LINGJIN
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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 2011

Contents

Corporate Information

Directors

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

Non-executive Director
Wang Yumin
Yang Liening

Independent Non-executive Directors
Yan Wanpeng
Du Liping
Xu Qiangsheng
Han Qinchun

Supervisors
Liu Shengmin
(Chairman of the Supervisory Committee)
Di Qinghua
Yao Shun
Zhu Zhisheng
Jiao Xiaoxiao

Audit Committee
Yan Wanpeng *(Chairman of the Audit Committee)*
Wang Yumin
Du Liping
Xu Qiangsheng
Han Qinchun

Nomination Committee
Mr. Xu Qiangsheng
(Chairman of the Nomination Committee)
Mr. Wang Yumin
Mr. Yan Wanpeng
Ms. Du Liping
Mr. Han Qinchun

Remuneration Committee
Ms. Du Liping
(Chairman of the Remuneration Committee)
Mr. Wang Yumin
Mr. Yan Wanpeng
Mr. Xu Qiangsheng
Mr. Han Qinchun

Company Secretary
Poon, Lawrence Chi Leung

Authorised Representatives
Jin Guangcai
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

Corporate Information

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

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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Room 1902, 19th Floor
MassMutual Tower
38 Gloucester Road
Wanchai
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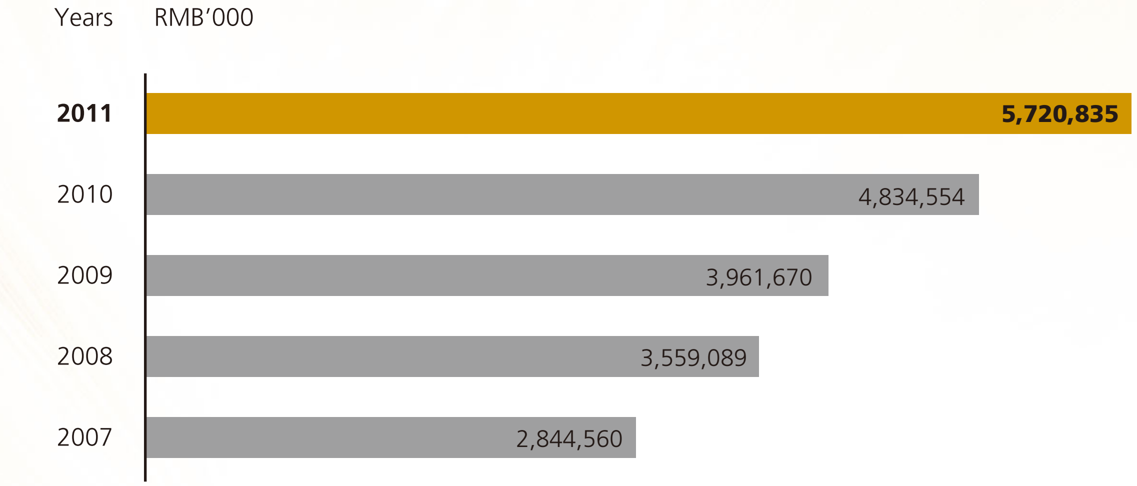
Email: lingbaogold@vip.sina.com

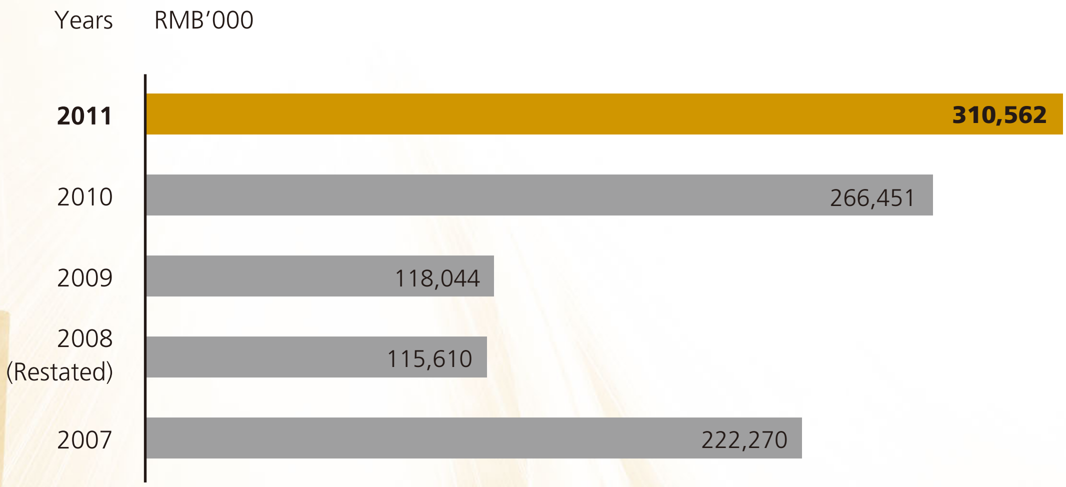
Ms. Qi Haihua
PRC Office
Xin Village, Yinzhuang Town
Daonan Industrial Area
Lingbao
Henan
The People's Republic of China
(Postcode: 472500)
Tel: (86-398) 2296-880
Fax: (86-398) 8860-166
Email: lingbaogold@vip.sina.com

Financial Highlights

Turnover

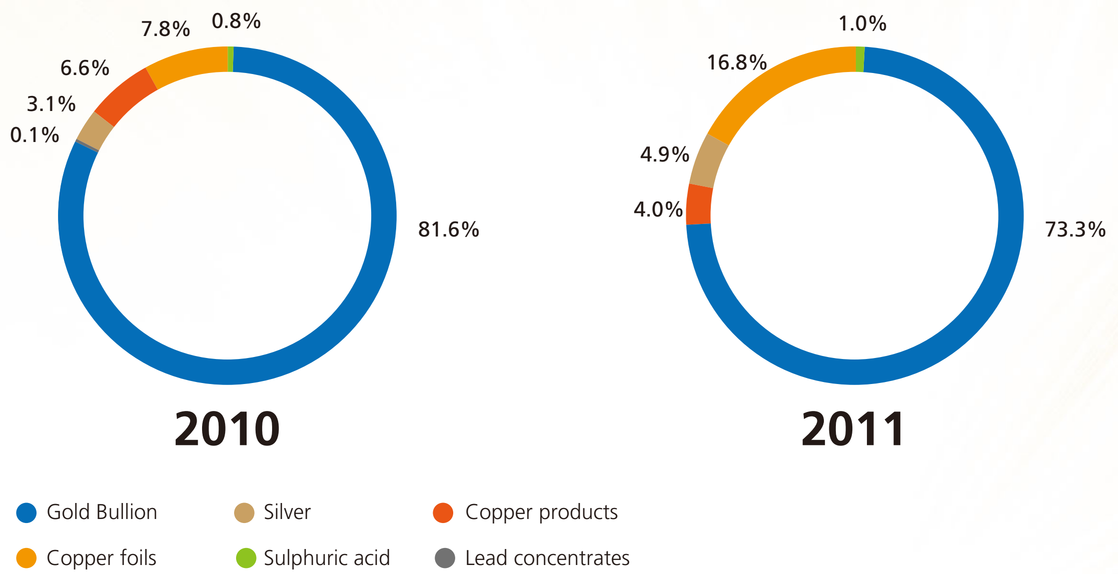


Profit Attributable to Equity Shareholders



Financial Highlights

Sales Analysis by Products



Capital Resources

	2007 RMB'000	2008 (Restated) RMB'000	2009 RMB'000	2010 RMB'000	**2011 RMB'000**
Total assets	3,400,303	4,092,819	4,911,918	5,329,106	**6,561,160**
Cash and cash equivalents	389,651	575,478	685,321	323,712	**349,568**
Bank and other borrowings	1,303,131	1,738,430	2,513,615	2,580,412	**3,234,356**
Shareholder equity	1,672,046	1,736,794	1,882,137	2,107,957	**2,346,366**

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, refining and copper processing. 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 ("KR") with 54 mining and exploration rights with a total area of 2,194.20 sq. km. The total gold reserve and resources as at 31 December 2011 were approximately 35.74 tonnes (approximately 1,149,068 ounce) and 150.71 tonnes (approximately 4,845,439 ounce) respectively. In 2011, approximately 14,993 kg (approximately 482,036 ounce) of gold was produced, and the profit for the year amounting to RMB308,786,000.

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.

Chairman's Statement

Dear Shareholders,

I am pleased to report the profit before tax of the Group of approximately RMB436,907,000 for the year ended 31 December 2011, representing a year-on-year increase of 13.1%. Profit for the year of the Group attributable to the equity shareholders of the Company amounted to RMB310,562,000, representing a year-on-year increase of 16.6%. Earnings per share of the Group was RMB0.40.

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 2011. Dividend payout ratio was 25.0%.

Review for the Year 2011

Faced with the complex situation, turbulent market and fierce competition of the gold market in 2011, all our staff banded together to overcome the difficulties, striving to achieve success in various projects as well as continual increase in operating results. Factors like gold reserves, hedging value and rising investment frenzy has made gold an important strategic resource. Gold price has reached record high for several months in 2011, bringing the Company advantageous opportunities. Despite a slight drop in gold price during the fourth quarter, gold price for the whole year still showed an overall increase. International gold price which ended the year at a price approximately RMB320 per gram from an opening price of approximately RMB304 per gram, representing an increase of approximately 5.3% per annum.

In 2011, the volume of gold, silver, copper, copper foil and sulphuric acid produced by the Group was 14,993kg, 56,521kg, 15,555 tonnes, 13,001 tonnes and 153,903 tonnes respectively. The Group's six main mining enterprises accomplished the overall goals of exploration works and increase reserve targets successfully, accumulating 2.42 million tonnes and 8,636kg in ore reserve and gold reserve respectively, which was 30,000 tonnes and 334kg over the plan. Habahe Huatai Gold Limited Liability Company ("Huatai"), Nanshan Gold Mine, Tongbai Xingyuan Mining Company Limited ("Xingyuan") and Chifeng Jinchan Mining Company Limited ("Chifeng Jinchan") all completed their task of exploration and increasing gold reserve, whereas Full Gold Mining Limited Liability Company ("Full Gold") mined 176,000 tonnes of ores, the treatment plant which has the capacity of processing 2,000 tonnes of ores per day commenced in October, 2011 and the palladex KR has obtained mining right. At the Xiaoqinling Mountain (小秦嶺) area, the Company actively implementing the exploration strategy of developing mid-to-deep mine level resource. Under the combined pressure of a weak electronic market and industry competition, Wason Copper-Foil Company Limited ("Wason Copper-Foil") has revised its philosophy, accelerated its transformation to increase the lithium-foil development, so to create new opportunities for breakthrough. In 2011, the Group officially launched its preparation for listing in the domestic A-share market with satisfactory progress. Upon completion, the A-share listing would provide the Group with enhanced economic strength.

Chairman's Statement

The Group has always placed strong emphasis on safety and green issues. The Group took advantage of the opportunities offered by the development of standardization mines and green mines to further enhance its production safety and environmental governance work. The installation of video surveillance and positioning system at Yinxin, Qiangma and Lingbao Hongxin Mining Limited Liability Company ("Hongxin"), completed the online surveillance system on smelting and Hongxin ore tailings reserves, thereby continuously improving the safety standards of the mines, which received the full approval from the Provincial, Sanmenxia City and Lingbao City Administration of Work Safety.

Business Outlook of 2012

The Company's major targets for 2012 include preparing for a listing in the A share market through tapping the capital market, increasing reserve through exploration, increasing management efficiency, reducing operating cost, improving quality and ensuring production safety.

Strategically, the Group would primarily aim for the successful listing in the A-share market, supported by production operation and resource development strategies, which would ensure stable operation and effective development.

The Company will focus on the gold production of the six largest producing mines of Xingyuan, Habahe Huatai, Full Gold, Lingbao Nanshan, Hongxin, and Chifeng Jinchan; as well as the production operation of the two processing plants, Gold smelting segment and Wason Copper-Foil, strictly adhering to the production and costing targets in order to meet with operation goals. The Lingbao Nanshan mining areas will focus on exploration, so to meet with the gold mining target of the year; whereas Xingyuan and Huatai will have to achieve a steady increase of gold production. By taking advantage of the favourable opportunities offered by the political stability of KR, as well as utilizing its 2,000 tonnes/day advantages to increase its equipment operation rate and gold recovery rate, Full Gold will become the key support for the increase of the Group's gold production, efficiency and growth. For the smelting segment, emphasis is placed on technological innovation, focusing on the improvement and enhancement of the production process to reduce energy consumption and increase recovery rate, so to ensure the maximum cost control to minimize non-productive expenses. Besides, Wason Copper-Foil will concentrate on market expansion, recruiting and training skilled personnel, as well as increase cash flow and reduce cost. In accordance with market trends, establish a sales team responsible for the lithium-foil market in order to seize opportunities arising from changes in the high-end lithium-foil product market.

In 2012, the Group will adhere to its mission of "deep exploration within the region, and resource exploration beyond the region", accelerating its deep mining and resource exploration progress. Adhering to the high-standard, high-quality and high-speed standards, striving for early breakthrough in the deep mine exploration in Xiaoqinling Mountain. Increasing the overall exploration and investment in technological innovation in the Lingbao Nanshan and Hongxin mining areas, so to create a production system that mutually compensate and benefits, thereby utilizing the integrated use of resources. In terms of increasing gold resources by exploration works will mainly be developed in 10 mine exploration projects such at Lingbao Nanshan, Xinjiang, Gansu and Chifeng Jinchan. Furthermore, strategically focusing on the reinforcement and expansion of development resources at the deeper area of Xiaoqinling, focusing on the blind shaft construction of Xingyuan and Huatai, as well as the regional exploration works at Chifeng Jinchan and Gansu region.

Chairman's Statement

Research and innovation works will be focused on the recovery of zinc from tailings of its smelting segment by leaching them in lead, optimizing the utilization of gold sludge, as well as projects on recycling of tailings and wastewater treatment etc; Determining and drilling test of Qiangma Xiaohe fracture, the integrated exploration of the Lingjin No. 2 mine, mineralization research of the Hejia gou mine and determining prospecting target.

In adherence to the policy of "Implement comprehensive management while taking safety and prevention as priorities", the Company will implement the accountability for production safety at all staff levels, improve the safety standards for safe operations, reinforce the technical and safety training for all staff, improve safety hazard investigation and control, as well as increase investment in safety and environmental protection measures, so to ensure the realization of the Group's annual safety and environmental management goals in 2012.

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
23 March 2012

Management Discussion and Analysis

Review of Business

In 2011, the Group produced approximately 14,993 kg (equivalent to approximately 482,036 ounce) gold, representing an increase of approximately 409 kg (equivalent to approximately 13,150 ounce) or 2.8% as compared with the previous year. The Group's turnover for 2011 increased by 18.3% to approximately RMB5,720,835,000. The profit attributable to the equity shareholders of the Company for the year was approximately RMB310,562,000, representing an increase of approximately 16.6% as compared with the previous year. The Company's basic earnings per share for 2011 was RMB0.40. The increase was mainly due to the decrease in net loss from financial instruments and exchange losses.

Given that raw materials accounted for over 85% 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 – the 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:

		2011		2010	
	Unit	**Approximate production volume**	**Approximate sales volume**	Approximate production volume	Approximate sales volume
Gold concentrates	kg	**2,061**	**1,992**	1,946	1,793
Compound gold	kg	**883**	**904**	1,398	1,367
From: Henan region	kg	**92**	**111**	342	296
Xinjiang region	kg	**783**	**785**	818	817
Inner Mongolia region	kg	**8**	**8**	238	254
Total	kg	**2,944**	**2,896**	3,344	3,160
Total	ounce	**94,652**	**93,109**	107,512	101,596

Management Discussion and Analysis

The total turnover of the mining segment of the Group for 2011 was approximately RMB876,082,000, representing an increase of approximately 7.2% from approximately RMB817,586,000 in 2010. During the year, turnover of gold mines in Henan, Xinjiang and Inner Mongolia represented approximately 67.31%, 30.95% and 1.74% of the total turnover of the mining segment respectively. The production volume of compound gold of the Group decreased by approximately 515 kg to approximately 883 kg while the production volume of its gold concentrates increased by approximately 115 kg to approximately 2,061 kg.

There was a significant fall in compound gold, which was mainly due to the suspension of operation at chifeng Jinchan for conducting a number of construction works to upgrade its safety facilities. It is expected that the production will be resumed by the second half of 2012.

Segment results

The Group's results of the mining segment for 2011 was approximately RMB271,262,000, representing an increase of approximately 3.3% from approximately RMB262,560,000 in 2010. The segment result to segment turnover ratio of the Group's mining segment for 2011 was approximately 31.0%, resulting in a decrease of approximately 1.1% from approximately 32.1% in 2010.

Full Gold located at KR commenced its mining at the end of 2011. The processing plant with a daily processing capacity of 2,000 tonnes started production and produced approximately 100 kg gold concentrates.

Management Discussion and Analysis

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:

		2011		2010	
Product	Unit	**Approximate production volume**	**Approximate sales volume**	Approximate production volume	Approximate sales volume
Gold bullion	kg	**14,892**	**12,693**	14,584	14,609
	ounce	**478,789**	**408,089**	468,886	469,690
Silver	kg	**56,521**	**42,300**	39,662	39,165
	ounce	**1,817,192**	**1,359,977**	1,275,163	1,259,184
Copper products	tonne	**15,555**	**12,183**	13,104	13,092
Sulphuric acid	tonne	**153,903**	**154,180**	157,499	157,984

Sales and production

The Group's total turnover from the smelting segment for 2011 was approximately RMB5,258,083,000, representing an increase of approximately 9.6% from approximately RMB4,799,633,000 in 2010. Such increase was principally attributable to the increase in the sales of gold bullion as a result of an approximate 22.5% increase in selling price of gold bullion as compared with the previous year.

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 increased/(decreased) by approximately 2.1%, 42.5%, 18.7% and (2.3)% respectively as compared with the previous year. During the year, the gold recovery rate was approximately 95.1%, the silver recovery rate was approximately 71.0% and the copper recovery rate was approximately 95.4%. The recovery rates remained at high level.

Segment results

Our smelting segment results for 2011 was approximately RMB470,411,000, representing an increase of approximate 12.3% from approximately RMB418,844,000 in 2010. The segment results to segment turnover ratio of our smelting business in 2011 was approximately 8.9%, increasing by approximately 0.2% from approximately 8.7% in 2010.

Management Discussion and Analysis

Financial Information

1. Operating Results

Turnover

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

	2011			2010		
	Amount	**Sales volume**	**Unit price**	Amount	Sales volume	Unit price
	(RMB'000)	**(kg/tonne)**	**(RMB per kg/tonne)**	(RMB'000)	(kg/tonne)	(RMB per kg/tonne)
Gold bullion	**4,203,270**	**12,693 kg**	**331,149**	3,950,388	14,609 kg	270,408
Silver	**278,673**	**42,151 kg**	**6,611**	151,854	39,165 kg	3,877
Copper products	**226,462**	**4,136 tonnes**	**54,754**	320,168	6,452 tonnes	49,623
Copper foils	**965,191**	**13,112 tonnes**	**73,611**	378,548	5,277 tonnes	71,735
Sulphuric acid	**56,590**	**153,904 tonnes**	**368**	37,759	157,973 tonnes	239
Lead concentrates	**–**	**–**	**–**	2,819	358 tonnes	7,874
Turnover before sales tax	**5,730,186**			4,841,536		
Less: Sales tax	**(9,351)**			(6,982)		
	5,720,835			4,834,554		

The Group's turnover for 2011 was approximately RMB5,720,835,000, representing an increase of approximate 18.3% as compared with the previous year, of which the turnover of gold bullion accounted for 73.4% of its total turnover. Such increase was mainly attributable to the increase in our average selling price of gold bullion sold of approximately 22.5% and the increase in the sales volume of copper foil of approximately 148.5% during the year.

The Group commenced its copper processing business during the year 2008, mainly involving the production of copper foil. In 2011, the second phase of copper foil plant commenced its production, which is mainly engaged in the production of high-grade copper foil. The production and sales volume of copper foil were 13,001 tonnes and 13,112 tonnes respectively, representing an increase of approximately 127.6% and 148.5% respectively as compared with last year.

Management Discussion and Analysis

In 2011, Wason Copper-Foil did not achieve the profit target, which was mainly due to the economic environment with lower exports of end-user electronics products and the consumption demand for electronics products falling in PRC upon the implementation of measures to control inflation.

In 2012, it will be a year critical to the transformation of business model for Wason Copper-Foil, which will actively explore new sales market by leveraging on the development of high-value added copper foil as its core product. Attention will particularly be given to lithium foil. The processing plant with a daily processing capacity of 2,000 tonnes of Full Gold has been completed and started its production. 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 2011 were approximately RMB879,043,000 and approximately 15.4% respectively, representing an increase/ (decrease) of approximately 7.8% and (1.5)% respectively as compared with 2010. 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 2011 was approximately RMB29,668,000, representing an increase of approximately 95.5% as compared with approximately RMB15,174,000 for 2010. Such increase was principally attributable to the increase of government subsidy by approximately RMB7,261,000 and the increase in the other investment dividend income of RMB5,740,000.

Other net loss

The Group's other net loss for 2011 was approximately RMB36,661,000, representing a decrease of approximately 69.8% as compared with a net loss of approximately RMB121,378,000 for 2010. Such loss was mainly attributable to the realised loss from derivative financial instruments of approximately RMB13,358,000, representing a decrease of approximately 78.7% as compared to last year and the foreign exchange loss of approximately RMB13,397,000, representing a decrease of approximately 70.1% as compared to last year.

Selling and distribution expenses

The Group's selling and distribution expenses for 2011 were approximately RMB27,173,000, representing an increase of approximately 19.2% as compared with the previous year. Such increase was mainly attributable to the increase in production of copper foil and corresponding increase in selling and distribution expenses.

Administrative expenses and other operating expenses

The Group's administrative expenses and other operating expenses for 2011 were approximately RMB251,641,000, representing an increase of approximately 21.0% as compared with approximately RMB207,972,000 for 2010. The increase was mainly attributable to the expansion of the production and operation scale of the Group.

Management Discussion and Analysis

Finance costs

The Group's finance costs for 2011 were approximately RMB156,329,000, representing an increase of approximately 69.9% as compared with approximately RMB92,019,000 for 2010. Such increase was mainly attributable to the increase in average loan principals in the year as compared with that in 2010.

Profit attributable to the Company's equity shareholders

The Group's profit attributable to our equity shareholders in 2011 was approximately RMB310,562,000, representing an increase of approximately 16.6% as compared with approximately RMB266,451,000 in 2010. The net profit margin for 2011 was approximately 5.4%, representing an increase of 0.1% as compared with approximately 5.3% for 2010. The Company's basic earning per share was RMB0.40. 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 2011 amounted to RMB379,568,000 of which 4.6% was denominated in Hong Kong dollars.

The shareholders' equity of the Group as at 31 December 2011 amounted to RMB2,346,366,000 (31 December 2010: RMB2,107,957,000). As at 31 December 2011, the Group had current assets of RMB3,223,881,000 (31 December 2010: RMB2,139,889,000) and current liabilities of RMB2,454,869,000 (31 December 2010: RMB1,998,745,000). The current ratio was 1.31 (31 December 2010: 1.07).

As at 31 December 2011, the Group had total outstanding bank loans of approximately RMB2,531,681,000 with interest rates ranging from 4.86% to 7.54% per annum, of which approximately RMB1,502,072,000 was repayable within one year, approximately RMB476,358,000 was repayable after one year but within two years while approximately RMB553,251,000 was repayable after two years. The gearing ratio as at 31 December 2011 was 49.3% (31 December 2010: 48.4%) which was calculated by total borrowings including Medium Term Notes divided by total assets.

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.

On 17 June 2011, the Company issued five-year Medium Term Notes of RMB300 million in the PRC. The notes are unsecured and will be redeemed on 16 June 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 2.85% per annum.

Management Discussion and Analysis

3. Security

As at 31 December 2011, the mining right of Istanbul Gold Mine with carrying value amounting to RMB112,886,000 and the ordinary shares of Full Gold, a subsidiary located in 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 People's Bank of China ("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

6. Contractual Obligations

As at 31 December 2011, the Group's capital commitments in respect of the construction costs which were not provided for in the financial statements were approximately RMB143,165,000, representing an increase of approximately RMB42,330,000 from approximately RMB100,835,000 as at 31 December 2010.

As at 31 December 2011, our total future minimum lease payments under noncancellable operating leases amounted to approximately RMB10,452,000, of which approximately RMB3,031,000 was payable within one year, approximately RMB6,610,000 was payable after one year but within five years, and approximately RMB811,000 was payable after five years.

7. Contingent Liabilities

As at 31 December 2011, the Group had no material contingent liabilities.

8. Capital Expenditure

During the year 2011, the Group's capital expenditure was approximately RMB472,660,000, representing a decrease of approximately 10.8% from approximately RMB529,672,000 in 2010.

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

9. Human Resources

In 2011, the average number of employees of the Group was 5,854. 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 53, chairman and an Executive Director. Mr. Xu completed a postgraduate course in politics and economics at Shaanxi Normal University (陜西師範大學) and obtained a MBA degree. Mr. Xu has 32 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 45, general manager and an Executive Director. He completed a postgraduate course in politics and economics at Shannxi Normal University (陜西師範大學). He has approximately 12 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 37, 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 19 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 45, 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 21 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 40, 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 18 years' experience in mining and smelting industry. Mr. He was appointed as a Director of the Company in July 2010.

Non-executive Directors

Mr. Wang Yumin (王育民先生), aged 52, 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.

Profile of Directors, Supervisors and Senior Management

Mr. Yang Liening (楊列寧先生), aged 45, holds a Doctorate in Management and is currently the deputy president of Elion Resources Group Company. Mr. Yang has been making great efforts on the study of the strategic development of coal resources as well as safety and production management over the years. Mr. Yang has attained three research works including the "Modes for Safety and Production Management of Coal Mines". Mr. Yang was awarded a number of honours such as the "Outstanding Youth Entrepreneur in Shandong Province". He was appointed as a Non-executive Director of the Company in March 2012.

Independent Non-executive Directors

Mr. Yan Wanpeng (閆萬鵬先生), aged 46, 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 48, 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.

Mr. Xu Qiangsheng (徐強勝先生), aged 44, holds a Doctorate in Law and is currently the Professor, Advisor of master degree students and Associate Dean of the School of Law of Henan University of Finance and Economics. The major social part-time positions taken by Mr. Xu include the director of Business Law Research Committee of the China Law Society, the Vice President of Civil Law Research Committee of the Henan Law Society, the Executive Officer of Henan Corporate Law Advisory Association, the Member of Expert Committee of Henan Industry and Commerce Association and the Member of Expert Committee of Zhengzhou Arbitration Commission. Mr. Xu has quite profound knowledge in civil law and business law, and is the author of a number of academic publications. He has been appointed as an independent director of Puyang Refractories Group Co., Ltd. since June 2007. Mr. Xu was appointed as an Independent Non-executive Director of the Company in March 2012.

Profile of Directors, Supervisors and Senior Management

Mr. Han Qinchun (韓秦春先生), aged 53, is currently the Executive President of China International Capital Management and Research Company Limited (Hong Kong) and the Director of Real Estate Research Centre of Peking University HSBC Business School. Mr. Han obtained a Doctorate Degree of Philosophy in Urban Economics and Management from The University of Hong Kong in 1998. He is a Registered Appraiser, Planner and Engineer in PRC. He has a corporate finance advisory license, an asset management license, a securities dealing advisory license and a securities floor trading license issued by the Securities and Futures Commission. Mr. Han served as an official of the PRC government authorities, the Investment Manager and Senior Management Member of an investment bank and the Vice-chairman and President of Hong Long Holdings Limited from early 2006 to January 2010, a listed company in Hong Kong. He has rich experience in financial investment aspect, equity capital market and listed companies' management. Mr. Han was appointed as an Independent Non-executive Director of the Company in March 2012.

Supervisory Committee and Supervisors

Mr. Liu Shengmin (劉勝民先生),aged 53, 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. Di Qinghua (狄清華先生), aged 42, completed higher education in economics at Henan Province Party School. He has been appointed as the Vice General Manager of Lingbao City State-owned Assets Management Co, Ltd. from September 2006. Mr. Di was a non-executive Director of the Company from September 2002 to January 2009. Mr. Di was appointed as a Supervisor of the Company in March 2012.

Mr. Yao Shun (姚舜先生), aged 39, is a bachelor degree holder. He has been appointed as the Office Director of Lingbao City State-owned Assets Management Co, Ltd. since August 2007. Mr. Yao was appointed as an Supervisor of the Company in March 2012.

Mr. Zhu Zhisheng (朱志升先生), aged 52, is a college degree holder. Since September 2007, he has been in charge of the general duties of 黃金集團公司 (Gold Group Corporation). Mr. Zhu was appointed as an Supervisor of the Company in March 2012.

Mr. Jiao Xiaoxiao (焦瀟霄先生), aged 29, 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 38, 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 42, secretary to the Board, 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 in November 2008.

Mr. Poon, Lawrence Chi Leung (潘之亮先生), aged 37, 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 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 has to act in the best interest of the Company and its shareholders.

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

Director	Position
Mr. Xu Gaoming	Executive Director and Chairman
Mr. Jin Guangcai	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	Executive Director
Mr. Wang Yumin	Non-executive Director
Mr. Yang Liening (appointed on 6 March 2012)	Non-executive Director
Mr. Niu Zhongjie (resigned on 6 March 2012)	Independent Non-executive Director
Mr. Wang Han (resigned on 6 March 2012)	Independent Non-executive Director
Mr. Yan Wanpeng	Independent Non-executive Director
Ms. Du Liping	Independent Non-executive Director
Mr. Xu Qiangsheng (appointed on 6 March 2012)	Independent Non-executive Director
Mr. Han Qinchun (appointed on 6 March 2012)	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 to maintain high standard of corporate governance in the management of the Company. To ensure that the Board 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 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 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 2011, the Board held twelve 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 to the management of the Company's affairs. The matters processed by the Board 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	Board meetings that the Director attended	Attendance (%)
Mr. Xu Gaoming	12	12	100
Mr. Lu Xiaozhao	2	–	–
Mr. Jin Guangcai	12	12	100
Mr. Liu Pengfei	12	10	83
Mr. Zhang Guo	12	5	42
Mr. He Chengqun	12	12	100
Mr. Wang Yumin	12	11	92
Mr. Niu Zhongjie	12	9	75
Mr. Wang Han	12	10	83
Mr. Yan Wanpeng	12	12	100
Ms. Du Liping	12	12	100

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. 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 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 relating to such matters when appropriate.

(1) Audit Committee

The audit 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 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 (resigned on 6 March 2012)
Mr. Wang Han (resigned on 6 March 2012)
Ms. Du Liping
Mr. Xu Qiangsheng (appointed on 6 March 2012)
Mr. Han Qinchun (appointed on 6 March 2012)

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 Board, 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 2011	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 2011, two meetings of the audit committee were held. On 31 March 2011, the audit committee met with the international auditors to discuss the general scope of their audit work. On 26 August 2011, the audit committee reviewed the Company's interim report for the year 2011. In addition, the audit committee had reviewed the financial statements for the year ended 31 December 2011 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 six Directors, with at least 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. Lu Xiaozhao (resigned on 31 March 2011)
Mr. Jin Guangcai
Mr. Liu Pengfei
Mr. Wang Yumin
Mr. Niu Zhongjie (resigned on 6 March 2012)
Mr. Yan Wanpeng (appointed on 6 March 2012)
Mr. Han Qinchun (appointed on 6 March 2012)

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 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 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 2011.

(3) Nomination Committee

The nomination 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 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. Xu Qiangsheng *(Chairman of the committee)* (appointed on 6 March 2012)
Mr. Wang Han (resigned on 6 March 2012)
Mr. Wang Yumin
Mr. Niu Zhongjie (resigned on 6 March 2012)
Mr. Yan Wanpeng
Ms. Du Liping
Mr. Han Qinchun (appointed on 6 March 2012)

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.

Corporate Governance Report

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.

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.

No nomination committee meeting was held in 2011.

(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 (resigned on 6 March 2012)
Mr. Wang Han (resigned on 6 March 2012)
Mr. Yan Wanpeng
Mr. Xu Qiangsheng (appointed on 6 March 2012)
Mr. Han Qinchun (appointed on 6 March 2012)

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.

Corporate Governance Report

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 2011, one meeting of the remuneration and review committee was held. Attendance of individual members of remuneration and review committee to the committee meeting in 2011 are as follows:

Director	The number of meetings of remuneration and review committee in 2011	The number of meetings that member of committee attended	Attendance (%)
Ms. Du Liping	1	1	100
Mr. Wang Yumin	1	–	–
Mr. Niu Zhongjie	1	1	100
Mr. Wang Han	1	–	–
Mr. Yan Wanpeng	1	1	100

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 2011.

Breakdown of the Directors' and the supervisors' remuneration for the year ended 31 December 2011 are set out in note 9 to the financial statements.

Corporate Governance Report

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 2011.

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.

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. Moreover, chief financial officer shall be responsible for giving advice to the Board regarding the disclosure of notifiable transactions, connected transactions and price-sensitive information.

Corporate Governance Report

Company Secretary

The company secretary shall be directly responsible to the Board. The company secretary is responsible for ensuring that the proceedings of the Board are complied with, making appropriate disclosures regarding the interests of securities of the Directors and giving advice to the Board 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 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 44 to 45 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 for statutory audit services and non-audit related services including review of financial statements amounted to approximately RMB4,383,000.

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 2011 annual general meeting of the Company to be held on 29 May 2012 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 2011, two supervisory committee meetings were held by the supervisory committee.

2. Independent Work Report of the Supervisory Committee

In 2011, 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 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 2011, the Supervisory Committee reviewed the financial system and position of the Company and considered that the financial report for 2011 truly reflected its financial position and operating results. In 2011, 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 2011.

Directors' Report

The Directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2011.

Principal Place of Business

Lingbao Gold Company Ltd. is a company incorporated and domiciled in the 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	73.3%	
Five largest customers in aggregate	83.4%	
The largest supplier		13.3%
Five largest suppliers in aggregate		26.1%

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 2011 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 46 to 135.

Transfer to Reserves

Profits attributable to equity shareholders of the Company, before dividends, of RMB310,562,000 (2010: RMB266,451,000) have been transferred to reserves. Other movements in reserves are set out in note 35 to the financial statements and the consolidated statement of changes in equity.

Directors' Report

Dividend

At the Board meeting held on 23 March 2012, the Directors declared a final dividend of RMB0.10 (with tax) per share (2010: RMB0.10 (with tax)) in respect of the year ended 31 December 2011. The 2011 final dividend is subject to the consideration and approval at the annual general meeting of the Company.

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.

According to Guo Shui Han [2011] No.348 issued by the State Administration of Taxation, the Company shall withhold and pay individual income tax for the dividend shareholders of H shares. The individual shareholders of H shares are entitled to the relevant preferential tax treatment pursuant to the provisions in the tax agreements inked between the countries where they are residents and China or the tax arrangements between mainland China and Hong Kong (Macau). If the individual shareholders of the H shares who are Hong Kong or Macau residents or residents of the countries which had an agreed tax rate of 10% for dividend with China, the Company should withhold individual income tax at a rate of 10%.

Should the individual shareholders of the h shares are resident of the countries which had an agreed tax rate of less than 10% with China, the Company shall apply for the relevant agreed preferential tax treatment in accordance with the Notice of the State Administration of Taxation in relation to the Administrative Measures on Preferential Treatment Entitled by Non-residents under Tax Treaties (Tentative) (Guo Shui Fa [2009] No.124). Should the individual shareholders of the H shares are residents of the countries which had an agreed tax rate of over 10% but less than 20% with China, the Company shall pay the individual income tax at the agreed actual rate. In case the individual shareholders of the H shares are residents of the countries which had not entered into any tax agreement with China, or the agreed tax rate with China is 20% or otherwise, the Company shall pay the individual income tax at a rate of 20%.

Directors' Report

The Company shall take the registered address (hereinafter referred to as "registered address") as recorded in the register of members of H shares on 7 June 2012 as the criterion in determining the residence of the individual shareholders of H shares, and withhold and pay individual income tax whereby. Should the residence of the individual shareholders of H shares is inconsistent with the registered addressed, they should notify the Company's share registrar for H shares on or before 4:30 p.m. 1 June 2012 with relevant evidence at Computershare Hong Kong Investor Services Limited of 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong. For the individual shareholders of H shares who failed to provide relevant evidence to the Company's share registrar for H shares before the above deadline, the Company shall determine their residence according to the registered address as recorded in the register of members 7 June 2012.

The Company assumes no responsibility and will not entertain any claims arising from any delay in, or inaccurate determination of, the status of the shareholders or any dispute over the mechanism of withholding. Shareholders should consult their tax advisers regarding the PRC, Hong Kong and other tax implications of owning and disposing of the Company's H shares.

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 35(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 2011.

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*
Lu Xiaozhao, *Deputy General Manager* (resigned on 31 March 2011)
Liu Pengfei, *Deputy General Manager*
Zhang Guo
He Chengqun

Non-executive Directors

Wang Yumin
Yang Liening (appointed on 6 March 2012)

Independent Non-executive Directors

Niu Zhongjie (resigned on 6 March 2012)
Wang Han (resigned on 6 March 2012)
Yan Wanpeng
Du Liping
Xu Qiangsheng (appointed on 6 March 2012)
Han Qinchun (appointed on 6 March 2012)

Supervisors

Liu Shengmin
Meng Fanrui (resigned on 6 March 2012)
Guo Xuchang (resigned on 6 March 2012)
Guo Xurang (resigned on 6 March 2012)
Hang Zhanping (resigned on 6 March 2012)
Yang Bo (resigned on 6 March 2012)
Di Qinghua (appointed on 6 March 2012)
Yao shun (appointed on 6 March 2012)
Zhu Zhisheng (appointed on 6 March 2012)
Jiao Xiaoxiao

Directors' Report

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 18 to 21 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 financial statements.

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 6 March 2012. Each of these service agreements may be terminated by either party with not less than six months' prior written notice.

Non-executive Director has been appointed for a term of three years commencing on 6 March 2012. 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 6 March 2012.

Each supervisor has entered into a supervisor service agreement with the Company for a term of three years commencing on 6 March 2012. 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' Report

Directors', Supervisors' and Chief Executive's Interest in Shares

As at 31 December 2011, 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%

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.

Directors' Report

Substantial Shareholders Interest in Shares

As at 31 December 2011, 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 (靈寶市國有資產經營有限責任公司) ("Lingbao State-owned Assets") *(Notes 1 and 2)*	296,840,620	Beneficial owner	62.76%	38.54%
Huibang Investment Development Company Limited	77,000,000	Beneficial owner	16.28%	10.00%
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%

Name of shareholders	Number of H Shares	Capacity	Approximate percentage of the total issued H share capital	Approximate percentage of the total share capital
The Bank of New York Mellon Corporation *(Note 3)*	19,160,000	Interest in a controlled corporation	6.45%	2.49%
The Bank of New York Mellon *(Note 3)*	19,160,000	Beneficial owner	6.45%	2.49%

Notes:

1. In addition to its direct interest in 296,840,620 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 (靈寶市黃金機械有限責任公司), which in turn holds approximately 21.1% equity interest in Lingbao Jinxiang Auto Parts Limited Liability Company (靈寶市金象汽車零部件有限責任公司) ("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 this 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 19,160,000 shares represent the same block of shares.

Directors' Report

Save as disclosed above, as at 31 December 2011, 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' 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's interest in shares" 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 2011 are mainly set out in notes 31 and 32 to the financial statements.

Charitable Donations

Charitable donations made by the Group during the year amounted to RMB1,796,000 (2010: RMB877,000).

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 financial statements.

Closure of Register of Members

The register of members of the Company will be closed from Monday, 30 April 2012 to Tuesday, 29 May 2012, (both days inclusive), during which period no transfer of shares will be registered. In order for the shareholders to qualify for attending the forthcoming annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's H shares registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H shares) or the registered office address of the Company at Xin Village, Yinzhuang Town, Daonan Industrial Area, Lingbao, Henan, the PRC (for holders of domestic shares), no later than 4:30 p.m. on Friday, 27 April 2012.

Directors' Report

The register of members of the Company will be closed from Saturday, 2 June 2012 to Thursday, 7 June 2012 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for entitlement to the proposed final dividend, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's H shares registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H shares) or the registered office address of the Company at Xin Village, Yinzhuang Town, Daonan Industrial Area, Lingbao, Henan, the PRC (for holders of domestic shares), no later than 4:30 p.m. on Friday, 1 June 2012.

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 2011 to 31 December 2011.

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.

By order of the Board

Xu Gaoming
Chairman

Hong Kong
23 March 2012

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 46 to 135, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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.

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

Independent Auditor's Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

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

23 March 2012

Consolidated Income Statement

For the year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
Turnover	3	**5,720,835**	4,834,554
Cost of sales		**(4,841,792)**	(4,019,316)
Gross profit		**879,043**	815,238
Other revenue	4	**29,668**	15,174
Other net loss	5	**(36,661)**	(121,378)
Selling and distribution expenses		**(27,173)**	(22,789)
Administrative expenses and other operating expenses		**(251,641)**	(207,972)
Profit from operations		**593,236**	478,273
Finance costs	7(a)	**(156,329)**	(92,019)
Profit before taxation	7	**436,907**	386,254
Income tax	8(a)	**(128,121)**	(128,377)
Profit for the year		**308,786**	257,877
Attributable to:			
Equity shareholders of the Company	11	**310,562**	266,451
Non-controlling interests		**(1,776)**	(8,574)
Profit for the year		**308,786**	257,877
Basic and diluted earnings per share (cents)	14	**40**	35

The notes on pages 55 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 2011

	Note	**2011** **RMB'000**	2010 RMB'000
Profit for the year		**308,786**	257,877
Other comprehensive income for the year	*13*		
Exchange differences on translation of financial statements of overseas subsidiaries		**2,515**	6,455
Total comprehensive income for the year		**311,301**	264,332
Attributable to:			
Equity shareholders of the Company		**309,434**	272,906
Non-controlling interests		**1,867**	(8,574)
Total comprehensive income for the year		**311,301**	264,332

The notes on pages 55 to 135 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	15	**1,954,144**	1,495,863
Construction in progress	16	**331,830**	686,576
Intangible assets	17	**676,651**	671,323
Goodwill	18	**41,404**	41,404
Lease prepayments	19	**149,903**	94,239
Other investments	21	**10,504**	10,504
Long-term receivables	23	**39,531**	–
Non-current prepayments	24	**17,613**	90,253
Deferred tax assets	25(b)	**115,699**	99,055
		3,337,279	3,189,217
Current assets			
Inventories	26	**2,042,117**	1,167,219
Trade and other receivables, deposits and prepayments	27	**782,073**	648,958
Assets classified as held for sale	28	**20,123**	–
Pledged deposits	29	**30,000**	–
Cash and cash equivalents	30	**349,568**	323,712
		3,223,881	2,139,889
Current liabilities			
Bank loans	31	**1,502,072**	1,393,000
Other loan		**2,675**	3,270
Trade and other payables	33	**908,667**	547,535
Loan from ultimate holding company	34	**23,800**	23,800
Current tax payable	25(a)	**17,655**	31,140
		2,454,869	1,998,745
Net current assets		**769,012**	141,144
Total assets less current liabilities		**4,106,291**	3,330,361

Consolidated Statement of Financial Position

At 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
Non-current liabilities			
Debenture payable	*32*	**700,000**	–
Bank loans	*31*	**1,029,609**	1,184,142
Other payables	*33*	**22,978**	30,624
Deferred tax liabilities	*25(b)*	**7,338**	7,638
		1,759,925	1,222,404
NET ASSETS		**2,346,366**	2,107,957
CAPITAL AND RESERVES	*35*		
Share capital		**154,050**	154,050
Reserves		**2,145,280**	1,912,871
Total equity attributable to equity shareholders of the Company		**2,299,330**	2,066,921
Non-controlling interests		**47,036**	41,036
TOTAL EQUITY		**2,346,366**	2,107,957

Approved and authorised for issue by the board of directors on 23 March 2012.

Xu Gaoming
Executive director and chairman

Jin Guangcai
Executive director

The notes on pages 55 to 135 form part of these financial statements.

Statement of Financial Position

At 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
Non-current assets			
Property, plant and equipment	*15*	**575,970**	490,420
Construction in progress	*16*	**179,525**	148,930
Intangible assets	*17*	**16,459**	34,905
Lease prepayments	*19*	**77,270**	35,730
Investments in subsidiaries	*20*	**646,484**	675,941
Other investments	*21*	**10,504**	10,504
Long term receivable	*23*	**39,531**	–
Non-current prepayments	*24*	**11,631**	48,606
Deferred tax assets	*25(b)*	**62,582**	53,082
		1,619,956	1,498,118
Current assets			
Inventories	*26*	**1,777,484**	969,359
Trade and other receivables, deposits and prepayments	*27*	**214,666**	283,772
Amounts due from subsidiaries	*20*	**1,170,088**	1,152,915
Assets classified as held for sale	*28*	**11,500**	–
Pledged deposits	*29*	**30,000**	–
Cash and cash equivalents	*30*	**218,715**	252,187
		3,422,453	2,658,233
Current liabilities			
Bank loans	*31*	**1,196,000**	1,290,000
Other loan		**2,675**	3,270
Trade and other payables	*33*	**635,155**	260,248
Current tax payable	*25(a)*	**8,032**	16,766
Amounts due to subsidiaries	*20*	**47,359**	60,694
		1,889,221	1,630,978
Net current assets		**1,533,232**	1,027,255
Total assets less current liabilities		**3,153,188**	2,525,373

Statement of Financial Position

At 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
Non-current liabilities			
Debenture payable	*32*	**700,000**	–
Bank loans	*31*	**292,000**	520,000
Other payables	*33*	**13,557**	–
		1,005,557	520,000
NET ASSETS		**2,147,631**	2,005,373
CAPITAL AND RESERVES	*35*		
Share capital		**154,050**	154,050
Reserves		**1,993,581**	1,851,323
TOTAL EQUITY		**2,147,631**	2,005,373

Approved and authorised for issue by the board of directors on 23 March 2012.

Xu Gaoming
Executive director and chairman

Jin Guangcai
Executive director

The notes on pages 55 to 135 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to equity shareholders of the Company								
	Share capital RMB'000 *(note 35(b))*	**Share premium** RMB'000 *(note 35(a)(i))*	**PRC statutory reserves** RMB'000 *(note 35(a)(ii))*	**Exchange reserve** RMB'000 *(note 35(a)(iii))*	**Other reserve** RMB'000 *(note 35(a)(iv))*	**Retained profits** RMB'000	**Total** RMB'000	**Non-controlling interests** RMB'000	**Total equity** RMB'000
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)	–	–	–
Appropriation of safety production fund	–	–	20,696	–	–	(20,696)	–	–	–
Utilisation of safety production fund	–	–	(20,696)	–	–	20,696	–	–	–
Dividends approved in respect of the previous year *(note 12(a))*	–	–	–	–	–	(38,512)	(38,512)	–	(38,512)
Balance at 31 December 2010 and 1 January 2011	154,050	827,931	140,655	6,348	(858)	938,795	2,066,921	41,036	2,107,957
Changes in equity for 2011:									
Total comprehensive income for the year	–	–	–	(1,128)	–	310,562	309,434	1,867	311,301
Profit appropriation	–	–	21,929	–	–	(21,929)	–	–	–
Appropriation of safety production fund	–	–	19,399	–	–	(19,399)	–	–	–
Utilisation of safety production fund	–	–	(21,105)	–	–	21,105	–	–	–
Dividends approved in respect of the previous year *(note 12(a))*	–	–	–	–	–	(77,025)	(77,025)	–	(77,025)
Acquisition of subsidiaries *(note 40(a))*	–	–	–	–	–	–	–	4,133	4,133
Balance at 31 December 2011	154,050	827,931	160,878	5,220	(858)	1,152,109	2,299,330	47,036	2,346,366

The notes on pages 55 to 135 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
Operating activities			
Profit before taxation		**436,907**	386,254
Adjustments for:			
– Interest income	*4*	**(4,041)**	(3,754)
– Dividend income from other investments	*4*	**(6,300)**	(560)
– Net gain on disposal of subsidiaries	*5*	**(4,640)**	–
– Net realised loss on financial instruments at fair value	*5*	**13,358**	62,608
– Net loss on disposal of property, plant and equipment, construction in progress and intangible assets	*5*	**1,944**	8,609
– Depreciation	*7(b)*	**192,146**	162,211
– Finance costs	*7(a)*	**156,329**	92,019
– Provision/(reversal) of impairment losses on:			
– trade and other receivables	*7(b)*	**507**	(2,197)
– purchase deposits	*7(b)*	**3,434**	5,691
– non-current prepayment	*7(b)*	**1,000**	–
– fixed assets and construction in progress	*7(b)*	**5,930**	–
– intangible assets	*7(b)*	**4,922**	3,731
– goodwill	*7(b)*	**–**	107
– Amortisation of lease prepayments	*7(b)*	**2,656**	2,162
– Amortisation of intangible assets	*7(b)*	**7,503**	13,567
– Write down of inventories	*26(b)*	**1,627**	876
– Reversal of write down of inventories	*26(b)*	**–**	(2,282)
– Foreign exchange differences		**12,029**	43,685
Operating profit before changes in working capital		**825,311**	772,727
Increase in inventories		**(881,547)**	(406,412)
Increase in pledged deposits	29	**(30,000)**	–
Increase in trade and other receivables, deposits and prepayments		**(72,981)**	(114,286)
Increase in trade and other payables		**311,608**	114,818
Cash generated from operations		**152,391**	366,847
PRC income tax paid	*25(a)*	**(158,511)**	(107,567)
Net cash (used in)/generated from operating activities		**(6,120)**	259,280

Consolidated Cash Flow Statement

For the year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
Investing activities			
Interest received		**4,041**	3,754
Payment for settlement of financial instruments		**(13,358)**	(62,608)
Payment for purchase of property, plant and equipment		**(28,005)**	(24,938)
Proceeds/(payment) from disposal of property, plant and equipment		**8,868**	(574)
Payment for construction in progress		**(298,393)**	(396,918)
Payment for purchase of intangible assets		**(72,695)**	(27,924)
Payment for acquisition of subsidiaries	*40(a)*	**(6,147)**	–
Payment for purchase of lease prepayments		**(43,376)**	(26,140)
Dividends received from other investments		**700**	560
Proceeds from disposal of subsidiaries	*40(b)*	**12,381**	–
Net cash used in investing activities		**(435,984)**	(534,788)
Financing activities			
Proceeds from interest-bearing borrowings		**1,685,073**	1,413,197
Repayment of interest-bearing borrowings		**(1,707,025)**	(1,336,192)
Proceeds from non-controlling interests		**9,757**	–
Proceeds from medium term notes	*32*	**700,000**	–
Interest paid		**(141,683)**	(117,596)
Other borrowing costs paid		**(2,109)**	(2,985)
Dividend paid to equity shareholders of the Company		**(73,906)**	(38,512)
Net cash generated from/(used in) financing activities		**470,107**	(82,088)
Net increase/(decrease) in cash and cash equivalents		**28,003**	(357,596)
Cash and cash equivalents at 1 January	*30*	**323,712**	685,321
Effect of foreign exchange rate changes		**(2,147)**	(4,013)
Cash and cash equivalents at 31 December	*30*	**349,568**	323,712

The notes on pages 55 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 2011 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 are stated at fair value (see note 1(f)). Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell (see note 1(x)).

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.

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 42.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(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 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 statement of financial position in accordance with note 1(r).

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.

Notes to the Financial Statements

1 Significant accounting policies (continued)

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

In the Company's statement of financial position, 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.

(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 statement of financial position 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 the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

Notes to the Financial Statements

1 Significant accounting policies (continued)

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

(i) Property, plant and equipment

Property, plant and equipment are initially stated in the statements of financial position at cost less accumulated depreciation 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.

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	2–35 years
Machinery	4–30 years
Transportation equipment	4–8 years
Office and electronic equipment	4–12 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.

Notes to the Financial Statements

1 Significant accounting policies (continued)

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

(ii) Construction in progress

Construction in progress represents buildings, various infrastructure projects under construction and equipment pending installation, and is recognised in the statement of financial position 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.

(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.

Notes to the Financial Statements

1 Significant accounting policies (continued)

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

(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.

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.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(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 the end of each reporting period 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;

– 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.

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)

– 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 these financial assets 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.

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.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(j) Impairment of assets (continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period 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; 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.

– 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).

Notes to the Financial Statements

1 Significant accounting policies (continued)

(j) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– 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.

(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.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(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. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, 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.

(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.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(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 business combinations, or 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 end of the reporting period, 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.

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.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(o) Income tax (continued)

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 end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period 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.

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.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(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.

(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 taxes and is after deduction of any trade discounts.

(ii) Delivery service income

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

Notes to the Financial Statements

1 Significant accounting policies (continued)

(s) Revenue recognition (continued)

(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 statement of financial position initially 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.

(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.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(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 end of the reporting period. 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. Statement of financial position items are translated into Renminbi at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised directly in other comprehensive income and accumulated separately in equity in the exchange reserve.

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) Non-current assets held for sale

A non-current asset is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset is available for sale in its present condition.

Immediately before classification as held for sale, the measurement of the non-current assets is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets and financial assets (other than investments in subsidiaries, associates and joint ventures). These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 1.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, the non-current asset is not depreciated or amortised.

Notes to the Financial Statements

1 Significant accounting policies (continued)

(y) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

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

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

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

Notes to the Financial Statements

1 Significant accounting policies (continued)

(z) 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.

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

The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation 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:

- HKAS 24 (revised 2009), *Related party disclosures*
- Improvements to HKFRSs (2010)

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

The impact of the developments are discussed below:

- HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period. HKAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the disclosures about the Group's related party transactions in note 41 have been conformed to the amended disclosure requirements.

- Improvements to HKFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, *Financial instruments: Disclosures*. The disclosures about the Group's financial instruments in note 37 have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

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:

	2011	2010
	RMB'000	RMB'000
Sales of:		
– Gold	**4,203,270**	3,950,388
– Other metals	**1,470,326**	853,389
– Others	**56,590**	37,759
Less: Sales taxes and levies	**(9,351)**	(6,982)
	5,720,835	4,834,554

The Group's customer base is diversified and includes only one customer with whom transactions have exceeded 10% of the Group's revenues. In 2011, revenues from sales of gold products to this customer amounted to approximately RMB4,203,270,000 (2010: RMB3,950,388,000) arose in the Henan Province, the PRC. Details of concentrations of credit risk arising from this customer are set out in note 37(a).

Further details regarding the Group's principal activities are disclosed in note 38 to these financial statements.

4 Other revenue

	2011	2010
	RMB'000	RMB'000
Bank interest income	**4,041**	3,754
Delivery service income	**6,591**	6,141
Government grants	**8,742**	1,481
Scrap sales	**3,899**	2,827
Dividend income from other investments	**6,300**	560
Sundry income	**95**	411
	29,668	15,174

Notes to the Financial Statements

5 Other net loss

	2011 **RMB'000**	2010 RMB'000
Net realised loss on financial instruments at fair value	**(13,358)**	(62,608)
Net loss on disposal of property, plant and equipment, construction in progress and intangible assets	**(1,944)**	(8,609)
Net foreign exchange losses	**(13,397)**	(44,803)
Impairment of property, plant and equipment, intangible assets, construction in progress and goodwill	**(10,852)**	(3,838)
Gain on disposal of subsidiaries *(note 40(b))*	**4,640**	–
Others	**(1,750)**	(1,520)
	(36,661)	(121,378)

6 Staff costs

	2011 **RMB'000**	2010 RMB'000
Salaries, wages and bonuses	**227,543**	214,256
Staff welfare	**17,587**	16,424
Contributions to retirement benefit schemes	**25,405**	15,796
	270,535	246,476
Less: Staff costs capitalised into construction in progress	**(33,972)**	(37,382)
	236,563	209,094

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% (2010: 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% (2010: 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):

	2011 **RMB'000**	2010 RMB'000
(a) Finance costs:		
Interest expenses on bank advances wholly repayable within five years	**139,837**	117,623
Interest expenses on other loans	**1,589**	83
Interest expenses on debentures	**28,143**	–
Interest expenses on financial liabilities measured at amortised cost	**–**	2,696
Other borrowing costs	**2,109**	2,985
Total interest expenses on financial liabilities not at fair value through profit or loss	**171,678**	123,387
Less: interest expenses capitalised into construction in progress*	**(15,349)**	(31,368)
	156,329	92,019

* The borrowing costs have been capitalised at a rate of 5.31%~6.56% per annum(2010: 5.31%~5.76%).

	2011 **RMB'000**	2010 RMB'000
(b) Other items:		
Cost of inventories *(note 26(b))*	**4,841,792**	4,019,316
Amortisation of lease prepayments *(note 19)*	**2,656**	2,162
Amortisation of intangible assets# *(note 17)*	**7,503**	97,069
Less: Amortisation capitalised into exploration and evaluation assets *(note 17)*	**–**	(83,502)
	7,503	13,567
Depreciation# *(note 15)*	**196,503**	168,304
Less: Depreciation capitalised into construction in progress	**(4,357)**	(6,093)
	192,146	162,211

Notes to the Financial Statements

7 Profit before taxation (continued)

(b) Other items: (continued)

	2011 RMB'000	2010 RMB'000
Provision/(reversal) of impairment losses on:		
– trade and other receivables *(note 27(c))*	**507**	(2,197)
– purchase deposits	**3,434**	5,691
– non-current prepayment *(note 24)*	**1,000**	–
– fixed asset and construction in progress *(notes15 and 16)*	**5,930**	–
– intangible assets *(note 17)*	**4,922**	3,731
– goodwill *(note 18)*	**–**	107
Operating lease charges in respect of properties	**2,660**	3,116
Auditors' remuneration	**4,383**	3,900
Research and development expenses	**9,098**	7,665
Pollution discharge fee *(note 36(c))*	**2,479**	2,141
Environmental rehabilitation fee *(note 36(c))*	**16,136**	13,282

Cost of inventories includes RMB323,930,000 (2010: RMB291,151,000) 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.

8 Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2011 RMB'000	2010 RMB'000
Current tax – PRC income tax		
Provision for the year	**139,228**	136,664
Under-provision in respect of prior years	**5,798**	311
	145,026	136,975
Deferred tax		
Origination and reversal of temporary differences	**(16,905)**	(8,598)
	128,121	128,377

Notes to the Financial Statements

8 Income tax in the consolidated income statement (continued)

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

	2011 **RMB'000**	2010 RMB'000
Profit before taxation	**436,907**	386,254
Notional tax on profit before taxation, calculated at the rates applicable to the jurisdictions concerned	**111,265**	103,565
Effect of tax concessions	**–**	(2,179)
Effect of non-deductible expenses	**6,780**	4,318
Effect of non-taxable income	**(1,575)**	(140)
Tax losses not recognised	**4,792**	22,626
Under-provision in respect of prior years	**5,798**	311
Others	**1,061**	(124)
Actual tax expense	**128,121**	128,377

Notes:

(i) The Company and its PRC subsidiaries are subject to PRC income tax at the statutory rate of 25%, unless otherwise specified.

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

(ii) Hong Kong profits tax rate for 2011 is 16.5% (2010: 16.5%). No provision for Hong Kong profits tax is made as the subsidiary located in Hong Kong did not earn any income which is subject to Hong Kong profits tax.

(iii) Kyrgyzstan profits tax rate for 2011 is 10% (2010: 10%). No provision for Kyrgyzstan profits tax is made as the subsidiaries located in the Kyrgyz Republic ("KR") sustained losses for income tax purposes.

(iv) Laos profits tax rate for 2011 is 35% (2010: 35%). No provision for Laos profits tax is made as the subsidiary located in Laos 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 2011

	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	12	260	872
Mr Jin Guangcai	–	540	12	234	786
Mr Liu Pengfei	–	378	10	164	552
Mr Zhang Guo	–	378	11	164	553
Mr Lu Xiaozhao (resigned in March 2011)	–	95	2	41	138
Mr He Chengqun	–	378	11	164	553
Non-executive director					
Mr Wang Yumin	–	–	–	–	–
Independent non-executive directors					
Mr Yan Wanpeng	50	–	–	–	50
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	–	270	10	117	397
Mr Hang Zhanping	–	–	–	–	–
Mr Yang Bo	–	–	–	–	–
Mr Jiao Xiaoxiao	–	–	–	–	–
Mr Guo Xurang	–	–	–	–	–
Total	370	2,639	68	1,144	4,221

Notes to the Financial Statements

9 Directors' and supervisors' remuneration (continued)

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 (resigned in May 2010)	–	225	2	121	348
Mr He Chengqun (appointed in July 2010)	–	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 (resigned in July 2010)	–	–	–	–	–
Mr Guo Xurang (appointed in July 2010)	–	–	–	–	–
Total	420	2,795	31	1,455	4,701

Notes to the Financial Statements

10 Individuals with highest emoluments

Of the five individuals with the highest emoluments, four (2010: 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 (2010: one) are as follows:

	2011 RMB'000	2010 RMB'000
Salaries and wages	**960**	600
Contributions to retirement benefit scheme	**20**	20
Bonus	**80**	80
	1,060	700

11 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB219,283,000 (2010: RMB234,143,000) which has been dealt with in the financial statements of the Company (note 35(a)).

12 Dividends

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

	2011 RMB'000	2010 RMB'000
Final dividend proposed after the end of the reporting period of RMB0.10 (2010: RMB0.10) per ordinary share	**77,025**	77,025

Pursuant to a resolution passed at the directors' meeting on 23 March 2012, a final dividend in respect of the year ended 31 December 2011 of RMB0.10 (2010: RMB0.10) per share totalling RMB77,024,909 (2010: RMB77,024,909) was proposed for shareholders' approval at the annual general meeting. Final dividend of RMB77,024,909 (2010: RMB77,024,909) proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

Notes to the Financial Statements

12 Dividends (continued)

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

	2011 RMB'000	2010 RMB'000
Final dividend in respect of the previous financial year, approved during the year, of RMB0.10 (2010: RMB0.05) per ordinary share	**77,025**	38,512

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 2011 and 2010.

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 RMB310,562,000 (2010: RMB266,451,000) and 770,249,091 (2010: 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.

Notes to the Financial Statements

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 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 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 2011	502,291	432,995	1,053,407	70,900	40,027	2,099,620
Exchange adjustments	(3,884)	(2,731)	(1,691)	(1,184)	(10)	(9,500)
Additions	7,735	2,736	30,894	6,236	6,275	53,876
Transfer from construction in progress *(note 16)*	219,496	295,492	136,831	210	1,525	653,554
Disposals	(197)	–	(10,813)	(8,056)	(388)	(19,454)
Disposal of subsidiaries *(note 40(b))*	(36,735)	–	(3,498)	(1,456)	(2,154)	(43,843)
At 31 December 2011	688,706	728,492	1,205,130	66,650	45,275	2,734,253
Accumulated depreciation:						
At 1 January 2011	82,960	208,891	262,780	31,637	17,489	603,757
Exchange adjustments	(71)	(142)	(184)	(283)	(1)	(681)
Charge for the year	30,470	58,335	91,099	8,916	7,683	196,503
Impairment loss	–	–	1,320	–	–	1,320
Written back on disposals	(57)	–	(8,439)	(4,026)	(320)	(12,842)
Disposal of subsidiaries *(note 40(b))*	(4,716)	–	(1,543)	(834)	(855)	(7,948)
At 31 December 2011	108,586	267,084	345,033	35,410	23,996	780,109
Net book value:						
At 31 December 2011	580,120	461,408	860,097	31,240	21,279	1,954,144

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:						
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

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:						
At 1 January 2011	200,546	231,502	340,986	31,213	10,098	814,345
Additions	4,179	4	8,933	2,539	1,002	16,657
Transfer from construction in progress *(note 16)*	16,186	66,047	55,044	–	–	137,277
Disposals	(87)	–	(6,944)	(3,435)	(282)	(10,748)
At 31 December 2011	220,824	297,553	398,019	30,317	10,818	957,531
Accumulated depreciation:						
At 1 January 2011	35,919	98,775	164,831	16,447	7,953	323,925
Charge for the year	9,909	18,507	33,048	3,126	1,498	66,088
Written back on disposals	(38)	–	(5,694)	(2,456)	(264)	(8,452)
At 31 December 2011	45,790	117,282	192,185	17,117	9,187	381,561
Net book value:						
At 31 December 2011	175,034	180,271	205,834	13,200	1,631	575,970

Notes to the Financial Statements

16 Construction in progress

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cost:				
At 1 January	**686,576**	930,727	**148,930**	134,358
Exchange adjustments	**(7,555)**	(25,445)	**–**	–
Additions	**348,660**	466,300	**167,872**	66,210
Transfer to property, plant and equipment *(note 15)*	**(653,554)**	(683,226)	**(137,277)**	(51,638)
Transfer to assets classified as held for sale *(note 28)*	**(1,084)**	–	**–**	–
Impairment loss	**(4,610)**	–	**–**	–
Disposal	**–**	(1,780)	**–**	–
Disposal of subsidiaries *(note 40(b))*	**(36,603)**	–	**–**	–
At 31 December	**331,830**	686,576	**179,525**	148,930

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 *(note (b))* RMB'000	Mining rights *(note (b))* RMB'000	Exploration rights *(note (c))* RMB'000	Total RMB'000
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 (a))*	–	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 Group (continued)

	Shanghai Gold Exchange trading rights RMB'000	Exploration and evaluation assets *(note (a))* RMB'000	Mining development assets *(note (b))* RMB'000	Mining rights *(note (b))* RMB'000	Exploration rights *(note (c))* RMB'000	Total RMB'000
Cost:						
At 1 January 2011	820	520,763	11,484	286,248	225,406	1,044,721
Exchange adjustments	–	(1,477)	(557)	(4,637)	–	(6,671)
Additions	–	59,844	–	–	–	59,844
Acquisition of a subsidiary *(note 40(a))*	–	10,280	–	–	–	10,280
Transfer to mining development assets	–	(76,684)	76,684	–	–	–
Transfer to assets classified as held for sale *(note 28)*	–	(7,539)	–	(11,500)	–	(19,039)
Disposal	–	–	–	–	(5,947)	(5,947)
Disposal of subsidiaries *(note 40(b))*	–	(25,430)	–	(1,220)	–	(26,650)
At 31 December 2011	820	479,757	87,611	268,891	219,459	1,056,538
Accumulated amortisation:						
At 1 January 2011	–	6,512	10,973	130,507	225,406	373,398
Charge for the year	–	–	256	7,247	–	7,503
Exchange adjustments	–	–	–	11	–	11
Impairment loss *(note (a))*	–	4,922	–	–	–	4,922
Disposal	–	–	–	–	(5,947)	(5,947)
At 31 December 2011	–	11,434	11,229	137,765	219,459	379,887
Net book value:						
At 31 December 2011	820	468,323	76,382	131,126	–	676,651

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 (c))* RMB'000	Total RMB'000
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
Cost:					
At 1 January 2011	**820**	**9,082**	**61,639**	**4,077**	**75,618**
Additions	**–**	**125**	**–**	**–**	**125**
Transfer to assets classified as held for sale *(note 28)*	**–**	**–**	**(11,500)**	**–**	**(11,500)**
At 31 December 2011	**820**	**9,207**	**50,139**	**4,077**	**64,243**
Accumulated amortisation:					
At 1 January 2011	**–**	**–**	**36,636**	**4,077**	**40,713**
Charge for the year	**–**	**–**	**2,149**	**–**	**2,149**
Impairment loss *(note (a))*	**–**	**4,922**	**–**	**–**	**4,922**
At 31 December 2011	**–**	**4,922**	**38,785**	**4,077**	**47,784**
Net book value:					
At 31 December 2011	**820**	**4,285**	**11,354**	**–**	**16,459**

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 2011, with a carrying value of RMB468,323,000 (2010: RMB514,251,000) and RMB4,285,000 (2010: RMB9,082,000) respectively. These assets are not subject to amortisation until they are placed in use.

During the year ended 31 December 2011, certain exploration and evaluation assets with a carrying value of RMB4,922,000 (2010: RMB3,731,000) of the Group were written down as the related exploration projects have been suspended.

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

Mine	**Location**	**Expiry date**
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
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 2012
Beiyangzhuang Polymetallic Mine *(note i)*	Nanyang, Henan	August 2010
Pengjialaozhuang Gold Mine	Nanyang, Henan	August 2021
Laowan Eastern Gold Mine	Nanyang, Henan	December 2016
Istanbul Gold Mine	KR	February 2017
Istanbul Gold Eastern Mine	KR	December 2022
Terek Gold Mine	KR	December 2022

Notes:

(i) As at 31 December 2011, the Group was in the process of applying for extension of the of Beiyangzhuang Polymetallic Mine rights with an aggregate carrying value of approximately RMB3,000,000. 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.

(iii) The Group disposed two of its subsidiaries, Wuyuan County Jincheng Mining Company Limited ("Jincheng") and Shangrao County Jintian Industrial Company Limited ("Jintian"), during the year ended 31 December 2011. As a result, the two mining rights, Shanzaoling Gold Mine and Shangrao Jintian Gold Mine, owned by Jincheng and Jintian respectively, were also disposed. Details of disposal of subsidiaries were disclosed in note 40(b).

(c) The exploration rights are amortised to exploration and evaluation assets on a straight-line basis over the estimated useful lives of one to three years.

Notes to the Financial Statements

18 Goodwill

	The Group RMB'000
Cost:	
At 1 January 2010, 31 December 2010, and 1 January 2011	41,511
Disposal	(107)
At 31 December 2011	41,404
Accumulated impairment losses:	
At 1 January 2010, 31 December 2010, and 1 January 2011	107
Written off on impairment losses	(107)
At 31 December 2011	–
Carrying amount:	
At 31 December 2011 and 31 December 2010	41,404

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:

	2011 RMB'000	2010 RMB'000
Mining	**41,404**	41,404

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 used 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:

	2011	2010
	%	%
Gross margin	**30**	30
Growth rate	**3**	3
Discount rate	**8.97**	8.91

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.

19 Lease prepayments

	The Group		**The Company**	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cost:				
At 1 January	**104,187**	98,582	**39,280**	36,719
Additions	**63,902**	5,708	**43,416**	2,561
Disposal	**–**	(103)	**–**	–
Disposal of subsidiaries *(note 40(b))*	**(4,358)**	–	**–**	–
At 31 December	**163,731**	104,187	**82,696**	39,280
Accumulated amortisation:				
At 1 January	**(7,786)**	(5,632)	**(2,857)**	(2,164)
Charge for the year	**(2,656)**	(2,162)	**(993)**	(693)
Disposal	**–**	8	**–**	–
Disposal of subsidiaries *(note 40(b))*	**225**	–	**–**	–
At 31 December	**(10,217)**	(7,786)	**(3,850)**	(2,857)
Carrying amount:				
At 1 January	**96,401**	92,950	**36,423**	34,555
At 31 December	**153,514**	96,401	**78,846**	36,423

Notes to the Financial Statements

19 Lease prepayments (continued)

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Lease prepayments	**153,514**	96,401	**78,846**	36,423
Less: Current portion of lease prepayments included in other receivables, deposits and prepayments	**(3,611)**	(2,162)	**(1,576)**	(693)
	149,903	94,239	**77,270**	35,730

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.

20 Investments in subsidiaries

	The Company	
	2011	2010
	RMB'000	RMB'000
Unlisted shares, at cost	**646,484**	675,941

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

Notes to the Financial Statements

20 Investments in subsidiaries (continued)

Details of the subsidiaries at 31 December 2011 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	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
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	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
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

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	Principal activities
			%	%	'000	
Chifeng Jinchan Mining Company Limited	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 *(note vi)*	–	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)	Limited liability company	Laos	98.7	–	USD500	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
Lanzhou Lingjin Mining Limited Liability Company	Limited liability company	The PRC	–	100	RMB1,000	Mining and exploration of mineral reserves
Beijing Fushengda Investment Company Limited	Limited liability company	The PRC	100	–	RMB10,000	Investment holding
Lingbao Wason Copper-Foil Company Limited	Limited liability company	The PRC	100	–	RMB180,000	Processing of copper products

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	Percentage of equity attributable to the Company Indirect	Issued and fully paid-up/ registered capital	Principal activities
			%	%	'000	
Ha Mi Jiachang Mining Investment and Development Company Limited	Limited liability company	The PRC	–	100	RMB20,000	Mining and exploration of mineral reserves
Lingbao Gold Yili Yelian Co., Ltd. ("Yili Yelian")	Limited liability company	The PRC	100 *(note iv)*	–	RMB25,000	Processing and smelting of gold, further processing and sales of gold products
Habahe Huayuan Mining Company Limited ("Huayuan")	Limited liability company	The PRC	–	60 *(note v)*	RMB5,000	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 on a 74%:26% basis.

(iii) Jincheng and Jintian were disposed by the Group on 13 September and 5 September 2011, respectively. The details of the disposal of the subsidiaries are set out in note 40(b).

(iv) Yili Yelian was established by the Group on 29 April 2011 with a total registered and paid-in capital of RMB25,000,000.

(v) Huayuan was acquired by the Group on 16 May 2011 for a consideration of RMB6,200,000. The details of acquisition of the subsidiary are set out in note 40(a).

(vi) At 31 December 2011, the ordinary shares of Full Gold was secured for a bank loan as disclosed in note 31.

Notes to the Financial Statements

21 Other investments

	The Group and the Company	
	2011	2010
	RMB'000	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.

22 Investment deposit

	The Group and the Company	
	2011	2010
	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 certain 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 was not completed as at 31 December 2009. An impairment loss of RMB80,000,000 was made in the financial statements for the year ended 31 December 2009.

As at 31 December 2011, the directors considered that the investment deposit of RMB80,000,000 would still not be recoverable.

Notes to the Financial Statements

23 Long-term receivables

	The Group and the Company	
	2011	2010
	RMB'000	RMB'000
Long-term receivables	**39,531**	–

The amount represents the receivables due from third parties arising from the disposal of two subsidiaries, Jintian and Jincheng in 2011, as disclosed in the note 40(b). The amount is expected to be recovered over one year but within two years.

24 Non-current prepayments

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments for purchase of property, plant and equipment and construction of mining shafts	**17,070**	67,096	**12,631**	29,846
Prepayments for acquisition of mining and exploration assets	**1,543**	2,630	**–**	–
Prepayments for acquisition of land use rights	**–**	20,527	**–**	18,760
	18,613	90,253	**12,631**	48,606
Less: Allowance for doubtful debts	**(1,000)**	–	**(1,000)**	–
	17,613	90,253	**11,631**	48,606

Notes to the Financial Statements

25 Income tax in the statement of financial position

(a) Current taxation in the statement of financial position represents:

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
At beginning of the year	**31,140**	1,732	**16,766**	(10,464)
Under-provision in respect of prior years *(note 8(a))*	**5,798**	311	**1,065**	–
Provision for PRC income tax *(note 8(a))*	**139,228**	136,664	**86,039**	88,240
PRC income tax paid	**(158,511)**	(107,567)	**(95,838)**	(61,010)
At end of the year	**17,655**	31,140	**8,032**	16,766

(b) Deferred tax assets and liabilities recognised:

(i) The Group

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

	Depreciation of property, plant and equipment	Amortisation of intangible assets	Allowance for bad debt	Inventories	Other accruals and payables	Financial instruments	Tax losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax arising from:								
At 1 January 2010	14,724	(1,893)	32,934	5,653	15,950	(1,481)	16,613	82,500
Exchange adjustments	289	652	–	–	49	–	(671)	319
Credited/(charged) to profit or loss	2,039	638	918	3,872	6,607	1,481	(6,957)	8,598
At 31 December 2010	17,052	(603)	33,852	9,525	22,606	–	8,985	91,417
At 1 January 2011	**17,052**	**(603)**	**33,852**	**9,525**	**22,606**	**–**	**8,985**	**91,417**
Exchange adjustments	**241**	**264**	**–**	**–**	**5**	**–**	**(471)**	**39**
Credited/(charged) to profit or loss	**3,225**	**(360)**	**1,179**	**3,568**	**2,647**	**–**	**6,646**	**16,905**
At 31 December 2011	**20,518**	**(699)**	**35,031**	**13,093**	**25,258**	**–**	**15,160**	**108,361**

Notes to the Financial Statements

25 Income tax in the statement of financial position (continued)

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

(ii) The Company

	Depreciation of property, plant and equipment RMB'000	Amortisation of intangible assets RMB'000	Allowance for bad debt RMB'000	Inventories RMB'000	Other accruals and payables RMB'000	Financial instruments RMB'000	Total RMB'000
At 1 January 2010	69	2,303	32,251	988	11,605	(1,481)	45,735
Credited/(charged) to profit or loss	116	104	2,315	(436)	3,767	1,481	7,347
At 31 December 2010	185	2,407	34,566	552	15,372	–	53,082
At 1 January 2011	**185**	**2,407**	**34,566**	**552**	**15,372**	**–**	**53,082**
Credited/(charged) to profit or loss	**8,265**	**1,212**	**354**	**(215)**	**(116)**	**–**	**9,500**
At 31 December 2011	**8,450**	**3,619**	**34,920**	**337**	**15,256**	**–**	**62,582**

(iii) Reconciliation to the statement of financial position

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Net deferred tax asset recognised on the statement of financial position	**115,699**	99,055	**62,582**	53,082
Net deferred tax liability recognised on the statement of financial position	**(7,338)**	(7,638)	**–**	–
	108,361	91,417	**62,582**	53,082

Notes to the Financial Statements

25 Income tax in the statement of financial position (continued)

(c) Deferred tax assets not recognised

Note: In accordance with the accounting policy set out in note 1(o), the Group has not recognised deferred tax assets in respect of unused tax losses of RMB90,369,000 (2010: 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. Tax losses of RMB4,319,000, RMB16,017,000, RMB18,515,000, RMB17,830,000 and RMB33,688,000, if unused, will expire in 2012, 2013, 2014, 2015 and 2016, respectively.

26 Inventories

(a) Inventories in the statement of financial position comprise:

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**823,655**	870,284	**672,587**	785,293
Work in progress	**84,188**	65,149	**26,920**	21,423
Finished goods	**1,033,183**	160,604	**1,050,758**	141,816
Spare parts and materials	**101,091**	71,182	**27,219**	20,827
	2,042,117	1,167,219	**1,777,484**	969,359

(b) The analysis of the amount of inventories recognised as an expense and included in profit and loss is as follows:

	The Group	
	2011	2010
	RMB'000	RMB'000
Carrying amount of inventories sold	**4,837,748**	4,013,319
Write down of inventories	**1,627**	876
Reversal of write-down of inventories	**–**	(2,282)
Write off of inventories	**2,417**	7,403
	4,841,792	4,019,316

Notes to the Financial Statements

27 Trade and other receivables, deposits and prepayments

Trade and other receivables, deposits and prepayments comprise:

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**375,855**	224,271	**4,803**	46,153
Bills receivable	**45,968**	65,146	**10,822**	10,924
Less: Allowance for doubtful debts	**(3,699)**	(3,699)	**(3,005)**	(3,005)
	418,124	285,718	**12,620**	54,072
Other receivables, deposits and prepayments	**322,270**	191,907	**160,097**	61,808
Less: Allowance for doubtful debts	**(1,626)**	(1,119)	**(1,356)**	(1,080)
	320,644	190,788	**158,741**	60,728
Purchase deposits *(note 27(d))*	**64,744**	148,249	**64,744**	148,249
Less: Allowance for non-delivery	**(23,518)**	(20,084)	**(23,518)**	(20,084)
	41,226	128,165	**41,226**	128,165
Deposits for derivative financial instruments *(note 27(e))*	**2,079**	44,287	**2,079**	40,807
Amount due from Beijing Jiuyi *(note 27(f))*	**–**	–	**–**	–
	2,079	44,287	**2,079**	40,807
	782,073	648,958	**214,666**	283,772

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

Notes to the Financial Statements

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

(a) Ageing analysis

Included in trade and bills receivables (net of allowance for doubtful debts) with the following ageing analysis as of the end of the reporting period:

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within three months	**287,649**	238,102	**11,748**	47,674
Over three months but less than six months	**97,456**	43,452	**872**	5,695
Over six months but less than one year	**32,145**	4,164	**–**	703
Over one year but less than two years	**874**	–	**–**	–
At 31 December	**418,124**	285,718	**12,620**	54,072

For sales of gold, the Group requests customers to pay cash in full immediately upon the delivery. For sales of other metallic products, trade and bills receivables are due within 90 days to 180 days from the date of billing. Further details on the Group's credit policy are set out in note 37(a).

(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	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither past due nor impaired	**385,105**	281,554	**12,620**	53,369
Less than one year past due	**33,019**	4,164	**–**	703
	418,124	285,718	**12,620**	54,072

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

Notes to the Financial Statements

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

(b) Trade and bills receivables that are not impaired (continued)

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.

(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)).

The movement in the allowance for doubtful receivables during the year is as follows:

	The Group		**The Company**	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**4,818**	7,015	**4,085**	3,810
Impairment loss recognised	**507**	325	**276**	325
Impairment loss written back	**–**	(2,522)	**–**	(50)
At 31 December	**5,325**	4,818	**4,361**	4,085

At 31 December 2011, the Group's and the Company's trade and other receivables of RMB5,325,000 (2010: RMB4,818,000) and RMB4,361,000 (2010: RMB4,085,000) 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.

(e) Deposits for derivative financial instruments

The Group and the Company had respectively placed deposits of RMB2,079,000 (2010: RMB44,287,000) and RMB2,079,000 (2010: RMB40,807,000) 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 2011 and 2010 were nil.

Notes to the Financial Statements

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

(f) Amount due from Beijing Jiuyi

	The Group and the Company	
	2011	2010
	RMB'000	RMB'000
Amount due from Beijing Jiuyi	**30,800**	30,800
Less: Impairment losses	**(30,800)**	(30,800)
	–	–

The balance due from Beijing Jiuyi was relating to a compensation payment for a proposed acquisition in previous years. The directors considered the balance of RMB30,800,000 would not be recoverable and accordingly, an impairment loss was provided.

28 Assets classified as held for sale

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Intangible assets *(note 17)*	**19,039**	–	**11,500**	–
Construction in progress *(note 16)*	**1,084**	–	**–**	–
	20,123	–	**11,500**	–

The Group entered into an agreement with a third party before 31 December 2011 to dispose of certain exploration and evaluation assets at a consideration of RMB10,200,000. The disposal is expected to be completed in 2012 and as a result, such exploration and evaluation assets are presented as assets classified as held for sale at a carrying amount of RMB7,539,000 at 31 December 2011.

The Group entered into an agreement with a third party before 31 December 2011 to dispose of a mining right and certain construction in progress. The consideration has not been determined but the disposal is expected to be completed in 2012 and as a result, a mining right of RMB11,500,000 and a construction in progress of RMB1,084,000 are presented as assets classified as held for sale at 31 December 2011.

Notes to the Financial Statements

29 Pledged deposits

Pledged deposits can be analysed as follows:

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Guarantee deposits for issuance of commercial bills	**30,000**	–	**30,000**	–

30 Cash and cash equivalents

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**349,568**	323,712	**218,715**	252,187

31 Bank loans

At 31 December 2011, the bank loans were repayable as follows:

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year or on demand	**1,502,072**	1,393,000	**1,196,000**	1,290,000
Over one year but within two years	**476,358**	500,000	**292,000**	470,000
Over two years but within five years	**428,615**	323,000	**–**	50,000
Over five years	**124,636**	361,142	**–**	–
	1,029,609	1,184,142	**292,000**	520,000
	2,531,681	2,577,142	**1,488,000**	1,810,000

Notes to the Financial Statements

31 Bank loans (continued)

At 31 December 2011, the bank loans were secured as follows:

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank loans				
– secured	**336,139**	361,142	**–**	–
– unsecured	**2,195,542**	2,216,000	**1,488,000**	1,810,000
	2,531,681	2,577,142	**1,488,000**	1,810,000

At 31 December 2011, a bank loan of the Group amounting to RMB336,139,000 (2010: RMB361,142,000) were secured by a mining right with carrying amount of RMB112,886,000 (2010: RMB118,070,000) and the ordinary shares of Full Gold established in the KR.

32 Debentures

On 25 March 2011, the Company issued five-year Medium Term Notes of RMB400 million to corporate investors in the PRC inter-bank debenture market. The notes are unsecured and repayable 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.

On 17 June 2011, the Company issued five-year Medium Term Notes of RMB300 million to corporate investors in the PRC inter-bank debenture market. The notes are unsecured and repayable on 16 June 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 2.85% per annum.

Notes to the Financial Statements

33 Trade and other payables

Current trade and other payables:

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bills payable	**30,000**	–	**30,000**	–
Trade payables	**387,553**	164,200	**362,348**	147,736
Other payables	**178,532**	145,093	**59,893**	28,412
Payable for mining rights	**87,733**	92,594	**–**	–
Salary and welfare payable	**57,624**	57,234	**36,260**	34,060
Deferred income *(note (a))*	**60,080**	43,411	**19,530**	27,532
Accruals	**19,084**	14,796	**12,849**	11,829
Interest payable	**40,595**	12,994	**32,469**	3,277
Dividend payable	**3,119**	–	**3,119**	–
Receipts in advance	**7,846**	7,408	**78,687**	7,402
Payable to non-controlling interests *(note (b))*	**36,501**	9,805	**–**	–
	908,667	547,535	**635,155**	260,248
Non-current other payables				
Payable for mining rights	**3,509**	7,869	**–**	–
Decommissioning costs	**4,238**	4,410	**–**	–
Deferred income *(note (a))*	**15,231**	–	**13,557**	–
Payable to non-controlling interests *(note (b))*	**–**	18,345	**–**	–
	22,978	30,624	**13,557**	–

Notes to the Financial Statements

33 Trade and other payables (continued)

(a) Deferred income represents grants received from the government for the exploration of mines and construction of mining related assets. When certain conditions are met, the government grants are recognised as income over the periods necessarily to match them with the related costs of assets constructed which they are intended to compensate over the periods and in the proportion in which depreciation on those assets is charged.

(b) Among the payable to non-controlling interests as at 31 December 2011, RMB17,429,000 is unsecured, interest-free and repayable on 24 June 2012; RMB19,072,000 is unsecured, interest free and repayable on demand.

Included in trade and other payables are trade payables with the following ageing analysis as of the end of the reporting period:

	The Group		**The Company**	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within three months	**371,744**	155,732	**350,102**	142,383
Over three months but less than six months	**11,094**	3,898	**9,156**	2,521
Over six months but less than one year	**2,017**	1,946	**882**	748
Over one year but less than two years	**715**	813	**255**	298
Over two years	**1,983**	1,811	**1,953**	1,786
	387,553	164,200	**362,348**	147,736

34 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

35 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 35(b)) RMB'000	Share premium (note (i)) RMB'000	PRC Statutory reserves (note (ii)) RMB'000	Retained profits RMB'000	Total equity RMB'000
At 1 January 2010	154,050	827,931	117,447	710,314	1,809,742
Changes in equity for 2010					
Total comprehensive income for the year	–	–	–	234,143	234,143
Profit appropriation	–	–	20,694	(20,694)	–
Appropriation of safety production fund	–	–	4,730	(4,730)	–
Utilisation of safety production fund	–	–	(4,730)	4,730	–
Dividends approved in respect of the previous year	–	–	–	(38,512)	(38,512)
At 31 December 2010 and 1 January 2011	**154,050**	**827,931**	**138,141**	**885,251**	**2,005,373**
Changes in equity for 2011					
Total comprehensive income for the year	**–**	**–**	**–**	**219,283**	**219,283**
Profit appropriation	**–**	**–**	**21,929**	**(21,929)**	**–**
Appropriation of safety production fund	**–**	**–**	**8,217**	**(8,217)**	**–**
Utilisation of safety production fund	**–**	**–**	**(8,217)**	**8,217**	**–**
Dividends approved in respect of the previous year	**–**	**–**	**–**	**(77,025)**	**(77,025)**
At 31 December 2011	**154,050**	**827,931**	**160,070**	**1,005,580**	**2,147,631**

Notes to the Financial Statements

35 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.

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.

Pursuant to the relevant regulations in the PRC, the Group is required to provide for safety production fund based on volume of ores excavated and sales amount of sulphuric acid.

For the year ended 31 December 2011, the Group and the Company transferred RMB19,399,000 and RMB8,217,000 (2010: RMB20,696,000 and RMB4,730,000), respectively, from retained earnings to specific reserve for the provision for the safety production fund and transferred RMB21,105,000 and RMB8,217,000 (2010: RMB20,696,000 and RMB4,730,000), respectively, from reserves to retained earnings for the utilisation of the safety production fund according to relevant PRC regulations.

(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

35 Capital and reserve (continued)

(b) Share capital

	2011		2010	
	Number of shares	**RMB'000**	Number of shares	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 2011, the amount of retained profits available for distribution was RMB1,005,580,000, being the amount determined in accordance with HKFRSs (2010: RMB885,251,000). After the end of the reporting period, the directors proposed a final dividend of RMB0.10 (2010: RMB0.10) per share, amounting to RMB77,024,909 (2010: RMB77,024,909). This dividend has not been recognised as a liability at the end of the reporting period.

(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 light of changes in economic conditions.

Notes to the Financial Statements

35 Capital and reserve (continued)

(d) Capital management (continued)

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 attributable to equity shareholders of the Company less unaccrued proposed dividends.

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 2011 and 2010 was as follows:

		The Group		**The Company**	
		2011	2010	**2011**	2010
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Current liabilities:					
– Trade and other payables	*33*	**908,667**	547,535	**635,155**	260,248
– Bank loans	*31*	**1,502,072**	1,393,000	**1,196,000**	1,290,000
– Other loan		**2,675**	3,270	**2,675**	3,270
– Loan from ultimate holding company	*34*	**23,800**	23,800	**–**	–
		2,437,214	1,967,605	**1,833,830**	1,553,518
Non-current liabilities:					
– Other payables	*33*	**22,978**	30,624	**13,557**	–
– Bank loans	*31*	**1,029,609**	1,184,142	**292,000**	520,000
– Debenture payable	*32*	**700,000**	–	**700,000**	–
		1,752,587	1,214,766	**1,005,557**	520,000

Notes to the Financial Statements

35 Capital and reserve (continued)

(d) Capital management (continued)

		The Group		The Company	
		2011	2010	**2011**	2010
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Total debt		**4,189,801**	3,182,371	**2,839,387**	2,073,518
Add: Proposed dividends	*12(a)*	**77,025**	77,025	**77,025**	77,025
Less: Cash and cash equivalents	*30*	**(349,568)**	(323,712)	**(218,715)**	(252,187)
Pledged deposits	*29*	**(30,000)**	–	**(30,000)**	–
Net debt		**3,887,258**	2,935,684	**2,667,697**	1,898,356
Total equity attributable to equity shareholders of the Company		**2,299,330**	2,066,921	**2,147,631**	2,005,373
Less: Proposed dividends	*12(a)*	**(77,025)**	(77,025)	**(77,025)**	(77,025)
Adjusted capital		**2,222,305**	1,989,896	**2,070,606**	1,928,348
Net debt-to-adjusted capital ratio		**175%**	148%	**129%**	98%

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.

Notes to the Financial Statements

36 Commitments and contingencies

(a) Capital commitments, representing purchase of property, plant and equipment and intangible assets outstanding at 31 December 2011 not provided for in the financial statements, were as follows:

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Authorised and contracted for	**143,165**	100,835	**50,000**	20,289
Authorised but not contracted for	**229,618**	239,297	**79,236**	114,648
	372,783	340,132	**129,236**	134,937

(b) At 31 December 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2011	2010
	RMB'000	RMB'000
Within one year	**3,031**	2,396
After one year but within five years	**6,610**	6,650
After five years	**811**	398
	10,452	9,444

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

36 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 RMB2,479,000 (2010: RMB2,141,000) and RMB16,136,000 (2010: RMB13,282,000) respectively for the year ended 31 December 2011.

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 RMB4,238,000 (2010: RMB4,410,000) was made in the financial statements for the year ended 31 December 2011.

37 Financial risk management and fair values

Exposure to credit, liquidity, interest rate, gold price, other commodity price and foreign currency risks arises in the normal course of the Group's business. 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, pledged deposits, trade and other receivables, deposits and prepayments and investment deposit 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 and deposits are held in major financial institutions located in Hong Kong and mainland China, 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.

Notes to the Financial Statements

37 Financial risk management and fair values (continued)

(a) Credit risk (continued)

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.

For sales of gold, the Group has no significant credit risk as the transaction amounts of sales of gold are required to be settled immediately upon the delivery.

For sales of other metallic products, the Group has certain concentration of credit risk on trade receivables as 14% (2010: 0%) and 25% (2010: 5%) of the total trade receivables was due from the Group's largest customer and the five largest customers other than Shanghai Gold Exchange respectively as at 31 December 2011.

In addition, the Group made purchase deposits of RMB41,226,000 (net of provision) (2010: RMB128,165,000) at 31 December 2011 to suppliers to secure its supplies of mineral sand which is the major raw materials in the smelting process. The balance represented 1.28% (2010: 6.0%) of the total current assets at 31 December 2011. 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.

In 2009, impairment losses on investment deposit of RMB80,000,000 (see note 22) and other receivables of RMB30,800,000 (see note 27(f)) were made in the financial statements. Management of the Group 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 consolidated statement of financial position 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 27.

(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.

Notes to the Financial Statements

37 Financial risk management and fair values (continued)

(b) Liquidity risk (continued)

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.

The following table details the remaining contractual maturities at the end of the reporting period 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 end of the reporting period) and the earliest date the Group and the Company can be required to pay:

The Group

	2011 Contractual undiscounted cash outflow						2010 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	Carrying amount at 31 Dec 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	Carrying amount at 31 Dec RMB'000
Bank loans	1,595,761	510,009	449,951	127,242	2,682,963	2,531,681	1,489,744	548,509	516,608	191,265	2,746,126	2,577,142
Other loan	2,675	–	–	–	2,675	2,675	3,270	–	–	–	3,270	3,270
Loan from ultimate holding company	23,800	–	–	–	23,800	23,800	23,800	–	–	–	23,800	23,800
Trade and other payables	909,383	–	–	–	909,383	908,667	548,180	–	–	–	548,180	547,535
Tax payable	17,655	–	–	–	17,655	17,655	31,140	–	–	–	31,140	31,140
Debentures payable	42,100	42,100	798,140	–	882,340	700,000	–	–	–	–	–	–
Non-current other payables	–	19,746	–	4,238	23,984	22,978	–	4,945	21,913	4,410	31,268	30,624
	2,591,374	571,855	1,248,091	131,480	4,542,800	4,207,456	2,096,134	553,454	538,521	195,675	3,383,784	3,213,511

The Company

	2011 Contractual undiscounted cash outflow						2010 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	Carrying amount at 31 Dec 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	Carrying amount at 31 Dec RMB'000
Bank loans	1,252,424	300,199	–	–	1,552,623	1,488,000	1,349,330	478,113	51,352	–	1,878,795	1,810,000
Other loan	2,675	–	–	–	2,675	2,675	3,270	–	–	–	3,270	3,270
Trade and other payables	635,155	–	–	–	635,155	635,155	260,248	–	–	–	260,248	260,248
Tax payable	8,032	–	–	–	8,032	8,032	16,766	–	–	–	16,766	16,766
Amounts due to subsidiaries	47,359	–	–	–	47,359	47,359	60,694	–	–	–	60,694	60,694
Debentures payable	42,100	42,100	798,140	–	882,340	700,000	–	–	–	–	–	–
Non-current other payables	–	13,557	–	–	13,557	13,557	–	–	–	–	–	–
	1,987,745	355,856	798,140	–	3,141,741	2,894,778	1,690,308	478,113	51,352	–	2,219,773	2,150,978

Notes to the Financial Statements

37 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. 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 end of the reporting period.

	The Group				**The Company**			
	2011		2010		**2011**		2010	
	Interest rate %	**RMB'000**	Interest rate %	RMB'000	**Interest rate %**	**RMB'000**	Interest rate %	RMB'000
Net fixed rate borrowings:								
Bank loans	**4.86~7.54**	**340,000**	4.62~5.81	450,000	**4.86~6.56**	**130,000**	4.62~5.00	360,000
Net variable rate borrowings:								
Bank loans	**4.86~7.05**	**2,191,681**	4.86~5.96	2,127,142	**5.99~6.89**	**1,358,000**	4.86~5.60	1,450,000
Other loan	**3.80**	**2,675**	3.05	3,270	**3.80**	**2,675**	3.05	3,270
Debenture payable	**5.95~6.10**	**700,000**		–	**5.95~6.10**	**700,000**		–
Less: Cash and cash equivalents	**0.02~1.31**	**(349,568)**	0.02~1.17	(323,712)	**0.5~1.31**	**(218,715)**	0.36~1.17	(252,187)
Pledged deposits	**3.10**	**(30,000)**		–	**3.10**	**(30,000)**		–
		2,514,788		1,806,700		**1,811,960**		1,201,083
Total net borrowings		**2,854,788**		2,256,700		**1,941,960**		1,561,083
Net fixed rate borrowings as a percentage of total net borrowings		**12%**		20%		**7%**		23%

Notes to the Financial Statements

37 Financial risk management and fair values (continued)

(c) Interest rate risk (continued)

(ii) Sensitivity analysis

The Group does not account for any fixed rate borrowings at fair value through profit or loss. Therefore a change in interest rate at the reporting date would not affect profit or loss.

As at 31 December 2011, it is estimated that a general increase/decrease of 100 basis points in variable interest rates, with all other variables held constant, would decrease/increase the Group's net profit for the year and retained earnings by approximately RMB19,660,000 (2010: RMB14,391,000). This sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet date and the change was applied to the Group's variable rate borrowings at that date with exposure to cash flow interest rate risk. The impact on the Group's profit after tax and retained earnings 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 2010.

(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 27(e) to these financial statements.

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").

Notes to the Financial Statements

37 Financial risk management and fair values (continued)

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

(i) Exposure to currency risk

The following table details the Group's and the Company's exposure at the end of the reporting period 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)	
	2011	2010
	USD	USD
	RMB'000	RMB'000
Trade and other receivables	**113,013**	40,466
Cash and cash equivalents	**25,225**	8,129
Trade and other payables	**(144,456)**	(148,461)
Non-current other payables	**–**	(18,345)
Bank loans	**(485,681)**	(361,142)
Overall net exposure	**(491,899)**	(479,353)

The Company

	Exposure to foreign currencies (expressed in Renminbi)	
	2011	2010
	USD	USD
	RMB'000	RMB'000
Amounts due from subsidiaries	**153,460**	169,622
Overall net exposure	**153,460**	169,622

Notes to the Financial Statements

37 Financial risk management and fair values (continued)

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

(ii) Sensitivity analysis

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

The Group

	2011		2010	
	Increase/ (decrease) in foreign exchange rates	**(Decrease)/ increase in profit after tax and retained profits**	Increase/ (decrease) in foreign exchange rates	(Decrease)/ increase in profit after tax and retained profits
	%	**RMB'000**	%	RMB'000
USD	**3**	**(13,210)**	3	(13,008)
	(3)	**13,210**	(3)	13,008

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 end of the reporting period for presentation purposes.

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 end of the reporting period, 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 2010.

Notes to the Financial Statements

37 Financial risk management and fair values (continued)

(e) Business risk

During the year ended 31 December 2011, the Group's supplies of direct materials from independent third parties for smelting segment represent 88.3% (2010: 88.7%) of the Group's total direct materials, in which, the top five suppliers in 2011 represent 26.1% (2010: 28.6%) 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 cease 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.

(f) Fair value

(i) Financial instruments carried at fair value

The 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 2011 and 31 December 2010, the Company and the Group didn't hold any financial instruments which fell into 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 2011 and 2010.

Notes to the Financial Statements

37 Financial risk management and fair values (continued)

(g) 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.

38 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 presented 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.

Copper 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 assets, 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, deferred tax liabilities 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

38 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 for the year ended 31 December 2011 and 2010 is set out below.

	Mining – PRC		Mining – KR		Smelting		Copper processing		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue from external customers	**–**	–	**–**	–	**4,764,995**	4,462,989	**965,191**	378,547	**5,730,186**	4,841,536
Inter-segment revenue	**876,135**	817,770	**–**	–	**501,111**	343,439	**–**	–	**1,377,246**	1,161,209
Sales tax	**(53)**	(184)	**–**	–	**(8,023)**	(6,795)	**(1,275)**	(3)	**(9,351)**	(6,982)
Reportable segment revenue	**876,082**	817,586	**–**	–	**5,258,083**	4,799,633	**963,916**	378,544	**7,098,081**	5,995,763
Reportable segment profit/(loss)	**271,262**	262,560	**(8,493)**	(3,588)	**470,411**	418,844	**54,954**	34,737	**788,134**	712,553
Reportable segment assets	**1,809,329**	1,666,490	**804,961**	690,500	**2,523,976**	1,659,162	**1,344,497**	1,124,017	**6,482,763**	5,140,169
Reportable segment liabilities	**659,015**	852,511	**835,112**	711,667	**1,465,756**	276,080	**1,129,005**	905,525	**4,088,888**	2,745,783
Other segment information										
Interest expenses	**(25,793)**	(28,234)	**(2,705)**	(2,823)	**(21,222)**	(19,799)	**(35,974)**	(9,368)	**(85,694)**	(60,224)
Net foreign exchange gain/(losses)	**26**	–	**2,327**	(41,327)	**(500)**	–	**(6,561)**	(1,120)	**(4,708)**	(42,447)
Depreciation and amortisation for the year	**(104,560)**	(115,278)	**(3,684)**	(157)	**(34,852)**	(36,349)	**(44,134)**	(21,457)	**(187,230)**	(173,241)
(Provision)/reversal of impairment on:										
– trade and other receivables	**(224)**	1,695	**–**	–	**(90)**	50	**(8)**	452	**(322)**	2,197
– purchase deposits	**–**	–	**–**	–	**(3,434)**	(5,691)	**–**	–	**(3,434)**	(5,691)
– intangible assets	**(4,922)**	(3,731)	**–**	–	**–**	–	**–**	–	**(4,922)**	(3,731)
– fixed assets and construction in progress	**–**	–	**(5,930)**	–	**–**	–	**–**	–	**(5,930)**	–

Notes to the Financial Statements

38 Segment reporting (continued)

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

	2011 RMB'000	2010 RMB'000
Revenue		
Reportable segment revenue	**7,098,081**	5,995,763
Elimination of inter-segment revenue	**(1,377,246)**	(1,161,209)
Consolidated revenue	**5,720,835**	4,834,554
Profit		
Reportable segment profit	**788,134**	712,553
Elimination of inter-segment profits	**(104,237)**	(59,979)
Reportable segment profit derived from the Group's external customers	**683,897**	652,574
Other net loss	**(36,661)**	(121,378)
Finance costs	**(156,329)**	(92,019)
Unallocated head office and corporate expenses	**(54,000)**	(52,923)
Consolidated profit before taxation	**436,907**	386,254
Assets		
Reportable segment assets	**6,482,763**	5,140,169
Elimination of inter-segment receivables	**(276,542)**	(260,082)
Elimination of unrealised profits	**(91,761)**	(51,419)
	6,114,460	4,828,668
Other investments	**10,504**	10,504
Cash and cash equivalents managed by head office	**79,986**	272,514
Unallocated head office and corporate assets	**356,210**	217,420
Consolidated total assets	**6,561,160**	5,329,106

Notes to the Financial Statements

38 Segment reporting (continued)

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

	2011 RMB'000	2010 RMB'000
Liabilities		
Reportable segment liabilities	**4,088,888**	2,745,783
Elimination of inter-segment payables	**(276,542)**	(260,082)
	3,812,346	2,485,701
Unallocated head office and corporate liabilities	**402,448**	735,448
Consolidated total liabilities	**4,214,794**	3,221,149

39 Immediate and ultimate controlling party

At 31 December 2011, 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.

40 Acquisition of and disposal of subsidiaries

(a) Acquisition of a subsidiary

On 16 May 2011, the Group acquired certain assets through acquisition of 60% equity interests in Huayuan from an independent third party for a consideration of RMB6,200,000. Huayuan mainly owns an exploration right of unexploited natural mines located in Xinjiang province. The acquisition was accounted for as acquisition of assets.

Notes to the Financial Statements

40 Acquisition of and disposal of subsidiaries (continued)

(a) Acquisition of a subsidiary (continued)

The fair value of the identifiable assets of the subsidiary as at the date of acquisition was as below:

	Note	2011 Fair value Recognised on acquisition RMB'000
Intangible assets	*17*	**10,280**
Cash and cash equivalents		**53**
Total identifiable net assets at fair value		**10,333**
Non-controlling interests		**(4,133)**
Total Consideration		**6,200**
Satisfied by:		
Cash		**6,200**
An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiary is as follow:		
Cash consideration paid		**(6,200)**
Cash and cash equivalents acquired		**53**
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiary		**(6,147)**

(b) Disposal of subsidiaries

During the year ended 31 December 2011, the Group disposed of the following subsidiaries:

Pursuant to the agreement entered into between the Group and Lingbao Xintai Mining Co., Ltd dated 1 September 2011, the Group disposed of its 100% equity interests in Jincheng, at a consideration of RMB11,000. The disposal resulted in a gain on disposal of RMB9,179,000 for the year ended 31 December 2011.

Notes to the Financial Statements

40 Acquisition of and disposal of subsidiaries (continued)

(b) Disposal of subsidiaries (continued)

Pursuant to the agreement entered into between the Group and Luoning Baima Mining Co., Ltd dated 3 August 2011, the Group disposed of its 100% equity interests in Jintian, at a consideration of RMB24,906,000. The disposal resulted in a loss on disposal of RMB4,539,000 for the year ended 31 December 2011.

	Note	**As at the date of disposal RMB'000**
Net assets disposed of		
Cash and cash equivalents		**83**
Trade and other receivables, deposits and prepayments		**1,934**
Inventories		**3,895**
Property, plant and equipment	*15*	**35,895**
Construction in progress	*16*	**36,603**
Intangible assets	*17*	**26,650**
Lease prepayments	*19*	**4,133**
Other payables		**(1,839)**
Amount due to holding company		**(87,077)**
		20,277
Gain on disposal of subsidiaries, net		**4,640**
Total consideration		**24,917**
Satisfied by cash:		
Settled		**12,464**
Other receivables		**12,453**
An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follow:		
Cash consideration		**12,464**
Cash and cash equivalents disposed of		**(83)**
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries		**12,381**

Notes to the Financial Statements

41 Related party transactions

Particulars of transactions with related parties during the year ended 31 December 2011 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.

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:

	2011	2010
	RMB'000	RMB'000
Interest income	**3,973**	3,667
Interest expenses	**166,383**	104,425

Notes to the Financial Statements

41 Related party transactions (continued)

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

Transactions with state-controlled banks (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 2011 RMB'000	At 31 December 2010 RMB'000
Cash and cash equivalents at state-controlled banks in the PRC	**356,502**	277,535
Short-term loans and current portion of long-term loans	**1,372,072**	1,313,000
Long-term loans excluding current portion of long-term loans	**1,029,609**	1,134,142
Total loans from state-controlled banks in the PRC	**2,401,681**	2,447,142

(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:

	2011 RMB'000	2010 RMB'000
Short-term employee benefits	**5,963**	6,153
Post-employment benefits	**107**	58
	6,070	6,211

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

Notes to the Financial Statements

41 Related party transactions (continued)

(c) Transactions with ultimate holding company – Lingbao State-owned Assets Operation Limited Liability Company

Transactions with ultimate holding company during the year are as follows:

Non-recurring transactions:	**2011**	2010
	RMB'000	RMB'000
Loan borrowed	**100,000**	–
Loan repayment	**100,000**	–
Interest expense	**1,502**	–

The loan borrowed from ultimate holding company and repaid by the Group during the year ended 31 December 2011 was unsecured and interest-bearing at a rate of 5.904% per annum.

The details of another loan from ultimate holding company as at 31 December 2011 and 2010 are set out in note 34.

42 Accounting estimates and judgements

Key sources of estimation uncertainty

Notes 18 and 37(g) 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) Depreciation and amortisation of mining related assets and reserves estimates

As explained in notes 1(g) and 1(h), mining shafts, mining rights and mining development assets are depreciated and 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.

Notes to the Financial Statements

42 Accounting estimates and judgements (continued)

Key sources of estimation uncertainty (continued)

(i) Depreciation and amortisation of mining related assets and reserves estimates (continued)

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.

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.

Notes to the Financial Statements

42 Accounting estimates and judgements (continued)

Key sources of estimation uncertainty (continued)

(iv) Depreciation

Other than the mining shafts, mining rights and mining development assets, property, plant and equipment and other 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 end of the reporting period. 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.

43 Non-adjusting events after the reporting period

Pursuant to a resolution passed at the directors' meeting on 23 March 2012, a final dividend in respect of the year ended 31 December 2011 of RMB0.10 (2010: RMB0.10) per share totalling RMB77,024,909 (2010: RMB77,024,909) was proposed for shareholders' approval at the annual general meeting. Final dividend of RMB77,024,909 (2010: RMB77,024,909) proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period. Further details are disclosed in note 12.

Notes to the Financial Statements

44 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2011

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 2011 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 1, *First-time adoption of Hong Kong Financial Reporting Standards – Severe hyperinflation and removal of fixed dates for first-time adopters*	1 July 2011
Amendments to HKFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*	1 July 2011
Amendments to HKAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*	1 January 2012
Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1 July 2012
HKFRS 10, *Consolidated financial statements*	1 January 2013
HKFRS 11, *Joint arrangements*	1 January 2013
HKFRS 12, *Disclosure of interests in other entities*	1 January 2013
HKFRS 13, *Fair value measurement*	1 January 2013
HKAS 27, *Separate financial statements (2011)*	1 January 2013
HKAS 28, *Investments in associates and joint ventures (2011)*	1 January 2013
Revised HKAS 19, *Employee benefits*	1 January 2013
HK(IFRIC) 20, *Stripping costs in the production phase of a surface mine*	1 January 2013
Amendments to HKFRS 7, *Financial instruments: Disclosures – Disclosures – Offsetting financial assets and financial liabilities*	1 January 2013
Amendments to HKAS 32, *Financial instruments: Presentation – Offsetting financial assets and financial liabilities*	1 January 2014
HKFRS 9, *Financial instruments (2009)*	1 January 2015
HKFRS 9, *Financial instruments (2010)*	1 January 2015

The Group is in the process of making an assessment of what the impact of these amendments 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				
	2011	2010	2009	2008 (restated)	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets and liabilities					
Non-current assets	**3,337,279**	3,189,217	2,913,643	2,237,845	1,533,867
Net current assets	**769,012**	141,144	721,054	69,109	311,483
Total assets less current liabilities	**4,106,291**	3,330,361	3,634,697	2,306,954	1,845,350
Non-current liabilities	**1,759,925**	1,222,404	1,752,560	570,160	146,967
NET ASSETS	**2,346,366**	2,107,957	1,882,137	1,736,794	1,698,383
Share capital	**154,050**	154,050	154,050	154,050	154,050
Reserves	**2,145,280**	1,912,871	1,678,477	1,556,831	1,517,996
Total equity attributable to equity shareholders of the Company	**2,299,330**	2,066,921	1,832,527	1,710,881	1,672,046
Minority interests	**47,036**	41,036	49,610	25,913	26,337
TOTAL EQUITY	**2,346,366**	2,107,957	1,882,137	1,736,794	1,698,383
Operating results					
Turnover	**5,720,835**	4,834,554	3,961,670	3,599,089	2,844,560
Profit from operations	**593,236**	478,273	268,140	237,506	440,611
Finance costs	**(156,329)**	(92,019)	(96,466)	(107,599)	(101,613)
Profit before taxation	**436,907**	386,254	171,674	129,907	338,998
Income tax	**(128,121)**	(128,377)	(51,433)	(15,483)	(115,669)
Profit for the year	**308,786**	257,877	120,241	114,424	223,329
Attributable to:					
Equity shareholders of the Company	**310,562**	266,451	118,044	115,610	222,270
Minority interests	**(1,776)**	(8,574)	2,197	(1,186)	1,059
Profit for the year	**308,786**	257,877	120,241	114,424	223,329