	173,836
Provided during the year	–	22,717	22,717
At 31 December 2011	15,909	180,644	196,553
Net book value:			
At 31 December 2011	536,675	424,742	961,417

Notes to Financial Statements

31 December 2011

17. 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	(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

18. Investments in Subsidiaries

Company

	2011 RMB'000	2010 RMB'000
Unlisted shares, at cost	**2,622,196**	2,558,687

Particulars of the subsidiaries are as follows:

Company name	Place of and date of incorporation/ registration and place of operations	Nominal value of paid-up/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
		RMB'000	%	%	
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	–	Gold 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	–	Gold 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	–	Gold 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	–	Gold mining and processing of gold products
Subsidiary of TZB:					
Tuoli Xinhe Gold Mining Industry Co., Ltd. ("Xinhe Gold Company") (托里縣鑫合黃金礦業有限公司)****	PRC/Mainland China 7 January 2004	33,400	–	100	Gold mining and processing of gold products
Hami City Zhaojin Taihe 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

Notes to Financial Statements

31 December 2011

18. Investments in Subsidiaries (Continued)

Company name	Place of and date of incorporation/ registration and place of operations	Nominal value of paid-up/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
		RMB'000	%	%	
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
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	–	Gold 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
Subsidiary 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 ("Beijing Zhongse") (北京中色鴻鑫礦業科技有限責任公司)******	PRC/Mainland China 26 September 2007	30,000	–	80	Investment holding
Quwo Zhaojin Mining Company Limited("Quwo") (曲沃縣招金礦業有限公司)**	PRC/Mainland China 9 December 2011	30,000	–	70	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	Gold mining and processing of gold products

18. Investments in Subsidiaries (Continued)

Company name	Place of and date of incorporation/ registration and place of operations	Nominal value of paid-up/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
		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	–	Gold 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	–	Gold 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	–	Copper 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
Qinghe Jindu Mining Company Limited ("Qinghe Mining") (青河縣金都礦業開發有限公司)*****	PRC/Mainland China 4 August 2005	10,000	95	–	Gold mining, smelting and processing of gold products
Xinfengyuan Mining Company Limited ("Xinfengyuan Mining") (鳳城市鑫丰源礦業有限公司)	PRC/Mainland China 12 December 2007	10,000	100	–	Gold mining, exploration and processing of gold products

Notes to Financial Statements

31 December 2011

18. Investments in Subsidiaries (Continued)

Company name	Place of and date of incorporation/ registration and place of operations	Nominal value of paid-up/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
		RMB'000	%	%	
Hezheng Xinyuan Mining Company Limited ("Hezheng Ming") (和政鑫源礦業有限公司)	PRC/Mainland China 7 December 2006	10,000	80	–	Exploration and sales of gold products
Xinjiang Zhaojin Mining Development 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 sale 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	–	Sale 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	80	–	Mining investment and exploration of gold
Zhaojin Baiyun Mining Company Limited ("Baiyun Mining") (遼宁招金白云黃金礦業有限公司)	PRC/Mainland China 20 December 1983	14,100	55	–	Exploration of gold and sale of gold products
Daqinjia Gold Mining Industry Company Limited ("Daqinjia") (大秦家金礦礦業有限公司)*	PRC/Mainland China 3 June 1986	30,000	90	–	Gold mining and processing of gold products
Yantai Jinshi Mining Investment Company Limited ("Jinshi") (煙台金時礦業投資有限公司)**	PRC/Mainland China 26 September 2011	5,000	100	–	Investment holding

18. Investments in Subsidiaries (Continued)

Company name	Place of and date of incorporation/ registration and place of operations	Nominal value of paid-up/ registered capital	Percentage of equity interest attributable to the Company Direct %	Indirect %	Principal activities
Sparky International Trade Company Limited ("SIT") (斯派柯國際貿易有限公司)	Hong Kong 31 May 2007	HK$ 70,000,000	100	–	Purchase of gold concentrates from outside China
Subsidiary of SIT:					
Gold Vein International Investment Limited ("Gold Vein") (金脈國際投資有限公司)	British Virgin Islands 14 October 2009	United States Dollars ("USD")1	–	100	Investment holding
Starlet Creation Limited ("Starlet") (星河創建有限公司) ***	Hong Kong 7 July 2011	HK$1	–	100	Investment holding
Jodies Joy Limited ("Jodies Joy") (領興有限公司) ***	British Virgin Islands 21 July 2011	USD1	–	100	Investment holding

The above subsidiaries incorporated/established in the PRC are registered as companies with limited liability under PRC law.

* Details of the acquisition of a subsidiary are included in note 40 to the financial statements.

** During the year, the Company established Jinshi with equity investments at a consideration of RMB5,000,000 and HZMI established Quwo at a consideration of RMB21,000,000.

*** SIT established Startlet and Jodies Joy with equity investment at USD1.00 and HK$1.00, respectively.

**** TZB acquired 20% equity interests of Tuoli Xinyuan Gold Mining Industry Co., Ltd. from its non-controlling shareholders at a consideration of RMB7,300,000 in August 2011, and renamed the subsidiary as Xinhe Gold Company.

***** The Company acquired 15% equity interests of Qinghe Mining from its non-controlling Shareholder at a consideration of RMB46,000,000 in May 2011.

****** HZMI sold 10% equity interests of Beijing Zhongse to its non-controlling Shareholder for a consideration of RMB3,000,000 in May 2011.

Notes to Financial Statements

31 December 2011

19. Investment in a Jointly-controlled Entity

Company

	2011 RMB'000	2010 RMB'000
Unlisted shares, at cost	**100,000**	–

Particulars of the jointly-controlled entity 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
Ruoqiang Changyun Sanfengshan Mining Company Limited ("Sanfengshan") (若羌縣昌運三峰山礦業有限公司)	PRC 13 November 2006	9,000	50%	Mining, exploration of nonferrous and ferrous metal; and processing of nonferrous and ferrous metal products

The statutory financial statements of the jointly-controlled entity were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

The above interest in a jointly-controlled entity is directly held by the Company.

The following table illustrates the summarised financial information of the Group's jointly-controlled entity:

	2011 RMB'000	2010 RMB'000
Share of the jointly-controlled entity's assets and liabilities:		
Current assets	**9,779**	–
Non-current assets	**130,435**	–
Current liabilities	**(10,803)**	–
Non-current liabilities	**(28,490)**	–
Net assets	**100,921**	–

19. Investment in a Jointly-controlled Entity (Continued)

The following table illustrates the summarised financial information of the Group's jointly-controlled entity: (Continued)

	2011 RMB'000	2010 RMB'000
Share of the jointly-controlled entity's results:		
Revenue	5,612	–
Other income	13,879	–
	19,491	–
Total expenses	(3,863)	–
Tax	(298)	
Profit after tax	15,330	–

20. Investment in an Associate

Group

	2011 RMB'000	2010 RMB'000
Share of net assets	42,220	38,735

Company

	2011 RMB'000	2010 RMB'000
Unlisted shares, at cost	34,650	34,650

Notes to Financial Statements

31 December 2011

20. Investment in an Associate (Continued)

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 ("Aletai") (阿勒泰正元國際礦業有限公司)*	PRC 20 May 2005	90,000	38.5%	Gold mining and processing of gold products

The statutory financial statements of the associate were not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

The percentages of the Company's voting power held and profit sharing are both 38.5% (2010: 38.5%).

The following table illustrates the summarised financial information of the Group's associate extracted from its management accounts:

	2011 RMB'000	2010 RMB'000
Assets	**134,948**	135,614
Liabilities	**25,285**	35,004
Revenue	**78,966**	62,106
Profit after tax	**18,025**	10,289

21. Loans Receivable

Company

	2011 RMB'000	2010 RMB'000
Entrustment loans receivable from		
– subsidiaries	**1,640,811**	1,147,305
– a jointly-controlled entity	**15,000**	–
Less: Due within 12 months	**(1,014,320)**	(805,705)
Due after 12 months	**641,491**	341,600

21. Loans Receivable (Continued)

The Company entered into entrustment loan agreements with its subsidiaries and a jointly-controlled entity through a bank. Pursuant to the entrustment loan agreements, the Company extended loans to its subsidiaries and a jointly-controlled entity through the bank. The loans are unsecured, bear interest at fixed rates ranging from NIL to 7.65% per annum and have maturity dates in 2012 till 2013.

22. Long-term Deposits

Long-term deposits of the Group and 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 as at 31 December 2011.

23. Deferred Tax

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

Group

31 December 2011

	At 1 January RMB'000	(Charged)/ credited to profit or loss *(Note 9)* RMB'000	Arising on acquisitions RMB'000	At 31 December RMB'000
Deferred tax assets:				
Excess tax depreciation over book value				
– Other intangible assets	13,004	(21,010)	–	(8,006)
– Property, plant and equipment	1,062	19,449	–	20,511
Provision for early retirement and rehabilitation	22,097	(705)	–	21,392
Deferred income	8,499	25,915	–	34,414
Losses available for offsetting against future taxable profit	30,279	7,999	–	38,278
Other temporary differences	44,513	8,094	–	52,607
Deferred tax assets	119,454	39,742	–	159,196
Deferred tax liabilities:				
Fair value adjustments arising from acquisition of subsidiaries	(457,022)	22,369	(41,537)	(476,190)
Deferred tax liabilities	(457,022)	22,369	(41,537)	(476,190)
Total	(337,568)	62,111	(41,537)	(316,994)

Notes to Financial Statements

31 December 2011

23. Deferred Tax (Continued)

The movements in deferred tax assets and liabilities during the year are as follows: (Continued)

Group

31 December 2010

	At 1 January RMB'000	(Charged)/ credited to profit or loss *(Note 9)* RMB'000	Arising on acquisitions 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				
– Other 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
Deferred income	8,212	287	–	8,499
Losses available for offsetting against future taxable profit	24,317	5,961	–	30,279
Other temporary differences	23,187	21,327	–	44,513
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)

23. Deferred Tax (Continued)

The movements in deferred tax assets and liabilities during the year are as follows: (Continued)

Company

31 December 2011

	At 1 January RMB'000	(Charged)/ credited to profit or loss RMB'000	At 31 December RMB'000
Deferred tax assets:			
Excess tax depreciation over book value			
– Other intangible assets	(27,878)	(16,339)	(44,217)
– Property, plant and equipment	(14,463)	1,683	(12,780)
Provision for early retirement and rehabilitation	17,317	(14)	15,197
Other temporary differences	32,041	24,874	59,021
Deferred tax assets	7,017	10,204	17,221
Deferred tax liabilities:			
Fair value adjustments arising from merger of a subsidiary	(95,548)	3,827	(91,721)
Deferred tax liabilities	(95,548)	3,827	(91,721)
Total	(88,531)	14,031	(74,500)

Notes to Financial Statements

31 December 2011

23. Deferred Tax (Continued)

The movements in deferred tax assets and liabilities during the year are as follows: (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				
– Other intangible assets	(13,927)	–	(13,951)	(27,878)
– Property, plant and equipment	(13,355)	–	(1,108)	(14,463)
Provision for early retirement and rehabilitation	16,330	–	987	17,317
Other temporary differences	17,567	–	14,474	32,041
Deferred tax assets	3,399	–	3,618	7,017
Deferred tax liabilities:				
Fair value adjustments arising from merger of a subsidiary	–	(99,522)	3,974	(95,548)
Deferred tax liabilities	–	(99,522)	3,974	(95,548)
Total	3,399	(99,522)	7,592	(88,531)

At 31 December 2011, there was no significant unrecognised deferred tax liability (2010: NIL) for taxes that would be payable on the unremitted earning of the Group's subsidiaries, associate or jointly-controlled entity as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

24. Other Long-term Assets

Group

	Notes	2011 RMB'000	2010 RMB'000
Advance and deposits paid for purchases of subsidiaries	(i),(ii)	**524,000**	62,680
Advance payment for purchases of property, plant and equipment	(ii)	**237,635**	203,366
		761,635	266,046

Company

		2011 RMB'000	2010 RMB'000
Deposits paid for purchases of subsidiaries	(i),(ii)	**524,000**	62,680
Advance payment for purchases of property, plant and equipment	(ii)	**151,054**	130,656
		675,054	193,336

Notes:

(i) The balance as at 31 December 2011 includes the advance payment of RMB506,000,000 by the Group to third party individual shareholders to acquire Dishui Copper Mine during the year ended 31 December 2011.

(ii) The outstanding commitments in relation to the above acquisitions are disclosed innote 43.

Notes to Financial Statements

31 December 2011

25. Inventories

Group

	2011 RMB'000	2010 RMB'000
Raw materials	**111,572**	83,226
Work in progress	**1,525,135**	645,527
Finished goods	**494,550**	50,550
	2,131,257	779,303
Reclassification to a group of assets held for sale	**–**	(118)
	2,131,257	779,185
Included in the above balances are:		
Inventories processed for third parties	**695,618**	271,186

Company

	2011 RMB'000	2010 RMB'000
Raw materials	**38,276**	29,800
Work in progress	**1,217,032**	406,775
Finished goods	**246,424**	6,458
	1,501,732	443,033
Included in the above balances are:		
Inventories processed for third parties	**695,618**	271,186

26. Trade and Notes Receivables

Group

	2011 RMB'000	2010 RMB'000
Trade receivables	**29,174**	186,930
Notes receivable	**16,446**	12,259
	45,620	199,189

An ageing analysis of trade and notes receivables, based on the invoice date, is as follows:

	2011 RMB'000	2010 RMB'000
Outstanding balances due within 90 days	**45,620**	199,189

Company

	2011 RMB'000	2010 RMB'000
Trade receivables	**16,186**	1,358
Notes receivable	**5,500**	5,111
	21,686	6,469

An ageing analysis of trade and notes receivables, based on the invoice date, is as follows:

	2011 RMB'000	2010 RMB'000
Outstanding balances due within 90 days	**21,686**	6,469

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, 91% (2010: 98%) of total gold sales for the year ended 31 December 2011 were made through the SGE (the "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.

Notes to Financial Statements

31 December 2011

27. Prepayments and Other Receivables

Group

	2011 RMB'000	2010 RMB'000
Prepayments	**346,891**	256,800
Other receivables	**138,372**	115,287
Amount due from related parties:		
– Zhaojin Group	**1,460**	1,158
– Subsidiaries of Zhaojin Group	**34,228**	–
	520,951	373,245

Company

	2011 RMB'000	2010 RMB'000
Prepayments	**214,340**	106,442
Other receivables	**117,014**	86,907
Amounts due from related parties:		
– Zhaojin Group	**1,460**	83
– Subsidiaries of Zhaojin Group	**34,228**	–
– Subsidiaries of the Company	**499,085**	341,920
	866,127	535,352

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.

28. Equity Investments at Fair Value through Profit or Loss

Group

	2011 RMB'000	2010 RMB'000
Listed equity investments at market value	**8,732**	16,196

29. Derivative Financial Instruments

Group

	2011 RMB'000	2010 RMB'000
Commodity derivative contracts	**9,367**	–

The Group uses commodity derivative contracts to hedge its commodity price risk, which does not meet the criteria of hedge accounting. Commodity derivative contracts utilised by the Group are standardised copper cathode futures contracts on the SHFE.

The realised loss on futures contracts amounting to RMB1,233,000 was debited to other expenses during the year, and the unrealised gain on the changes in fair value amounting to RMB600,000 was credited to other expenses during the year.

Notes to Financial Statements

31 December 2011

30. Cash and Cash Equivalents

Group

	2011 RMB'000	2010 RMB'000
Cash and bank balances	**1,241,372**	746,888
Time deposits	**4,500**	35,000
Cash and cash equivalents	**1,245,872**	781,888

Company

	2011 RMB'000	2010 RMB'000
Cash and bank balances	**766,942**	465,850
Time deposit	**–**	35,000
	766,942	500,850

At the end of the reporting period, the cash and cash equivalents of the Group denominated in Hong Kong dollars ("HK$") amounted to RMB16,495,000 (2010: RMB35,433,000) and those denominated in USD amounted to RMB50,026,000 (2010: RMB48,001,000). All other cash and cash equivalents held by 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 Regulations, 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 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.

31. Trade Payables

Group

	2011 RMB'000	2010 RMB'000
Trade payables	729,377	175,346
Payable under tolling arrangements	808,448	271,186
	1,537,825	446,532

An ageing analysis of trade payables, based on the invoice date, is as follows:

	2011 RMB'000	2010 RMB'000
Within one year	1,524,780	424,874
Over one year but within two years	9,009	8,192
Over two years but within three years	1,954	5,111
Over three years	2,082	8,355
	1,537,825	446,532

Company

	2011 RMB'000	2010 RMB'000
Trade payables	511,894	54,654
Payable under tolling arrangements	808,448	271,186
	1,320,342	325,840

An ageing analysis of trade payables, based on the invoice date, is as follows:

	2011 RMB'000	2010 RMB'000
Within one year	1,307,529	310,594
Over one year but within two years	8,905	13,114
Over two years but within three years	1,947	2,132
Over three years	1,961	–
	1,320,342	325,840

Notes to Financial Statements

31 December 2011

32. Other Payables and Accruals

Group

	2011 RMB'000	2010 RMB'000
Accrued taxes other than income tax	105,143	82,270
Accrued expenses and other payables	269,977	281,564
Capital expenditure payables	113,127	105,004
	488,247	468,838
Reclassification to liability directly associated with the assets classified as held for sale	–	(205)
	488,247	468,633
Amount due to a related party		
– Zhaojin Group	–	14,401
– subsidiaries of Zhaojin Group	12,923	–
	501,170	483,034

Company

	2011 RMB'000	2010 RMB'000
Accrued taxes other than income tax	78,858	62,508
Accrued expenses and other payables	190,462	199,554
Capital expenditure payables	31,669	29,297
	300,989	291,359

The amount due to a related party is unsecured, interest-free and has no fixed terms of repayment.

Other payables are non-interest-bearing and have an average term ranging from 30 to 60 days.

33. Interest-bearing Bank and Other Borrowings

Group

	2011 RMB'000	2010 RMB'000
Unsecured:		
– Short-term bond	**697,200**	–
– Bank loans	**685,000**	420,000
– Bank loan entrusted by Zhaojin Group*	**255,000**	–
– Other borrowings	**23,569**	20,762
	1,660,769	440,762
Secured:		
– Bank loans**	**7,500**	–
Total	**1,668,269**	440,762
Analysed into:		
Bank loans and a short-term bond repayable:		
– Within one year	**1,506,610**	370,000
– In the second year	**138,090**	50,000
	1,644,700	420,000
Other borrowings repayable:		
– Within one year	**3,550**	–
– In the second year	**1,650**	–
– In the third to fifth years, inclusive	**11,995**	13,680
– Over five years	**6,374**	7,082
	23,569	20,762
Portion classified as:		
– Current	**1,510,160**	370,000
– Non-current	**158,109**	70,762

* The bank loan entrusted by Zhaojin Group as further detailed in note 44 to the financial statements bears interest at 4.0% per annum and is repayable within next 12 months as at 31 December 2011;

** Certain of the Group's bank loans are secured by mortgages over the Group's mining assets, which had an aggregate carrying value at the end of the reporting period of approximately RMB7,270,000 (2010: NIL).

Notes to Financial Statements

31 December 2011

33. 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:

	2011	2010
(i) Bank loans – fixed rate		
– Effective interest rate (%)	**5.52**	4.95
– Maturity (year)	**2012 – 2013**	2011 – 2012
(ii) Short-term bond – fixed rate		
– Effective interest rate (%)	**6.11**	–
– Maturity (year)	**2012**	–
(iii) Other borrowings – fixed rate		
– Effective interest rate (%)	**2.19**	2.28
– Maturity (year)	**2012 – 2021**	2011 – 2021

(b) Unutilised limit of bank loans

	2011 RMB'000	2010 RMB'000
Banking facilities:		
– Available	**5,822,500**	5,460,000
– Utilised	**(692,500)**	(420,000)
Unutilised	**5,130,000**	5,040,000

33. Interest-bearing Bank and Other Borrowings (Continued)

Company

	2011 RMB'000	2010 RMB'000
Unsecured:		
– Short-term bond	**697,200**	–
– Bank loans	**500,000**	250,000
– Bank loan entrusted by Zhaojin Group	**255,000**	–
– Other borrowings	**8,024**	8,732
	1,460,224	258,732
Repayable:		
– Within one year	**1,452,200**	250,000
– In the second year	**1,650**	–
– In the third to fifth years, inclusive	**–**	1,650
– Over five years	**6,374**	7,082
	1,460,224	258,732
Portion classified as:		
– Current	**1,452,200**	250,000
– Non-current	**8,024**	8,732

Notes:

(a) Effective interest rates and maturity dates

An analysis of the effective interest rates per annum and the maturity dates is as follows:

	2011	2010
(i) Bank loans – fixed rate		
– Effective interest rate (%)	**5.36**	5.00
– Maturity (year)	**2012**	2011
(ii) Short-term bond – fixed rate		
– Effective interest rate (%)	**6.11**	–
– Maturity (year)	**2012**	–
(ii) Other borrowings – fixed rate		
– Effective interest rate (%)	**4.16**	4.16
– Maturity (year)	**2012 – 2021**	2011 – 2021

Notes to Financial Statements

31 December 2011

33. Interest-bearing Bank and Other Borrowings (Continued)

Company

Notes: (Continued)

(b) Unutilised limit of bank loans

	2011 RMB'000	2010 RMB'000
Banking facilities:		
– Available	**5,570,000**	5,090,000
– Utilised	**(500,000)**	(250,000)
Unutilised	**5,070,000**	4,840,000

All borrowings of the Group and of the Company are denominated in RMB.

34. Corporate Bond

On 23 December 2009, the Company issued a corporate bond to the public in the 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

	2011 RMB'000
Corporate bond at the beginning of the year	**1,489,504**
Increase arising from the amortisation method	**1,543**
Corporate bond at the end of the year	**1,491,047**

35. 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

	Note	2011 RMB'000	2010 RMB'000
At beginning of year		**33,997**	39,969
Received during the year		**143,287**	29,972
Acquisition of subsidiary		**–**	1,092
Recognised as income during the year	5	**(27,612)**	(37,036)
At end of year		**149,672**	33,997

Company

	2011 RMB'000	2010 RMB'000
At beginning of year	**32,705**	26,169
Received during the year	**112,495**	20,253
Recognised as income during the year	**(9,930)**	(13,717)
At end of year	**135,270**	32,705

36. Other Long-term Liability

The balance represents the payable for the renewal of a mining right which is not to be settled within 12 months after the end of the reporting period.

Notes to Financial Statements

31 December 2011

37. Provision

Group

	2011 RMB'000	2010 RMB'000
Provision for rehabilitation		
At beginning of year	**8,217**	7,146
Interest incremental	**526**	240
Change in discount rate	**(949)**	(193)
Additional rehabilitation	**3,075**	1,024
At end of year	**10,869**	8,217
Provision for early retirement		
At beginning of year	**76,529**	68,181
Additional early retirees	**16,416**	26,277
Change in discount rate	**(1,600)**	(1,322)
Interest incremental	**5,020**	3,639
Acquisition of a subsidiary *(note 40)*	**14,381**	–
Utilised during the year	**(24,061)**	(20,246)
At end of year	**86,685**	76,529
Total	**97,554**	84,746
Analysis of total provisions		
Current	**19,827**	16,964
Non-current	**77,727**	67,782
	97,554	84,746

37. Provision (Continued)

Company

	2011 RMB'000	2010 RMB'000
Provision for rehabilitation		
At beginning of year	**7,136**	5,774
Interest increment	**457**	182
Change in discount rate	**(785)**	(151)
Additional rehabilitation	**2,594**	1,331
At end of year	**9,402**	7,136
Provision for early retirement		
At beginning of year	**69,040**	54,723
Merge of a subsidiary	**–**	5,553
Additional early retirees	**12,876**	25,345
Change in discount rate	**(1,429)**	(1,190)
Interest increment	**4,529**	3,502
Utilised during the year	**(22,530)**	(18,893)
At end of year	**62,486**	69,040
Total	**71,888**	76,176
Analysis of total provisions		
Current	**15,915**	15,419
Non-current	**55,973**	60,757
	71,888	76,176

Notes to Financial Statements

31 December 2011

37. Provision (Continued)

The provisions are based on estimates of future payments made by management and are discounted at rates in the range of 6.6% to 7.1% (2010: 5.8% to 6.4%). 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 44 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 the normal statutory retirement age, which extends up to 2040.

38. Share Capital

Group and Company

	2011 **RMB'000**	2010 RMB'000
Registered, issued and fully paid:		
Domestic shares of RMB1.00 each	**2,040,512**	1,020,256
H shares of RMB1.00 each	**874,348**	437,174
	2,914,860	1,457,430

39. Reserves

(i) 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.

(ii) Company

	Capital reserve RMB'000	Statutory reserves RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000
At 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 and 1 January 2011	1,895,589	306,715	1,455,748	437,229	4,095,281
Total comprehensive income for the year	–	–	1,331,743	–	1,331,743
Transfer to reserves	–	131,901	(131,901)	–	–
Transferred to share capital	(728,715)	–	(728,715)	–	(1,457,430)
Dividends					
– 2011 final proposed	–	–	(612,121)	612,121	–
– 2010 final paid	–	–	–	(437,229)	(437,229)
At 31 December 2011	**1,166,874**	**438,616**	**1,314,754**	**612,121**	**3,532,365**

Notes to Financial Statements

31 December 2011

39. 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 the 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 shares for every share held by capitalising capital reserve of RMB546,536,000 to share capital.

On 13 June 2011, the annual general meeting of the Company approved a resolution to increase the share capital of the Company from RMB1,457,430,000 to RMB2,914,860,000 by way of a bonus issue on the basis of one bonus share issued for every share held by shareholders (50% of which is made by capitalisation of capital reserve and 50% of which is made by capitalisation of retained profits).

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, the 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 the financial statements which are prepared in accordance with HKFRSs.

40. Business Combinations

(a) The acquisition of a jointly-controlled entity during the year is as follows:

On 13 January 2011, the Company acquired 50% equity interests in Sanfengshan, an unlisted company engaged in the mining, processing and sale of copper, at a consideration of RMB100,000,000, satisfied by cash. Sanfengshan is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of this jointly-controlled entity. The Group recognises its interest in this jointly-controlled entity using the proportionate consolidation method.

The fair values of the identifiable assets and liabilities of Sanfengshan at the date of acquisition were as follows:

	Notes	**Fair value recognised on acquisition** RMB'000
Inventories		18,094
Property, plant and equipment	14	43,614
Other intangible assets	17	222,652
Deferred tax liabilities		(56,680)
Total identifiable net assets at fair value		227,680
50% proportionally consolidated by the Group		113,840
Gain on bargain purchase	5	(13,840)
Purchase consideration transferred		100,000

Notes to Financial Statements

31 December 2011

40. Business Combinations (Continued)

(b) The acquisition of a subsidiary during the year is as follows:

On 1 November 2011, the Company acquired a 90% interest in Daqinjia, an unlisted company engaged in the mining and sale of gold, at a consideration of RMB27,000,000, satisfied by cash.

The fair values of the identifiable assets and liabilities of Daqinjia as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	14	34,830
Other intangible assets	17	47,395
Cash and cash equivalents		31,392
Inventories		7,045
Other receivables		5,388
Interest bearing bank and other borrowings		(3,550)
Trade and other payables		(95,452)
Provision	37	(14,381)
Deferred tax liabilities		(13,197)
Non-controlling interests		53
Total identified net assets at fair value		(477)
Goodwill on acquisition	16	27,477
Satisfied by cash		27,000

The fair value of other receivables as at the date of acquisition amounted to RMB5,388,000. The gross contractual amount of other receivables was RMB5,388,000, of which none of other receivables are expected to be uncollectible.

40. Business Combinations (Continued)

An analysis of the cash flows in respect of the acquisition of a jointly-controlled entity and a subsidiary is as follows:

	2011 RMB'000
Cash consideration	(127,000)
Cash and cash equivalents acquired	31,392
Payment of cash deposits for the year ended 31 December 2010	30,000
Net outflow of cash and cash equivalents included in cash flows from investing activities	(65,608)
Transaction costs of the acquisition included in cash flows from operating activities	–
	(65,608)

The Group incurred no transaction costs for these acquisitions.

None of the goodwill recognised is expected to be deductible for income tax expenses.

Since the acquisition, the above jointly-controlled entity and subsidiary contributed RMB43,501,000 to the Group's turnover and RMB18,964,000 to the consolidated profit for the year ended 31 December 2011.

Had the combinations taken place at the beginning of the year, the revenue of the Group and the net profit of the Group for the year would have been RMB5,825,028,000 and RMB1,730,886,000, respectively.

Notes to Financial Statements

31 December 2011

41. Disposal of a Subsidiary

On 7 August 2011, the Company entered into an agreement with a third party to dispose of its entire interest in Fukang as further detailed in note 11 to the financial statements.

	Note	2011 RMB'000
Net assets disposed of:		
Property, plant and equipment		6,423
Other Intangible assets		22,190
Cash and cash equivalents		4,553
Inventories		118
Prepayments and other receivables		–
Deferred tax assets		–
Assets classified as held for sale		33,284
Other payables and accruals		(205)
Deferred income		(1,500)
Deferred tax liabilities		(5,079)
Liabilities directly associated with assets classified as held for sale		(6,784)
		26,500
Gain on disposal of a subsidiary	5	300
Transaction costs in respect of the disposal of a subsidiary		4,800
		31,600
Satisfied by:		
Cash		31,600

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2011 RMB'000
Cash consideration	31,600
Transaction costs in respect of the disposal of a subsidiary	(4,800)
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	26,800

42. Contingent Liabilities

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

(a) Guarantees

Company

	2011 RMB'000	2010 RMB'000
Guarantees provided to bank for loan facilities granted to subsidiaries:		
– Tonghui Mining Company Limited	**100,000**	50,000
– Kunhe Zhaojin Mining Company Limited	**50,000**	50,000
	150,000	100,000

(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.

Notes to Financial Statements

31 December 2011

43. Commitments

(a) Capital commitments

Group

	2011 RMB'000	2010 RMB'000
Contracted, but not provided for:		
– Building, plant and machinery	**115,965**	55,489
– Prepayment for potential acquisitions	**118,000**	83,120
	233,965	138,609
Authorised, but not contracted for:		
– Building, plant and machinery	**1,485,330**	4,243,040
– Exploration and evaluation assets	**205,320**	315,100
	1,690,650	4,558,140

Company

	2011 RMB'000	2010 RMB'000
Contracted, but not provided for:		
– Building, plant and machinery	**115,965**	55,489
– Unlisted equity investments in subsidiaries	**109,000**	83,120
	224,965	138,609
Authorised, but not contracted for:		
– Building, plant and machinery	**605,630**	1,353,100
– Exploration and evaluation assets	**37,080**	72,030
	642,710	1,425,130

43. Commitments (Continued)

(b) Operating lease commitments

The Group leases certain of its land and offices under operating lease arrangements, which are negotiated for terms ranging between two and three years.

Future minimum lease payments of the Group and of the Company under non-cancellable operating leases are as follows:

Group

	2011 RMB'000	2010 RMB'000
Within one year	5,326	4,087
In the second to fifth years, inclusive	9,666	4,127
	14,992	8,214

Company

	2011 RMB'000	2010 RMB'000
Within one year	4,583	3,827
In the second to fifth years, inclusive	8,949	4,000
	13,532	7,827

Notes to Financial Statements

31 December 2011

44. 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:

	2011 RMB'000	2010 RMB'000
Nature of relationships/transactions		
(i) Zhaojin Group, a party which can exercise significant influence over the Group		
Sale of silver	**40,382**	96,427
Expenses:		
– Payment of rental of land use rights	**3,827**	3,938
– Payment of a house rent	**–**	18
– Gold exchange commission fee	**1,253**	997
Capital transactions:		
– Payment of ground transfer	**–**	2,203
Other transactions:		
– Borrowing of bank entrusted loans	**255,000**	–
– Payment of interest expense	**4,265**	–
(ii) Subsidiaries of Zhaojin Group		
Expenses:		
– Fees for refining services	**4,753**	4,227
Capital transactions:		
– Purchase of exploration services	**27,265**	39
– Purchase of digital mine construction technology services	**6,478**	2,911
– Purchase of property, plant and equipment	**734**	254

44. Related Party Transactions (Continued)

(b) Commitments with related parties

(i) On 28 December 2011, the Company renewed the Land Lease Agreement with Zhaojin Group, pursuant to which Zhaojin Group agreed to lease certain land use rights to the Group for a term of three years commencing from 1 January 2012 to 31 December 2014. The Group expects the annual rentals for the land use rights in 2012, 2013 and 2014 to be approximately RMB4,583,000, RMB4,514,000 and RMB4,435,000, respectively.

(ii) On 28 December 2011, the Company renewed the Digital Mine Construction Technology Services Agreement with a subsidiary of Zhaojin Group, pursuant to which the subsidiary agreed to provide mining construction technology service to the Group for a term of three years commencing from 1 January 2012 to 31 December 2014. The Group expects the annual fees for the mining construction activities in 2012, 2013 and 2014 to be approximately RMB37,700,000, RMB43,100,000, and RMB38,500,000, respectively.

(c) Outstanding balances with related parties

Except for the balance disclosed in note 33 to the financial statements, the Group had outstanding advances to and payable to related parties at the end of the reporting period as disclosed in notes 27 and 32 to the financial statements. These balances are unsecured, interest-free and have no fixed terms of repayment except for entrusted bank loans from Zhaojin Group disclosed in note 33 to the financial statements.

(d) Compensation of key management personnel of the Group:

	2011 RMB'000	2010 RMB'000
Short-term employee benefits	5,144	5,318
Post-employment benefits	–	–
Total compensation paid to key management personnel	5,144	5,318

Further details of directors' emoluments are included in note 8 to the financial statements.

(e) During the year, no fees were paid to non-executive directors and supervisors.

(f) Connected transactions

The transactions disclosed in items (a) to (e) 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.

Notes to Financial Statements

31 December 2011

45. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group

Financial assets

	2011			2010		
	Loans and receivables RMB'000	Financial assets held for trading RMB'000	Total RMB'000	Loans and receivables RMB'000	Financial assets held for trading RMB'000	Total RMB'000
Long-term deposits	24,856	–	24,856	7,659	–	7,659
Trade and notes receivables	45,620	–	45,620	199,189	–	199,189
Financial assets included in other receivables	174,060	–	174,060	116,445	–	116,445
Equity investments at fair value through profit or loss	–	8,732	8,732	–	16,196	16,196
Derivative financial instruments	–	9,367	9,367	–	–	–
Cash and cash equivalents	1,245,872	–	1,245,872	781,888	–	781,888
	1,490,408	18,099	1,508,507	1,105,181	16,196	1,121,377

Financial liabilities

	2011 Financial liabilities at amortised cost RMB'000	2010 Financial liabilities at amortised cost RMB'000
Trade payables	1,537,825	446,532
Financial liabilities included in other payables	154,891	120,052
Interest-bearing bank and other borrowings	1,668,269	440,762
Corporate bond	1,491,047	1,489,504
Other long-term liability	30,000	35,000
	4,882,032	2,531,850

45. Financial Instruments by Category (Continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

Company

Financial assets

	2011 Loans and receivables RMB'000	2010 Loans and receivables RMB'000
Long-term deposits	**24,856**	7,662
Loans receivable	**1,655,811**	1,147,305
Trade and notes receivables	**21,686**	6,469
Financial assets included in other receivables	**651,787**	428,910
Cash and cash equivalents	**766,942**	500,850
	3,121,082	2,091,196

Financial liabilities

	2011 Financial liabilities at amortised cost RMB'000	2010 Financial liabilities at amortised cost RMB'000
Trade payables	**1,320,342**	325,840
Financial liabilities included in other payables	**114,095**	131,610
Interest-bearing bank and other borrowings	**1,460,224**	258,732
Corporate bond	**1,491,047**	1,489,504
	4,385,708	2,205,686

Notes to Financial Statements

31 December 2011

46. Fair Value and Fair Value Hierarchy

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows:

Group

	Carrying amounts		Fair values	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Financial assets				
Cash and cash equivalents	1,245,872	781,888	1,245,872	781,888
Trade and notes receivables	45,620	199,189	45,620	199,189
Financial assets included in prepayments and other receivables	174,060	116,445	174,060	116,445
Equity investments at fair value through profit or loss	8,732	16,196	8,732	16,196
Derivative financial instruments	9,367	–	9,367	–
Long-term deposits	24,856	7,659	24,856	7,659
	1,508,507	1,121,377	1,508,507	1,121,377
Financial liabilities				
Trade payables	1,537,825	446,532	1,537,825	446,532
Financial liabilities included in other payables	154,891	120,052	154,891	120,052
Interest-bearing bank and other borrowings	1,668,269	440,762	1,663,645	436,209
Corporate bond	1,491,047	1,489,504	1,530,000	1,511,250
Other long-term liability	30,000	35,000	19,867	21,725
	4,882,032	2,531,850	4,906,228	2,535,768

46. Fair Value and Fair Value Hierarchy (Continued)

Company

	Carrying amounts		Fair values	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Cash and cash equivalents	**766,942**	500,850	**766,942**	500,850
Trade and notes receivables	**21,686**	6,469	**21,686**	6,469
Financial assets included in prepayments and other receivables	**651,787**	428,910	**651,787**	428,910
Loans receivable	**1,655,811**	1,147,305	**1,655,811**	1,128,000
Long-term deposits	**24,856**	7,662	**24,856**	7,662
	3,121,082	2,091,196	**3,121,082**	2,071,891
Financial liabilities				
Trade payables	**1,320,342**	325,840	**1,320,342**	325,840
Financial liabilities included in other payables	**114,095**	131,610	**114,095**	131,610
Interest-bearing bank and other borrowings	**1,460,224**	258,732	**1,458,059**	256,169
Corporate bond	**1,491,047**	1,489,504	**1,530,000**	1,511,250
	4,385,708	2,205,686	**4,422,496**	2,224,869

Notes to Financial Statements

31 December 2011

46. Fair Value and Fair Value Hierarchy (Continued)

Company (Continued)

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, trade and notes receivables, financial assets included in prepayments and other receivables, long-term deposits, trade payables and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of loans receivable, interest-bearing bank and other borrowings, and other long-term liability have been calculated by discounting the expected future cash flows using rates currently available for instruments having similar terms, credit risk and remaining maturities.

The fair values of equity investments at fair value through profit or loss, derivative financial instruments and a corporate bond are based on quoted market prices.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

46. Fair Value and Fair Value Hierarchy (Continued)

Assets measured at fair value:

Group

As at 31 December 2011

	Level 1 RMB'000
Equity investments at fair value through profit or loss	8,732
Derivative financial instruments	9,367
Total	18,099

As at 31 December 2010

	Level 1 RMB'000
Equity investments at fair value through profit or loss	16,196
Derivative financial instruments	–
Total	16,196

The Company did not have any financial assets measured at fair value as at 31 December 2011 and 2010.

The Group and the Company did not have any financial liabilities measured at fair value as at 31 December 2011 and 2010.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2010: NIL).

Notes to Financial Statements

31 December 2011

47. 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 and derivative financial instruments. 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, credit risk and equity price 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
2011					
Interest-bearing bank and other borrowings	**713,550**	**857,579**	**161,417**	**9,026**	**1,741,572**
Trade payables	**1,537,825**	**–**	**–**	**–**	**1,537,825**
Other payables	**154,891**	**–**	**–**	**–**	**154,891**
Corporate bond	**–**	**75,000**	**1,800,000**	**–**	**1,875,000**
Other long-term liability	**–**	**5,000**	**25,000**	**–**	**30,000**
	2,406,266	**937,579**	**1,986,417**	**9,026**	**5,339,288**
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

47. Financial Risk Management Objectives and Policies (Continued)

Liquidity risk (Continued)

Company

	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
2011					
Interest-bearing bank and other borrowings	**662,823**	**849,330**	**1,650**	**9,026**	**1,522,829**
Trade payables	**1,320,342**	**–**	**–**	**–**	**1,320,342**
Other payables	**114,095**	**–**	**–**	**–**	**114,095**
Corporate bond	**–**	**75,000**	**1,800,000**	**–**	**1,875,000**
	2,097,260	**924,330**	**1,801,650**	**9,026**	**4,832,266**
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

Interest rate risk

The Group's exposure to interest rate risk relates primarily to the Group's cash holdings, interest-bearing bank and other borrowings and 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 and the Company's profit and equity for the year.

Notes to Financial Statements

31 December 2011

47. Financial Risk Management Objectives and Policies (Continued)

Commodity 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 2011, 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.

Credit risk

The Group has no significant credit risk with customers since almost 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 concentrates, 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 well-known 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.

47. Financial Risk Management Objectives and Policies (Continued)

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual listed equity investments classified as equity investments at fair value through profit or loss (note 28) as at 31 December 2011 and 2010. The Group's listed equity investments are listed on the Australian Security Exchange and are valued at quoted market prices at the end of the reporting period.

A reasonably possible change of equity price would have no material impact on the Group's profit and equity for the year.

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 2011 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 equity plus net debt. The Group's policy is to maintain the gearing ratio between 20% and 35%. Net debt includes interest-bearing bank and other borrowings and corporate bond, less cash and cash equivalents. Capital includes all the equity of the Group.

Group

	2011 RMB'000	2010 RMB'000
Interest-bearing bank and other borrowings	**1,668,269**	440,762
Corporate bond	**1,491,047**	1,489,504
Less: Cash and cash equivalents	**(1,245,872)**	(781,888)
Net debt	**1,913,444**	1,148,378
Total equity	**6,997,447**	5,775,644
Total equity and net debt	**8,910,891**	6,924,022
Gearing ratio	**21.5%**	16.6%

Notes to Financial Statements

31 December 2011

48. Events After the Reporting Period

(a) On 30 December 2011, the Group entered into an equity transfer agreement with five individual shareholders, pursuant to which the Company agreed to acquire an aggregate of 79% equity interest in Dishui Gold-Copper Mine, which is engaged in the mining, processing and sale of copper ores and the sale of by-products. The Group has acquired Dishui Gold-Copper Mine to further expand its copper operation in Xinjiang Province of China. The purchase consideration of RMB600,000,000 for the acquisition was in the form of cash and the Company prepaid RMB506,000,000 in cash as a deposit by the end of 31 December 2011 as further detailed in note 24 to the financial statements. The above acquisition has been completed on 5 January 2012 and the remaining consideration has been paid after the completion of the change of registration at the relevant government authority of industry and commerce in the PRC in respect of the transfer of the 79% equity interest in Dishui Gold-Copper Mine.

Because it takes time to complete the valuation work of the net identifiable assets and liability of Dishui Gold-Copper Mine and initial accounting for the business combination, it is not practicable to disclose further details about the acquisition.

(b) On 23 March 2012, the Company entered into a transfer agreement with Zhaojin Non-Ferrous Mining Company Limited ("Zhaojin Non-Ferrous"), a wholly-owned subsidiary of Zhaojin Group to acquire the gold mine exploration right in Hou Cang District, Zhaoyuan City, Shandong Province and the entire equity interest in Xinjiang Jin Han Zun Mining Investment Company Limited at an aggregate consideration of RMB597,845,200, which will be satisfied in full by allotment and issue of 50,967,195 domestic shares of the Company at the issue price of RMB 11.73.

The Completion of the acquisition is subject to certain conditions to be satisfied jointly by the Company and Zhaojin Non-Ferrous, including but not limited to all necessary approvals from all the relevant government authorities and the internal approval procedures of the Company and Zhaojin Non-Ferrous.

49. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 23 March 2012.

ZHAOJIN MINING INDUSTRY COMPANY LIMITED*
招 金 礦 業 股 份 有 限 公 司