LINGJIN
灵 金

Lingbao Gold Company Ltd.
靈寶黃金股份有限公司

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

(Stock Code: 3330)

Annual Report 2010

Contents

Corporate Information

Directors

Executive Directors
Xu Gaoming *(Chairman)*
Jin Guangcai
Liu Pengfei
Zhang Guo
He Chengqun

Non-executive Director
Wang Yumin

Independent Non-executive Directors
Niu Zhongjie
Wang Han
Yan Wanpeng
Du Liping

Supervisors
Liu Shengmin
(Chairman of the Supervisory Committee)
Meng Fanrui
Guo Xuchang
Guo Xurang
Yang Bo
Hang Zhanping
Jiao Xiaoxiao

Audit Committee
Yan Wanpeng *(Chairman of Audit Committee)*
Wang Yumin
Niu Zhongjie
Wang Han
Du Liping

Company Secretary
Poon, Lawrence Chi Leung

Authorised Representatives
Jin Guangcai

Alternate Authorised Representative
Poon, Lawrence Chi Leung

International Auditor
KPMG

PRC Auditor
Peking Certified Public Accountants

Legal Adviser
Hong Kong law
DLA Piper Hong Kong

PRC law
Commerce & Finance Law Offices

Principal Bankers
Bank of China, Lingbao City Branch
Agricultural Bank of China, Lingbao City Branch
China Construction Bank, Lingbao City Branch
Industrial and Commercial Bank of China, Lingbao City Branch
Industrial Bank, Zhengzhou Branch
Bank of Communications, Zhengzhou Branch
China Development Bank
Shenzhen Development Bank
HSBC

Share Registrar and Transfer Office for H Shares
Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Registered Office of the Company
Xin Village, Yinzhuang Town
Daonan Industrial Area
Lingbao
Henan
The PRC

Principal Place of Business in Hong Kong
Room 1902, 19th Floor
MassMutual Tower
38 Gloucester Road
Wanchai
Hong Kong

Corporate Information

Stock Information

Stock Code : 3330
Listing Date : 12 January 2006
Issued Shares : 297,274,000 shares (H Shares)
472,975,091 shares (Domestic Shares)
Nominal Value : RMB0.20 per share
Stock Name : Lingbao Gold
Website of the Company : www.lbgold.com
Investors' website: www.irasia.com/listco/hk/lingbao

Investor Relations Contact

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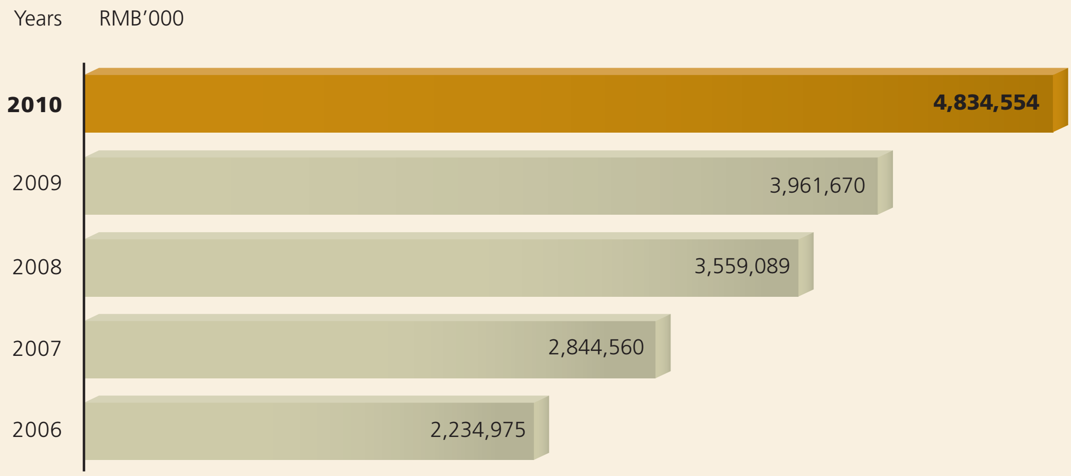
38 Gloucester Road
Wanchai
Hong Kong
Email: lingbaogold@vip.sina.com

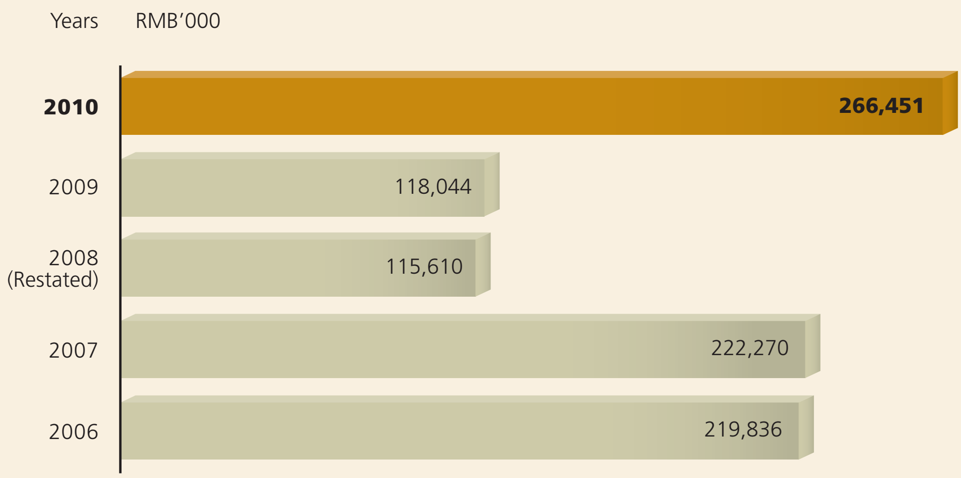
Ms. Qi Haihua
PRC Office
Xin Village, Yinzhuang Town
Daonan Industrial Area
Lingbao
Henan
The People's Republic of China
(Postcode: 472500)
Tel: (86-398) 2296-880
Fax: (86-398) 8860-166
Email: lingbaogold@vip.sina.com

Financial Highlights

Turnover

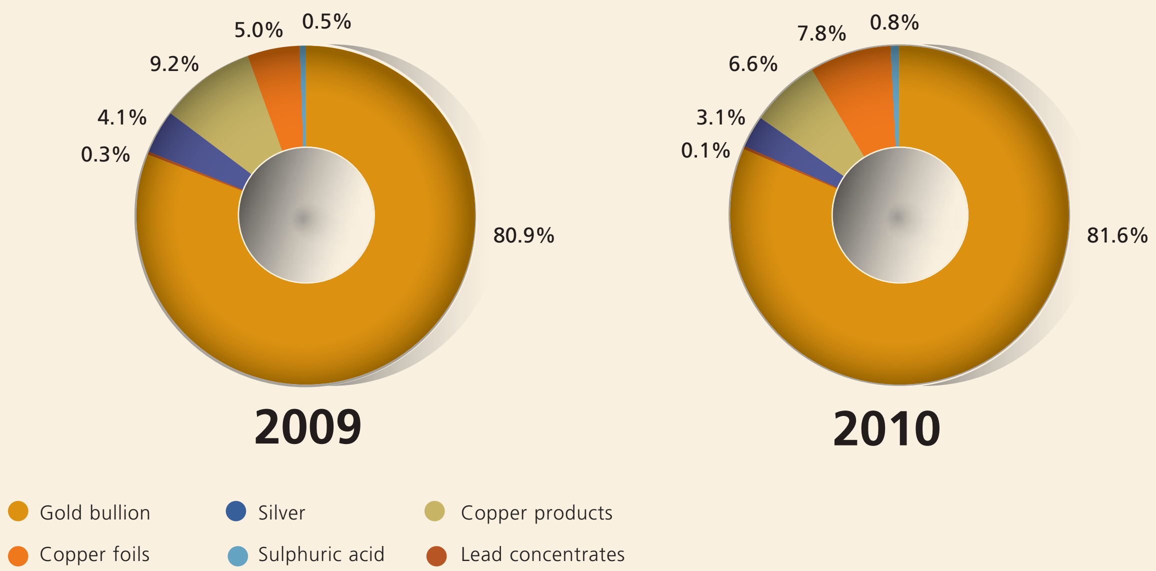


Profit Attributable to Equity Shareholders



Financial Highlights

Sales Analysis by Products



Capital Resources

	2006 RMB'000	2007 RMB'000	2008 (Restated) RMB'000	2009 RMB'000	**2010** **RMB'000**
Total assets	2,774,925	3,400,303	4,092,819	4,911,918	**5,329,106**
Cash and cash equivalents	431,647	389,651	575,478	685,321	**323,712**
Bank and other borrowings	938,270	1,303,131	1,738,430	2,513,615	**2,580,412**
Shareholder equity	1,516,213	1,672,046	1,736,794	1,882,137	**2,107,957**

Corporate Profile

Lingbao Gold Company Ltd. ("Lingbao Gold" or the "Company" and together with its subsidiaries, the "Group") is listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 12 January 2006.

The Group is an integrated gold mining enterprise in the People's Republic of China ("PRC"), and is mainly engaged in gold mining, smelting and refining. The products of the Group are gold, silver, copper products, copper foils and sulphuric acid. The Shanghai Gold Exchange certified the Group as a standard gold bullion production enterprise. The Group's mineral resources are scattered in the PRC regions of Henan, Xinjiang, Jiangxi, Inner Mongolia, Gansu and Kyrgyz Republic with 56 mining and exploration rights with a total area of 2,222.74 sq. km. The total gold reserve and resources as at 31 December 2010 were approximately 56.13 tonnes (approximately 1,804,621 ounce) and 99.87 tonnes (approximately 3,210,895 ounce) respectively. In 2010, approximately 14,584 kg (approximately 468,886 ounce) of gold was produced with the profit for the year amounting to RMB257,877,000.

The objective of the Group's strategy in the future is continuous expansion, to become the leading integrated gold mining enterprise in the PRC and gradually promote our brand in the international market. The Group will focus on the exploration and expansion of production scale and continue to acquire gold resources with potential, in order to increase the self-produced gold and gold reserve and resources and enhance the Group's self-sufficiency rate.

Chairman's Statement

Dear Shareholders,

I am pleased to report the profit before tax of the Group of approximately RMB386,254,000 for the year ended 31 December 2010, representing a year-on-year increase of 125.0%. Profit for the year of the Group amounted to RMB257,877,000, representing a year-on-year increase of 114.5%. Earnings per share of the Group was RMB0.35.

After discussion by the board (the "Board") of directors (the "Directors") of the Company, the Directors recommended the payment of a final dividend of RMB0.10 per share for the year ended 31 December 2010. Dividend payout ratio was 28.6%.

Review for the Year 2010

2010 saw a continued rally in international gold price which ended the year at a price of approximately RMB301 per gram from an opening price of approximately RMB241 per gram, representing an increase of approximately 24.9% per annum. The increase was mainly attributable to the European debt crisis, the quantitative easing monetary policy adopted by the U.S. and the market expectations to higher inflation which boosted gold's appeal as a hedge instrument, thus people buying more gold to protect value of their savings. In 2010, the Group continued to strengthen its corporate management, enhanced cost control, cut down controllable expenses, and brought its operating results to another new record high.

In 2010, the volume of gold, silver, copper and sulphuric acid produced by the Group were 14,584 kg, 39,662 kg, 13,104 tonnes and 157,499 tonnes respectively. The Group's key construction projects for the year were completed on schedule, among which the 10,000-tonne high-class copper foil production project commenced running in September 2010 and would be put into full operation in January 2011, thus significantly increasing the output of copper foil. The construction of the 2,000 tonnes per day processing plant owned by Full Gold Mining Limited Liability Company ("Full Gold") was also completed, and is now proceeding with equipment testing and its operation is scheduled to commence in 2011. The Laowan processing plant owned by Tongbai Xingyuan Mining Company Limited ("Xingyuan") had completed its technological upgrading, and currently the processing capacity of Xingyuan achieved 1,300 tonnes. Through reconstruction of flotation system for its molybdenum mine, Lingbao Hongxin Mining Limited Liability Company ("Hongxin") achieved a daily processing capacity of 260 tonnes, which laid a foundation for the utilization of low-grade ores and development of the molybdenum mine in the future. The construction project of the Company's Research and Development Centre has progressed smoothly since March 2009 when the construction work commenced, with roof topping completed in June 2010, and currently started working on the interior design.

In respect of exploration, the Company strengthened the analysis of metallogenic regularities in major mining areas, and carried out targeted geophysical and geochemical explorations and drilling works. Thanks to these efforts, our ore reserve and gold reserve increased by 3.53 million tonnes and 26 tonnes respectively for the year, representing increases of 2.39 million tonnes and 21.4 tonnes respectively as compared with the previous year, and thereby accomplished the overall goal of active exploration and increase reserve. Among these accomplishments, Full Gold put emphasis on pitting works, supplemented by hole drilling, and enhanced its geological fundamental works, resulted in increases of its ore reserve

Chairman's Statement

and gold reserve by 2.02 million tonnes and 20.6 tonnes respectively for the year; whereas Xingyuan enhanced its exploration works in deeper and surrounding areas, and a total workload of 18,300 meters had been input during the year, resulting in increases of its ore reserve and gold reserve by 350,000 tonnes and 1.6 tonnes respectively.

By sticking to the operation policy of "implement comprehensive management while taking safety and prevention as priorities", further enhancing safety management, expanding its safety supervision team, increasing fund investment, and enhancing the building of safety facilities, the Group had no significant accidents occurred during the year.

In 2010, the Company continued to cooperate with Lingbao Gold Tianjin Geological Research and Development Centre (靈寶黃金天津地院研發中心), enhanced the research and development of mining technology, continued participating in the research of the mineralization regularities in Xiaoqinling Mountain, Nanyang Tongbai, Xinjiang and Jinchan Mountain in Inner Mongolia. In addition, the Company established Henan Copper Foil Technology Research and Development Centre and carried out research and development for high and new technology and products. In 2010, the Company obtained from state fund in aggregate 11 projects. 13 projects were submitted for scientific and technical awards at various levels, among which, 9 projects were awarded and 13 projects passed the authentication. Up to 2010, the Company had 33 patents in total.

Business Outlook of 2011

The Company's major goals for 2011 include preparing for a listing in the A share market through tapping the capital market, increasing reserve through active exploration, increasing efficiency in management, reducing operating cost, improving quality and ensuring production safety. Main business development strategies of the Company includes:

To get well prepared for a successful listing in the A share market. To obtain a listing in the A share market is crucial for the Company to implement its development strategies. It will enable the Company to reduce its financial risk, optimize its capital structure and industrial structure, broaden its financing, speed up mine construction and expand production scale, thereby improving its economic benefits. In addition, it will also enhance the continuous profitability of the Company and ensure its sustainable development. Upon successful completion of the listing, the Company will have more room for development, and its overall competitiveness, economy of scale and operating strength will be significantly improved.

The Company will focus on the gold production of Xingyuan, Habahe Huatai Gold Limited Liability Company ("Habahe Huatai") and Full Gold, and also the stable production of the smelting segment and Lingbao Wason Copper-Foil Company Limited ("Wason Copper-Foil"). As for its mine operations, the Company will be committed to meeting its annual production target, the continuous reduction of ore dilution rate and ore loss rate and the improvement of ore grade. Full Gold is expected to commence production in 2011, the gold smelting segment will further increase its efforts in the procurement of raw materials, and Wason Copper-Foil will endeavour to improve its product quality and increase its market share.

Chairman's Statement

Exploration projects will proceed mainly in Full Gold, Nanshan Gold Mine, Hongxin, Xingyuan, Chifeng Jinchan Mining Company Limited ("Chifeng Jinchan"), Habahe Huatai, Jiangxi region and Gansu region. Meanwhile, the Company will properly carry out the development works in Xingyuan's two blind shafts at Shangshanghe No. 1 and Shenglaozhuang, the projects at Tunnel No. 848, Tunnel No. 650 and Yujiacha No. 850's middle section and the inclined shaft of Hongxin, and the following-vein and through-vein drifting works of the middle sections in Yangpo No. 7, Limazigou No. 7 and Nandawa No. 7 of Chifeng Jinchan.

To strengthen its efforts in research and development and technical innovation. The Company will strive to achieve scientific breakthroughs and technical innovation in the recovery of zinc from the tailings of its smelting segment by leaching them in lead and optimize the utilization of gold sludge. The Company will also proactively proceed with the metallogenic studies for Habahe Huatai, Yinxin Gold Mine, Hongxin and Chifeng Jinchan.

In adherence to the policy of "implement comprehensive management while taking safety and prevention as priorities", the Company will promote the attainment of safety standards for safe operation, further strengthen the awareness of accountability for production safety, enhance environmental protection and actively assume more social responsibilities.

Appreciation

On behalf of the Board, I wish to express our sincere gratitude to all the shareholders for their support and trust, and to the management and all the staff for their dedication and hard work over the past year.

By order of the Board
Xu Gaoming
Chairman

Hong Kong
31 March 2011

Management Discussion and Analysis

Review of Business

In 2010, the Group produced approximately 14,584 kg (equivalent to approximately 468,886 ounce) gold, representing a decrease of approximately 226 kg (equivalent to approximately 7,266 ounce) or 1.5% as compared with the previous year. The Group's turnover for 2010 increased by 22.1% to approximately RMB4,841,536,000. The profit for the year was approximately RMB257,877,000, representing an increase of approximately 114.5% as compared with the previous year. The Company's basic earnings per share for 2010 was RMB0.35. The increase was mainly due to the decrease in impairment loss and the increase in the prices of the key products of the Group.

Given that raw materials accounted for over 83% of total production cost, the Group intends to increase its self-produced output of mineral sand through acquisition and expansion of mining operation, and uplift the overall production and operation targets, so as to minimise the risks associated with raw materials purchased from outsiders.

1. Mining Segment – PRC

Turnover and production

Our mining business mainly comprises the sales of gold concentrates and compound gold. Most of the gold concentrates and compound gold were sold to the Group's smelting plants as inter-segment sales.

The following table sets forth the analysis on the production and sales volume of the mining segment by product category:

		2010		2009	
	Unit	**Approximate production volume**	**Approximate sales volume**	Approximate production volume	Approximate sales volume
Gold concentrates	kg	**1,946**	**1,793**	1,931	1,844
Compound gold	kg	**1,398**	**1,367**	1,934	1,941
From: Henan region	kg	**342**	**296**	640	641
Xinjiang region	kg	**818**	**817**	907	907
Inner Mongolia region	kg	**238**	**254**	387	393
Total	kg	**3,344**	**3,160**	3,865	3,785
Total	ounce	**107,512**	**101,596**	124,263	121,691

Management Discussion and Analysis

The total turnover of the mining segment of the Group for 2010 was approximately RMB817,586,000, representing an increase of approximately 2.8% from approximately RMB795,087,000 in 2009. During the year, turnover of gold mines in Henan, Xinjiang and Inner Mongolia represented approximately 63.79%, 27.50% and 8.71% of the total turnover of the mining segment respectively. The production volume of compound gold of the Group decreased by approximately 536 kg to approximately 1,398 kg while the production volume of its gold concentrates increased by approximately 15 kg to approximately 1,946 kg.

Segment results

The Group's results of the mining segment for 2010 was approximately RMB262,560,000, representing an increase of approximately 9.4% from approximately RMB240,089,000 in 2009. The segment result to segment turnover ratio of the Group's mining segment for 2010 was approximately 32.1%, resulting in an increase of approximately 1.9% from approximately 30.2% in 2009.

2. Smelting Segment

Our smelting plant is situated in Henan Province, and is capable of processing gold, silver, copper and sulphur. Its main products include gold bullion, silver, copper products and sulphuric acid. The following table sets forth the analysis on the production and sales volume of the smelting segment by product category:

		2010		2009	
Product	Unit	**Approximate production volume**	**Approximate sales volume**	Approximate production volume	Approximate sales volume
Gold bullion	kg	**14,584**	**14,609**	14,810	14,875
	ounce	**468,886**	**469,690**	476,153	478,242
Silver	kg	**39,662**	**39,165**	40,541	58,653
	ounce	**1,275,163**	**1,259,184**	1,303,423	1,885,738
Copper products	tonne	**13,104**	**13,092**	11,580	13,859
Sulphuric acid	tonne	**157,499**	**157,984**	171,695	172,311

Sales and production

The Group's total turnover from the smelting segment for 2010 was approximately RMB4,799,633,000, representing an increase of approximately 23.6% from approximately RMB3,883,360,000 in 2009. Such increase was principally attributable to the increase in the sales of gold bullion as a result of an approximate 25.4% increase in selling price of gold bullion as compared with the previous year.

Management Discussion and Analysis

The daily processing capacity of the Group is approximately 1,000 tonnes of gold concentrates, and capacity utilisation rate was approximately 100%. The Group's production volume of gold, silver, copper and sulphuric acid increase/(decrease) of approximately (1.5)%, (2.2)%, 13.2% and (8.3)% respectively as compared with the previous year. During the year, the gold recovery rate was approximately 95.5%, the silver recovery rate was approximately 70.7% and the copper recovery rate was approximately 95.3%. The recovery rates remained at high level.

Segment results

Our smelting segment results for 2010 was approximately RMB418,844,000, representing an increase of approximate 7.9% from approximately RMB388,095,000 in 2009. The segment results to segment turnover ratio of our smelting business in 2010 was approximately 8.7%, decreasing by approximately 1.3% from approximately 10.0% in 2009.

Financial information

1. Combined Operating Results

Turnover

The Group's sales analysis by products is shown as follows:

	2010			2009		
	Amount (RMB'000)	**Sales volume (kg/tonne)**	**Unit price (RMB per kg/tonne)**	Amount (RMB'000)	Sales volume (kg/tonne)	Unit price (RMB per kg/tonne)
Gold bullion	**3,950,388**	**14,609 kg**	**270,408**	3,208,795	14,875 kg	215,717
Silver	**151,854**	**39,165 kg**	**3,877**	163,434	58,653 kg	2,786
Copper products	**320,168**	**6,452 tonnes**	**49,623**	363,339	10,539 tonnes	34,476
Copper foils	**378,548**	**5,277 tonnes**	**71,735**	199,225	3,591 tonnes	55,479
Sulphuric acid	**37,759**	**157,973 tonnes**	**239**	19,659	172,000 tonnes	114
Lead concentrates	**2,819**	**358 tonnes**	**7,874**	12,276	2,680 tonnes	4,581
Turnover before sales tax	**4,841,536**			3,966,728		
Less: Sales tax	**(6,982)**			(5,058)		
	4,834,554			3,961,670		

Management Discussion and Analysis

The Group's turnover for 2010 was approximately RMB4,841,536,000, representing an increase of approximate 22.1% as compared with the previous year, of which the turnover of gold bullion accounted for 81.6% of its total turnover. Such increase was mainly attributable to the increase in our average selling price of gold bullion sold of approximately 25.4% during the year.

The Group commenced its copper processing business during the year 2008, mainly involving the production of copper foil. In 2010, the production and sales volume of copper foil were 5,711 tonnes and 5,277 tonnes respectively, representing an increase of approximately 64.7% and 47.0% respectively as compared with last year.

In 2011, the Phase II copper foil plant which mainly produces high-grade copper foils will commence full-capacity operation with an expected output of approximately 13,000 tonnes of copper foils. The processing plant with a daily processing capacity of 2,000 tonnes of Full Gold has been completed and put into trial run and is scheduled to commence operation by June 2011.These two key projects will contribute to the increase in the operating results and gold production of the Group.

Gross profit and gross profit margin

The Group's gross profit and gross profit margin for 2010 were approximately RMB815,238,000 and approximately 16.9% respectively, representing an increase/(decrease) of approximately 7.9% and (2.2)% respectively as compared with 2009. The increase in gross profit was mainly due to the increase in selling price of gold and the decrease in gross profit margin were due to the increase in the exploitation costs of mines and the rising costs of raw materials.

Other revenue

The Group's other revenue for 2010 was approximately RMB15,174,000, representing an increase of approximately 31.1% as compared with approximately RMB11,578,000 for 2009. Such increase was principally attributable to an increase in interest income of RMB868,000 and an increase in sulphuric acid delivery service income of RMB2,216,000 respectively.

Other net loss

The Group's other net loss for 2010 was approximately RMB121,378,000, representing a decrease of approximately 36.6% as compared with a net loss of approximately RMB191,327,000 for 2009. Such loss was mainly attributable to the realised loss from derivative financial instruments of approximately RMB62,608,000 and the foreign exchange loss of approximately RMB44,803,000.

Selling and distribution expenses

The Group's selling and distribution expenses for 2010 were approximately RMB22,789,000, representing an increase of approximately 23.0% as compared with the previous year. Such increase was mainly attributable to the increase in production of copper foil and correspondingly increase in selling and distribution expenses.

Management Discussion and Analysis

Administrative expenses and other operating expenses

The Group's administrative expenses and other operating expenses for 2010 were approximately RMB207,972,000, representing an increase of approximately 16.6% as compared with approximately RMB178,388,000 for 2009. The increase was mainly attributable to the expansion of the production and operation scale of the Group.

Finance costs

The Group's finance costs for 2010 were approximately RMB92,019,000, representing a decrease of approximately 4.6% as compared with approximately RMB96,466,000 for 2009. Such decrease was mainly attributable to the slight decrease in average loan principals in the year as compared with that in the previous year.

Profit attributable to the Company's equity shareholders

The Group's profit attributable to our equity shareholders in 2010 was approximately RMB266,451,000, representing an increase of approximately 125.7% as compared with approximately RMB118,044,000 in 2009. The net profit margin for 2010 was approximately 5.3%, representing an increase of 2.3% as compared with approximately 3.0% for 2009. The Company's basic earning per share was RMB0.35. The Group recommended the payment of a dividend of RMB0.10 per share for the year.

2. Liquidity and Financial Resources

The Group generally finances its acquisition and operations with internally generated funds and bank loans. The cash and bank balances as at 31 December 2010 amounted to RMB323,712,000 of which 6.3% was denominated in Hong Kong dollars.

The shareholders' equity of the Group as at 31 December 2010 amounted to RMB2,107,957,000 (31 December 2009: RMB1,882,137,000). As at 31 December 2010, the Group had current assets of RMB2,139,889,000 (31 December 2009: RMB1,998,275,000) and current liabilities of RMB1,998,745,000 (31 December 2009: RMB1,277,221,000). The current ratio was 1.07 (31 December 2009: 1.56).

As at 31 December 2010, the Group had total outstanding bank loans of approximately RMB2,577,142,000 with interest rates ranging from 4.62% to 5.96% per annum, of which approximately RMB1,393,000,000 was repayable within one year, approximately RMB500,000,000 was repayable after one year but within two years while approximately RMB684,142,000 was repayable after two years. The gearing ratio as at 31 December 2010 was 48.4% (31 December 2009: 51.2%) which was calculated by total borrowings divided by total assets.

On 20 October 2010, the Group announced in respect of the proposed issuance of Medium Term Notes with an aggregate principal amount of RMB700 million. On 25 March 2011, the Company issued five-year Medium Term Notes of RMB400 million in the PRC. The notes are unsecured and will be redeemed on 25 March 2016, and bear a floating interest rate, which is based on the one-year deposit rate of the People's Bank of China ("PBOC") plus a margin of 2.95% per annum. The Medium Term Notes will be issued in two batches and the proceeds raised will be used as supplementary liquidity for the projects of the Company and for repayment of bank loans.

Management Discussion and Analysis

3. Security

As at 31 December 2010, the mining right of Istanbul Gold Mine with carrying value amounting to RMB118,070,000 and the ordinary shares of Full Gold, a subsidiary located in Kyrgyz Republic ("KR") were pledged to secure the borrowings from the National Development Bank.

4. Substantial Acquisition

During the reporting period, the Group had no substantial acquisition.

5. Market Risks

The Group is exposed to various types of market risks, including fluctuations in gold price and other commodity prices, changes in interest rates and exchange rates.

Gold price and other commodities price risk

The Group's turnover and profit for the year were affected by fluctuations in the gold prices and other commodities price as all our products are sold at the market prices and such fluctuation is beyond our control. We do not use and strictly prohibit the use of commodity derivative instruments or futures for speculation purpose, and all commodity derivative instruments are only used to minimise the potential price fluctuation of gold and other commodities.

Interest rate

The Group is exposed to risks resulting from the fluctuation in interest rates on our debt obligations. The Group undertakes debt obligations for supporting capital expenditure and general working capital. Our bank loans bear interest rates that are subject to adjustment made by our lenders in accordance with changes of the relevant regulations of the PBOC. If the PBOC increases the interest rates, our finance cost increases accordingly. In addition, to the extent that we may need to raise debt financing in the future, upward fluctuations in interest rates will increase the cost of new debt.

Exchange rate risk

The Group's transactions are mainly denominated in Renminbi. Fluctuations in exchange rates may affect the international and domestic gold price, which may impact our results of operation. Renminbi is not freely convertible and the currency would fluctuate against a basket of currencies. The PRC government may take further actions and implement new measures on free trade of Renminbi.

Apart from the above, the Group is also exposed to exchange rate risk primarily through bank deposits and other payables that are denominated in foreign currencies. The currency giving rise to risk is primarily United States dollars.

Fluctuations in exchange rates may adversely affect the value of our net assets, earnings and any dividends we declare when they are being converted or translated into Hong Kong dollars.

Management Discussion and Analysis

Business risk

The KR has been experiencing political and economic change that has affected, and may continue to affect, the activities of the Group's subsidiary, Full Gold and Palladax KR Limited Liability Company ("Palladax KR"), operating in this environment. The contraction in the capital and credit markets and its impact on the economy of the KR have increased the level of economic uncertainty in the environment. Consequently, operations in the KR involve risks that typically do not exist in other market.

6. Contractual Obligations

As at 31 December 2010, the Group's capital commitments in respect of the construction costs which were not provided for in the financial statements were approximately RMB100,835,000, representing a decrease of approximately RMB129,890,000 from approximately RMB230,725,000 as at 31 December 2009.

As at 31 December 2010, our total future minimum lease payments under non-cancellable operating leases amounted to approximately RMB9,444,000, of which approximately RMB2,396,000 was payable within one year, approximately RMB6,650,000 was payable after one year but within five years, and approximately RMB398,000 was payable after five years.

7. Contingent Liabilities

As at 31 December 2010, the Group had no material contingent liabilities.

8. Capital Expenditure

During the year 2010, the Group's capital expenditure was approximately RMB529,672,000, representing a decrease of approximately 35.7% from approximately RMB823,560,000 in 2009.

The Group's capital expenditure mainly relates to the construction of mining shafts, expansion projects and upgrading of production equipment.

9. Human Resources

In 2010, the average number of employees of the Group was 5,697. The Company highly treasures its human resources and provides its employees with competitive remuneration and training programs.

Profile of Directors, Supervisors and Senior Management

Directors

Executive Directors

Mr. Xu Gaoming（許高明先生）, aged 52, chairman and an Executive Director. Mr. Xu completed a postgraduate course in politics and economics at Shaanxi Normal University（陝西師範大學）and obtained a MBA degree. Mr. Xu has 31 years' working experience in mining and smelting industry and has overseen several smelting technology improvements. He was appointed as the chairman of the Company in June 2004.

Mr. Jin Guangcai（靳廣才先生）, aged 44, general manager and an Executive Director. He completed a postgraduate course in politics and economics at Shannxi Normal University（陝西師範大學）. He has approximately 11 years' experience in mining and smelting industry. Mr. Jin was appointed a Director of the Company in October 2004 and general manager of the Company in May 2010.

Mr. Liu Pengfei（劉鵬飛先生）, aged 36, deputy general manager and an Executive Director. He completed a course in corporate management at Henan School of Finance and Economics（河南省財經學院）. Mr. Liu has more than 18 years' experience in mining and smelting industry. He was appointed as a Director and deputy general manager of the Company in January 2009.

Mr. Zhang Guo（張果先生）, aged 44, deputy general manager and an Executive Director. He completed a course in mining engineering at Baotou Steel and Iron College（包頭鋼鐵學院）and obtained the qualification of mining engineer. He has more than 20 years of experiences in mining industry. Mr. Zhang was appointed as a Director of the Company in January 2009.

Mr. He Chengqun（何成群先生）, aged 39, the chairman and general manager of Lingbao Wason Copper Foil Company Ltd. He graduated from Henan Metallurgical Industry School（河南省冶金工業學校）, major in enterprise management and obtained the degree of MBA of Canada Royal Roads University. He has more than 17 years' experience in mining and smelting industry. Mr. He was appointed as a Director of the Company in July 2010.

Profile of Directors, Supervisors and Senior Management

Non-executive Directors

Mr. Wang Yumin（王育民先生）, aged 51, a Non-executive Director. Mr. Wang obtained college education. He is currently the general manager of Lingbao State-owned Assets Operation Limited Liability Company. He was appointed as a Non-executive Director of the Company in January 2009.

Independent Non-executive Directors

Mr. Niu Zhongjie（牛鍾潔先生）, aged 43, an independent Non-executive Director. He is an executive director of Vision Finance Capital Limited, a licensed corporation under the Securities and Futures Ordinance which is engaged in advising on merger and acquisition and corporate finance. Mr. Niu obtained a master degree in business administration. Mr. Niu has extensive experience in equity capital markets. He was appointed as an independent Director in June 2005.

Mr. Wang Han（王瀚先生）, aged 47, is currently deputy principal of Northwest University of Politics and Law（西北政法大學）and an arbitrator of Court of Arbitration of China International Commerce Chamber（中國國際商會仲裁院）. Mr. Wang obtained a bachelor degree from Northwest Normal University（西北師範大學）in 1984, a master degree in laws from Northwest University of Politics & Law in 1987 and a doctor degree in laws from School of Law at Wuhan University（武漢大學）in 1998. Mr. Wang was appointed as dean, deputy dean and faculty officer and various other positions in Northwest University of Politics and Law. In addition, he is also a legal consultant to Shaanxi provincial government, Xi'an municipal government and Baoji municipal government and an arbitrator to various arbitration committees. Mr. Wang is also writer of various publications mainly on law-related topics. Mr. Wang was appointed as an Independent Non-executive Director of the Company in January 2009.

Mr. Yan Wanpeng（閆萬鵬先生）, aged 45, is currently the chief accountant of Henan Investment Company Group. Mr. Yan graduated with a bachelor degree and qualified for certified public accountant, certified asset valuer and senior accountant. Mr. Yan was appointed as an Independent Non-executive Director of the Company in January 2009.

Ms. Du Liping（杜莉萍女士）, aged 47, is currently a professor of School of Economics and Management at Northwest University（西北大學）. Ms. Du obtained a bachelor degree in economics from Northwest University in 1984 and obtained a master degree from School of Management at Northwest University in 1987. She has been a professor of Northwest University since obtaining her master degree. She is also an independent director of Xi'an Food and Beverage Company Limited (a company listed on the Shenzhen Stock Exchange), a committee member of Xi'an Trading and Commerce Bureau, Xi'an Tourism Bureau and Xi'an Association of Traders, and a consultant of various organizations such as Xi'an China Tourism Group. Ms. Du was appointed as an Independent Non-executive Director of the Company in January 2009.

Profile of Directors, Supervisors and Senior Management

Supervisory Committee and Supervisors

Mr. Liu Shengmin（劉勝民先生）, aged 52, a Supervisor and chairman of the supervisory committee of the Company. Mr. Liu studied chemical engineering in Zhengzhou College of Technology（鄭州工學院）from 1978 to 1982. Mr. Liu was appointed as chairman of the supervisory committee of the Company in January 2009.

Mr. Meng Fanrui（孟凡瑞先生）, aged 56, a Supervisor. Mr. Meng is a senior economist in the PRC. He is the chairman and general manager of Henan Xuanrui. He was appointed as a Supervisor of the Company in September 2002.

Mr. Guo Xuchang（郭續長先生）, aged 49, a Supervisor. He completed his study of the economics management post-secondary course at Henan Provincial Committee Party School of the Chinese Communist Party（中共河南省委黨校）in 1995. He has been the chairman and general manager of Lingbao Guoshi Mining since September 1999. Mr. Guo was appointed as a Supervisor of the Company in September 2002.

Mr. Guo Xurang（郭許讓先生）, aged 40, a Supervisor. He studied at Hangzhou Dianzi University（杭州電子科技大學）, majoring in business administration and obtained master degree in July 2003. He has been the chairman of Beijing Wanlaixin Investment Co., Ltd. since 2007. Mr. Guo was appointed as a Supervisor of the Company in July 2010.

Mr. Hang Zhanping（杭占平先生）, aged 48, a Supervisor. He is currently the vice chief of the Worker Union of Qiang Ma Gold Mine and Yin Xin Gold Mine. Mr. Hang was appointed as a Supervisor of the Company in January 2009.

Mr. Yang Bo（楊波先生）, aged 43, a Supervisor. He is currently working in the quality testing section of the smelting branch of Lingbao Gold Company Ltd. and has been working in this section since 1992. Mr. Yang was appointed as a Supervisor of the Company in January 2009.

Mr. Jiao Xiaoxiao（焦瀟霄先生）, aged 28, is currently the deputy officer of integrated office of the Company. Mr. Jiao graduated with a degree in Chinese language from Henan University（河南大學）. Mr. Jiao was appointed as a Supervisor of the Company in January 2009.

Profile of Directors, Supervisors and Senior Management

Senior Management

Mr. Yan Shuangwei（閆雙偉先生）, aged 37, financial controller of the Company. He is a registered certified public accountant, certified public valuer and certified tax agent in the PRC, having over 11 years' experience in finance, accounting and auditing. Mr. Yan was appointed as the financial controller of the Company in July 2010.

Ms. Qi Haihua（戚海花女士）, aged 41, secretary to the Board of Directors, is responsible for the company secretarial and investor relations affairs of the Company. Ms. Qi graduated with a bachelor degree in English Literature from Zhengzhou University（鄭州大學）. Ms. Qi joined the Company in June 2004 as the manager of the securities department of the Company. Ms. Qi was appointed as the secretary to the Board of Directors of the Company in November 2008.

Mr. Poon, Lawrence Chi Leung（潘之亮先生）, aged 36, company secretary, chief financial officer and qualified accountant of the Company, is responsible for company secretarial, financial and accounting management, and investor relations affairs of the Company. Mr. Poon graduated from Monash University, Australia, with a bachelor degree of Commerce. He is a certified practising accountant of CPA Australia and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Poon has over 13 years' experience in auditing, accounting and finance. Mr. Poon was appointed as the qualified accountant and the company secretary of the Company in March 2007.

Corporate Governance Report

Being one of the integrated gold mining companies based in PRC, the Company is committed to continually achieving high standards of corporate governance practices and has put in place a set of well-defined corporate governance procedures to ensure the transparency of the Company and protect the overall interest and rights of shareholders as well as employees.

After listing of its H Shares on the Stock Exchange on 12 January 2006, the Company has fully complied with the requirements under the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except for the code provisions A.2.1 (division of responsibilities between the chairman and chief executive officer) and A.4.2 (directors appointed to fill a casual vacancy be subject to election by shareholders at the first general meeting after appointment).

The Board

The board of directors is the executive organization of the Company and shall be responsible for formulating and executing the operation plans and management decisions of the Company as well as establishing the overall strategic direction of the Company. Its duties include evaluating the performance of senior management and supervising the system of the Company. The Board of Directors has to act in the best interest of the Company and its shareholders.

The composition of the Board of Directors are set out in the following table:

Director	**Position**
Mr. Xu Gaoming	Executive Director and Chairman
Mr. Jin Guangcai	Executive Director
Mr. Wang Jianguo (resigned on 28 May 2010)	Executive Director
Mr. Lu Xiaozhao (resigned on 31 March 2011)	Executive Director
Mr. Liu Pengfei	Executive Director
Mr. Zhang Guo	Executive Director
Mr. He Chengqun (appointed on 21 July 2010)	Executive Director
Mr. Wang Yumin	Non-executive Director
Mr. Niu Zhongjie	Independent Non-executive Director
Mr. Wang Han	Independent Non-executive Director
Mr. Yan Wanpeng	Independent Non-executive Director
Ms. Du Liping	Independent Non-executive Director

Pursuant to the articles of association of the Company ("Articles of Association"), the term of appointment of the Directors (including the non-executive Directors and independent non-executive Directors) shall be three years and the Directors are eligible for re-election. The chairman of the Company, Mr. Xu Gaoming, and the other four executive Directors have been engaged in the management of gold mining business for years with extensive experience. They are responsible for the business management of the Company, formulation and implementation of important strategies, making daily business decision, and coordination of overall business operation.

Corporate Governance Report

All of the Directors can give sufficient time and attention to the Company's affairs.

Non-executive Directors and independent non-executive Directors possess wide expertise and are able to give professional advice in various aspects such as law, accounting, finance, tax, equity capital and industrial and commercial industries. The non-executive Directors would participate in Board meetings of the Company to bring an independent judgment to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct. In addition, they would take the lead in Board meetings where potential conflicts of interests arise. They also have to scrutinise the Company's performance in achieving agreed corporate goals and objectives.

Independent non-executive Directors are expressly identified in all corporate communications that disclose the names of the Directors.

The Company has received annual written confirmation from each of the independent non-executive Directors to ensure they are in compliance with Rule 3.13 of the Listing Rules in respect of their independence. Apart from employment relationships with the Company, there is no any financial, business, family or other material relationships amongst members of the Board. The Company considers that they are independent.

The Company has established various internal control systems which allow the Board of Directors to maintain high standard of corporate governance in the management of the Company. To ensure that the Board of Directors performs its duties effectively, the management is required to submit business and financial reports of the Company to the Directors regularly.

Directors would make further enquiries if they require further enquiries than information volunteered by management. The Board of Directors has separate and independent access to the company secretary, qualified accountant and other senior management at all times to conduct informal discussions. It is at the Company's expense for the Board of Directors to contact the auditors, lawyers or other professionals to obtain independent professional opinions when appropriate. Management are regularly reminded by the company secretary that they have an obligation to provide the Board and its committees with adequate, complete and reliable information in a timely manner. All Directors have access to board papers and related materials which will enable the Board to make an informed decision on matters placed before it. Steps are taken to respond to enquiries raised by Directors as fully as possible.

For the year ended 31 December 2010, the Board of Directors of the Company held thirteen meetings to discuss and approve various important matters. All such meetings were convened in accordance with the Articles of Association. The table below lists out the attendance of each Director at the Board meetings held during the year up to the date of the report. The attendance illustrates the attention of the Board of Directors to the management of the Company's affairs. The matters processed by the Board of Directors in the meetings are all recorded, and the relevant records are kept pursuant to relevant laws and regulations.

Corporate Governance Report

Director	The number of Board meetings that the Director was entitled to attend	The number of Board meetings that the Director attended	Attendance (%)
Mr. Xu Gaoming	13	13	100
Mr. Wang Jianguo	4	4	100
Mr. Lu Xiaozhao	13	9	69
Mr. Jin Guangcai	13	12	92
Mr. Liu Pengfei	13	13	100
Mr. Zhang Guo	13	4	31
Mr. He Chengqun	7	6	86
Mr. Wang Yumin	13	10	77
Mr. Niu Zhongjie	13	9	69
Mr. Wang Han	13	13	100
Mr. Yan Wanpeng	13	10	77
Ms. Du Liping	13	9	69

Prior to each regular Board meeting, the management of the Company shall submit materials relevant to the affairs to be discussed in the meeting to the Board of Directors. Notice convening the regular meeting shall be sent to the Directors at least ten days before the meeting so that arrangements can be made to attend the meeting. Documents required for the Board meeting shall be sent to the Directors at least three days before the meeting, to ensure that enough time is given to the Directors to review the documents and get prepared for the meeting.

The Board meeting is chaired by the chairman of the Company to ensure that sufficient time is allocated to the consideration and discussion of each matter in the agenda and each Director is given an equal opportunity to speak. In addition, Directors are given an opportunity to include matters in the agenda. Minutes of Board meetings and meetings of Board committees record detailed concerns raised by Directors and dissenting views expressed. Minutes of Board meetings and meetings of Board committees would be kept by secretary and such minutes are opened for inspection at any reasonable time on reasonable notice by any Director.

If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter would not be dealt with by way of circulation or by a committee but a Board meeting would be held. Independent non-executive Directors have no material interest in the transaction would be present at such Board meeting.

With respect to the re-election of newly appointed Director, the Company has complied with Paragraph 4(2) of Appendix 3 of the Listing Rules, which permits the Directors who have been appointed to fill a casual vacancy of the Board be eligible for re-election at the next annual general meeting of the Company. As such, Code Provision A.4.2, which requires the re-election to take place at the next general meeting, was not adopted.

Corporate Governance Report

Every newly appointed Director would receive a comprehensive, formal and tailored induction on the first occasion of his appointment, and subsequently continuous briefing and professional development would be arranged to ensure that he/she has a proper understanding of the operations and business of the Company and that he/she is fully aware of his/her responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company.

Board Committee

The Board of Directors has established four committees. Each committee has its terms of reference, including the review of matters of extraordinary nature, giving suggestions to the Board of Directors and making decisions on behalf of the Board of Directors relating to such matters when appropriate.

(1) Audit Committee

The audit committee of the Board of Directors is a body specifically set up by the Board according to the resolutions of general meetings and shall mainly be responsible for the communication, supervision and inspection of internal and external audit.

After our listing, the Company has been in full compliance with the requirements of Rule 3.21 of the Listing Rules.

The audit committee comprises of five members. Any former partner of KPMG should be prohibited from acting as a member of the audit committee. Pursuant to the Listing Rules, an independent non-executive Director specializing in accounting will be the chief member who will be in charge of the work of the committee. The committee now comprises of the following members:

Mr. Yan Wanpeng *(Chairman of the committee)*
Mr. Wang Yumin
Mr. Niu Zhongjie
Mr. Wang Han
Ms. Du Liping

Corporate Governance Report

The principal terms of reference of the audit committee are: (a) to suggest recruiting or changing external audit organization; (b) to supervise the internal audit system of the Company and its implementation; (c) to facilitate the communication between internal audit and external audit; (d) to review the financial information and its disclosure; (e) to inspect the internal control system of the Company and to audit major connected transactions; (f) to develop and implement policy on the engagement of an external auditor to supply non-audit service; (g) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The audit committee would discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences; (h) to monitor integrity of financial statements of the Company and the Company's annual reports and accounts, half-year reports and to review significant financial reporting judgments contained in them. In this regard, in reviewing the Company's annual reports and accounts, half-year reports before Corporate Governance Report submission to the Board, the committee would focus particularly on: (i) any changes in accounting policies and practices; (ii) major judgmental areas; (iii) significant adjustments resulting from audit; (iv) the going concern assumptions and any qualifications; (v) compliance with accounting standards; (vi) compliance with the Listing Rules and other legal or regulatory requirements in relation to financial reporting; (vii) members of the committee would liaise with the Company's Board of Directors, senior management and the qualified accountant and the committee must meet, at least once a year, with the Company's auditors; and (viii) the committee would consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's qualified accountant, compliance adviser and auditors; (i) to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system; (j) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response; (k) to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function; (l) to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response; (m) to report to the Board on the matters set out in Code Provision C.3.3; and (n) to be responsible for other matters as authorized by the Company.

The terms of reference of audit committee are kept at the registered office of the Company.

The audit committee has been provided with sufficient resources to discharge its duty.

Corporate Governance Report

Details of audit committee meetings held during the year are as follows:

Director	Number of meetings of audit committee in 2010	The number of meetings that Director attended	Attendance (%)
Mr. Yan Wanpeng	2	2	100
Mr. Wang Yumin	2	2	100
Mr. Niu Zhongjie	2	2	100
Mr. Wang Han	2	2	100
Ms. Du Liping	2	2	100

In 2010, two meetings of the audit committee were held. On 30 May 2010, the audit committee met with the international auditors to discuss the general scope of their audit work. On 27 August 2010, the audit committee reviewed the Company's interim report for the year 2010. In addition, the audit committee had reviewed the financial statements for the year ended 31 December 2010 before the announcement of the Company's annual results. During the discussion, the audit committee had reviewed key areas in which management's judgment applied for adequate provision and disclosure, and internal control policies.

(2) Strategic Committee

The strategic committee of the Board is a body specifically set up by the Board according to the resolution of the general meeting and shall mainly be responsible for conducting research and giving advice regarding the long-term development strategies and material investment decisions of the Company.

The strategic committee comprises of five Directors, with one independent non-executive Director pursuant to the implementation measure. The committee now comprises of the following members:

Mr. Xu Gaoming *(Chairman of the committee)*
Mr. Wang Jianguo (resigned on 28 May 2010)
Mr. Lu Xiaozhao (resigned on 31 March 2011)
Mr. Jin Guangcai
Mr. Liu Pengfei
Mr. Wang Yumin
Mr. Niu Zhongjie

Corporate Governance Report

The principal terms of reference of the strategic committee are: (a) to conduct research and make suggestions concerning the long-term development strategic plans of the Company; (b) to conduct research and make suggestions concerning the material investment and financial proposals which are subject to the approvals of the Board of Directors and the general meeting pursuant to the Articles of Association; (c) to conduct research and make suggestions concerning the material capital management and assets management projects which are subject to the approvals of the Board of Directors and the general meeting pursuant to the Articles of Association; (d) to conduct research and make suggestions concerning other significant events that influence the development of the Company; (e) to carry out inspection concerning the implementation of the above matters; and (f) to be responsible for other matters as delegated by the Board.

No strategic committee meeting was held in 2010.

(3) Nomination Committee

The nomination committee of the Board of Directors is a body specifically set up by the Board according to the resolutions of general meetings and shall mainly be responsible for making suggestions regarding the selection of the Directors and managers of the Company, choosing and making suggestions relating to the selection standards and procedures.

The nomination committee comprises of the following members, a majority of which are independent non-executive Directors:

Mr. Wang Han *(Chairman of the committee)*
Mr. Wang Yumin
Mr. Niu Zhongjie
Mr. Yan Wanpeng
Ms. Du Liping

The main duties of the nomination committee include: (a) making recommendations to the Board on the Board's scale and composition in accordance with the operating activities, scale of assets and shareholding structure of the Company; (b) studying the criteria and procedures for the election of Directors and management personnel and making recommendations to the Board thereon; (c) seeking for the right candidates for the position of Directors and management personnel; (d) reviewing the candidates for the position of Directors and management personnel and making recommendations thereon; (e) reviewing other senior management proposed to be appointed by the Board and making recommendations thereon; and (f) undertaking other tasks as delegated by the Board.

The nomination committee would hold a meeting to discuss the appropriateness of the candidates and consult the chairman about their proposals relating to the nomination of other executive Directors and have access to professional advice if considered necessary. The criteria for selection include professional qualification, industrial experience and academic background.

Corporate Governance Report

Written notice of the intention to nominate a candidate together with the respective resume would be delivered to the Board for its consideration and approval.

In 2010, one meeting of the nomination committee was held. Attendance of individual members of nomination committee to the committee meeting in 2010 are as follows:

Director	The number of meetings of nomination committee in 2010	The number of meetings that member of committee attended	Attendance (%)
Mr. Wang Han	1	1	100
Mr. Wang Yumin	1	1	100
Mr. Niu Zhongjie	1	1	100
Mr. Yan Wanpeng	1	1	100
Ms. Du Liping	1	1	100

The nomination committee recommended Mr. He Chengqun as an executive Director for the Company.

(4) Remuneration and Review Committee

The remuneration and review committee of the Board is a body specifically set up by the Board according to the resolutions of general meetings and shall mainly be responsible for formulating the review criteria of and conducting review for the Directors and senior management of the Company, as well as formulating and reviewing their remuneration packages and proposals. It is accountable to the Board. The committee would be provided with sufficient resources to discharge its duty.

The remuneration and review committee comprises of five members, the majority of whom are independent non-executive Directors. The members are as follows:

Ms. Du Liping *(Chairman of the committee)*
Mr. Wang Yumin
Mr. Niu Zhongjie
Mr. Wang Han
Mr. Yan Wanpeng

Corporate Governance Report

The main duties of the remuneration and review committee include: (a) formulating and making recommendation to the Board on policy and structure for remuneration packages or proposals according to the major areas, duties and importance of the management position of Directors and senior management and the remuneration for relevant positions of other relevant enterprises; (b) establishing criteria, procedures and major assessment system for performance assessment and major proposals and systems for awards and punishments; (c) reviewing the performance of duties and conducting annual performance assessment of the Company's Directors and senior management; (d) monitoring the implementation of the Company's remuneration system; and (e) undertaking other tasks as delegated by the Board.

Moreover, the remuneration and review committee has to review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company.

Besides, the committee would review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate.

The remuneration and review committee will also ensure that none of the Directors or any of their associates is involved in deciding his own remuneration.

The remuneration committee makes available its terms of reference, explaining its role and the authority delegated to it by the Board, and copies of the terms of reference are kept at the registered office of the Company.

In 2010, one meeting of the remuneration and review committee was held. Attendance of individual members of remuneration and review committee to the committee meeting in 2010 are as follows:

Director	**The number of meetings of remuneration and review committee in 2010**	**The number of meetings that member of committee attended**	**Attendance (%)**
Ms. Du Liping	1	1	100
Mr. Wang Yumin	1	1	100
Mr. Niu Zhongjie	1	1	100
Mr. Wang Han	1	1	100
Mr. Yan Wanpeng	1	1	100

Corporate Governance Report

The remuneration and review committee had considered the annual salary review as well as bonus plan of Directors and senior management of the Company for 2010.

Breakdown of the Directors' and the supervisors' remuneration for the year ended 31 December 2010 are set out in note 9 to the financial statements.

Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") as set out in Appendix 10 of the Listing Rules as the code of conduct for securities transactions by Directors. The Company has made specific enquiry to all Directors and Supervisors, who have confirmed that they have complied with the Model Code in 2010.

The Board has established written guidelines for employees who are likely to possess unpublished price sensitive information in respect of their dealings in the securities of the Company.

Chairman and Chief Executive Officer

Code Provision A.2.1 states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The chairman is responsible for ensuring that Directors are properly explained on matters discussed at Board meetings and reliable information have been received by Directors.

Mr. Xu Gaoming is the chairman and chief executive officer of the Company and has considerable industry experience. Thus, there is a derivation from the Code Provision A.2.1. The Board is of the view that it is in the best interests of the Group to have an executive chairman so that the Board can have the benefit of a chairman who is knowledgeable about the business of the Group and is capable to guide discussions and brief the Board, in particular, the non-executive Directors, in a timely manner on various issues and developments of the industry. In addition, the Board believes that this structure can assist the Group to implement decisions promptly and more efficiently.

Management Functions

The Board is responsible for formulating and executing the operation plans and management decisions of the Company as well as establishing the overall strategic direction. When the Board delegates its management functions to the management, clear directions will be given and management will report to the Board on regularly basis. The Board reserves most of the powers and delegates routine duties to management including bank loan arrangement. There would be a periodic review of the arrangement. Management must obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group.

Corporate Governance Report

Chief Financial Officer

Chief financial officer of the Company is responsible for the preparation of the interim and annual financial statements in accordance with the Hong Kong Accounting Standards and to make sure that the results and financial position of the Company are disclosed in an accurate and fair manner. Chief financial officer of the Company shall also be responsible for contacting the auditors regularly. The duties of the chief financial officer also include reviewing the financial risk management of the Company and making suggestions to the Board of Directors. Moreover, chief financial officer shall be responsible for giving advice to the Board of Directors regarding the disclosure of notifiable transactions, connected transactions and price-sensitive information.

Company secretary

The company secretary shall be directly responsible to the Board of Directors. The company secretary is responsible for ensuring that the proceedings of the Board of Directors are complied with, making appropriate disclosures regarding the interests of securities of the Directors and giving advice to the Board of Directors regarding the disclosure of notifiable transactions, connected transactions and price-sensitive information. The company secretary acts as the principal channel of communication between the Company and the Stock Exchange. The company secretary also assists the Board of Directors in realizing and strengthening corporate governance practices in order to enhance the best interest of the Company and the shareholders.

Financial Reporting

Management provides financial information with explanation to the Board to assist the Board in assessing the financial position of the Company. Financial statements are the responsibilities of Directors. The Board has to present a balanced, clear and understandable assessment which extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Exchange Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.

The reporting responsibilities of KPMG, the international auditors, are stated in the Auditor's Report on pages 42 to 43 of the Annual Report.

There was no material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. The Board has taken the same view as that of the audit committee in relation to the appointment of KPMG as international auditors of the Company.

Auditors' Remuneration

During the year, the fees charged to the accounts of the Company for KPMG and Peking Certified Public Accountants for statutory audit services and non-audit related services including agreed upon procedures and review of financial statements amounted to approximately RMB3,400,000 and RMB500,000 respectively.

Corporate Governance Report

Internal Control

The Company has established various systems for internal management, so as to safeguard the assets and shareholders' interests of the Company and maintain a high standard of corporate governance for the management of the Company. To further strengthen its internal control, the Company conducts regular meetings with its auditors, lawyers and other professionals to obtain independent and professional advices for the improvement of the Company's internal management system.

Investor relations and communications with shareholders

The Company highly values its relationship with its investors and shareholders. It maintains amicable relationship with investors, fund managers and shareholders through one-on-one meetings, road shows, seminars and on-site inspection by investors, thereby allowing investors to have a better understanding of the Company's financial position, production operations, management decisions, overall strategic directions and latest development.

Voting by Poll

At the upcoming 2010 annual general meeting of the Company to be held on 3 June 2011 the procedures for conducting the poll will be explained. The procedures for demanding a poll by the shareholders are incorporated in the circular accompanying this report.

Each substantially separate issue will be proposed by separate resolution at the forthcoming general meeting, the committee heads will be available to answer questions at the general meeting, the level of proxies lodged on each resolution will be indicated, and the balance for and against each resolution will be disclosed at the commencement of general meeting. The chairman of the meeting will also explain the procedures for demanding a poll, and then answer questions from shareholders at the commencement of the general meeting.

Report of the Supervisory Committee

1. Meetings of the Supervisory Committee during the Reporting Period

In 2010, two supervisory committee meetings were held by the supervisory committee.

2. Independent Work Report of the Supervisory Committee

In 2010, aiming at protecting the interest of the Company and the shareholders, the supervisory committee seriously performed the duties in accordance with the Company Law of the PRC ("Company Law"), Securities Law, Listing Rules and other relevant rules and regulations and the Articles of Association of the Company, comprehensively monitored aspects such as the Company's capital operation, operating management, financial position and the fulfillment of obligations by senior management. After a serious review, members of the committee unanimously agreed to the following:

i. Legal Compliance of the Company's Operations

The Board of the Company conscientiously carried out various resolutions according to the relevant resolutions in general meetings, during which its decision-making procedures were in compliance with the relevant requirements of the Company Law, Listing Rules and the Articles and Association. It also set up rules and systems for internal control, project investment management approach, connected transactions, resources purchase and project tendering management. None of the officers, including directors and managers, were aware of any violations of the laws, regulations and articles of association or any act which would prejudice the Company's interests.

ii. Inspection of the Financial Status of the Company

In 2010, the Supervisory Committee reviewed the financial system and position of the Company and considered that the financial report for 2010 truly reflected its financial position and operating results. In 2010, Peking Certified Public Accountants, the local auditors, and KPMG, the international auditors, audited the Company's annual financial statements and issued unqualified auditor reports, which have been reviewed by the Supervisory Committee without any adverse opinion.

iii. External Guarantees

The Company had no external guarantees as at 31 December 2010.

Directors' Report

The Directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2010.

Principal Place of Business

Lingbao Gold Company Ltd. is a company incorporated and domiciled in PRC and has its registered office at Xin Village, Yinzhuang Town, Daonan Industrial Area, Lingbao, Henan, the PRC and its principal place of business in Hong Kong at Room 1902, 19th Floor, MassMutual Tower, 38 Gloucester Road, Wanchai, Hong Kong.

Principal Activities

The principal activities of the Group are the mining, processing, smelting and sales of gold and other metallic products in the PRC.

The analysis of the principal activities of the operations of the Group during the financial year is set out in note 20 to the financial statements.

Major Customers and Suppliers

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	81.6%	
Five largest customers in aggregate	89.5%	
The largest supplier		13.9%
Five largest suppliers in aggregate		28.6%

At no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

Financial Statements

The profit of the Group for the year ended 31 December 2010 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 44 to 135.

Transfer to Reserves

Profits attributable to equity shareholders of the Company, before dividends, of RMB266,451,000 (2009: RMB118,044,000) have been transferred to reserves. Other movements in reserves are set out in note 32 to the financial statements.

Dividend

At the board meeting held on 31 March 2011, the Directors declared a final dividend of RMB0.10 (with tax) per share (2009: RMB 0.05 (with tax)) in respect of the year ended 31 December 2010. The 2010 final dividend is subject to the consideration and approval at the annual general meeting of the Company.

Directors' Report

In accordance with the Enterprise Income Tax Law of the People's Republic of China and its implementation regulations which came into effect on 1 January 2008, the Company is required to withhold enterprise income tax at the rate of 10% on behalf of the non-resident enterprise shareholders whose names appear on the register of members for H shares of the Company when distributing final dividends to them. Any H shares of the Company registered not under the name of an individual shareholder, including HKSCC Nominees Limited, other nominees, trustees, or other organizations or groups, shall be deemed as shares held by non-resident enterprise shareholder. Therefore, on this basis, enterprise income tax shall be withheld from dividends payable to such shareholders.

Investors should review and consider the above carefully. If any investor intends to have his name registered in the register of members for H shares of the Company, please enquire about the relevant procedures with your agents or trustees. The Company has no responsibility and shall not be responsible for confirming the identities of the shareholders. The Company will strictly comply with laws, and withhold and pay enterprise income tax on behalf of the relevant shareholders based on the register of members for H shares of the Company on the record date for the dividend payment for H shares. The Company will not entertain any requests relating to any delay in confirming the identity of the shareholders or any errors in the identity of the shareholders.

Fixed Assets

Movements in fixed assets during the year are set out in note 15 to the financial statements.

Share Capital

As at the date of this report, there was a total of share capital of 770,249,091 shares of the Company which includes:

	Number of shares	Approximate percentage of total share capital
Domestic shares	472,975,091	61.41%
H Shares	297,274,000	38.59%
Total	770,249,091	100.00%

Details of the movements in share capital of the Company during the year are set out in note 32(b) to the financial statements.

Purchase, Sale or Redemption of Shares of the Company

There was no purchase, sale or redemption of the Company's securities by the Company or any of its subsidiaries for the year ended 31 December 2010.

Directors' Report

Directors and Supervisors

The Directors and supervisors of the Company for the year are as follows:

Directors

Executive Directors

Xu Gaoming, *Chairman*
Jin Guangcai, *General Manager*
Wang Jianguo, *General Manager* (resigned on 28 May 2010)
Lu Xiaozhao, *Deputy General Manager* (resigned on 31 March 2011)
Liu Pengfei, *Deputy General Manager*
Zhang Guo
He Chengqun (appointed on 21 July 2010)

Non-executive Directors

Wang Yumin

Independent Non-executive Directors

Niu Zhongjie
Wang Han
Yan Wanpeng
Du Liping

Supervisors

Liu Shengmin
Meng Fanrui
Guo Xuchang
Guo Xurang
Hang Zhanping
Yang Bo
Jiao Xiaoxiao
Zhu Yusheng (resigned on 21 July 2010)

Biographical Details of Directors, Supervisors and Senior Management

Brief biographical details of Directors, supervisors and senior management of the Company are set out on pages 17 to 20 of the annual report.

Highest Paid Individuals

During the year, the relevant information of the five individuals with the highest remuneration in the Group is disclosed in note 10 to the accounts.

Remuneration

The Company has a remuneration committee to formulate compensation policies and determine and manage the compensation of the Company's Directors and senior management with reference to their duties, responsibilities, performance and results of the Group.

Directors' and Supervisors' Service Contracts

Each of the executive Directors has entered into an executive director service agreement with the Company for a term of three years commencing on 7 January 2009. Each of these service agreements may be terminated by either party with not less than six months' prior written notice.

Directors' Report

Non-executive Director has been appointed for a term of three years commencing on 7 January 2009. No remuneration is payable to the non-executive Director.

Each of the independent non-executive Directors has been appointed for a term of three years commencing on 7 January 2009.

Each supervisor has entered into a supervisor service agreement with the Company for a term of three years commencing on 7 January 2009. The service agreement may be terminated by either party with not less than six months' prior written notice.

Under these deeds, no remuneration is payable to the supervisors.

No Director or supervisor has a service contract with the Company, which is not determinable by the Company within one year without payment of compensation, other than statutory obligations.

Directors', Supervisors' and Chief Executive's interest in shares

As at 31 December 2010, the interest and short position of each Director, Supervisor and chief executive of the Company in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 of the Listing Rules, to be notified to the Company and the Stock Exchange (for this purpose, the relevant provisions of the SFO will be interpreted as if applicable to Supervisors) were as follows:

Name of Director/ Supervisor	Relevant entity	Capacity	Number of domestic shares held (Long position)	Approximate percentage of the total issued domestic share capital	Approximate percentage of the total issued share capital
Mr. Meng Fanrui	the Company	Interest of controlled corporation *(Note 1)*	18,000,000	3.80%	2.34%
Mr. Guo Xuchang	the Company	Interest of controlled corporation *(Note 2)*	12,250,000	2.58%	1.59%

Directors' Report

Notes:

1. Henan Xuanrui Assets Company Limited ("Henan Xuanrui") (河南軒瑞產業股份有限公司), a promoter of the Company, owns approximately 2.34% interest in the Company as at the date of this report. Mr. Meng Fanrui (孟凡瑞先生) owns approximately 61.6% interest in Henan Xuanrui and together with his wife Ms. Ma Xianting (馬仙婷女士), hold approximately 96.1% of the shareholding in Henan Xuanrui. Under section 316 of the SFO, Mr. Meng Fanrui (孟凡瑞先生) is deemed to be interested in the Shares held by Henan Xuanrui.

2. Lingbao Guoshi Mining owns approximately 1.59% interest in the Company as at the date of this report. Mr. Guo Xuchang (郭續長先生) owns approximately 78.8% interest in Lingbao Guoshi Mining and together with his wife Ms. Yang Yuqin (楊玉琴女士), hold 100% of the shareholding in Lingbao Guoshi Mining. Under section 316 of the SFO, Mr. Guo Xuchang (郭續長先生) is deemed to be interested in the Shares held by Lingbao Guoshi Mining.

Substantial Shareholders interest in shares

As at 31 December 2010, so far as was known to the Directors, the following person, other than the Directors, supervisors and chief executive of the Company, had an interest in the shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholders	Number of Domestic Shares	Capacity	Approximate percentage of the total issued domestic share capital	Approximate percentage of the total share capital
Lingbao State-owned Assets Operation Limited Liability Company ("Lingbao State-owned Assets") (靈寶市國有資產經營有限責任公司) *(Notes 1 and 2)*	373,840,620	Beneficial owner	79.04%	48.54%
Beijing Wanlaixin Investment Limited Liability Company (北京萬來鑫投資有限責任公司)	37,698,784	Beneficial owner	7.97%	4.89%

Directors' Report

Name of shareholders	Number of H Shares	Capacity	Approximate percentage of the total issued H shares share capital	Approximate percentage of the total share capital
Cheah Cheng Hye *(Note 3)*	15,144,000 (long position)	Founder of a discretionary trust	5.09%	1.97%
Hang Seng Bank Trustee International Limited *(Note 3)*	15,144,000 (long position)	Trustee (other than a bare trustee)	5.09%	1.97%
Cheah Company Limited *(Note 3)*	15,144,000 (long position)	Interest of controlled corporation	5.09%	1.97%
Cheah Capital Management Limited *(Note 3)*	15,144,000 (long position)	Interest of controlled corporation	5.09%	1.97%
To Hau Yin *(Note 3)*	15,144,000 (long position)	Interest of spouse	5.09%	1.97%
Value Partners Group Limited *(Note 3)*	15,144,000 (long position)	Interest of controlled corporation	5.09%	1.97%
Value Partners Limited *(Note 3)*	15,144,000 (long position)	Investment manager	5.09%	1.97%

Notes:

1. In addition to its direct interest in 373,840,620 domestic shares, Lingbao State-owned Assets has an indirect interest in the Company through its equity interest of approximately 43.4% in Lingbao Gold Machinery Limited Liability Company (靈寶市黃機械有限責任公司), which in turn holds approximately 21.1% equity interest in Lingbao Jinxiang Motors. Lingbao Jinxiang Motors is a promoter of the Company, which held approximately 1.7% shareholding in the Company as at the date of the report.

2. Mr. Wang Yumin (王育民先生), a non-executive Director, is the general manager of Lingbao State-owned Assets.

3. The 15,144,000 Shares represent the same block of shares.

Save as disclosed above, as at 31 December 2010, so far as the Directors are aware, there are no other persons, other than the Directors, supervisors and chief executive of the Company, who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO.

Directors' Report

Directors' and Supervisors' Interests in Contracts

No contract of significance in relation to the Company's business to which the Company, its subsidiaries or its jointly controlled entities was a party and in which the Directors or the supervisors of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (excluding the Directors' and supervisors' service contracts).

Directors' and Supervisors' Rights to Acquire Shares or Debentures

Apart from disclosed under the paragraph headed "Directors, Supervisors and Chief Executive" above, at no time during the year was the Company, its subsidiaries or its jointly controlled entity, a party to any arrangement to enable to the Directors, the supervisors and their respective spouses or children under 18 years of age of acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Interests of Directors in Competing Business

During the year and up to the date of this report, none of the Directors has any interest in business, which competes or may compete with the business of the Group under the Listing Rules.

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2010 are set out in notes 28 and 29 to the financial statements.

Charitable Donations

Charitable donations made by the Group during the year amounted to RMB877,000 (2009: RMB1,228,000).

Pre-emptive Rights

There are no provisions regarding pre-emptive rights under the Articles of Association of the Company and related laws of Hong Kong and the PRC, which would oblige the Company to issue new shares on pro-rata basis to the existing shareholders of the Company.

Policy on Income Tax

The Company and its subsidiaries basically paid PRC corporate income tax at a rate of 25% of its assessable profits according to the relevant laws and regulations in the PRC. Details of the Group's income tax information are disclosed in note 8 to the account.

Closure of Register of Members

The register of members of the Company will be closed from Thursday, 5 May 2011 to Friday, 3 June 2011 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the final dividend and for attending the forthcoming annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's H share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at shops 1712 to 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong (for holders of H shares) or the registered office of the Company at Xin Village, Yinzhuang Town, Daonan Industrial Area, Lingbao, Henan, the PRC (for domestic shares), no later than 4:00 p.m. on Wednesday, 4 May 2011.

Directors' Report

Litigation and Arbitration

As at the date of this report, there was no material litigation and arbitration for the Group.

Public Float

Based on the publicly available information and the best of knowledge of the Directors, the Company has maintained sufficient public float at the latest practicable date prior to the issue of this report.

Compliance of Code of Conduct

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company did not meet the applicable code provision set out in the code on Corporate Government Practices for any period from 1 January 2010 to 31 December 2010.

Five Years Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 136 of the annual report.

Confirmation of Independence

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.

Auditors

KPMG retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

Taxation

For the year ended 31 December 2010, no foreign shareholder who is not resident of the PRC is liable for Individual or Enterprise Income Tax, Capital Gains Tax, Stamp Duty or Estate Duty of the PRC in relation to their holding of shares of the Company. Shareholders are urged to consult their tax advisers regarding the PRC, Hong Kong and other tax consequences of owning and disposing of H shares.

By order of the board

Xu Gaoming
Chairman

Hong Kong
31 March 2011

Independent Auditor's Report

Independent auditor's report to the shareholders of
Lingbao Gold Company Ltd.
(Incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Lingbao Gold Company Ltd. ("the Company") and its subsidiaries (together "the Group") set out on pages 44 to 135, which comprise the consolidated and company balance sheets as at 31 December 2010, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibilities 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This 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 auditor's 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 auditor considers 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.

Independent Auditor's Report

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 2010 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

31 March 2011

Consolidated Income Statement

For the year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Turnover	3	**4,834,554**	3,961,670
Cost of sales		**(4,019,316)**	(3,206,068)
Gross profit		**815,238**	755,602
Other revenue	4	**15,174**	11,578
Other net loss	5	**(121,378)**	(191,327)
Selling and distribution expenses		**(22,789)**	(18,525)
Administrative expenses and other operating expenses		**(207,972)**	(178,388)
Impairment losses on other receivables and investment deposits	22, 25(f)	**–**	(110,800)
Profit from operations		**478,273**	268,140
Finance costs	7(a)	**(92,019)**	(96,466)
Profit before taxation	7	**386,254**	171,674
Income tax	8(a)	**(128,377)**	(51,433)
Profit for the year		**257,877**	120,241
Attributable to:			
Equity shareholders of the Company	11	**266,451**	118,044
Non-controlling interests		**(8,574)**	2,197
Profit for the year		**257,877**	120,241
Basic and diluted earnings per share (cents)	14	**35**	15

The notes on pages 54 to 135 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 12(a).

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Note	**2010** **RMB'000**	2009 RMB'000
Profit for the year		**257,877**	120,241
Other comprehensive income for the year	*13*		
Exchange differences on translation of financial statements of overseas subsidiaries		**6,455**	3,602
Total comprehensive income for the year		**264,332**	123,843
Attributable to:			
Equity shareholders of the Company		**272,906**	121,646
Non-controlling interests		**(8,574)**	2,197
Total comprehensive income for the year		**264,332**	123,843

The notes on pages 54 to 135 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	15	**1,495,863**	948,308
Construction in progress	16	**686,576**	930,727
Intangible assets	17	**671,323**	681,505
Goodwill	18	**41,404**	41,511
Lease prepayments	19	**94,239**	90,345
Other investments	21	**10,504**	10,504
Non-current prepayments	26	**90,253**	119,854
Deferred tax assets	23(b)	**99,055**	90,889
		3,189,217	2,913,643
Current assets			
Inventories	24	**1,167,219**	759,401
Trade and other receivables, deposits and prepayments	25	**648,958**	540,970
Current tax recoverable	23(a)	**–**	12,583
Cash and cash equivalents	27	**323,712**	685,321
		2,139,889	1,998,275
Current liabilities			
Bank loans	29	**1,393,000**	815,995
Other loan	28	**3,270**	–
Trade and other payables	30	**547,535**	423,111
Loan from ultimate holding company	31	**23,800**	23,800
Current tax payable	23(a)	**31,140**	14,315
		1,998,745	1,277,221
Net current assets		**141,144**	721,054
Total assets less current liabilities		**3,330,361**	3,634,697

Consolidated Balance Sheet

At 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Non-current liabilities			
Bank loans	*29*	**1,184,142**	1,694,350
Other loan	*28*	**–**	3,270
Other payables	*30*	**30,624**	46,551
Deferred tax liabilities	*23(b)*	**7,638**	8,389
		1,222,404	1,752,560
NET ASSETS		**2,107,957**	1,882,137
CAPITAL AND RESERVES	*32*		
Share capital		**154,050**	154,050
Reserves		**1,912,871**	1,678,477
Total equity attributable to equity shareholders of the Company		**2,066,921**	1,832,527
Non-controlling interests		**41,036**	49,610
TOTAL EQUITY		**2,107,957**	1,882,137

Approved and authorised for issue by the board of directors on 31 March 2011.

Xu Gaoming
Executive director and chairman

Jin Guangcai
Executive director

The notes on pages 54 to 135 form part of these financial statements.

Balance Sheet

At 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Non-current assets			
Property, plant and equipment	15	**490,420**	497,353
Construction in progress	16	**148,930**	134,358
Intangible assets	17	**34,905**	31,972
Lease prepayments	19	**35,730**	33,406
Investments in subsidiaries	20	**675,941**	675,941
Other investments	21	**10,504**	10,504
Non-current prepayments	26	**48,606**	6,022
Deferred tax assets	23(b)	**53,082**	45,735
		1,498,118	1,435,291
Current assets			
Inventories	24	**969,359**	685,972
Trade and other receivables, deposits and prepayments	25	**283,772**	355,561
Amounts due from subsidiaries	20	**1,152,915**	926,811
Current tax recoverable	23(a)	**–**	10,464
Cash and cash equivalents	27	**252,187**	476,189
		2,658,233	2,454,997
Current liabilities			
Bank loans	29	**1,290,000**	740,000
Other loan	28	**3,270**	–
Trade and other payables	30	**260,248**	175,585
Current tax payable	23(a)	**16,766**	–
Amounts due to subsidiaries	20	**60,694**	51,691
		1,630,978	967,276
Net current assets		**1,027,255**	1,487,721
Total assets less current liabilities		**2,525,373**	2,923,012

Balance Sheet

At 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Non-current liabilities			
Bank loans	*29*	**520,000**	1,110,000
Other loan	*28*	**–**	3,270
		520,000	1,113,270
NET ASSETS		**2,005,373**	1,809,742
CAPITAL AND RESERVES	*32*		
Share capital		**154,050**	154,050
Reserves		**1,851,323**	1,655,692
TOTAL EQUITY		**2,005,373**	1,809,742

Approved and authorised for issue by the board of directors on 31 March 2011.

Xu Gaoming
Executive director and chairman

Jin Guangcai
Executive director

The notes on pages 54 to 135 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Attributable to equity shareholders of the Company									
	Share capital RMB'000 *(note 32(b))*	Share premium RMB'000 *(note 32(a)(i))*	PRC statutory reserves RMB'000 *(note 32(a)(ii))*	Capital reserve RMB'000	Exchange reserve RMB'000 *(note 32(a)(iii))*	Other reserve RMB'000 *(note 32(a)(iv))*	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
Balance at 1 January 2009	154,050	827,931	106,413	32,334	(3,709)	(858)	594,720	1,710,881	25,913	1,736,794
Change in accounting policy (note (2b))	–	–	–	(32,334)	–	–	32,334	–	–	–
Balance at 1 January 2009, as adjusted	154,050	827,931	106,413	–	(3,709)	(858)	627,054	1,710,881	25,913	1,736,794
Changes in equity for 2009:										
Total comprehensive income for the year	–	–	–	–	3,602	–	118,044	121,646	2,197	123,843
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	21,500	21,500
Profit appropriation	–	–	13,548	–	–	–	(13,548)	–	–	–
Balance at 31 December 2009	154,050	827,931	119,961	–	(107)	(858)	731,550	1,832,527	49,610	1,882,137
Balance at 1 January 2010	**154,050**	**827,931**	**119,961**	**–**	**(107)**	**(858)**	**731,550**	**1,832,527**	**49,610**	**1,882,137**
Changes in equity for 2010:										
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**6,455**	**–**	**266,451**	**272,906**	**(8,574)**	**264,332**
Profit appropriation	**–**	**–**	**20,694**	**–**	**–**	**–**	**(20,694)**	**–**	**–**	**–**
Dividends approved in respect of the previous year (note 12(a))	**–**	**–**	**–**	**–**	**–**	**–**	**(38,512)**	**(38,512)**	**–**	**(38,512)**
Balance at 31 December 2010	**154,050**	**827,931**	**140,655**	**–**	**6,348**	**(858)**	**938,795**	**2,066,921**	**41,036**	**2,107,957**

The notes on pages 54 to 135 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Operating activities			
Profit before taxation		**386,254**	171,674
Adjustments for:			
– Interest income	4	**(3,754)**	(2,886)
– Dividend income from other investments	4	**(560)**	(420)
– Net realised loss on financial instruments at fair value	5	**62,608**	163,812
– Net unrealised gain on financial instruments at fair value	5	**–**	(5,922)
– Net loss on disposal of property, plant and equipment, construction in progress and intangible assets	5	**8,609**	498
– Depreciation	7(b)	**162,211**	146,062
– Finance costs	7(a)	**92,019**	96,466
– (Reversal)/provision of impairment losses on:			
– investment deposit	7(b)	**–**	80,000
– amount due from Beijing Jiuyi	7(b)	**–**	30,800
– trade and other receivables	7(b)	**(2,197)**	2,376
– purchase deposits	7(b)	**5,691**	1,300
– intangible assets	7(b)	**3,731**	–
– goodwill	7(b)	**107**	–
– Amortisation of lease prepayments	7(b)	**2,162**	2,143
– Amortisation of intangible assets	7(b)	**13,567**	24,394
– Write down of inventories	24(b)	**876**	2,282
– Reversal of write down of inventories	24(b)	**(2,282)**	(35,899)
– Foreign exchange differences		**43,685**	26,692
Operating profit before changes in working capital		**772,727**	703,372
Increase in inventories		**(406,412)**	(14,451)
Increase in trade and other receivables, deposits and prepayments		**(114,286)**	(11,142)
Increase/(decrease) in trade and other payables		**114,818**	(94,690)
Cash generated from operations		**366,847**	583,089
PRC income tax paid		**(107,567)**	(85,193)
Net cash generated from operating activities		**259,280**	497,896

Consolidated Cash Flow Statement

For the year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Investing activities			
Interest received		**3,754**	2,886
Payment for settlement of financial instruments		**(62,608)**	(163,812)
Decrease in restricted deposits		**–**	10,067
Payment for purchase of property, plant and equipment		**(24,938)**	(54,563)
(Payment)/proceeds from disposal of property, plant and equipment		**(574)**	1,467
Payment for construction in progress		**(396,918)**	(690,838)
Payment for purchase of intangible assets		**(27,924)**	(104,499)
Payment for acquisition of subsidiaries		**–**	(50,498)
Payment for purchase of lease prepayments		**(26,140)**	(6,101)
Dividends received from other investments		**560**	420
Net cash used in investing activities		**(534,788)**	(1,055,471)

Consolidated Cash Flow Statement

For the year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
Financing activities			
Proceeds from new bank loans		**1,413,197**	2,064,471
Repayment of bank loans		**(1,336,192)**	(1,286,000)
Proceeds from loan from non-controlling shareholder		**–**	18,845
Interest paid		**(117,596)**	(117,271)
Other borrowing costs paid		**(2,985)**	(1,128)
Dividend paid to equity shareholders of the Company		**(38,512)**	–
Net cash (used in)/generated from financing activities		**(82,088)**	678,917
Net (decrease)/increase in cash and cash equivalents		**(357,596)**	121,342
Cash and cash equivalents at 1 January	*27*	**685,321**	565,411
Effect of foreign exchange rate changes		**(4,013)**	(1,432)
Cash and cash equivalents at 31 December	*27*	**323,712**	685,321

The notes on pages 54 to 135 form part of these financial statements.

Notes to the Financial Statements

1 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Company and its subsidiaries (collectively referred to as the "Group") is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2010 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that derivative financial instruments (see note 1(f)) are stated at fair value. These consolidated financial statements are presented in Renminbi rounded to the nearest thousand.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(b) Basis of preparation of the financial statements (continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 38.

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests (previously known as "minority interests") represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with note 1(r).

Notes to the Financial Statements

1 Significant accounting policies (continued)

(c) Subsidiaries and non-controlling interests (continued)

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(e)) or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(j)(ii)).

(d) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(j)(ii)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(e) Other investments

The Group's and the Company's policies for investments in equity securities other than investments in subsidiaries are as follows:

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(j)(i)). Dividend income is recognised in profit or loss in accordance with the policy set out in note 1(s)(iii).

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments.

(f) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(g) Property, plant and equipment and construction in progress

(i) Property, plant and equipment

Property, plant and equipment are initially stated in the balance sheets at cost less accumulated deprecation and impairment losses (see note 1(j)(ii)). The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(v)).

When proved and probable gold reserves have been determined, costs incurred to develop gold mines are capitalised as part of the cost of mining structures. All other expenditures, including the cost of repairs and maintenance and major overhaul, are expensed as they are incurred. Mining exploration costs, such as expenditures related to locating gold deposits and determining the economic feasibility and the costs of removing waste materials or "stripping costs" are expensed as incurred.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(g) Property, plant and equipment and construction in progress (continued)

(i) Property, plant and equipment (continued)

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment other than mining shafts, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Buildings	2 – 30 years
Machinery	4 – 14 years
Transportation equipment	4 – 10 years
Office and electronic equipment	3 – 10 years

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(ii) Construction in progress

Construction in progress represents buildings, various infrastructure projects under construction and equipment pending installation, and is recognised in the balance sheet at cost less impairment losses (see note 1(j)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 1(v)). Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use, notwithstanding any delays in the issue of the relevant commissioning certificate by the relevant authorities in the People's Republic of China (the "PRC").

No depreciation is provided in respect of the construction in progress.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(h) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete the development. The expenditure capitalised includes the costs of materials, direct labour and an appropriate proportion of overheads and borrowing costs, where applicable (see note 1(v)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(j)(ii)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out below.

(i) Mining rights

Mining rights are stated at cost less accumulated amortisation and impairment losses (see note 1(j)(ii)). The mining rights are amortised to profit or loss using the units of production method based on the proved and probable mineral reserves.

The Group's mining rights are of sufficient duration (or convey a legal right to renew for sufficient duration) to enable all reserves to be mined in accordance with current production schedules.

(ii) Exploration rights

Exploration rights are stated at cost less accumulated amortisation and impairment losses (see note 1(j)(ii)). The exploration rights are amortised to exploration and evaluation assets (see note 1(h)(iii)) on a straight-line basis over the estimated useful lives of one to three years.

(iii) Exploration and evaluation assets and mining development assets

Exploration and evaluation assets are stated at cost less impairment losses (see note 1(j)(ii)). Exploration and evaluation assets include exploration and development costs.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(h) Intangible assets (other than goodwill) (continued)

(iii) Exploration and evaluation assets and mining development assets (continued)

Exploration and development costs include expenditures incurred in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable and expenditures incurred to secure further mineralisation in existing ore bodies and to expand the capacity of a mine. Expenditure during the initial exploration stage is charged to profit or loss as incurred.

When it can be reasonably ascertained that a mining structure is capable of commercial production, exploration and development costs capitalised are transferred to mining development assets and amortised to profit or loss using the units of production method based on the proved and probable mineral reserves. If any project is abandoned during the exploration and evaluation stage, the related exploration and evaluation assets are written off to profit or loss.

(i) Lease prepayments

Lease prepayments represent cost of land use rights paid to the PRC governmental authorities for acquiring land held under operating leases. Land use rights are carried at cost less accumulated amortisation and impairment losses (see note 1(j)(ii)). Amortisation is charged to the profit or loss on a straight-line basis over the respective periods of the rights.

(j) Impairment of assets

(i) Impairment of investments in equity securities and trade and other receivables

Investments in equity securities (other than investments in subsidiaries: see note 1(j)(ii)) and other current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;

- a breach of contract, such as a default or delinquency in interest or principal payments;

Notes to the Financial Statements

1 Significant accounting policies (continued)

(j) Impairment of assets (continued)

(i) Impairment of investments in equity securities and trade and other receivables (continued)

- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(j) Impairment of assets (continued)

(i) Impairment of other investments in equity securities and trade and other receivables (continued)

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– construction in progress;

– intangible assets;

– lease prepayments;

– investments in subsidiaries;

– other investments; and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(j) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(j) Impairment of assets (continued)

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(j)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

(k) Operating lease charges

Leases of assets under which do not transfer substantially all the risks and rewards of ownership of the Group are classified as operating leases.

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(j)(i)) except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(m) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(o) Income tax (continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(o) Income tax (continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group or the Company has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Group or the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in the profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(r) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sales of goods

Revenue is recognised when the title to the goods and the related risks and rewards of ownership are passed to customers, the Group will not execute the right of supervision and control over the goods, either the proceeds are received or entitlement of proceeds is evidenced, and the cost of sale of goods can be estimated reliably. Revenue excludes value added tax or other sales tax and is after deduction of any trade discounts.

(ii) Delivery service income

Delivery service income is recognised when the related service is rendered.

(iii) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(t) Government grants

Government grants are recognised in the balance sheet initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(u) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(v) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average of rates applicable to relevant general borrowings of the Group during the period. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(w) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Renminbi at the exchange rate approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Renminbi at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognised directly in other comprehensive income and accumulated separately in equity in the exchange reserve.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(w) Translation of foreign currencies (continued)

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(x) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

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

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(y) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(y) Segment reporting (continued)

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 Changes in accounting policies

(a) Standards, amendments and interpretations effective for current accounting period

The HKICPA has issued two revised HKFRSs, a number of amendments to HKFRSs and two new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 3 (revised 2008), *Business combinations*

- Amendments to HKAS 27, *Consolidated and separate financial statements*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The developments resulted in changes in accounting policies but none of these changes in policies have a material impact on the current or comparative periods, except for the amendments to HKAS 27 in respect of allocation of losses to non-controlling interests (previously known as "minority interests") in excess of their equity interest, for the following reasons:

- The impact of the majority of the revisions to HKFRS 3 and HKAS 27 (except for the allocation of losses to non-controlling interests in excess of their equity interest), have not yet had a material effect on the Group's financial statements as these changes are first effective as and when the Group enters into a relevant transaction (for example, a business combination or a disposal of a subsidiary) and there is no requirement to restate the amounts recorded in respect of previous such transactions.

- The impact of the amendments to HKFRS 3 (in respect of recognition of acquiree's deferred tax assets) has had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

Notes to the Financial Statements

2 Changes in accounting policies (continued)

(a) Standards, amendments and interpretations effective for current accounting period (continued)

Further details of these changes in accounting policies are as follows:

- As a result of the adoption of HKFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 are recognised in accordance with the new requirements and detailed guidance contained in HKFRS 3 (revised 2008). These include the following changes in accounting policies:

  – Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, are expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.

  – If the Group holds interests in the acquiree immediately prior to obtaining control, these interests are treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.

  – Contingent consideration is measured at fair value at the acquisition date. Any subsequent changes in the measurement of that contingent consideration is recognised in profit or loss, unless they arise from obtaining additional information about facts and circumstances that existed at the acquisition date within 12 months from the date of acquisition (in which case they are recognised as an adjustment to the cost of the business combination). Previously, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably. All subsequent changes in the measurement of contingent consideration and from its settlement were previously recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.

  – If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets is recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.

Notes to the Financial Statements

2 Changes in accounting policies (continued)

(a) Standards, amendments and interpretations effective for current accounting period (continued)

- In addition to the Group's existing policy of measuring the non-controlling interests (previously known as the "minority interests") in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

In accordance with the transitional provisions in HKFRS 3 (revised 2008), these new accounting policies are applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets is also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

- As a result of the adoption of HKAS 27 (amended 2008), the following changes in policies are applied as from 1 January 2010:

  - If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction is accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction is also accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no profit or loss is recognised as a result of such transactions. Previously the Group treated such transactions as step-up transactions and partial disposals, respectively.

  - If the Group loses control of a subsidiary, the transaction is accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if reacquired. In addition, as a result of the adoption of the amendment to HKFRS 5, if at the balance sheet date the Group has the intention to dispose of a controlling interest in a subsidiary, the entire interest in that subsidiary is classified as held for sale (assuming that the held for sale criteria in HKFRS 5 are met) irrespective of the extent to which the group retains an interest. Previously such transactions were treated as partial disposals.

Notes to the Financial Statements

2 Changes in accounting policies (continued)

(a) Standards, amendments and interpretations effective for current accounting period (continued)

In accordance with the transitional provisions in HKAS 27, these new accounting policies are applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

The impact of the amendments to HKAS 27 (in respect of allocation of losses to non-controlling interests in excess of their equity interest) is as follows:

- As a result of the amendments to HKAS 27, as from 1 January 2010 any losses incurred by a non-wholly owned subsidiary are allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in HKAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated.

  Accordingly, deficit balances totalling RMB7,594,000 were recognised in non-controlling interests on the balance sheet as at 31 December 2010, being the allocation of losses incurred by non-wholly owned subsidiaries allocated to the non-controlling interests in excess of their equity interest.

(b) Change in accounting policy for property, plant and equipment

In prior years, property, plant and equipment were carried at revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. In 2010, property, plant and equipment are accounted for using the cost model, being the cost less any accumulated depreciation and impairment losses. This change is to align the Group's accounting policy with industry peers to provide more relevant financial information to the users of the Group's financial statements. This change has been applied retrospectively. Other than the elimination of the revaluation surplus included in capital reserve by transferring the balance to retained profits, as shown in the consolidated statement of changes in equity, this change in accounting policy has no material effect on the financial condition as at 31 December 2008, 31 December 2009 and 31 December 2010, and the results of operation for each of the years then ended. Therefore, no comparative balance sheet as at 1 January 2009 was presented.

Notes to the Financial Statements

3 Turnover

The principal activities of the Group are mining, processing, smelting and sales of gold and other metallic products in the PRC.

Turnover represents the sales value of goods sold to customers, net of sales tax and value added tax. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2010	2009
	RMB'000	RMB'000
Sales of:		
– Gold	**3,950,388**	3,208,795
– Other metals	**853,389**	738,274
– Others	**37,759**	19,659
Less: Sales taxes and levies	**(6,982)**	(5,058)
	4,834,554	3,961,670

The Group's customer base is diversified and includes only one customer with whom transactions have exceeded 10% of the Group's revenues. During the year ended 31 December 2010, revenues from the sales of gold products to this customer amounting to approximately RMB3,950,388,000 (2009: RMB3,208,795,000) arose in the Henan Province, the PRC. Details of concentrations of credit risk arising from this customer are set out in note 34(a).

Further details regarding the Group's principal activities are disclosed in note 35 to these financial statements.

4 Other revenue

	2010	2009
	RMB'000	RMB'000
Bank interest income	**3,754**	2,886
Delivery service income	**6,141**	3,925
Government grants	**1,481**	1,200
Scrap sales	**2,827**	2,905
Dividend income from other investments	**560**	420
Sundry income	**411**	242
	15,174	11,578

Notes to the Financial Statements

5 Other net loss

	2010	2009
	RMB'000	RMB'000
Net realised loss on financial instruments at fair value	**(62,608)**	(163,812)
Net unrealised gain on financial instruments at fair value *(note 25(e))*	**–**	5,922
Net loss on disposal of property, plant and equipment, construction in progress and intangible assets	**(8,609)**	(498)
Net foreign exchange losses	**(44,803)**	(32,153)
Impairment of intangible assets and goodwill	**(3,838)**	–
Others	**(1,520)**	(786)
	(121,378)	(191,327)

6 Staff costs#

	2010	2009
	RMB'000	RMB'000
Salaries, wages and bonuses	**176,874**	149,501
Staff welfare	**16,424**	14,939
Contributions to retirement benefit schemes	**15,796**	11,780
	209,094	176,220
Less: Staff costs capitalised into construction in progress	**(37,382)**	(14,482)
	171,712	161,738

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement benefit schemes (the "Schemes") organised by the relevant local government authorities whereby the Group is required to make contributions to the Schemes at the rate of 20% (2009: 20%) of the eligible employees' salaries. The local government authorities are responsible for the entire pension obligations payable to retired employees in the PRC.

The Group also participates in a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Scheme Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately.

The Group has no other material obligation for the payment of pension benefits associated with those schemes beyond the annual contributions described above.

Notes to the Financial Statements

7 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

	2010 RMB'000	2009 RMB'000
(a) Finance costs:		
Interest expenses on bank advances wholly repayable within five years	**117,623**	118,166
Interest on other loan	**83**	85
Interest expenses on financial liabilities measured at amortised cost	**2,696**	5,185
Other borrowing costs	**2,985**	1,128
Total interest expenses on financial liabilities not at fair value through profit or loss	**123,387**	124,564
Less: interest expenses capitalised into construction in progress*	**(31,368)**	(28,098)
	92,019	96,466

* The borrowing costs have been capitalised at a rate of 5.31% ~ 5.76% per annum (2009: 3.50% ~ 5.31%).

Notes to the Financial Statements

7 Profit before taxation (continued)

	2010 RMB'000	2009 RMB'000
(b) Other items:		
Cost of inventories# *(note 24(b))*	**4,019,316**	3,206,068
Amortisation of lease prepayments *(note 19)*	**2,162**	2,143
Operating lease charges in respect of properties	**3,116**	2,384
Research and development expenses	**7,665**	7,572
(Reversal)/provision impairment losses on:		
– investment deposit *(note 22)*	**–**	80,000
– amount due from Beijing Jiuyi *(note 25(f))*	**–**	30,800
– trade and other receivables *(note 25(c))*	**(2,197)**	2,376
– purchase deposits	**5,691**	1,300
– intangible assets *(note 17)*	**3,731**	–
– goodwill *(note 18)*	**107**	–
Pollution discharge fee *(note 33(c))*	**2,141**	1,801
Environmental rehabilitation fee *(note 33(c))*	**13,282**	10,485
Auditors' remuneration	**3,900**	3,582
Amortisation of intangible assets# *(note 17)*	**97,069**	49,667
Less: Amortisation capitalised into exploration and evaluation assets *(note 17)*	**(83,502)**	(25,273)
	13,567	24,394
Depreciation# *(note 15)*	**168,304**	150,933
Less: Depreciation capitalised into construction in progress	**(6,093)**	(4,871)
	162,211	146,062

\# Cost of inventories includes RMB291,151,000 (2009: RMB247,670,000) relating to staff costs, depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately in note 6 and above for each of these types of expenses.

Notes to the Financial Statements

8 Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2010 RMB'000	2009 RMB'000
Current tax – PRC income tax		
Provision for the year	**136,664**	96,552
Under/(over)-provision in respect of prior years	**311**	(5,084)
	136,975	91,468
Deferred tax		
Origination and reversal of temporary differences	**(8,598)**	(40,035)
	128,377	51,433

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2010 RMB'000	2009 RMB'000
Profit before taxation	**386,254**	171,674
Notional tax on profit before taxation, calculated at the PRC income tax rate of 25% (2009: 25%)	**96,563**	42,919
Effect of different taxation rates used in other jurisdictions	**4,870**	4,360
Tax effect of non-deductible expenses	**4,271**	8,045
Tax effect of non-taxable income	**(140)**	(1,437)
Tax effect of unused tax losses not recognised	**22,626**	1,917
Under/(over)-provision in respect of prior years	**311**	(5,084)
Others	**(124)**	713
Actual tax expense	**128,377**	51,433

Notes to the Financial Statements

8 Income tax in the consolidated income statement (continued)

Notes:

(i) The Company and the Group's subsidiaries located in the PRC are subject to PRC income tax.

One of the subsidiaries, Lingbao Wason Copper-Foil Company Limited, was accredited as an "Advanced and New Technology Enterprise" in 2009 and entitled to an income tax rate of 15% for a period of three years from 2009 to 2011.

The provisions for PRC income tax for the Company and the rest of the Group's subsidiaries is based on a statutory rate of 25% (2009: 25%) of the assessable profit as determined in accordance with the relevant income tax rules and regulations of the PRC.

(ii) The provision for Hong Kong Profits Tax for 2010 is calculated at 16.5% (2009:16.5%). No provision for Hong Kong Profits Tax is made for the subsidiary located in Hong Kong in the financial statements as the Group did not earn any income which is subject to Hong Kong Profits Tax.

(iii) The provision for Kyrgyzstan Profits Tax for 2010 is calculated at 10% (2009:10%). No provision for Kyrgyzstan Profits Tax is made for the subsidiaries located in the Kyrgyz Republic ("KR") in the financial statements as the Group did not earn any income which is subject to profits tax in the Kyrgyzstan.

(iv) The provision for Laos Profits Tax for 2010 is calculated at 35% (2009: 35%). No provision for Laos Profits Tax is made for the subsidiary located in Lao in the financial statements as the Group did not earn any income which is subject to profits tax in Laos.

Notes to the Financial Statements

9 Directors' and supervisors' remuneration

Directors' and supervisors' remuneration comprises payments to directors and supervisors by the Company and its subsidiaries. The remuneration of each of the directors and supervisors of the Company is as follows:

Year ended 31 December 2010

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit schemes RMB'000	Bonus RMB'000	Total RMB'000
Executive directors					
Mr Xu Gaoming	–	600	6	323	929
Mr Jin Guangcai	–	500	6	269	775
Mr Liu Pengfei	–	420	5	226	651
Mr Zhang Guo	–	420	4	226	650
Mr Lu Xiaozhao	–	420	5	177	602
Mr Wang Jianguo	–	225	2	121	348
Mr He Chengqun	–	210	3	113	326
Non-executive director					
Mr Wang Yumin	–	–	–	–	–
Independent non-executive directors					
Mr Yan Wanpeng	100	–	–	–	100
Mr Wang Han	100	–	–	–	100
Ms Du Liping	100	–	–	–	100
Mr Niu Zhongjie	120	–	–	–	120
Supervisors					
Mr Meng Fanrui	–	–	–	–	–
Mr Guo Xuchang	–	–	–	–	–
Mr Liu Shengmin	–	–	–	–	–
Mr Hang Zhanping	–	–	–	–	–
Mr Yang Bo	–	–	–	–	–
Mr Jiao Xiaoxiao	–	–	–	–	–
Mr Zhu Yusheng	–	–	–	–	–
Mr Guo Xurang	–	–	–	–	–
Total	420	2,795	31	1,455	4,701

Notes to the Financial Statements

9 Directors' and supervisors' remuneration (continued)

Year ended 31 December 2009

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit schemes RMB'000	Bonus RMB'000	Total RMB'000
Executive directors					
Mr Xu Gaoming	–	600	5	329	934
Mr Wang Jianguo	–	540	5	296	841
Mr Lu Xiaozhao	–	420	4	230	654
Mr Jin Guangcai	–	420	4	230	654
Mr Liu Pengfei	–	420	4	230	654
Mr Zhang Guo	–	420	3	230	653
Non-executive director					
Mr Wang Yumin	–	–	–	–	–
Independent non-executive directors					
Mr Yan Wanpeng	100	–	–	–	100
Mr Wang Han	100	–	–	–	100
Ms Du Liping	100	–	–	–	100
Mr Niu Zhongjie	120	–	–	–	120
Supervisors					
Mr Meng Fanrui	–	–	–	–	–
Mr Guo Xuchang	–	–	–	–	–
Mr Liu Shengmin	–	–	–	–	–
Mr Zhu Yusheng	–	–	–	–	–
Mr Hang Zhanping	–	–	–	–	–
Mr Yang Bo	–	–	–	–	–
Mr Jiao Xiaoxiao	–	–	–	–	–
Total	420	2,820	25	1,545	4,810

Notes to the Financial Statements

10 Individuals with highest emoluments

Of the five individuals with the highest emoluments, four (2009: four) are directors and supervisors of the Company whose emoluments are disclosed in note 9. The aggregate of the emoluments in respect of the other individual (2009: one) are as follows:

	2010 **RMB'000**	2009 RMB'000
Salaries and wages	**600**	600
Contributions to retirement benefit scheme	**20**	23
Bonus	**80**	50
	700	673

11 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB234,143,000 (2009: RMB102,930,000) which has been dealt with in the financial statements of the Company (note 32(a)).

12 Dividends

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2010 **RMB'000**	2009 RMB'000
Final dividend proposed after the balance sheet date of RMB0.10 (2009: RMB0.05) per ordinary share	**77,025**	38,512

Pursuant to a resolution passed at the directors' meeting on 31 March 2011, a final dividend in respect of the year ended 31 December 2010 of RMB0.10 (2009: RMB0.05) per share totalling RMB77,024,909 (2009: RMB38,512,455) was proposed for shareholders' approval at the annual general meeting. Final dividend of RMB77,024,909 (2009: RMB38,512,455) proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2010 **RMB'000**	2009 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.05 (2009: RMB Nil) per ordinary share	**38,512**	–

Notes to the Financial Statements

13 Other comprehensive income

The component of other comprehensive income does not have any significant tax effect for each of the year ended 31 December 2010 and 2009.

14 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB266,451,000 (2009: RMB118,044,000) and 770,249,091 (2009: 770,249,091) ordinary shares in issue during the year.

(b) Diluted earnings per share

The diluted earnings per share for the current and the prior year is the same as the basic earnings per share as there are no dilutive ordinary shares during the years.

15 Property, plant and equipment

The Group

	Buildings RMB'000	Mining shafts RMB'000	Machinery RMB'000	Transportation equipment RMB'000	Office and electronic equipment RMB'000	Total RMB'000
Cost:						
At 1 January 2009	340,598	249,649	458,159	52,033	19,498	1,119,937
Exchange adjustments	(272)	–	(1,292)	(574)	(13)	(2,151)
Additions	13,792	1,532	52,876	14,811	3,628	86,639
Transfer from construction in progress *(note 16)*	38,741	110,909	37,824	–	2,352	189,826
Through business combination	–	–	–	490	–	490
Disposals	(168)	–	(4,046)	(1,890)	(65)	(6,169)
At 31 December 2009	392,691	362,090	543,521	64,870	25,400	1,388,572
Accumulated Depreciation:						
At 1 January 2009	38,024	94,128	136,261	17,586	7,685	293,684
Exchange adjustments	(24)	–	(98)	(43)	(2)	(167)
Charge for the year	22,139	57,460	60,286	6,590	4,458	150,933
Through business combination	–	–	–	18	–	18
Written back on disposals	(50)	–	(2,653)	(1,438)	(63)	(4,204)
At 31 December 2009	60,089	151,588	193,796	22,713	12,078	440,264
Net book value:						
At 31 December 2009	332,602	210,502	349,725	42,157	13,322	948,308

Notes to the Financial Statements

15 Property, plant and equipment (continued)

The Group (continued)

	Buildings RMB'000	Mining shafts RMB'000	Machinery RMB'000	Transportation equipment RMB'000	Office and electronic equipment RMB'000	Total RMB'000
Cost:						
At 1 January 2010	392,691	362,090	543,521	64,870	25,400	1,388,572
Exchange adjustments	–	–	(3,895)	(55)	–	(3,950)
Additions	4,535	1,312	23,495	5,854	5,586	40,782
Transfer from construction in progress (note 16)	110,330	69,593	491,954	2,206	9,143	683,226
Disposals	(5,265)	–	(1,668)	(1,975)	(102)	(9,010)
At 31 December 2010	502,291	432,995	1,053,407	70,900	40,027	2,099,620
Accumulated depreciation:						
At 1 January 2010	60,089	151,588	193,796	22,713	12,078	440,264
Exchange adjustments	–	–	(632)	(7)	–	(639)
Charge for the year	24,798	57,303	70,666	10,082	5,455	168,304
Written back on disposals	(1,927)	–	(1,050)	(1,151)	(44)	(4,172)
At 31 December 2010	82,960	208,891	262,780	31,637	17,489	603,757
Net book value:						
At 31 December 2010	419,331	224,104	790,627	39,263	22,538	1,495,863

Notes to the Financial Statements

15 Property, plant and equipment (continued)

The Company

	Buildings RMB'000	Mining shafts RMB'000	Machinery RMB'000	Transportation equipment RMB'000	Office and electronic equipment RMB'000	Total RMB'000
Cost or valuation:						
At 1 January 2009	170,671	169,020	295,622	29,303	8,466	673,082
Additions	5,209	–	6,498	2,081	943	14,731
Transfer from construction in progress *(note 16)*	9,492	38,457	23,922	–	–	71,871
Disposals	(168)	–	(2,750)	(1,890)	(57)	(4,865)
At 31 December 2009	185,204	207,477	323,292	29,494	9,352	754,819
Accumulated depreciation:						
At 1 January 2009	19,067	60,492	100,328	11,975	4,936	196,798
Charge for the year	8,606	18,151	32,654	2,781	1,842	64,034
Written back on disposals	(50)	–	(1,822)	(1,438)	(56)	(3,366)
At 31 December 2009	27,623	78,643	131,160	13,318	6,722	257,466
Net book value:						
At 31 December 2009	157,581	128,834	192,132	16,176	2,630	497,353

Notes to the Financial Statements

15 Property, plant and equipment (continued)

The Company (continued)

	Buildings RMB'000	Mining shafts RMB'000	Machinery RMB'000	Transportation equipment RMB'000	Office and electronic equipment RMB'000	Total RMB'000
Cost or valuation:						
At 1 January 2010	185,204	207,477	323,292	29,494	9,352	754,819
Additions	964	–	7,832	2,451	782	12,029
Transfer from construction in progress *(note 16)*	16,592	24,025	11,021	–	–	51,638
Disposals	(2,214)	–	(1,159)	(732)	(36)	(4,141)
At 31 December 2010	200,546	231,502	340,986	31,213	10,098	814,345
Accumulated depreciation:						
At 1 January 2010	27,623	78,643	131,160	13,318	6,722	257,466
Charge for the year	9,451	20,132	34,444	3,696	1,267	68,990
Written back on disposals	(1,155)	–	(773)	(567)	(36)	(2,531)
At 31 December 2010	35,919	98,775	164,831	16,447	7,953	323,925
Net book value:						
At 31 December 2010	164,627	132,727	176,155	14,766	2,145	490,420

16 Construction in progress

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Cost:				
At 1 January	**930,727**	452,716	**134,358**	114,245
Exchange adjustments	**(25,445)**	(9,223)	**–**	–
Additions	**466,300**	677,060	**66,210**	91,984
Transfer to property, plant and equipment *(note 15)*	**(683,226)**	(189,826)	**(51,638)**	(71,871)
Disposal	**(1,780)**	–	**–**	–
At 31 December	**686,576**	930,727	**148,930**	134,358

Notes to the Financial Statements

17 Intangible assets

The Group

	Shanghai Gold Exchange trading rights RMB'000	Exploration and evaluation assets *(note (a))* RMB'000	Mining development assets RMB'000	Mining rights *(note (b))* RMB'000	Exploration rights *(note (b))* RMB'000	Total RMB'000
Cost:						
At 1 January 2009	820	332,033	11,484	297,227	137,847	779,411
Exchange adjustments	–	(2,467)	–	(15,639)	–	(18,106)
Additions	–	38,364	–	15,400	6,097	59,861
Through business combination	–	28,222	–	–	81,462	109,684
Capitalisation of amortisation	–	25,273	–	–	–	25,273
Disposals	–	(2,020)	–	–	–	(2,020)
At 31 December 2009	820	419,405	11,484	296,988	225,406	954,103
Accumulated amortisation:						
At 1 January 2009	–	2,781	9,391	94,128	116,631	222,931
Charge for the year	–	–	1,081	23,313	25,273	49,667
At 31 December 2009	–	2,781	10,472	117,441	141,904	272,598
Net book value:						
At 31 December 2009	820	416,624	1,012	179,547	83,502	681,505
Cost:						
At 1 January 2010	**820**	**419,405**	**11,484**	**296,988**	**225,406**	**954,103**
Exchange adjustments	**–**	**(3,317)**	**–**	**(10,740)**	**–**	**(14,057)**
Additions	**–**	**22,590**	**–**	**–**	**–**	**22,590**
Capitalisation of amortisation	**–**	**83,502**	**–**	**–**	**–**	**83,502**
Disposal	**–**	**(1,417)**	**–**	**–**	**–**	**(1,417)**
At 31 December 2010	**820**	**520,763**	**11,484**	**286,248**	**225,406**	**1,044,721**
Accumulated amortisation:						
At 1 January 2010	**–**	**2,781**	**10,472**	**117,441**	**141,904**	**272,598**
Charge for the year	**–**	**–**	**501**	**13,066**	**83,502**	**97,069**
Impairment loss *(note (c))*	**–**	**3,731**	**–**	**–**	**–**	**3,731**
At 31 December 2010	**–**	**6,512**	**10,973**	**130,507**	**225,406**	**373,398**
Net book value:						
At 31 December 2010	**820**	**514,251**	**511**	**155,741**	**–**	**671,323**

Notes to the Financial Statements

17 Intangible assets (continued)

The Company

	Shanghai Gold Exchange trading rights RMB'000	Exploration and evaluation assets *(note (a))* RMB'000	Mining rights *(note (b))* RMB'000	Exploration rights *(note (b))* RMB'000	Total RMB'000
Cost:					
At 1 January 2009	820	–	50,139	447	51,406
Additions	–	–	11,500	3,630	15,130
Capitalisation of amortisation	–	1,815	–	–	1,815
At 31 December 2009	820	1,815	61,639	4,077	68,351
Accumulated amortisation:					
At 1 January 2009	–	–	31,343	447	31,790
Charge for the year	–	–	2,774	1,815	4,589
At 31 December 2009	–	–	34,117	2,262	36,379
Net book value:					
At 31 December 2009	820	1,815	27,522	1,815	31,972
Cost:					
At 1 January 2010	**820**	**1,815**	**61,639**	**4,077**	**68,351**
Additions	**–**	**7,267**	**–**	**–**	**7,267**
At 31 December 2010	**820**	**9,082**	**61,639**	**4,077**	**75,618**
Accumulated amortisation:					
At 1 January 2010	**–**	**–**	**34,117**	**2,262**	**36,379**
Charge for the year	**–**	**–**	**2,519**	**1,815**	**4,334**
At 31 December 2010	**–**	**–**	**36,636**	**4,077**	**40,713**
Net book value:					
At 31 December 2010	**820**	**9,082**	**25,003**	**–**	**34,905**

Notes to the Financial Statements

17 Intangible assets (continued)

Notes:

(a) Included in the Group's and the Company's exploration and evaluation assets are assets related to mines, which are under the exploration and evaluation stage as at 31 December 2010, with a carrying value of RMB514,251,000 (2009: RMB416,624,000) and RMB9,082,000 (2009: RMB1,815,000) respectively. These assets are not subject to amortisation until they are placed in use.

(b) The Group's mining rights and principal exploration rights are as follows:

Mine	Location	Expiry date
Mining rights:		
Lingjin One Mine	Lingbao, Henan	December 2021
Lingjin Two Mine	Lingbao, Henan	October 2014
Hongxin Gold Mine	Lingbao, Henan	August 2012
Hongtulin Gold Mine	Lingbao, Henan	March 2016
Heshangwa Gold Mine	Lingbao, Henan	December 2012
Duolanasayi Gold Mine	Habahe, Xinjiang	July 2018
Tuokuzibayi Gold Mine	Habahe, Xinjiang	August 2017
Shanzaoling Gold Mine	Shangrao, Jiangxi	June 2011
Shangrao Jintian Gold Mine	Shangrao, Jiangxi	October 2012
Chifeng Jinchan Mining Company Limited Gold Mine	Chifeng, Inner Mongolia	January 2015
Shangshanghe Gold Mine	Nanyang, Henan	October 2012
Laowan Gold Mine	Nanyang, Henan	April 2011
Beiyangzhuang Polymetallic Mine *(note i)*	Nanyang, Henan	August 2010
Istanbul Gold Mine	KR	February 2017
Exploration rights:		
Tielieke Gold Mine Prospecting	KR	December 2012
Harqin Banner Shijiaxiang Shuiquangou Gold Mine	Chifeng, Inner Mongolia	April 2011
Xiaobeigou Silver-polymetallic Mine of Linxi County	Chifeng, Inner Mongolia	May 2012
Qiaotou Gold Mine of Maiji Area of Tianshui City, Gansu Province	Tianshui, Gansu	May 2012
Chengnanshan Gold Mine of Shijia Town, Kalaqin County	Chifeng, Inner Mongolia	April 2012
Daziying Gold Mine of Longshan Town, Kalaqin County	Chifeng, Inner Mongolia	April 2011
Ganluchi Gold Mine Prospecting	Tianshui, Gansu	April 2012

Notes:

(i) The Group was in the process of applying for extension of the certificates of certain of its mining or exploration rights with an aggregate carrying value of approximately RMB13,223,000 (2009: RMB84,481,000) as at 31 December 2010. The directors are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned intangible assets.

(ii) The amortisation charge for the year is included in "cost of sales" in the consolidated income statement of the Group.

(c) During the year ended 31 December 2010, the carrying amount of certain exploration and evaluation assets of the Group was written down by RMB3,731,000 as the related exploration projects have been suspended.

Notes to the Financial Statements

18 Goodwill

	The Group RMB'000
Cost:	
At 1 January 2009	38,882
Additions	2,629
At 31 December 2009 and 31 December 2010	41,511
Accumulated impairment losses:	
At 1 January 2009 and 31 December 2009	–
Impairment loss	107
At 31 December 2010	107
Carrying amount:	
At 31 December 2010	41,404
At 31 December 2009	41,511

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units (CGU) identified according to business segment as follows:

	2010 RMB'000	2009 RMB'000
Mining	**41,404**	41,511

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Notes to the Financial Statements

18 Goodwill (continued)

Impairment tests for cash-generating units containing goodwill (continued)

Key assumptions used for value-in-use calculations:

	2010	2009
	%	%
Gross margin	**30**	30
Growth rate	**3**	3
Discount rate	**8.91**	8.89

Management determined the budgeted gross margin based on past performance and their expectation for market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rate used is pre-tax and reflect specific risks relating to the mining segment.

The impairment loss recognised during the year solely relates to the Group's certain mining project.

Notes to the Financial Statements

19 Lease prepayments

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**92,950**	88,992	**34,555**	30,162
Additions	**5,708**	6,101	**2,561**	5,081
Less: Disposal	**(95)**	–	**–**	–
Less: Amortisation	**(2,162)**	(2,143)	**(693)**	(688)
At 31 December	**96,401**	92,950	**36,423**	34,555

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Lease prepayments	**96,401**	92,950	**36,423**	34,555
Less: Current portion of lease prepayments included in other receivables, deposits and prepayments	**(2,162)**	(2,605)	**(693)**	(1,149)
	94,239	90,345	**35,730**	33,406

The Group's and the Company's leasehold land are located in the PRC. The Group and the Company were formally granted by the relevant PRC authorities certain rights to use the land on which the Group's and the Company's factories and infrastructures are erected for a period of 50 years.

Notes to the Financial Statements

20 Investments in subsidiaries

	The Company 2010 RMB'000	2009 RMB'000
Unlisted shares, at cost	**675,941**	675,941

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Details of the subsidiaries at 31 December 2010 are as follows:

Name of company	Type of legal entity	Place of incorporation and operation	Percentage of equity attributable to the Company Direct %	Indirect %	Issued and fully paid-up/ registered capital '000	Principal activities
Xinjiang Baoxin Mining Company Limited ("Xinjiang Baoxin")	Limited liability company	The PRC	80	20	RMB10,000	Sales of mineral products
Lingbao Hongxin Mining Limited Liability Company	Limited liability company	The PRC	80	–	RMB3,000	Exploration and processing of gold; sales of mineral products
Akesu District Xindi Mining Company Limited ("Akesu Xindi")	Limited liability company	The PRC	–	100	RMB10,000	Mining and exploration of mineral reserves
Jiangxi Mingxin Mining Company Limited	Limited liability company	The PRC	80	–	RMB5,000	Production and sales of precious metal products
Habahe Huatai Gold Limited Liability Company ("Habahe Huatai")	Limited liability company	The PRC	83.3	16.7	RMB9,800	Mining, processing and smelting of gold, production of gold products, sales of gold bullion products, machinery, equipment and components for gold processing
Tongbai Xingyuan Mining Company Limited	Limited liability company	The PRC	100	–	RMB17,000	Geological exploration of mineral reserves

Notes to the Financial Statements

20 Investments in subsidiaries (continued)

Name of company	Type of legal entity	Place of incorporation and operation	Percentage of equity attributable to the Company Direct %	Indirect %	Issued and fully paid-up/ registered capital '000	Principal activities
Shangrao County Jintian Industrial Company Limited	Limited liability company	The PRC	100	–	RMB38,000	Mining and exploration of mineral reserves, processing and smelting of gold, further processing and sales of gold products
Chi Feng City Zheng Ji Mining Limited Company	Limited liability company	The PRC	80	–	RMB15,131	Processing of metallurgy products, sales of mineral products
Lingbao Gold International Company Limited	Limited liability company	Hong Kong	100	–	HKD50,000	Investment holding
Wuyuan County Jincheng Mining Company Limited	Limited liability company	The PRC	100	–	RMB500	Sales of mineral products
Chifeng Jinchan Mining Company Limited ("Chifeng Jinchan")	Limited liability company	The PRC	100	–	RMB20,000	Mining and exploration of mineral reserves
Chifeng Lingjin Mining Company Limited	Limited liability company	The PRC	80	–	RMB40,000	Mining and exploration of mineral reserves
Lingbao Yixin Mining Limited Liability Company ("Lingbao Yixin")	Limited liability company	The PRC	80 *(note i)*	–	RMB3,670	Mining and exploration of mineral reserves
Full Gold Mining Limited Liability Company ("Full Gold")	Limited liability company	Kyrgyz Republic	82	–	SOM33,300	Mining and exploration of mineral reserves
Palladex KR Limited Liability Company ("Palladex KR")	Limited liability company	Kyrgyz Republic	70	–	SOM1	Mining and exploration of mineral reserves
Beijing Phuyer Investment Co. Ltd. (Laos) ("Beijing Phuyer")	Limited liability company	The PRC	87	–	USD50	Mining and exploration of mineral reserves
Tianshui Hongwu Mining Development Company Limited ("Tianshui Hongwu")	Limited liability company	The PRC	74 *(note ii)*	–	RMB1,000	Mining and exploration of mineral reserves

Notes to the Financial Statements

20 Investments in subsidiaries (continued)

Name of company	Type of legal entity	Place of incorporation and operation	Percentage of equity attributable to the Company Direct %	Indirect %	Issued and fully paid-up/ registered capital '000	Principal activities
Lanzhou Lingjin Mining Limited Liability Company ("Lanzhou Lingjin")	Limited liability company	The PRC	–	100	RMB1,000	Mining and exploration of mineral reserves
Beijing Fushengda Investment Company Limited ("Beijing Fushengda")	Limited liability company	The PRC	100	–	RMB10,000	Investment holding
Lingbao Wason Copper-Foil Company Limited ("Wason Copper-Foil")	Limited liability company	The PRC	100	–	RMB180,000	Processing of copper products
Ha Mi Jiachang Mining Investment and Development Company Limited	Limited liability company	The PRC	–	100	RMB20,000	Mining and exploration of mineral reserves

Notes:

(i) Lingbao Yixin was acquired by the Group in June 2007. Pursuant to the sale and purchase agreement, the Group is entitled to an amount of initial profit which is equivalent to the Group's investment cost in Lingbao Yixin. Profit generated thereafter is shared between the Group and the non-controlling interests on a 55%: 45% basis.

(ii) Tianshui Hongwu was acquired by the Group in November 2007. Pursuant to the sale and purchase agreement, the Group is entitled to an amount of initial profit which is equivalent to the Group's investment cost in Tianshui Hongwu. Profit generated thereafter is shared between the Group and the non-controlling interests shareholder on a 60%: 40% basis.

21 Other investments

	The Group and the Company 2010 RMB'000	2009 RMB'000
Unlisted investment, at cost	**10,504**	10,504

It represents the Group's and the Company's 5% equity interest in a PRC domiciled enterprise which is mainly engaged in geological exploration, mining, processing, sales of gold, as well as research, development, production and sale of artificial industrial diamonds. There is no quoted market price for such equity securities and a reasonable estimate of the fair value could not be made without incurring excessive costs.

Notes to the Financial Statements

22 Investment deposit

	The Group and the Company	
	2010	2009
	RMB'000	RMB'000
Investment deposit	**80,000**	80,000
Less: Impairment losses	**(80,000)**	(80,000)
	–	–

During the year ended 31 December 2007, an investment deposit of RMB80,000,000 was paid to an independent third party, Beijing Jiuyi Investment Company Limited ("Beijing Jiuyi"), for acquiring 56.25% interest of a company with mining assets situated in Gansu Province, the PRC. The relevant agreements in connection with this acquisition expired on 31 October 2009 and the acquisition had not been completed as at 31 December 2009. The directors considered that the investment deposit of RMB80,000,000 would not be recoverable and accordingly, an impairment loss of RMB80,000,000 was made in the financial statements for the year ended 31 December 2009.

23 Income tax in the balance sheet

(a) Current taxation in the balance sheet represents:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC income tax payable/(recoverable)	**31,140**	1,732	**16,766**	(10,464)
Representing:				
PRC income tax				
– Recoverable	**–**	(12,583)	**–**	(10,464)
– Payable	**31,140**	14,315	**16,766**	–
	31,140	1,732	**16,766**	(10,464)

Notes to the Financial Statements

23 Income tax in the balance sheets (continued)

(b) Deferred tax assets and liabilities recognised:

(i) The Group

The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheet and the movements during the year are as follows:

	Depreciation of property, plant and equipment	Amortisation of other intangibles	Provision for doubtful debt, salary and other employee benefits	Tax losses *(note)*	Inventories	Financial instruments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax arising from:							
At 1 January 2009	7,889	4,738	15,936	10,014	11,973	214	50,764
Exchange adjustments	214	51	25	(443)	–	–	(153)
Credited/(charged) to profit or loss	6,621	1,464	32,923	7,042	(6,320)	(1,695)	40,035
Acquisition through business combination	–	(8,146)	–	–	–	–	(8,146)
At 31 December 2009	14,724	(1,893)	48,884	16,613	5,653	(1,481)	82,500
At 1 January 2010	**14,724**	**(1,893)**	**48,884**	**16,613**	**5,653**	**(1,481)**	**82,500**
Exchange adjustments	**289**	**652**	**49**	**(671)**	**–**	**–**	**319**
Credited/(charged) to profit or loss	**2,039**	**638**	**7,525**	**(6,957)**	**3,872**	**1,481**	**8,598**
At 31 December 2010	**17,052**	**(603)**	**56,458**	**8,985**	**9,525**	**–**	**91,417**

Notes to the Financial Statements

23 Income tax in the balance sheets (continued)

(b) Deferred tax assets and liabilities recognised (continued):

(ii) The Company

	Depreciation of property, plant and equipment RMB'000	Amortisation of other intangibles RMB'000	Provision for doubtful debt, salary and other employee benefits RMB'000	Inventories RMB'000	Financial instruments RMB'000	Total RMB'000
At 1 January 2009	355	2,135	11,994	8,309	214	23,007
(Charged)/credited to profit or loss	(286)	168	31,862	(7,321)	(1,695)	22,728
At 31 December 2009	69	2,303	43,856	988	(1,481)	45,735
At 1 January 2010	**69**	**2,303**	**43,856**	**988**	**(1,481)**	**45,735**
Credited/(charged) to profit or loss	**116**	**104**	**6,082**	**(436)**	**1,481**	**7,347**
At 31 December 2010	**185**	**2,407**	**49,938**	**552**	**–**	**53,082**

	The Group		The Company	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Net deferred tax asset recognised on the balance sheet	**99,055**	90,889	**53,082**	45,735
Net deferred tax liability recognised on the balance sheet	**(7,638)**	(8,389)	**–**	–
	91,417	82,500	**53,082**	45,735

Notes to the Financial Statements

23 Income tax in the balance sheets (continued)

(b) Deferred tax assets and liabilities recognised (continued):

(ii) The Company (continued)

Note: In accordance with the accounting policy set out in note 1(o), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB107,364,000 as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses will expire in 5 years under current tax legislations:

	RMB'000
2011	7,389
2012	8,190
2013	24,533
2014	28,987
2015	38,265
	107,364

24 Inventories

(a) Inventories in the balance sheets comprise:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**870,284**	555,813	**785,293**	529,826
Work in progress	**65,149**	42,390	**21,423**	19,484
Finished goods	**160,604**	116,558	**141,816**	117,094
Spare parts and materials	**71,182**	44,640	**20,827**	19,568
	1,167,219	759,401	**969,359**	685,972

(b) The analysis of the amount of inventories recognised as an expense is as follows:

	The Group	
	2010	2009
	RMB'000	RMB'000
Carrying amount of inventories sold	**4,013,319**	3,239,685
Write down of inventories	**876**	2,282
Reversal of write-down of inventories	**(2,282)**	(35,899)
Write off of inventories	**7,403**	–
	4,019,316	3,206,068

Notes to the Financial Statements

25 Trade and other receivables, deposits and prepayments

Trade and other receivables, deposits and prepayments comprise:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**224,271**	69,125	**46,153**	3,057
Bills receivables	**65,146**	37,031	**10,924**	2,150
Less: Allowance for doubtful debts	**(3,699)**	(4,152)	**(3,005)**	(3,005)
	285,718	102,004	**54,072**	2,202
Other receivables, deposits and prepayments	**191,907**	142,822	**61,808**	57,526
Less: Allowance for doubtful debts	**(1,119)**	(2,863)	**(1,080)**	(805)
	190,788	139,959	**60,728**	56,721
Purchase deposits *(note 25(d))*	**148,249**	127,761	**148,249**	127,761
Less: Allowance for non-delivery	**(20,084)**	(14,393)	**(20,084)**	(14,393)
	128,165	113,368	**128,165**	113,368
Derivative financial assets *(note 25(e))*	**–**	15,766	**–**	15,766
Deposits for derivative financial instruments *(note 25(e))*	**44,287**	121,973	**40,807**	119,604
Amount due from Beijing Jiuyi *(note 25(f))*	**–**	47,900	**–**	47,900
	44,287	185,639	**40,807**	183,270
	648,958	540,970	**283,772**	355,561

All of the trade and other receivables, deposits and prepayments are expected to be recovered within one year.

Notes to the Financial Statements

25 Trade and other receivables, deposits and prepayments (continued)

(a) Ageing analysis

An ageing analysis of trade and bills receivables (net of allowance for doubtful debts) as of the balance sheet date is as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within three months	**238,102**	75,175	**47,674**	861
Over three months but less than six months	**43,452**	26,785	**5,695**	1,341
Over six months but less than one year	**4,164**	44	**703**	–
At 31 December	**285,718**	102,004	**54,072**	2,202

The Group requests customers to pay cash or settle by bills in full prior to delivery of goods. Subject to negotiation, credit term of a maximum of 180 days is only available for certain major customers with well-established trading records.

(b) Trade and bills receivables that are not impaired

The ageing analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired are as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither past due nor impaired	**281,554**	101,960	**53,369**	2,202
Less than one year past due	**4,164**	44	**703**	–
	285,718	102,004	**54,072**	2,202

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

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

Notes to the Financial Statements

25 Trade and other receivables, deposits and prepayments (continued)

(c) Impairment of trade and other receivables

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivables directly (see note 1(j)(i)).

Movements in the allowance for doubtful receivables during the year are as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**7,015**	4,644	**3,810**	2,105
Impairment loss recognised	**325**	5,542	**325**	3,005
Impairment loss written back	**(2,522)**	(3,166)	**(50)**	(1,300)
Uncollectible amounts written off	**–**	(5)	**–**	–
At 31 December	**4,818**	7,015	**4,085**	3,810

At 31 December 2010, the Group's and the Company's trade and other receivables of RMB4,818,000 (2009: RMB7,015,000) and RMB4,085,000 (2009: RMB3,810,000) respectively were individually determined to be impaired.

(d) Purchase deposits

Purchase deposits represent the amounts paid by the Group and the Company in advance to suppliers to secure timely and stable supply of mineral sand for the purposes of refining in future periods. The directors of the Company consider that appropriate procedures have been taken by the Group and the Company to assess the capabilities of the suppliers to supply mineral sand and expect that the purchase deposits would be gradually recovered through future purchases of mineral sand from the respective suppliers.

Notes to the Financial Statements

25 Trade and other receivables, deposits and prepayments (continued)

(e) Deposits for derivative financial instruments

The Group and the Company had respectively placed deposits of RMB44,287,000 (2009: RMB121,973,000) and RMB40,807,000 (2009: RMB119,604,000) with independent futures trading agents for commodity derivative contracts entered into by the Group and the Company in the normal course of business primarily to protect the Group and the Company from the impact of price fluctuations in gold and copper commodities. The notional amounts of the Group's and the Company's commodity derivative contracts at 31 December 2010 and 2009 were as follows:

	The Group and the Company	
	2010	2009
	RMB'000	RMB'000
Future commodity contracts		
– Buy	**–**	–
– Sell	**–**	616,337

The net unrealised gains on the Group's commodity derivative contracts remeasured at fair value as at 31 December 2010 and 31 December 2009 recognised in the profit or loss for the year ended 31 December 2010 are as follows:

	2010	2009
	RMB'000	RMB'000
Derivative financial assets	**–**	15,766
Derivative financial liabilities *(note 30)*	**–**	(9,844)
Net unrealised gains *(note 5)*	**–**	5,922

Notes to the Financial Statements

25 Trade and other receivables, deposits and prepayments (continued)

(f) Amount due from Beijing Jiuyi

	The Group and the Company	
	2010	2009
	RMB'000	RMB'000
Amount due from Beijing Jiuyi	**30,800**	78,700
Less: Impairment losses	**(30,800)**	(30,800)
	–	47,900

According to a supplementary agreement entered into between the Company and Beijing Jiuyi regarding the extension of compensation payment for a proposed acquisition, Beijing Jiuyi should pay RMB108,700,000 to the Company in two instalments.

During the year ended 31 December 2009 and 2010, Beijing Jiuyi has settled RMB30,000,000 and RMB47,900,000 respectively to the Company. The directors considered that the remaining balance of RMB30,800,000 would not be recoverable and accordingly, an impairment loss on the remaining balance amounting to RMB30,800,000 was provided as at ended 31 December 2010 and 2009.

26 Non-current prepayments

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments for purchase of property, plant and equipment and construction of mining shafts	**67,096**	117,794	**29,846**	6,022
Prepayments for acquisition of mining and exploration assets	**2,630**	2,060	**–**	–
Prepayments for acquisition of land use rights	**20,527**	–	**18,760**	–
	90,253	119,854	**48,606**	6,022

Notes to the Financial Statements

27 Cash and cash equivalents

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**323,712**	685,321	**252,187**	476,189

28 Interest-bearing borrowings

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current portion:				
Bank loans *(note 29)*	**1,393,000**	815,995	**1,290,000**	740,000
Other loan	**3,270**	–	**3,270**	–
	1,396,270	815,995	**1,293,270**	740,000
Non-current portion:				
Bank loans *(note 29)*	**1,184,142**	1,694,350	**520,000**	1,110,000
Other loan	**–**	3,270	**–**	3,270
	1,184,142	1,697,620	**520,000**	1,113,270

Notes to the Financial Statements

29 Bank loans

At 31 December 2010, the bank loans were repayable as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year or on demand	**1,393,000**	815,995	**1,290,000**	740,000
Over one year but within two years	**500,000**	736,826	**470,000**	730,000
Over two years but within five years	**323,000**	713,143	**50,000**	380,000
Over five years	**361,142**	244,381	**–**	–
	1,184,142	1,694,350	**520,000**	1,110,000
	2,577,142	2,510,345	**1,810,000**	1,850,000

At 31 December 2010, the bank loans were secured as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank loans				
– secured	**361,142**	371,350	**–**	–
– unsecured	**2,216,000**	2,138,995	**1,810,000**	1,850,000
	2,577,142	2,510,345	**1,810,000**	1,850,000

At 31 December 2010, bank loans of the Group amounting to RMB361,142,000 (2009: RMB371,350,000) were secured by a mining right with carrying amount of RMB118,070,000 (2009: RMB129,689,000) and the ordinary shares of a subsidiary established in the KR.

Notes to the Financial Statements

30 Trade and other payables

Current trade and other payables:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**164,200**	72,187	**147,736**	63,228
Other payables	**145,093**	143,479	**28,412**	39,895
Payable for mining rights	**92,594**	92,300	**–**	–
Salary and welfare payable	**57,234**	39,281	**34,060**	23,174
Deferred income	**43,411**	31,560	**27,532**	21,700
Accruals	**14,796**	18,688	**11,829**	11,602
Interest payable	**12,994**	12,884	**3,277**	3,254
Receipts in advance	**7,408**	2,888	**7,402**	2,888
Derivative financial liabilities *(note 25(e))*	**–**	9,844	**–**	9,844
Payable to non-controlling interests *(note (a))*	**9,805**	–	**–**	–
	547,535	423,111	**260,248**	175,585
Non-current other payables				
Payable for mining rights	**7,869**	12,900	**–**	–
Decommissioning costs	**4,410**	4,706	**–**	–
Payable to non-controlling interests *(note (a))*	**18,345**	28,945	**–**	–
	30,624	46,551	**–**	–

(a) The amount payable to non-controlling interests is unsecured, interest-free and repayable on 1 April 2011 and 24 June 2012 respectively.

Notes to the Financial Statements

30 Trade and other payables (continued)

Included in trade and other payables are trade creditors with the following ageing analysis as of the balance sheet date:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within three months	**155,732**	64,513	**142,383**	59,163
Over three months but less than six months	**3,898**	3,044	**2,521**	1,361
Over six months but less than one year	**1,946**	1,784	**748**	391
Over one year but less than two years	**813**	1,837	**298**	1,304
Over two years	**1,811**	1,009	**1,786**	1,009
	164,200	72,187	**147,736**	63,228

31 Loan from ultimate holding company

The loan was provided by Lingbao State-owned Assets Operation Limited Liability Company (靈寶市國有資產經營有限責任公司) and assumed by the Group upon the acquisition of Wason Copper-Foil during the year ended 31 December 2008. The loan is unsecured, interest-free and repayable on demand.

Notes to the Financial Statements

32 Capital and reserve

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company

	Share capital *(note 32(b))* RMB'000	Share premium *(note (i))* RMB'000	PRC Statutory reserves *(note (ii))* RMB'000	Capital reserve RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2009	154,050	827,931	103,899	32,334	588,598	1,706,812
Change in accounting policies *(note 2(b))*	–	–	–	(32,334)	32,334	–
At 1 January 2009, as adjusted	154,050	827,931	103,899	–	620,932	1,706,812
Total comprehensive income for the year	–	–	–	–	102,930	102,930
Profit appropriation	–	–	13,548	–	(13,548)	–
At 31 December 2009	154,050	827,931	117,447	–	710,314	1,809,742
At 1 January 2010	**154,050**	**827,931**	**117,447**	**–**	**710,314**	**1,809,742**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**234,143**	**234,143**
Profit appropriation	**–**	**–**	**20,694**	**–**	**(20,694)**	**–**
Dividends approved in respect of the previous year	**–**	**–**	**–**	**–**	**(38,512)**	**(38,512)**
At 31 December 2010	**154,050**	**827,931**	**138,141**	**–**	**885,251**	**2,005,373**

Notes to the Financial Statements

32 Capital and reserve (continued)

(a) Movements in components of equity (continued)

Notes:

(i) Share premium

The share premium represents the difference between the total amount of the par value of shares issued and the amount of the net proceeds received upon the global initial public offering. The application of the share premium account is governed by sections 168 and 169 of the PRC Company Law.

(ii) PRC statutory reserves

Transfers from retained earnings to the PRC statutory reserves were made in accordance with the relevant PRC rules and regulations and articles of association of the Company and its subsidiaries incorporated in the PRC and were approved by the respective boards of directors.

The Company and the subsidiaries incorporated in the PRC are required to transfer 10% of their net profit, as determined in accordance with the PRC accounting standards and regulations, to the statutory surplus reserve (the "SSR") until the reserve balance reaches 50% of the registered capital. Subject to certain restrictions as set out in the relevant PRC regulations, the SSR may be converted to increase the share capital of the Company, provided that the remaining balance after the capitalisation is not less than 25% of the registered share capital.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of overseas operations. The reserve is dealt with in accordance with the accounting policies set out in note 1(w).

(iv) Other reserve

The excess of purchase consideration on acquisition of non-controlling interests over the carrying value of the share of net assets acquired are charged to other reserve.

Notes to the Financial Statements

32 Capital and reserve (continued)

(b) Share capital

	2010 Number of shares	2010 RMB'000	2009 Number of shares	2009 RMB'000
Registered, issued and fully paid:				
Domestic state-owned shares of RMB0.20 each	**472,975,091**	**94,595**	472,975,091	94,595
H shares of RMB0.20 each	**297,274,000**	**59,455**	297,274,000	59,455
At 1 January and 31 December	**770,249,091**	**154,050**	770,249,091	154,050

The holders of Domestic shares and H shares are entitled to receive dividends as and when declared by the Company. All Domestic shares and H shares are ordinary shares and rank pari passu with the same rights and benefits.

(c) Distributability of reserves

According to the Listing Rules of the Main Board of the Stock Exchange, the amount of retained profits available for distribution to shareholders of the Company is the lower of the amount determined in accordance with the PRC Accounting Rules and Regulations and the amount determined in accordance with HKFRSs. At 31 December 2010, the amount of retained profits available for distribution was RMB885,251,000, being the amount determined in accordance with HKFRSs (2009: RMB710,314,000). After the balance sheet date, the directors proposed a final dividend of RMB0.10 (2009: RMB0.05) per share, amounting to RMB77,024,909 (2009: RMB38,512,455). This dividend has not been recognised as a liability at the balance sheet date.

(d) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in the light of changes in economic conditions.

Consistent with industry practice, the Group monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. For this purpose the Group defines net debt as total debt (which includes interest-bearing loans and borrowings, trade and other payables plus unaccrued proposed dividends, less cash and cash equivalents). Adjusted capital comprises all components of equity less unaccrued proposed dividends.

Notes to the Financial Statements

32 Capital and reserve (continued)

(d) Capital management (continued)

In order to maintain or adjust the ratio, the Group may adjust the amount of dividends payable to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The net debt-to-adjusted capital ratio at 31 December 2010 and 2009 was as follows:

		The Group		The Company	
		2010	2009	**2010**	2009
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Current liabilities:					
– Trade and other payables	*30*	**547,535**	423,111	**260,248**	175,585
– Interest-bearing borrowings	*28*	**1,396,270**	815,995	**1,293,270**	740,000
– Loan from ultimate holding company	*31*	**23,800**	23,800	**–**	–
		1,967,605	1,262,906	**1,553,518**	915,585
Non-current liabilities:					
– Other payables	*30*	**30,624**	46,551	**–**	–
– Interest-bearing borrowings	*28*	**1,184,142**	1,697,620	**520,000**	1,113,270
		1,214,766	1,744,171	**520,000**	1,113,270
Total debt		**3,182,371**	3,007,077	**2,073,518**	2,028,855
Add: Proposed dividends	*12(a)*	**77,025**	38,512	**77,025**	38,512
Less: Cash and cash equivalents	*27*	**(323,712)**	(685,321)	**(252,187)**	(476,189)
Net debt		**2,935,684**	2,360,268	**1,898,356**	1,591,178
Total equity		**2,098,986**	1,882,137	**2,005,373**	1,809,742
Less: Proposed dividends	*12(a)*	**(77,025)**	(38,512)	**(77,025)**	(38,512)
Adjusted capital		**2,021,961**	1,843,625	**1,928,348**	1,771,230
Net debt-to-adjusted capital ratio		**145%**	128%	**98%**	90%

Notes to the Financial Statements

32 Capital and reserve (continued)

(d) Capital management (continued)

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

33 Commitments and contingencies

(a) Capital commitments, representing purchase of property, plant and equipment and intangible assets outstanding at 31 December 2010 not provided for in the financial statements were as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Authorised and contracted for	**100,835**	230,725	**20,289**	54,645
Authorised but not contracted for	**239,297**	295,781	**114,648**	120,795
	340,132	526,506	**134,937**	175,440

(b) At 31 December 2010, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2010	2009
	RMB'000	RMB'000
Within one year	**2,396**	900
After one year but within five years	**6,650**	1,660
After five years	**398**	500
	9,444	3,060

The Group is the leasee in respect of a number of properties under operating leases. The leases typically run for an initial period of one to ten years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

Notes to the Financial Statements

33 Commitments and contingencies (continued)

(c) Environmental contingencies

To date, the Company and the Group's subsidiaries in the PRC have not incurred any significant expenditures for environment remediation and is currently not involved in any environmental remediation. In addition, the Company and the Group's subsidiaries in the PRC have not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, has moved and may move further towards more rigorous enforcement of applicable laws and towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include: (i) the exact nature and extent of the contamination at various sites including, but not limited to mines, concentrators and smelting plants whether they are operating, closed and sold; (ii) the extent of required cleanup efforts; (iii) varying costs of alternative remediation strategies; (iv) changes in environmental remediation requirements; and (v) the identification of new remediation sites. The amount of such future costs is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed or future environmental legislation cannot be reasonably estimated at present, and could be material. The Group paid normal routine pollutant discharge fee and environmental rehabilitation expenses of RMB2,141,000 (2009: RMB1,801,000) and RMB13,282,000 (2009: RMB10,485,000) respectively for the year ended 31 December 2010.

In accordance with the laws and regulations of the KR, the Group's subsidiary in the KR has present obligation with regards to dismantling of mine site facilities and equipment and site rehabilitation. Provision for decommissioning costs of RMB4,410,000 (2009: RMB4,706,000) was made in the financial statements for the year ended 31 December 2010. The Group's subsidiary in the KR does not have present obligation in respect of reclamation of damage incurred to the land as there are no mining activities carried out in 2010.

Notes to the Financial Statements

34 Financial risk management and fair values

Exposure to gold price, other commodity price, interest rate, credit, liquidity and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities or financial products. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The carrying amounts of cash and cash equivalents, deposits, investments, trade and other receivables, prepayment and deposits represent the Group's maximum exposure to credit risk in relation to these financial assets. Substantially all of the Group's cash and cash equivalents are held in major financial institutions located in Hong Kong and the PRC, which management believes are of high credit quality.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent.

The Group's major customers are Shanghai Gold Exchange and metallurgical companies in the PRC, which accounted for significant amounts of the Group's total revenues during the year. The Group has no significant credit risk with any of these customers since the Group maintain long-term and stable business relationships with these customers. Normally, the Group does not obtain collateral from customers.

At the balance sheet date, the Group has a certain concentration of credit risk on trade receivables as 20% (2009: 21%) and 55% (2009: 71%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

In addition, the Group made purchase deposits of RMB128,165,000 (net of provision) (2009: RMB113,368,000) at 31 December 2010 to suppliers to secure its supplies of mineral sand which is the major raw materials in the smelting process. The balance represented 6.0% (2009: 5.7%) of the total current assets at 31 December 2010. The Group believes that the purchase deposits will be recovered through purchases from these suppliers in future periods. In the event that these suppliers ceased to provide mineral sand to the Group, the Group may expose itself to significant credit risk arising from the recoverability of the purchase deposits and hence the profitability will be adversely affected.

Notes to the Financial Statements

34 Financial risk management and fair values (continued)

(a) Credit risk (continued)

In 2009, impairment losses on investment deposits of RMB80,000,000 (see note 22) and other receivables of RMB30,800,000 (see note 25(f)) were made in the financial statements. The management will continue to monitor the progress of the acquisition of the investments and chase for settlement of the outstanding balances from the debtor regularly. Management will consider to carry out due diligence work on the proposed acquisition before investment decision is made in order to reduce the related credit risk.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. The Group does not provide any other guarantees which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 25.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due. The Group's approach in managing liquidity is to ensure, as far as possible, that it will always have sufficient funding to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk damage to the Group's reputation.

The Group closely monitors cash flow requirements and optimising its cash return. The Group prepares cash flow forecasts and ensures it has sufficient cash for the servicing of operation, financial, and capital obligations. This excludes the potential impact of extreme circumstances that cannot be reasonably predicted, such as natural disasters.

Notes to the Financial Statements

34 Financial risk management and fair values (continued)

(b) Liquidity risk (continued)

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

The Group

	2010 Contractual undiscounted cash outflow						2009 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Bank loans	1,489,744	548,509	516,608	191,265	2,746,126	2,577,142	908,626	794,039	770,769	260,125	2,733,559	2,510,345
Other loan	3,270	–	–	–	3,270	3,270	381	381	1,142	2,281	4,185	3,270
Trade and other payables	548,180	–	–	–	548,180	547,535	426,787	–	–	–	426,787	423,111
Tax payable	31,140	–	–	–	31,140	31,140	14,315	–	–	–	14,315	14,315
Loan from ultimate holding company	23,800	–	–	–	23,800	23,800	23,800	–	–	–	23,800	23,800
Non-current other payables	–	4,945	21,913	4,410	31,268	30,624	–	15,027	28,108	4,706	47,841	46,551
	2,096,134	553,454	538,521	195,675	3,383,784	3,213,511	1,373,909	809,447	800,019	267,112	3,250,487	3,021,392

The Company

	2010 Contractual undiscounted cash outflow						2009 Contractual undiscounted cash outflow					
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Total RMB'000	Balance sheet carrying amount RMB'000
Bank loans	1,349,330	478,113	51,352	–	1,878,795	1,810,000	809,101	764,987	384,577	–	1,958,665	1,850,000
Other loan	3,270	–	–	–	3,270	3,270	381	381	1,142	2,281	4,185	3,270
Trade and other payables	260,248	–	–	–	260,248	260,248	175,585	–	–	–	175,585	175,585
Tax payable	16,766	–	–	–	16,766	16,766	–	–	–	–	–	–
Amounts due to subsidiaries	60,694	–	–	–	60,694	60,694	51,691	–	–	–	51,691	51,691
	1,690,308	478,113	51,352	–	2,219,773	2,150,978	1,036,758	765,368	385,719	2,281	2,190,126	2,080,546

Notes to the Financial Statements

34 Financial risk management and fair values (continued)

(c) Interest rate risk

The Group's interest rate risk arises primarily from interest-bearing borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The management monitors interest rate exposures and will consider hedging significant interest rate risk should the need arise. The Group's interest rate profile as monitored by management is set out below.

(i) Interest rate profile

The following table details the interest rate profile of the Group's and the Company's net borrowings at the balance sheet date.

	The Group				The Company			
	2010		2009		**2010**		2009	
	Interest rate %	**RMB'000**	Interest rate %	RMB'000	**Interest rate %**	**RMB'000**	Interest rate %	RMB'000
Net fixed rate borrowings:								
Bank loans	**4.62~5.81**	**450,000**	4.78~5.31	305,995	**4.62~5.00**	**360,000**	4.78~5.31	230,000
Net variable rate borrowings:								
Bank loans	**4.86~5.96**	**2,127,142**	4.51~5.76	2,204,350	**4.86~5.60**	**1,450,000**	4.51~5.40	1,620,000
Other loan	**3.05**	**3,270**	2.55	3,270	**3.05**	**3,270**	2.55	3,270
Less: Cash and cash equivalents	**0.02~1.17**	**(323,712)**	0.10~1.17	(685,321)	**0.36~1.17**	**(252,187)**	0.36~1.17	(476,189)
		1,806,700		1,522,299		**1,201,083**		1,147,081
Total net borrowings		**2,256,700**		1,828,294		**1,561,083**		1,377,081
Net fixed rate borrowings as a percentage of total net borrowings		**20%**		17%		**23%**		17%

Notes to the Financial Statements

34 Financial risk management and fair values (continued)

(c) Interest rate risk (continued)

(ii) Sensitivity analysis

At 31 December 2010, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained profits by approximately RMB14,391,000 (2009: RMB11,834,000). Other components of consolidated equity would not be affected by the changes in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet date, the impact on the Group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2009.

(d) Commodity price and foreign currency risk

Gold price risk arises from the risk of an adverse effect on current or future earnings resulting from fluctuations in the price of gold. The international gold market is predominately priced in US dollars which exposes the Group to the risk that fluctuations in RMB/US dollar exchange rates may also have an adverse effect on current or future earnings. The Group is also exposed to certain by-product commodity price risk.

A number of products, including derivatives, are used to manage the gold and copper price risks that arise out of the Group's core business activities. Commodity derivative contracts are entered into with independent futures trading agents and commodity-linked financial instruments are used by the Group to manage these risks. Details of commodity derivative contracts entered by the Group are disclosed in note 25(e) to these financial statements.

Notes to the Financial Statements

34 Financial risk management and fair values (continued)

(d) Commodity price and foreign currency risk (continued)

The Group is exposed to currency risk primarily through bank deposits, trade and other receivables, trade and other payables and bank loans that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States dollars ("USD").

(i) Exposure to currency risk

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entities to which they relate. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated of the financial statements of foreign operations into the Group's presentation currency.

The Group

	Exposure to foreign currencies (expressed in Renminbi)	
	2010	2009
	USD	USD
	RMB'000	RMB'000
Trade and other receivables	**40,466**	4,063
Cash and cash equivalents	**8,129**	47,070
Trade and other payables	**(148,461)**	(102,725)
Non-current other payables	**(18,345)**	(28,945)
Bank loans	**(361,142)**	(371,454)
Overall net exposure	**(479,353)**	(451,991)

Notes to the Financial Statements

34 Financial risk management and fair values (continued)

(d) Commodity price and foreign currency risk (continued)

(ii) Exposure to currency risk (continued)

The Company

	Exposure to foreign currencies (expressed in Renminbi)	
	2010	2009
	USD	USD
	RMB'000	RMB'000
Amounts due from subsidiaries	**169,622**	160,001
Overall net exposure	**169,622**	160,001

(iii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant.

The Group

	2010		2009	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit after tax and retained profits**	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits
	%	**RMB'000**	%	RMB'000
USD	**3**	**(13,008)**	3	(12,178)
	(3)	**13,008**	(3)	12,178

Result of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the balance sheet date for presentation purposes.

Notes to the Financial Statements

34 Financial risk management and fair values (continued)

(d) Commodity price and foreign currency risk (continued)

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations in the Group's presentation currency. The analysis is performed on the same basis for 2009.

(e) Business risk

(i) Business risk related to suppliers

During the year ended 31 December 2010, the Group's supplies of direct materials from independent third parties for smelting represent 88.7% (2009: 88.0%) of the Group's total direct materials, in which, the top five suppliers in 2010 represent 28.6% (2009: 31.4%) of the Group's total direct materials. Although the Group believes that it maintains good relationships with its suppliers, there can be no assurance that its suppliers will continue to sell to the Group on normal commercial terms as and when needed. In the event that these suppliers ceased to sell to the Group and the Group could not secure other sources of supply, the Group's turnover and profitability will be adversely affected.

(ii) Business risk related to political and economic environment in the KR

The KR has been experiencing political and economic change that has affected, and may continue to affect, the activities of the Company's subsidiaries, Full Gold and Palladex KR, operating under such environment. The contraction in the capital and credit markets and its impact on the economy of the KR have increased the level of economic uncertainty in the environment. Consequently, operations in the KR involve business risks that typically do not exist in other markets.

Notes to the Financial Statements

34 Financial risk management and fair values (continued)

(e) Business risk (continued)

As at 31 December 2010, the Company holds 82% and 70% equity interests in Full Gold and Palladex KR, respectively. The aggregated summarised financial information of Full Gold and Palladex KR at 100 per cent as at 31 December 2010 are as follows:

	At 31 December 2010 RMB'000
Current assets	**75,940**
Non-current assets	**646,270**
Total assets	**722,210**
Current liabilities	**351,843**
Non-current liabilities	**391,534**
Total liabilities	**743,377**

The management has assessed the impact of the KR business environment and concluded that there is no material impact on the operations and financial positions of Full Gold and Palladex KR as at 31 December 2010. The future business environment may differ from management's assessment as at 31 December 2010.

(f) Equity price risk

The objective of equity risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Group and the Company are exposed to equity price changes arise from other investments held which are unlisted investments. Unquoted investments are held for long-term strategic purposes. Their performance is assessed at least annually based on the information available to the Group and the Company, together with an assessment of their relevance to the Group's and the Company's long-term strategic plans.

Notes to the Financial Statements

34 Financial risk management and fair values (continued)

(g) Fair value

(i) Financial instruments carried at fair value

The amendments to HKFRS 7, Financial Instruments: Disclosures require disclosures relating to fair value measurements of financial instruments across three levels of a fair value hierarchy. The fair value of each financial instrument is categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

– Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

– Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

– Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

At 31 December 2010, the Company and the Group didn't hold any financial instruments which fell into the fair value hierarchy described above. (At 31 December 2009, the Company and the Group held derivative financial instruments: commodity futures contracts carried at fair value of RMB15,766,000 which is recognised as derivative financial assets and RMB9,844,000 which is recognised as derivative financial liabilities. These derivative financial instruments fell into level 1 of the fair value hierarchy described above.)

(ii) All financial instruments carried at cost or amortised cost are carried at amounts not materially different from their fair values as at 31 December 2010 and 2009.

(h) Estimation of fair values

(i) Forward exchange contracts

The fair values of commodity futures contracts are marked to market using quoted market prices.

(ii) Interest-bearing loans and borrowings

Fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

Notes to the Financial Statements

35 Segment reporting

The Group manages its businesses by divisions, which are organised by a mixture of business lines (production processes, products and services) and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following four reportable segments. Operating segments with similar nature of the production process, products and services have been aggregated to form the following reportable segments.

Mining – PRC – Gold mining and mineral ores processing operations in the PRC

Mining – KR – Gold mining and mineral ores processing operations in the KR

Smelting – Gold and other metal smelting and refinery operations carried out in the PRC.

Processing – Copper processing operation carried out in the PRC.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets, deferred tax assets and current assets with the exception of investments in financial assets and other corporate assets managed by head office. Segment liabilities include trade creditors and accruals attributable to the activities of the individual segments and bank and other borrowings managed directly by the segments with the exception of bank borrowings managed by head office.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. However, other than reporting inter-segment sales of goods, assistance provided by one segment to another, including sharing of assets and technical know-how, is not measured.

Notes to the Financial Statements

35 Segment reporting (continued)

(a) Segment results, assets and liabilities (continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance of the year is set out below.

	Mining – PRC		Mining – KR		Smelting		Processing		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	–	–	–	–	4,462,989	3,767,503	378,547	199,225	4,841,536	3,966,728
Inter-segment revenue	817,770	795,235	–	–	343,439	120,765	–	–	1,161,209	916,000
Sales tax	(184)	(148)	–	–	(6,795)	(4,908)	(3)	(2)	(6,982)	(5,058)
Reportable segment revenue	817,586	795,087	–	–	4,799,633	3,883,360	378,544	199,223	5,995,763	4,877,670
Reportable segment profit/(loss)	262,560	240,089	(3,588)	(5,140)	418,844	388,095	34,737	21,042	712,553	644,086
Reportable segment assets	1,666,490	1,754,228	690,500	685,698	1,659,162	1,146,638	1,124,017	753,848	5,140,169	4,340,412
Reportable segment liabilities	852,511	816,014	711,667	669,981	276,080	232,213	905,525	553,403	2,745,783	2,271,611
Other segment information										
Interest expenses	(28,234)	(28,256)	(2,823)	(4,808)	(19,799)	(11,542)	(9,368)	(4,099)	(60,224)	(48,705)
Net foreign exchange losses	–	–	(41,327)	(29,908)	–	–	(1,120)	(4)	(42,447)	(29,912)
Depreciation and amortisation for the year	(115,278)	(149,396)	(157)	(4,086)	(36,349)	(640)	(21,457)	(11,219)	(173,241)	(165,341)
Reversal/(provision) of impairment on:										
– trade and other receivables	1,695	–	–	–	50	(2,376)	452	–	2,197	(2,376)
– purchase deposits	–	–	–	–	(5,691)	(1,300)	–	–	(5,691)	(1,300)
– intangible assets	(3,731)	–	–	–	–	–	–	–	(3,731)	–

Notes to the Financial Statements

35 Segment reporting (continued)

(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	2010 RMB'000	2009 RMB'000
Revenue		
Reportable segment revenue	**5,995,763**	4,877,670
Elimination of inter-segment revenue	**(1,161,209)**	(916,000)
Consolidated turnover	**4,834,554**	3,961,670
Profit		
Reportable segment profit	**712,553**	644,086
Elimination of inter-segment profits	**(59,979)**	(36,513)
Reportable segment profit derived from the Group's external customers	**652,574**	607,573
Other net loss	**(121,378)**	(191,327)
Finance costs	**(92,019)**	(96,466)
Unallocated head office and corporate expenses	**(52,923)**	(37,306)
Impairment losses on other receivables and investment deposits	**–**	(110,800)
Consolidated profit before taxation	**386,254**	171,674
Assets		
Reportable segment assets	**5,140,169**	4,340,412
Elimination of inter-segment receivables	**(260,082)**	(105,293)
Elimination of unrealised profits	**(51,419)**	(32,198)
	4,828,668	4,202,921
Other investments	**10,504**	10,504
Cash and cash equivalents managed by head office	**272,514**	405,331
Unallocated head office and corporate assets	**217,420**	293,162
Consolidated total assets	**5,329,106**	4,911,918

Notes to the Financial Statements

35 Segment reporting (continued)

(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities (continued)

	2010 RMB'000	2009 RMB'000
Liabilities		
Reportable segment liabilities	**2,745,783**	2,271,611
Elimination of inter-segment payables	**(260,082)**	(105,293)
	2,485,701	2,166,318
Unallocated head office and corporate liabilities	**735,448**	863,463
Consolidated total liabilities	**3,221,149**	3,029,781

36 Immediate and ultimate controlling party

At 31 December 2010, the directors consider the immediate parent and the ultimate controlling party of the Group to be Lingbao State-owned Assets Operation Limited Liability Company, a stated-owned enterprise established in the PRC. This entity does not produce financial statements available for public use.

37 Related party transactions

Particulars of transactions with related parties during the year ended 31 December 2010 are as follows:

(a) Transactions with state-controlled entities in the PRC

The Group is a state-controlled entity and operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC government ("state-controlled entities") through its government authorities, agencies, affiliations and other organisations.

Notes to the Financial Statements

37 Related party transactions (continued)

(a) Transactions with state-controlled entities in the PRC (continued)

Transactions with other state-controlled entities include but are not limited to the following:

– sales and purchase of goods and ancillary materials;

– rendering and receiving of utilities and other services;

– purchase of property, plant and equipment; and

– depositing and obtaining financial facilities.

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state-controlled. The Group has established its buying, pricing strategy and approval process for purchases and sales of products and services. Such buying, pricing strategy and approval processes do not depend on whether the counterparties are state-controlled entities or not.

Having considered the transactions potentially affected by related party relationships, the Group's pricing strategy, procurement policies and approval processes, and the information that would be necessary for an understanding of the potential effect of the related party relationship on the financial statements, the directors are of the opinion that the following related party transactions require disclosure of numeric details:

Transactions with state-controlled banks

The Group deposits its cash with several state-controlled banks in the PRC. The Group also obtains short-term and long-term loans from these banks in the ordinary course of business. The interest rates of the bank deposits and loans are regulated by the People's Bank of China. The Group's interest income generated from and interest expenses incurred to these state-controlled banks in the PRC are as follows:

	2010	2009
	RMB'000	RMB'000
Interest income	**3,667**	2,679
Interest expenses	**104,425**	103,978

Notes to the Financial Statements

37 Related party transactions (continued)

(a) Transactions with state-controlled entities in the PRC (continued)

The amounts of cash deposited at and loans from state-controlled banks in the PRC included in the following account captions are summarised as follows:

	At 31 December 2010 RMB'000	At 31 December 2009 RMB'000
Cash and cash equivalents at state-controlled banks in the PRC	**277,535**	502,542
Short-term loans and current portion of long-term loans	**1,313,000**	765,975
Long-term loans excluding current portion of long-term loans	**1,134,142**	1,644,350
Total loans from state-controlled banks in the PRC	**2,447,142**	2,410,325

(b) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors and supervisors as disclosed in note 9 is as follows:

	2010 RMB'000	2009 RMB'000
Short-term employee benefits	**6,153**	5,796
Post-employment benefits	**58**	53
	6,211	5,849

Total remuneration is included in "staff costs" (see note 6).

(c) The details of the loan from ultimate holding company as at 31 December 2010 and 2009 are set out in note 31.

Notes to the Financial Statements

38 Accounting estimates and judgements

Key sources of estimation uncertainty

Notes 18 and 34(h) contain information about the assumptions and their risk factors relating to valuation of goodwill impairment and fair value of financial assets. Other key sources of estimation uncertainty are as follows:

(i) Amortisation of intangible assets and Reserves estimates

As explained in notes 1(g) and 1(h), mining shafts, mining rights and exploration and evaluation assets are amortised using the units of production method based on the proved and probable mineral reserves.

Engineering estimates of the Group's gold reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. There is Chinese system, which is the national standard set by the PRC Government, regarding the engineering criteria that have to be met before estimated gold reserves can be designated as "proved and probable". Proved and probable gold reserve estimates are updated at regular basis and have taken into account recent production and technical information about each mine. In addition, as prices and cost levels change from year to year, the estimate of proved and probable gold reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation rates.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation expenses and impairment losses. Depreciation rates are determined based on estimated proved and probable gold reserve quantity (the denominator) and capitalised costs of mining shafts and mining rights (the numerator). The capitalised cost of mining shafts and mining rights are amortised based on the units of gold produced.

(ii) Impairments

In considering the impairment losses that may be required for certain of the Group's assets which include property, plant and equipment, construction in progress, lease prepayments, intangible assets, goodwill and investments in its subsidiaries, recoverable amount of the assets need to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the assets are discounted to their present value, which requires significant judgement relating to items such as level of sales volume, selling price and the amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sales volume, selling price and the amount of operating costs.

Notes to the Financial Statements

38 Accounting estimates and judgements (continued)

Key sources of estimation uncertainty (continued)

(ii) Impairments (continued)

In considering the impairment losses that may be required for current receivables, future cashflows need to be determined. One of the key assumptions that has to be applied is about the ability of the debtors to settle the receivables. Despite that the Group has used all available information to make this estimation, inherent uncertainty exists and actual write-offs may be higher than the amount estimated.

(iii) Net realisable value of inventories

Inventories are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale. In estimating the net realisable value, future cashflows need to be determined. One of the key estimates that has to be made is about the future selling price, it is possible that the recent selling price is not indicative of the future selling price. Any increase or decrease in selling price would affect profit or loss in future years.

(iv) Depreciation

Other than the mining shafts, mining rights and evaluation of exploration assets, property, plant and equipment and intangible assets are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews annually the useful life of an asset and its residual value, if any. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimation.

(v) Recognition of deferred tax assets

Deferred tax assets carried forward are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the balance sheet date. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involves a number of assumptions relating to the operating environment of the Group and requires significant level of judgement exercised by the directors. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised and hence the net profit in future years.

Notes to the Financial Statements

38 Accounting estimates and judgements (continued)

Key sources of estimation uncertainty (continued)

(vi) Financial statements of the Group's subsidiaries, Full Gold and Palladex KR

As discussed in note 34(e)(ii), the KR has been experiencing political and economic change that has affected, and may continue to affect, the activities of Full Gold and Palladex KR operating in the KR. The financial statements of Full Gold and Palladex KR prepared for consolidation purposes reflect management's assessment of the impact of the KR business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment as at 31 December 2010.

39 Non-adjusting events after the reporting period

(a) On 25 March 2011, the Company issued five-year Medium Term Notes of RMB400 million in the PRC. The notes are unsecured and will be redeemed on 25 March 2016, and bear a floating interest rate, which is based on the one-year deposit rate of the People's Bank of China plus a margin of 2.95% per annum.

(b) Pursuant to a resolution passed at the directors' meeting on 31 March 2011, a final dividend in respect of the year ended 31 December 2010 of RMB0.10 (2009: RMB0.05) per share totalling RMB77,024,909 (2009: RMB38,512,455) was proposed for shareholders' approval at the annual general meeting. Final dividend of RMB77,024,909 (2009: RMB38,512,455) proposed after the balance sheet date has not been recognised as a liability at the balance sheet date. Further details are disclosed in note 12.

Notes to the Financial Statements

40 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2010

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and Interpretations which are not yet effective for the year ended 31 December 2010 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
Revised HKAS 24, *Related party disclosures*	1 January 2011
HKFRS 9, *Financial Instruments*	1 January 2013
Amendments to HKAS 12, *Income taxes*	1 January 2011
Improvements to HKFRSs 2010	1 July 2010 or 1 January 2011

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

Five Years Summary

	Year ended 31 December				
	2010	2009	2008 (restated)	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets and liabilities					
Non-current assets	**3,189,217**	2,913,643	2,237,845	1,533,867	1,266,905
Net current assets	**141,144**	721,054	69,109	311,483	281,385
Total assets less current liabilities	**3,330,361**	3,634,697	2,306,954	1,845,350	1,548,290
Non-current liabilities	**1,222,404**	1,752,560	570,160	146,967	4,419
NET ASSETS	**2,107,957**	1,882,137	1,736,794	1,698,383	1,543,871
Share capital	**154,050**	154,050	154,050	154,050	154,050
Reserves	**1,912,871**	1,678,477	1,556,831	1,517,996	1,362,163
Total equity attributable to equity shareholders of the Company	**2,066,921**	1,832,527	1,710,881	1,672,046	1,516,213
Minority interests	**41,036**	49,610	25,913	26,337	27,658
TOTAL EQUITY	**2,107,957**	1,882,137	1,736,794	1,698,383	1,543,871
Operating results					
Turnover	**4,834,554**	3,961,670	3,599,089	2,844,560	2,234,975
Profit from operations	**478,273**	268,140	237,506	440,611	368,554
Finance costs	**(92,019)**	(96,466)	(107,599)	(101,613)	(31,213)
Profit before taxation	**386,254**	171,674	129,907	338,998	337,341
Income tax	**(128,377)**	(51,433)	(15,483)	(115,669)	(116,509)
Profit for the year	**257,877**	120,241	114,424	223,329	220,832
Attributable to:					
Equity shareholders of the Company	**266,451**	118,044	115,610	222,270	219,836
Minority interests	**(8,574)**	2,197	(1,186)	1,059	996
Profit for the year	**257,877**	120,241	114,424	223,329	220,832