中國有色金屬有限公司*

China Nonferrous Metals Company Limited

(Incorporated in Bermuda with limited liability) (Stock Code: 8306)

Annual Report 2009

* for identification only

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This report, for which the directors (the "Directors") of China Nonferrous Metals Company Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules") for the purposes of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. ZHUO Ze Fan
Ms. XIE Yi Ping
Dr. YU Heng Xiang
Mr. NG Tang
Mr. XU Bing
Mr. KANG Hongbo
Ms. HAN Qiong

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. ZHAO Shou Guo
Mr. CHAU Kam Wing, Donald
Mr. CHEN Mingxian

COMPLIANCE OFFICER

Mr. ZHUO Ze Fan

COMPANY SECRETARY

Mr. LI Chi Chung

AUDIT COMMITTEE

Mr. CHAU Kam Wing, Donald
Mr. ZHAO Shou Guo
Mr. CHEN Mingxian

REMUNERATION COMMITTEE

Ms. XIE Yi Ping
Mr. ZHAO Shou Guo
Mr. CHAU Kam Wing, Donald

NOMINATION COMMITTEE

Mr. ZHOU Ze Fan
Mr. ZHAO Shou Guo
Mr. CHAU Kam Wing, Donald

AUTHORISED REPRESENTATIVES

Mr. ZHUO Ze Fan
Mr. TSANG Chung Sing, Edward

STOCK CODE

8306

COMPANY WEBSITE

www.cnm.com.hk

LEGAL ADVISERS

Michael Li & Co.

AUDITORS

Grant Thornton, Certified Public Accountants,
Hong Kong

PRINCIPAL BANKERS

Citic Industrial Bank, Xi'an Branch
Bank of Communications, Xi'an Branch

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26th Floor,
Tesbury Centre,
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Wanchai,
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suites 1704-05,
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108 Gloucester Road,
Wanchai,
Hong Kong

FINANCIAL HIGHLIGHTS

	2009	2008	2007	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(represented)	(represented)	(represented)	(represented)
Revenue					
– Continuing operations	**269,045**	77,612	–	–	–
– Discontinued operation	**117,229**	142,159	144,759	135,545	129,969
	386,274	219,771	144,759	135,545	129,969
Gross profit					
– Continuing operations	**100,073**	6,209	–	–	–
– Discontinued operation	**27,603**	36,271	48,886	53,628	46,576
	127,676	42,480	48,886	53,628	46,576
Profit/(loss) attributable to owners of the Company					
– Continuing operations	**60,268**	2,675	–	–	–
– Discontinued operation	**(1,965)**	5,961	10,067	7,915	769
	58,303	8,636	10,067	7,915	769
Equity attributable to owners of the Company	**663,814**	545,536	116,356	105,129	97,272
Total assets	**2,142,516**	1,938,099	265,820	213,518	187,606
Total liabilities	**1,130,636**	1,040,874	101,243	68,100	56,375

	2009	2008	2007	2006	2005
	RMB	RMB	RMB	RMB	RMB
		(represented)	(represented)	(represented)	(represented)
Earnings per share (cents)					
Basic					
– For profit from continuing and discontinued operations	**2.13**	0.37	0.50	0.40	0.04
– For profit from continuing operations	**2.20**	0.12	–	–	–

CHAIRMAN'S STATEMENT

Dear Shareholders

I'm pleased to present, for your consideration, the Group's results for the financial year ended 31 December 2009. The Group recorded a turnover of RMB269.0 million, representing an increase of 246.7% from RMB77.6 million recorded last year. Gross profit was RMB100.1 million, representing an increase of 1,511.7% from RMB6.2 million recorded last year.

BUSINESS REVIEW

During the year ended 31 December 2009, the Group's had continued with its development strategies to become one of the leading players in the lead and zinc mining industry in China. The Group had entered into conditional agreement for the purchase of a 100% equity interest in a gold mine located in Gansu Province in August 2009. In October 2009, the Group announced the proposed conditional acquisition of a 55% equity interest in Naimanqi Xuanda Mining Company Limited. The Group believes these acquisitions will enable the Group to further expand its mineral reserves for future development. Mine development in Bameng Wuzhong Qi Jiashengpan Zinc, Lead and Pyrite Resources Exploitation Co Ltd. ("Jiashengpan"), Inner Mongolia had continued throughout the year 2009 which included works on additional vertical mine shafts as well as the additions of mining processing equipment with a view to increase production efficiency and volume. During the year 2009, Jiashengpan had performed outstandingly and in accordance with management expectations in terms of its increased turnover, gross margin and net profit. It is expected, with the additional investment in its mining development, the future financial performance of the mine will be further improved.

The fertilizer business had not performed in accordance with management's expectation. Turnover had continued to fall and gross margin had not improved during the year ended 31 December 2009. In addition to the decline in turnover and gross margin, the Group's outlook on the fertilizer's business was not optimistic. Accordingly, the Group had entered into agreement for the disposal of its entire equity interest in Sungreen investment Limited in December 2009, a wholly owned subsidiary of the Group principally engaged in the manufacturing of potash fertilizers. The disposal will enable the Group and its management to focus on its mining business without diverting valuable resources to the fertilizer's business in the future.

With the world's economy slowly returning to normal, metal prices have increased during the year under review. The Group had benefited from these favourable metal prices and made significant improvements on turnover, margin as well as net profitability during the year ended 31 December 2009. Accordingly, outlook on the mining business remains positive. The Group will continue to explore investment opportunities in the PRC mining industry in order to establish its position as one of the industry leader in zinc and lead mining. With the expertise and experience of our management team, the Group believes it has the ability to produce even better results in years to come.

CHAIRMAN'S STATEMENT

On behalf of the Directors, I would express my sincere gratitude to all shareholders, investors, customers and business partners for their continued support. I would also like to thank the directors and staff members of the Group for their past efforts and active contribution to the Group performance. Lastly, we will continue to make our best efforts in producing better results by leveraging on the qualifications and expertise of our management as well as capturing more investment opportunities in the mining business within China in order to become a major player in the mining industry in China.

Zhou Ze Fan
Chairman

24 March 2010

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Zhuo Ze Fan (卓澤凡先生), aged 39, is the Chairman of the Board, Executive Director, and General Manager of the Company and the founder of the Group. Mr. Zhuo is responsible for strategic planning, overall management and business development of the Group. He has over 13 years of experience in organic fertilisers since Xi'an Juchuan International Investments Ltd (西安巨川國際投資有限公司) ("Juchuan Investments") commenced market study of the PRC fertiliser industry in late 1996. Mr. Zhuo has been overseeing the development process and the mass production of Fuwanjia Organic Potash Fertilisers. Mr. Zhuo established Shaanxi Fuwanjia Chemical Co. Ltd. (陝西富萬鉀化工有限責任公司) ("SF Chemical "), the predecessor company of Shaanxi Juchuan Fuwanjia Co., Ltd. (陝西巨川富萬鉀股份有限公司) ("Juchuan Fuwanjia"), since June 1998 as chairman and general manager. Under Mr. Zhuo's leadership, the Group completed various achievements, including national prizes of State Major High-tech Industrialised Project in 1999, Special Gold Prize of Ninth PRC Patented New-tech and New-product Exhibition in 2000, State Major New Product in 2001, the State Provisional Certificates (2002), (2003) and (2004). In 1999, Mr. Zhuo obtained a Master of Business Administration degree, which was jointly organised by North West University and Shaanxi MBA College. Mr. Zhuo is currently the Honor Chairman of MBA Association of Northwest University (西北大學MBA聯合會), an associate member of Global Inventor in Geneva (日內瓦全球發明家工會) and international patent affairs estimator (國際專利事務評估師) on World Patent Trade Assessment and Promotion Committee (世界專利交易評估及促進委員會). Mr. Zhuo was granted an honor of "2006 The Outstanding Contributions Experts in Shaanxi Province" (陝西省有突出貢獻專家) by the Shaanxi Provincial Committee of Communist Party of China (中國共產黨陝西省委員會) and Shaanxi Provincial People's Government (陝西省人民政府). In December 2007, Mr. Zhuo Ze Fan was elected as the vice chairman of the national organization of agriculture industry under All-China Federation of Industry & Commerce (全國工商聯農業產業商會) and the member of Tenth Session Shaanxi Provincial Political Consultative Committee (陝西省十屆政協委員會). Mr. Zhuo is a director of a company which has interest in the share capital of the Group, details please refer to Directors' report.

Ms. Xie Yi Ping (解益平女士), aged 46, is an Executive Director and Finance Director of the Company. Ms. Xie joined as a manager of finance department of SF Chemical, the predecessor company of Juchuan Fuwanjia, since November 1999, and she is principally responsible for the accounting and finance activities of the Group. Being a qualified accountant in the PRC, Ms. Xie had more than 20 years of experience working at finance department of several companies before she joined the Group. Ms. Xie graduated from Shaanxi University of Finance and Economics with a bachelor degree in accounting in 1997.

Dr. Yu Heng Xiang, aged 39, is a professor in Department of Resources and Environmental Engineering in Guilin University of Technology. He holds a bachelor degree in Geology, specializing in Exploration Geochemistry and a master degree in Geology, specializing in Mining Exploration and Survey from Guilin University of Technology and a doctorate degree in Geology, specializing in Structural Geology from Changsha Institute of Geotectonics, Chinese Academy of Sciences. Dr. Yu joined the Group in April 2008.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Ng Tang (吳騰先生), aged 48, is an executive director of China Best Group Holding Limited, the shares of which are listed on the Stock Exchange and the principal activities of which include, according to its latest published annual report, international air and sea freight forwarding (including provision of related global logistics services) and manufacture and sale of coke and securities investment. Mr. Ng has over 13 years' experience in corporate management both in Hong Kong and the PRC. He graduated from East China University of Politics and Law. Mr. Ng joined the Group in February 2005.

Mr. Xu Bing, aged 41, was graduated from Peking University with an Executive Master of Business Administration and from Beijing University of Aeronautics and Astronautics with a Bachelor's Degree in mechanical engineering. He is currently the chairman of Jiashengpan Resources Co. Ltd (巴盟烏中旗甲勝盤鉛鋅硫鐵礦業開發有限責有公司), a subsidiary of the Company. Mr. Xu has extensive experience in the chemical and metal industry. He worked for Yinli Chemical and Metallurgical (Group) Co. Ltd., a company principally engaged in business of zinc smelting for over ten years. Prior to joining the Company, he was a director and general manager of Hong Kong Metals and Mines Limited. Mr. Xu joined the Group in September 2008.

Mr. Kang Hongbo, aged 36, was graduated with a Bachelor's degree in investment management from Zhongnan University of Finance and Economics, and a Master's degree in finance from Hubei and Nankai University, Tianjin, China respectively. Mr. Kang is a seasoned banker who began his banking career as a sub-branch manager in China Construction Bank, Shenzhen Branch in 2001. He joined Shenzhen Development Bank in 2005. He was director of personal finance when he left Shenzhen Development Bank in 2008. Mr. Kang is currently Chief Financial Officer and Vice President of Shenzhen First Create Investment Limited, a company whose majority shareholding is owned by Mr. Mei Wei, a substantial shareholder of the Company. Mr. Kang joined the Group in June 2009.

Ms. Han Qiong, aged 30, was graduated with a Bachelor's degree in financial management from Peking University, Beijing, China in 2002. Ms. Han started her career in an accounting firm in China, in which she obtained substantial experience in the field of auditing. Ms. Han is currently a certified public accountant (practicing) in China, as well as a certified tax agent (practicing) in China. Before joining the Company as an executive Director, Ms. Han is the finance manager of Shenzhen First Create Investment Limited, a company whose majority shareholding is owned by Mr. Mei Wei, a substantial shareholder of the Company. Ms. Han joined the Group in July 2009.

Independent Non-Executive Directors

Mr. Zhao Shou Guo (趙守國先生), aged 46, is an Independent Non-Executive Director. Mr. Zhao has been working at Northwest University since 1990 and is the professor and deputy dean of Economic Administration Division. Mr. Zhao is also an independent non-executive directors of other three listed companies in the PRC. The names and principal activities of these three listed companies are Shaanxi International Trust & Investment Corp., Ltd (陝西省國際信託投資股份有限公司) (finance), Irico Display Devices Co., Ltd. (彩虹顯示器股份有限公司) (industrial manufacture) and Tunefulhome Co., Ltd. (天地源股份有限公司) (real estate). Mr. Zhao graduated from Northwest University with a doctorate in economics in 1995. Mr. Zhao has 18 years of experience in research of economic science. Mr. Zhao joined the Group as an independent non-executive director of Juchuan Fuwanjia in July 2000.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Chau Kam Wing Donald, aged 47, is an independent non-executive Director. Mr. Chau obtained a Master Degree in Business Administration from the University of San Francisco, USA and is a fellow member of the Association of Chartered Certified Accountants and a practising member of Hong Kong Institute of Certified Chartered Accountants. He is now practicing as a Certified Public Accountant in Hong Kong and is a council member of the Society of Chinese Accountants & Auditors in Hong Kong. He has over 20 years' experience in auditing, taxation and financial management of various listed companies. Mr. Chau is currently an independent non-executive director of China Water Affairs Group Limited and Carpenter Tan Holdings Limited, both companies are listed on the main board of the Stock Exchange, and Eco-Tek Holdings Limited and Zhejiang Shibao Company Limited, both companies are listed on the GEM of the Stock Exchange. Mr. Chau has been appointed as an independent non-executive director of the Company since June 2008.

Mr. Chen Mingxian, aged 42, obtained a master degree in business administration from Guanghua School of Management of Peking University, PRC. Mr. Chen is experienced in the finance and securities sector where he began his career in the credit loans division in Industrial and Commercial Bank of China, Guangdong Branch since July 1988. He is currently the general manager of Shenzhen Minghua Xinde Investment Management Co., Ltd. (深圳明華信德投資管理有限公司). Mr. Chen has been appointed as an independent non-executive director of the Company since September 2009.

Senior Management

Mr. Zheng Hai Feng (鄭海峰先生), aged 57, is the Chief Production Officer responsible for production management of the Group. In 1973, Mr. Zheng graduated from Technical Reconnaissance Battalion of Lanzhou Military District of PRC People's Liberation Army with a bachelor degree in Russian. He joined the Group in June 1998 and has eight years of experience in fertiliser industry. Prior to joining the Group, Mr. Zheng had approximately 27 years work experience, among which he spent approximately two years working as chairman of an agriculture company that was engaged in production and sale of fertilisers in the PRC. Mr. Zheng then spent another years in a PRC securities company as a deputy general manager responsible for the overall management and operation.

Mr. Liu Chang You (劉長有先生), aged 62, is the Chief Technology Officer of the Company who is responsible for overall research and development of the Group. Mr. Liu joined the research and development of the Company in October 2000 and before that he had more than 30 years' experience in fertiliser industry, including two years in production workshop of nitrogen-phosphate compound fertilizers and another thirty years in nitrogenous fertiliser factory, in which factory Mr. Liu was promoted as a chief engineer and stayed at the post for seven years. Mr. Liu had numerous fertiliser related publications and received various honours in the industry on these publications. Mr. Liu graduated from Zhengzhou University with a major in chemical engineering in 1968.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Tsang Chung Sing, Edward, aged 55, is the Director of Business Development. He holds a Bachelor's degree in Commerce and a Master's degree in Business Accounting. Mr. Tsang is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. He has more than twenty years of experience in auditing and finance gained locally and abroad. Mr. Tsang joined the Group in December 2007.

Ms. Liu Yaling, Irene, aged 36, is the Financial Controller of the Group, Ms. Liu was graduated from the Ocean University of Qingdao with a Bachelor's Degree in Ecology and a Master's degree in Accounting from California State University, LA, USA. Ms. Liu is a member of the Chinese Institute of Certified Public Accountants. Prior to joining the Group in November 2009, Ms. Liu was a Manager of KPMG, Shenzhen, China.

The Management Team of Mining business

Mr. Zhuo Ze Fan – Mr. Zhuo is the Founder of the Group. He holds the positions of Chairman, Executive Director and General Manager. He has rich experience in planning, corporate management and business development. Mr. Zhuo graduated with an MBA in 1999.

Mr. Mei Wei, aged 45, is the general manager of the mining division. Mr. Mei graduated from Beijing University in 1988 with a Bachelor's degree in Bio Engineering. After graduation, he worked at the Beijing Biological Immunization Pharmaceutical Centre as an engineer before working in Qinghai Bodi International Limited (青海博地有限公司), a zinc and lead trading company in 1993, as General Manager. He began to involve in the international trading of zinc and lead in 1998. He also received training from Standard Bank of London for futures trading in the London Metal Exchange (LME). Shenzhen City First Create Investment Company Limited (深圳市冠欣投資有限公司), a company that he formed in Shenzhen in 2002 began to invest in zinc and lead mines in China. Mr. Mei joined the Group in July 2008.

Dr. Yu Heng Xiang – Dr. Yu is a professor in Department of Resources and Environmental Engineering in Guilin University of Technology. He holds a bachelor degree in Geology, specializing in Exploration Geochemistry and a master degree in Geology, specializing in Mining Exploration and Survey from Guilin University of Technology and a doctorate degree in Geology, specializing in Structural Geology from Changsha Institute of Geotectonics, Chinese Academy of Sciences.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS AND FINANCIAL REVIEW

Pursuant to a sale and purchase agreement executed on 16 December 2009, the Company will dispose of the entire share capital in Sungreen Investment Limited, a wholly owned subsidiary of the Group principally engaged in the fertilizer business. Accordingly, the results of the fertilizer business for the year had been classified as a discontinued operation.

TURNOVER

The Group's audited consolidated turnover for the year ended 31 December 2009 amounted to approximately RMB269.0 million (2008: RMB77.6 million as represented), representing an increase of approximately 246.7% over 2008. The increase in turnover was partly due to the fact that the mining business was consolidated for the full year in 2009 as compared to six months consolidation in 2008 and partly due to increases in both production volume and metal prices during the year.

GROSS PROFIT

Gross profit of the Group for the year ended 31 December 2009 amounted to approximately RMB100.1 million (2008: RMB6.2 million), representing an increase of approximately 1,511.7% over 2008. Gross margin for 2009 was approximately 37.2% (2008: 8.0%). The increase in gross margin is substantially due to the increase in metal prices and the reduction in unit cost of production.

OTHER INCOME

Total other income of approximately RMB4.6 million was recorded during the year. Other income consisted of approximately i) RMB0.1 million interest income; ii) RMB0.9 million from sale of scrap materials; iii) Gain on revising the estimated cash flows of liability component of convertible bonds after the partial offset of RMB3.5 million; and iv) RMB0.1 million miscellaneous income.

OPERATING EXPENSES

The Group's operating expenses primarily consisted of selling and distribution costs and administrative expenses.

Selling and distribution expenses for year amounted to approximately RMB10.5 million, as compared to approximately RMB8.0 million reported last year. The increase was substantially due to the effect of full year consolidation for the mining business in 2009.

Total administrative expenses for year increased to approximately RMB41.8 million, as compared to approximately RMB25.1 million reported last year. The increase was due to the effect of full year consolidation for the mining business in 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance costs for the year amounted to approximately RMB53.0 million, as compared to RMB27.5 million reported last year. Substantially, finance costs represent the amortised interest expense on the convertible bonds issued as part consideration for the acquisition of the mining business in July 2008. As 2008 only accounted for interest from July onward, the increase in finance costs represent the additional six months amortised interest expense on convertible bonds and interest expenses on bank and other loans.

PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS

Profit attributable to the equity holders of the Company for the year ended 31 December 2009 amounted to approximately RMB58.3 million, as compared to a profit of approximately RMB8.6 million reported last year.

LIQUIDITY AND FINANCIAL RESOURCES

Shareholders' Funds

As at 31 December 2009, the Group had bank and cash balances totaling approximately RMB49.6 million, as compared to RMB94.1 million reported last year.

Total shareholders' funds amounted to RMB346.8 million, an increase of 29.7% as compared to RMB267.5 million reported at 31 December 2008.

FINANCIAL POSITION

As at 31 December 2009, the outstanding borrowings of the Group amounted to RMB264.9 million (2008: RMB193.5 million), comprising of short term bank and other borrowings repayable within one year of approximately RMB231.8 million (2008: RMB134.1 million) . The Group has long term other borrowings repayable after one year of approximately RMB33.1 million (2008: RMB59.4 million).

As at 31 December 2009, the total asset value of the Group was approximately RMB2,142.5 million (2008: RMB1,938.1 million) . Total liabilities was approximately RMB1,130.6 million (2008: RMB1,040.9 million). Gearing ration of the Group, calculated as total liabilities excluding minority interest over total assets was approximately 52.8% (2008: 53.7%).

FOREIGN EXCHANGE EXPOSURE

The Group's exposures to currency risk mainly arise from the Group's borrowings denominated in US dollar. The Group currently does not have foreign currency hedging policy but the management continuously monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

MANAGEMENT DISCUSSION AND ANALYSIS

PLEDGE OF ASSETS

As at 31 December 2009, the Group has the following pledged assets:

For continuing operations:

(i) charges over the Group's property, plant and equipment in which their aggregate carrying amount as at 31 December 2009 was RMB139.7 million (2008: Nil);

(ii) charges over the Group's mining rights in which the carrying amount as at 31 December 2009 was RMB1,076.3 million (2008: Nil);

(iii) charges over the Group's prepaid land lease payment in which their aggregate carrying amount as at 31 December 2009 was RMB2.1 million (2008: Nil);

(iv) charges over the Group's pledged bank deposit of RMB28.5 million (2008: Nil);

For discontinued operation:

(i) charges over the Group's property, plant and equipment in which their aggregate carrying amount as at 31 December 2009 was RMB13.4 million (2008: RMB10.6 million);

(ii) charges over the Group's prepaid land lease payments in which their aggregate carrying amount as at 31 December 2009 was RMB3.7 million (2008: RMB31.6 million);

CONTINGENT LIABILITIES

As at 31 December 2009, the Group has given financial guarantee to banks in respect of banking facilities utilized by an independent third party amounted to RMB13,000,000 (2008: RMB20,000,000).

As at 31 December 2008 and 2009, the Group is the defendant in a pending litigation and dispute arising from a sale and purchase agreement of mineral resources with a customer. The customer claims against the Group for (i) voiding the sale and purchase agreement of mineral resources; (ii) returning the deposit of RMB20,000,000 paid to the Group; and (iii) bearing the legal cost in connection with this pending litigation and dispute.

After taking into account of legal advices from the Group's PRC legal advisers, the directors consider that the Group has a good defence against such claim and it is not probable that the forfeited deposit of RMB20,000,000 has to be returned to the customer. Mr Mei Wei has undertaken to indemnify any loss that the Group may incur in this pending litigation.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEE INFORMATION

As at 31 December 2009, the Group has approximately 460 employees. The Group has maintained good relations with its staff and has not experienced any disruption of its operations due to labour disputes. The Group provides fringe benefits in accordance with the relevant laws and regulations of the PRC and Hong Kong including contributions to social security scheme of the PRC and the contributions to the Mandatory Provident Fund Scheme of Hong Kong. The Group remunerated its employees in accordance with their work performance and experience.

Total employees' remuneration incurred for the year ended 31 December 2009 amounted to approximately RMB16.8 million (2008: approximately RMB12.9 million). The Directors received remuneration of approximately RMB1.2 million during the year ended 31 December 2009 (2008: approximately RMB0.8 million).

PROSPECT

With the world's economy slowly returning to normal, metal prices have increased during the year under review. The Group had benefited from these favourable metal prices and made significant improvements on turnover, margin as well as net profitability during the year ended 31 December 2009. The management believes that the newly constructed separation plant at New Jiashengpan, Inner Mongolia will not only increase future production volume but also increase production efficiency which will lead to lower cost of production. Accordingly, outlook on the mining business remains positive.

On the contrary, the fertilizer business has not performed in accordance with management's expectation. Turnover continued to fall whilst gross margin had not improved. Consequently, the Group decided to dispose of the entire equity interest in, Sungreen Investment Limited, a wholly owned subsidiary engaged in the fertilizer's business in December 2009. The disposal will allow management to focus its resources on the mining business without diverting valuable efforts to the fertilizer business.

The Group will continue to explore investment opportunities in the PRC mining industry in order to establish its position as one of the industry leader in zinc and lead mining in the PRC. With the expertise and experience of our management team, the Group believes it has the ability to produce even better results in years to come.

CORPORATE GOVERNANCE REPORT

The Company applied the principles and complied with all requirements of the new promulgated Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 15 of the GEM Listing Rules throughout 2009 with certain deviations in respect of the distinctive roles of chairman and chief executive officer. The following summarises the Company's corporate governance practices and explains deviations, if any, from the CG Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed that they complied with the required standard of dealings and its code of conduct regarding directors' securities transactions throughout the year ended 31 December 2009.

BOARD OF DIRECTORS

The Board comprises ten Directors, of whom seven being executive Directors (including the Chairman of the Board), and three being independent non-executive Directors. The directors' profile is set out on pages 7 to 9 of the annual report. The Company has received confirmation from each independent non-executive Director about his independence under the GEM Listing Rules and continues to consider each of them to be independent. In accessing the independence of independent non-executive Directors, the Company is satisfied that each independent non-executive Director fulfills the guideline requirement as set out in Rule 5.09 of the GEM Listing Rules.

The Board is responsible for determining the overall strategy and approving the annual business plan of the Group whereas day-to-day execution responsibility was delegated to management team of the Company with clear directions by the Board.

There is no other relationship (including financial, business, family or other material/relevant relationship(s)), among members of the board, save that the general manager and the chairman is the same person.

Details of the attendance of the Board are as follows:

Executive Directors	**Attendance**
Mr. Zhuo Ze Fan *(Chairman and General Manager)*	7/37
Ms. Xie Yi Ping	7/37
Dr. Yu Heng Xiang	7/37
Mr. Ng Tang	12/37
Mr. Xu Bing	16/37
Mr. Kang Hongbo *(appointed on 18 June 2009)*	21/26
Ms. Han Qiong *(appointed on 6 July 2009)*	21/23

CORPORATE GOVERNANCE REPORT

Independent non-executive Directors

Mr. Zhao Shou Guo	6/37
Mr. Chau Kam Wing, Donald	16/37
Mr. Yang Rui *(resigned on 22 September 2009)*	3/29
Mr. Chen Mingxian *(appointed on 22 September 2009)*	3/8

Mr. Zhao is appointed for an initial term of 3 years and his appointment continues thereafter unless terminated by giving 3 months notice by either Mr. Zhao or the Company, while each of Mr. Chau and Mr. Chen is appointed for successive term of 1 year. Mr. Chau's and Mr. Chen's appointment are renewable upon expiry and all of Mr. Zhao, Mr. Chau and Mr. Chen are subject to the rotation and re-election requirements under the Company's bye-laws.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Company has a post of General Manager but not Chief Executive Officer to manage day-to-day business. Mr. Zhuo Ze Fan is the Chairman and General Manager of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high caliber individuals and meets regularly at least four times a year to discuss issues affecting operations of the Company. Also, the balance of power is further ensured by the following reasons:

– Audit Committee is composed exclusively of independent non-executive Directors; and

– The independent non-executive Directors have free and direct access to the Company's external auditors and independent professional advices when considered necessary.

The Board believes that this structure is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently. The Board has full confidence in Mr. Zhuo Ze Fan, and believes that his appointment to the posts of Chairman and General Manager is beneficial to the business prospects of the Company.

REMUNERATION OF DIRECTORS

The Company set up a Remuneration Committee in February 2005. The Remuneration Committee comprises three members, (i) an executive Director, Ms. Xie Yi Ping; and (ii) two independent non-executive Directors, namely Mr. Zhao Shou Guo and Mr. Chau Kam Wing, Donald. Ms. Xie Yi Ping is the chairman of the Remuneration Committee. The responsibility of the Remuneration Committee is to formulate transparent procedures for development of remuneration policies and packages for key executives. The terms of reference of the Remuneration Committee are in compliance with GEM Listing Rules.

CORPORATE GOVERNANCE REPORT

The Remuneration Committee consults the chairman of the Board about their proposals relating to the remuneration policies and packages of key executives. During the year under review, three meetings (in which all members of remuneration committee were present for all meetings) were held for approving the remuneration packages of Mr. Kang Hongbo, Ms. Han Qiong and Mr. Chen Mingxian as directors of the Company. The major work conducted by the remuneration committee during the year was to consider and approve the proposed remuneration packages given to such new members of the Board.

NOMINATION OF DIRECTORS

The Company established the Nomination Committee in March 2005. The Nomination Committee currently comprises Mr. Zhuo Ze Fan (who is the chairman of the Nomination Committee), Mr. Zhao Shou Guo and Mr. Chau Kam Wing, Donald.

The responsibilities and authorities of the Nomination Committee are clearly stated in the terms of reference of the Nomination Committee, including but not limited to reviewing the structure, size and composition of the Board, making recommendations to the Board on relevant matters relating to the appointment of Directors and accessing the independence of independent non-executive Directors. The terms of reference of the Nomination Committee are in compliance with the GEM Listing Rules.

During the year under review, three meetings (in which all members of nomination committee were present for all meetings) were held for approving the appointment of Mr. Kang Hongbo, Ms. Han Qiong and Mr. Chen Mingxian as directors of the Company. The major work conducted by the nomination committee during the year was to consider and approve the proposed appointment of such new members of the Board. The nomination committee has taken into account the experience, professional qualifications, and expertise of each individual before approving the appointment of each of the proposed Directors. For appointment of independent non-executive Directors, the nomination committee also assessed the independence of each of them before approval.

INTERNAL CONTROL

An effective internal control system is very important for the protection of the Group's assets and shareholders' investments, ensuring the reliability of financial information announcements and compliance with the GEM Listing Rules. The Board is also aware of its responsibility towards the Group's internal control, financial control and risk management, and its responsibility of supervising the efficiency from time to time.

The Internal Audit Team of the Group carried out reviews and submitted report on the internal control system of the Group as well as the accounting workforce of the Group during the year. The scope of the review covered all important aspects of the control, including the control in finance, operation, compliance and risk management of the subsidiaries on a rotational basis. With reference to the assessment made by the Audit Committee on the issues reported by the Internal Audit Team, the external auditors and management on the newly acquired metal trading business, the Board has instructed the management to review and enhance the internal control system not only the metal trading business but also the entire Group to ensure the effectiveness of the internal control systems and the continues compliance with the GEM Listing Rules. The Board considers, after such review, the internal control of the Group is effective in all material respects.

CORPORATE GOVERNANCE REPORT

In addition, the Board will continuously closely monitor the transactions with related parties with due care, and if necessary seek prior professional advice before entering into any legally-binding agreements, so as to ensure compliance with all relevant regulations in this regard.

AUDITORS' REMUNERATION

During the year ended 31 December 2009, the remuneration paid and payable to the auditors of the Company, Grant Thornton, for provision of audit services were approximately RMB0.9 million. Approximately RMB0.4 million was paid and payable to Grant Thornton for provision of non-audit services during the year ended 31 December 2009. The Audit Committee approved the appointment of Grant Thornton as auditors, which the Board fully concurred with such approval of the Audit Committee.

AUDIT COMMITTEE

The Company set up an Audit Committee in February 2005 with the responsibility of reviewing and providing supervision over the Group's financial reporting process and internal controls, as well as making recommendations to the Board for appointment and removal of external auditors. The Audit Committee currently comprises three members who are all independent non-executive Directors, namely, Mr. Zhao Shou Guo, Mr. Chau Kam Wing, Donald (who is the chairman of the Audit Committee) and Mr. Chen Mingxian. Before the resignation of Mr. Yang Rui on 22 September 2009. Mr. Yang was a member of audit committee. After Mr. Yang's resignation, Mr. Chen Mingxian joined the Board and the Audit Committee since 22 September 2009. All the independent non-executive Directors confirmed their independence pursuant to Rule 5.09 of the GEM Listing Rules.

The Audit Committee met four times in the year of 2009, all of which were attended by all members at the time of relevant meeting. The Group's 2009 quarterly and interim reports and 2008 annual report have been reviewed by the Audit Committee. For 2008 annual report, the Audit Committee met with the external auditors to discuss auditing and internal control matters before recommending it to the Board for approval.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Board acknowledges its responsibility to prepare the Company's financial statements for each financial period and to ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards. The Board also ensures the timely publication of the financial statements. The Directors, having made appropriate enquiries, confirm that they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statements of the auditors of the Company regarding their responsibilities on the financial statements are set out in the Independent Auditor's Report on pages 30 to 31 of this annual report.

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Company's subsidiaries are set out in note 18 to the consolidated financial statements. Save as disclosed in the financial statements and save for entering into the disposal agreement dated 16 December 2009 relating to the disposal of the fertilizer business, there were no other significant changes in the nature of the Group's principal activities during the year.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2009 are set out in the consolidated income statement on page 32 to 33 of the annual report.

The Directors do not recommend the payment of a dividend and the Directors propose that the profit for the year be retained.

The Company did not make any donations to any bodies in 2009.

PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 34 to the consolidated financial statements.

In order to finance the Group's acquisition of subsidiaries and increase the Group's general working capital, the Company issued a total of 117,307,500 ordinary shares of HK$0.0004 each, for consideration of HK$0.26 per share during the year 2009. Consideration received by the Company for the issue is approximately HK$31 million. The allotment of new shares was made on 4 September 2009 and 25 September 2009. The new shares rank pari passu with the existing shares in all respects. Moreover, 265,289,091 new ordinary shares were issued pursuant to exercise of the conversion rights attached to the Convertible Bonds at the conversion price of HK$0.22 each.

Pursuant to an ordinary resolution passed at the special general meeting of the Company held on 19 August 2009, a share subdivision was effected on 20 August 2009 such that every ordinary share of HK$0.002 each in issued and unissued share capital of the Company was subdivided into five subdivided shares of HK$0.0004 each by the creation of 2,129,000,000 subdivided shares based on the number of issued ordinary shares at that time.

DIRECTORS' REPORT

During the year, the Company repurchased certain of its own shares through the Stock Exchange of Hong Kong Limited, details of which are set out in note 34 to the consolidated financial statements. The directors considered that, as the Company's shares were trading at a discount to the net asset value per share, the repurchased would increase the net asset value per share of the Company.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders at 31 December 2009 and 2008 were nil.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is also available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

DIRECTORS

The Directors who held office during the year and up to the date of this report were:

Executive directors:
Mr. Zhuo Ze Fan
Ms. Xie Yi Ping
Dr. Yu Heng Xiang
Mr. Ng Tang
Mr. Xu Bing
Mr. Kang Hongbo (appointed on 18 June 2009)
Ms. Han Qiong (appointed on 6 July 2009)

Independent non-executive directors:
Mr. Zhao Shou Guo
Mr. Chau Kam Wing, Donald
Mr. Yang Rui (resigned on 22 September 2009)
Mr. Chen Mingxian (appointed on 22 September 2009)

In accordance with clause 87 of the Company's bye-laws, Mr. Zhou Ze Fan, Mr. Ng Tang, Mr. Kang Hongbo, Ms. Han Qiong and Mr. Chen Mingxian will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

DIRECTORS' REPORT

DIRECTORS' PROFILE

The directors' profile is set out on pages 7 to 9 of the annual report.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

Each of Mr. Zhuo, Ms. Xie and Mr. Zhao has entered into a service contract with the Company for an initial term of three years and will continue thereafter until the contract is terminated by either party giving to the other party not less than three calendar months' notice in writing. Each of Mr. Zhuo and Ms. Xie is entitled to a basic salary subject to an annual review by the Board. In addition, the executive Directors are also entitled to a discretionary management bonus provided that the aggregate amount of the bonuses payable to all the executive Directors in respect of any financial year of the Company shall not exceed 5% of the audited consolidated net profit of the Group in respect of that financial year.

Mr. Ng, Dr. Yu, Mr. Xu, Mr. Kang, Ms. Han, Mr. Chau and Mr. Chen are appointed for a term of one year with specific terms in the letter of appointment. All of their appointment are renewable for successive terms of one year automatically upon expiry and are subject to re-election requirements under the Company's bye-laws.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2009, the interests and short positions of the directors and the chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of the Hong Kong Special Administrative Region (the "SFO")), which were (a) 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 are taken or deemed to have under such provisions of the SFO); or (b) required to be recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited ("Stock Exchange") in accordance with Rules 5.46 to 5.67 of the Rules Governing the Listing of Securities on GEM ("GEM Listing Rules") were as follows:

DIRECTORS' REPORT

Long positions in the shares of the Company (the "Shares")

(a) *Ordinary shares of HK$0.0004 each of the Company*

Name of director	Capacity	Number of Shares	Percentage of shareholding (%)
Zhuo Ze Fan	Held by controlled corporation *(Note)*	768,144,014	25.09

Note: Mr. Zhuo Ze Fan, being the Chairman of the Board and an executive Director, holds the entire issued shares of Callaway Group Limited, which in turn is interested in 758,144,014 Shares. Mr. Zhuo Ze Fan also holds 10,000,000 share options in his personal name. Accordingly, Mr. Zhuo is interested in 768,144,014 Shares under the SFO. His spouse, Ms. Cui Yan Wen, is deemed to be interested in 768,144,014 Shares under the SFO.

(b) *Share options*

The following Directors have been granted options under the share option scheme of the Company which are as follows:

Name of Directors	Capacity	No. of options outstanding	Approx. % of interests	Date granted	Period during which options exercisable	Exercise price per Share
Zhuo Ze Fan	Beneficial owner	10,000,000	0.33%	4 Dec 09	4 Dec 2010 to 3 Dec 2014	HK$0.26
Ng Tang	Beneficial owner	3,000,000	0.10%	4 Dec 09	4 Dec 2010 to 3 Dec 2014	HK$0.26
Kang Hongbo	Beneficial owner	1,500,000	0.05%	20 May 09	20 Mar 2010 to 19 May 2014	HK$0.234
	Beneficial owner	10,000,000	0.33%	4 Dec 09	4 Dec 2010 to 3 Dec 2014	HK$0.26
	Subtotal:	11,500,000				
Xu Bing	Beneficial owner	1,500,000	0.05%	20 May 09	20 Mar 2010 to 19 May 2014	HK$0.234
Han Qiong	Beneficial owner	4,000,000	0.13%	4 Dec 09	4 Dec 2010 to 3 Dec 2014	HK$0.26

DIRECTORS' REPORT

Save as disclosed herein, as at 31 December 2009, none of directors and chief executive of the Company had any interests and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were (a) 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 are taken or deemed to have under such provisions of the SFO); and (b) required to be recorded in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the Directors as referred in Rules 5.46 to 5.67 of the GEM Listing Rules.

SHARE OPTIONS

The Company has adopted a share option scheme. A summary of the principal terms and conditions of the share option scheme is set out in note 35 to the financial statements. Up to 31 December 2009, 413,150,000 options have been granted and remained outstanding under such share option scheme.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the option disclosed above, at no time during the year was the Company, or any of its subsidiaries a party to any arrangements which enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the financial statements, no contract of significance, to which the Company, or any of its subsidiaries was a party and in which a director 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.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2009, so far as the Directors were aware, the following persons or companies (other than the directors or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company which were discloseable under Divisions 2 and 3 Part XV of the SFO and recorded in the register of interests required to be kept by the Company pursuant to Section 336 of SFO:

DIRECTORS' REPORT

Name of Shareholders	Type of interests	Position	Number of Shares	Approximate percentage
Callaway Group Limited *(Note 1)*	Beneficial owner	Long	758,144,014	24.76%
Cui Yan Wen *(Note 1)*	Interest of spouse	Long	768,144,014	25.09%
Ruffy Investments Limited *(Note 2)*	Beneficial owner	Long	1,168,505,268	38.17%
Mr. Mei *(Note 2)*	Held by controlled corporation	Long	1,168,505,268	38.17%
	Beneficial owner	Long	61,050,000	1.99%
			1,229,555,268	40.16%
	Held by controlled corporation	Short	136,363,636	4.45%
	Beneficial owner	Short	136,363,636	4.45%
Merry Intake Limited *(Note 3)*	Person having a security interest	Long	2,193,290,907	71.64%

Notes:

1. Mr. Zhuo Ze Fan, being the Chariman of the Board and an executive Director, holds the entire issued shares of Callaway Group Limited, which in turn is interested in 758,144,014 Shares. Mr. Zhuo Ze Fan also holds 10,000,000 share options in his personal name. Accordingly Mr. Zhuo is interested in 768,144,014 Shares under the SFO. His spouse, Ms. Cui Yan Wen, is deemed to be interested in 768,144,014 Shares under the SFO.

2. These Shares and the short positions in the Shares were held by Ruffy Investments Limited, which is wholly-owned by Mr. Mei. Mr. Mei was deemed to be interested in these Shares and the short positions in the Shares under the SFO.

3. Merry Intake Limited acquired the interest in the Shares as a result of being the chargee of certain securities of the Company and is not directly holding any securities of the Company. Merry Intake Limited is a wholly-owned subsidiary of the CCB International Group Holdings Limited ("CCBI"), which in turn is wholly-owned by China Construction Bank Corporation ("CCB"). The largest single shareholder of CCB is Central Huijin Investments Limited (which holds more than 30% of the CCB). Pursuant to the SFO, each of CCB, CCBI and Central Huijin Investments Limited is deemed to be interested in the Shares to the same extent as Merry Intake Limited.

DIRECTORS' REPORT

Save as disclosed herein, so far as known to any director or chief executive of the Company, no other person (other than the directors and chief executive of the Company) had any interest and short positions in the shares and underlying shares of the Company which were discloseable under Divisions 2 and 3 Part XV of the SFO and required to be recorded in the register required to be kept under Section 336 of the SFO as at 31 December 2009.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all of the independent non-executive Directors are independent.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate purchases attributable to the Group's five largest suppliers during the year accounted for approximately 63% of the total purchases of the Group and the largest supplier accounted for approximately 32% of the total purchases of the Group. The aggregate sales attributable to the Group's five largest customers during the year accounted for approximately 70% of the total sales of the Group and sales to the largest customer included therein amounted to approximately 31%.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Connected Transactions

Rental expenses to Xi'an Juchuan Investments
During the year, rental charges and sub-charges of approximately RMB789,000 were charged from *Xi'an* Juchuan Investments, a company in which Mr. Zhuo Ze Fan, the executive Director, has beneficial interests.

The rental charges and sub-charges payable by the Group constitute a continuing connected transaction under the GEM Listing Rules for the Company. Since the total annual consideration of the above continuing connected transaction for the year ended 31 December 2009 was less than HK$1,000,000 and each of the percentage ratios is less than 2.5%, the transaction fell within Rule 20.33(2) of the GEM Listing Rules and was exempted from all the reporting, announcement and independent shareholders' approval requirements under the GEM Listing Rules.

Continuing Connected Transactions

As the Group would like to have the metal trading transactions with First Create, it therefore entered into a new zinc supply agreement (the "Zinc Supply Agreement") and a new lead supply agreement (the "Lead Supply Agreement") with First Create on 31 December 2008.

DIRECTORS' REPORT

As First Create is beneficially owned as to 53% by Mr. Mei Wei (who is interested in 10% or more of the issued Shares of the Company), First Create is regarded as an associate of a substantial Shareholder, thus being a connected person of the Company. The transactions contemplated under (i) the zinc supply agreement dated 31 December 2008 entered into between the Group and First Create and (ii) the lead supply agreement dated 31 December 2008 entered into between the Group and First Create will constitute non-exempt continuing connected transactions on the part of the Company and therefore would be subject to the reporting, announcement and the Independent Shareholders' approval requirements pursuant to Rule 20.35 of the GEM Listing Rules. Independent Shareholder' approval for the transactions contemplated under the latest zinc supply agreement and the lead supply agreement were obtained on 16 February 2009. On 16 February 2009, a special general meeting was held and the independent shareholders had approved the two agreements. Under the zinc supply agreement, the Group would sell zinc concentrates to First Create with a cap of RMB224 million, RMB288 million and RMB384 million for each of the 3 years ending 31 December 2011. Under the lead supply agreement, the Group would sell lead, silver and gold concentrates to First Create with a cap of RMB48 million, RMB56 million and RMB72 million for each of the 3 years ending 31 December 2011. As Mr. Mei and his associates had a material interest in the transactions contemplated under the Zinc Supply Agreement and the Lead Supply Agreement, they abstained from voting on the resolutions passed in the special general meeting held on 16 February 2009 pursuant to the GEM Listing Rules. All the resolutions were validly passed.

Pursuant to rule 20.38 of the GEM Listing Rules, the board of directors engaged the auditor of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditor of the Company has provided a letter to the board of directors confirming that the continuing connected transactions with the following findings:

(i) the continuing connected transactions have received the approval of the Company's board of directors;

(ii) the management considered that the sales of lead concentrates, rude lead and lead ingots fell within the scope of the relevant agreements relating to the sale of "Lead". The sales of lead concentrates has followed the pricing policies as provided in the relevant agreements. However, no specific pricing policies of rude lead and lead ingots are stated in the said agreements, and based on understand from the management, the sales of rude lead and lead ingots are negotiated and concluded based on actual market conditions;

(iii) except for findings (ii) as above, the continuing connected transactions have been entered into in accordance with the relevant agreements; and

(iv) all the continuing connected transactions have not exceeded the respective caps for the year ended 31 December 2009 as provided in the relevant agreements.

The independent non-executive directors confirm that these transactions have been entered into by the Group in the ordinary course of its business, on terms no less favorable than terms available to independent third parties, and in accordance with the terms of the relevant agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

DIRECTORS' REPORT

Save as disclosed herein and elsewhere in the financial statements, (i) there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules; (ii) no contracts of significance to which Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Each of the Directors and the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has confirmed that none of them had any business or interests in companies that competes or may compete with the business of the Group or any other conflict of interests with the interests of the Group.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Company on the basis of their merit, qualifications and competence.

The emoluments of the Directors and senior management are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 35 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed above and elsewhere in the financial statements, no Director had a material interests, whether directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its fellow subsidiaries and subsidiaries was a party subsisted at the end of the year or at any time during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 15 to 18 of the annual report.

DIRECTORS' REPORT

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2009, the Company repurchased on the Stock Exchange a total of 6,800,000 ordinary shares of HK$0.0004 each in the capital of the Company (assuming the share subdivision has taken effect on 1 January 2009) at an aggregate price of approximately RMB1,456,000 (equivalent to HK$1,652,450). The highest price paid and the lowest price paid was HK$0.265 and HK$0.206 respectively (assuming the share subdivision has taken effect on 1 January 2009). All of the repurchased shares were fully cancelled and the issued share capital of the Company was reduced by the nominal value of these shares accordingly. The premium payable on repurchase was charged against the share premium. An amount equivalent to the nominal value of the shares cancelled was transferred from retained earnings to the capital redemption reserve.

Details of repurchase of shares made for the year ended 31 December 2009 are as follows:

		Price per share repurchased (HK$)	
Date of repurchase	**Number of shares repurchased**	**Highest**	**Lowest**
*15 May 2009	2,450,000	0.218	0.206
*3 July 2009	1,950,000	0.258	0.258
17 November 2009	1,870,000	0.265	0.265
19 November 2009	530,000	0.260	0.260

* Assuming the share subdivision has taken place at the time of repurchase. The number of shares repurchased and the highest and lowest price per share repurchased have been based on the aforesaid assumptions.

Save as disclosed elsewhere in the financial statements, the Company has no other repurchase of its shares. The Board considered the repurchase of shares conducted during the year of 2009 could enhance the net asset value per Share and is in the interests of the Company and the Shareholders as a whole.

AUDIT COMMITTEE

The Company established an audit committee on 16 February 2005 with written terms of reference in compliance with the GEM Listing Rules. The authority and duties of the audit committee are based on the guidelines set out in "A Guide for The Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants.

The audit committee provides a link between the Board and the Company's auditors in matters coming within the scope of the Group audit. It also reviews and supervises the financial reporting process and internal control procedures of the Group, as well as making recommendations to the Board for appointment and removal of external auditors. The audit committee comprises three independent non-executive directors, namely Mr. Zhao Shou Guo, Mr. Chau Kam Wing, Donald and Mr. Chen Mingxian.

DIRECTORS' REPORT

PUBLIC FLOAT

Based on information that is publicly available to the Company and to the best knowledge of the Directors, the Company has maintained the amount of sufficient public float as required under the GEM Listing Rules throughout 2009.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 44 to the consolidated financial statements.

AUDITORS

A resolution will be submitted to the forthcoming annual general meeting to re-appoint Messrs. Grant Thornton as auditor of the Company.

On behalf of the Board
China Nonferrous Metals Company Limited

ZHUO Ze Fan
Chairman

Suites 1704-1705, 17/F
Dah Sing Financial Centre
108 Gloucester Road
Wanchai, Hong Kong

24 March 2010

INDEPENDENT AUDITORS' REPORT

Grant Thornton
均富

Member of Grant Thornton International Ltd

To the members of China Nonferrous Metals Company Limited
中國有色金屬有限公司
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of China Nonferrous Metals Company Limited (the "Company") set out on pages 32 to 134, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated income statement, consolidated statement of comprehensive income, the consolidated statement of cash flow and the consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, 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 as to whether the financial statements are free from material misstatement.

INDEPENDENT AUDITORS' REPORT

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to entity's preparation and true and fair presentation of the financial statements 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 financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton
Certified Public Accountants
6th Floor, Nexxus Building
41 Connaught Road Central
Hong Kong

24 March 2010

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000 (represented)
Continuing operations			
Revenue	5	**269,045**	77,612
Cost of sales		**(168,972)**	(71,403)
Gross profit		**100,073**	6,209
Other income	5	**4,554**	30,933
Change in fair value of derivative financial instruments		**72,205**	31,263
Excess over the costs of business combinations recognised in the income statement	37	**–**	13,618
Selling and distribution costs		**(10,509)**	(7,966)
Administrative expenses		**(41,756)**	(25,126)
Equity-settled share options expenses		**(6,544)**	(2,265)
Profit from operation	7	**118,023**	46,666
Finance costs	8	**(53,038)**	(27,483)
Profit before income tax		**64,985**	19,183
Income tax expense	9	**(295)**	(7,884)
Profit for the year from continuing operations		**64,690**	11,299
Discontinued operation			
(Loss)/profit for the year from a discontinued operation	10	**(3,006)**	9,338
Profit for the year		**61,684**	20,637

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000 (represented)
Attributable to:			
Owners of the Company		**58,303**	8,636
Non-controlling interests		**3,381**	12,001
Profit for the year		**61,684**	20,637
Continuing operations			
Attributable to:			
Owners of the Company		**60,268**	2,675
Non-controlling interests		**4,422**	8,624
Profit for the year		**64,690**	11,299
Discontinued operation			
Attributable to:			
Owners of the Company		**(1,965)**	5,961
Non-controlling interests		**(1,041)**	3,377
(Loss)/profit for the year		**(3,006)**	9,338
Earnings per share	13		
Basic			
– For profit from continuing and discontinued operations		**2.13 cents**	0.37 cent
– For profit from continuing operations		**2.20 cents**	0.12 cent
Diluted			
– For profit from continuing and discontinued operations		**1.64 cents**	0.35 cent
– For profit from continuing operations		**1.67 cents**	0.11 cent

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	2009 RMB'000	2008 RMB'000 (represented)
Profit for the year	**61,684**	20,637
Other comprehensive income		
Exchange differences arising on translation of foreign operations	**(443)**	(1,601)
Total other comprehensive income for the year	**(443)**	(1,601)
Total comprehensive income for the year attributable to owners of the Company	**61,241**	19,036
Attributable to:		
Owners of the Company	**57,860**	7,035
Non-controlling interests	**3,381**	12,001
	61,241	19,036

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	**319,965**	208,190
Intangible assets	16	**1,076,337**	1,086,275
Prepaid land lease payments	17	**2,050**	36,108
Deposits	19	**41,082**	94,498
Deferred tax assets	33(a)	**251**	251
		1,439,685	1,425,322
Current assets			
Inventories	20	**49,881**	24,054
Trade receivables	21	**84,680**	72,076
Other receivables, deposits and prepayments	22	**169,296**	121,901
Available-for-sale financial assets	23	**–**	400
Prepaid land lease payments	17	**42**	737
Amounts due from related companies	24	**96,664**	199,461
Pledged bank deposits	26	**28,452**	–
Balances with non-bank financial institutions	25	**–**	22
Bank balances and cash	26	**21,140**	94,126
		450,155	512,777
Assets classified as held for sale	10	**252,676**	–
		702,831	512,777
Current liabilities			
Trade payables	27	**52,041**	19,592
Other payables and accrued charges	28	**50,665**	42,829
Amounts due to related companies	29	**2,077**	434
Amounts due to former and non-controlling equity holders of subsidiaries	29	**5,022**	22,247
Borrowings	30	**231,809**	134,111
Provision for tax		**47,022**	49,285
Derivative financial instruments	31	**–**	29
		388,636	268,527
Liabilities directly associated with assets classified as held for sale	10	**63,025**	–
		451,661	268,527
Net current assets		**251,170**	244,250
Total assets less current liabilities		**1,690,855**	1,669,572

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Non-current liabilities			
Borrowings	30	**33,130**	59,383
Convertible bonds	32	**378,834**	442,812
Deferred tax liabilities	33(b)	**267,011**	270,152
		678,975	772,347
Net assets		**1,011,880**	897,225
EQUITY			
Equity attributable to owners of the Company			
Share capital	34	**1,224**	1,069
Reserves	36	**662,590**	544,467
		663,814	545,536
Non-controlling interests		**348,066**	351,689
Total equity		**1,011,880**	897,225

Zhuo Ze Fan **Kang Hongbo**

CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Cash flows from operating activities			
Profit before income tax from continuing operations		**64,985**	19,183
(Loss)/profit before income tax from discontinued operation	10	**(3,256)**	8,493
Profit before income tax		**61,729**	27,676
Adjustments for:			
Finance costs	8	**57,630**	32,697
Interest income	5	**(366)**	(655)
Excess over costs of business combinations recognised in the income statement		**–**	(13,618)
Equity-settled share options expenses		**6,544**	2,265
Depreciation of property, plant and equipment	7	**13,835**	9,101
Amortisation of prepaid land lease payments	7	**781**	908
Amortisation of intangible assets	16	**9,917**	8,652
Gain on disposal of prepaid land lease payments		**–**	(1,753)
Loss on disposal of property, plant and equipment		**471**	–
Written off of property, plant and equipment	7	**70**	107
Provision of impairment loss recognised on trade receivables	7	**3,179**	439
(Reversal)/provision of impairment loss recognised on other receivables	7	**(685)**	552
Gain on revising the estimated future cash flows of liability component of convertible bonds after the partial offset	5	**(3,527)**	–
Operating profit before working capital changes		**149,578**	66,371
(Increase)/decrease in inventories		**(29,656)**	19,400
(Increase)/decrease in trade receivables		**(76,626)**	4,309
(Increase)/decrease in other receivables, deposits and prepayments		**(120,071)**	28,354
Decrease in amounts due from related companies		**102,797**	26,868
Increase in trade payables		**33,522**	4,912
Increase/(decrease) in other payables and accrued charges		**18,184**	(6,693)
Increase/(decrease) in amounts due to related companies		**1,877**	(23,822)
(Decrease)/increase in derivative financial instruments		**(29)**	9,221
Cash generated from operations		**79,576**	128,920
Income tax paid		**(4,271)**	(218)
Net cash generated from operating activities		**75,305**	128,702

CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Cash flows from investing activities			
Deposits paid for acquisition of property, plant and equipment		**(4,673)**	(23,672)
Purchase of property, plant and equipment		**(102,160)**	(40,478)
Purchase of prepaid land lease payments		**(2,114)**	–
Interest received		**366**	655
Acquisition of subsidiaries	37	**–**	(39,335)
Acquisition of non-controlling interest		**(40)**	–
Deposit paid for acquisition of a subsidiary		**(24,750)**	(8,803)
Increase in pledged bank deposits		**(28,452)**	–
Net cash used in investing activities		**(161,823)**	(111,633)
Cash flows from financing activities			
Issue of new shares	34	**26,873**	54,738
Share issue expenses		**(1,304)**	(3,119)
Share repurchase		**(1,456)**	(1,082)
Share repurchase expenses		**(16)**	(4)
Share options exercised	34	**3,987**	–
Shares sub-division expenses		**(119)**	–
Convertible bonds conversion expenses		**(13)**	–
New bank and other borrowings raised		**291,700**	45,500
Repayment of bank and other borrowings		**(180,157)**	(70,628)
Interest paid on bank and other borrowings		**(15,456)**	(10,457)
Interest paid on convertible bonds		**(19,866)**	–
Interest paid on finance lease liabilities		**(22)**	(4)
Capital element on finance lease liabilities		**(98)**	(65)
Net cash generated from financing activities		**104,053**	14,879
Net increase in cash and cash equivalents		**17,535**	31,948
Cash and cash equivalents at beginning of year		**94,148**	64,008
Effect of foreign exchange, net		**(345)**	(1,808)
Cash and cash equivalents at end of year		**111,338**	94,148

CONSOLIDATED STATEMENT OF CASH FLOW

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Analysis of cash and cash equivalents			
Continuing operations:			
Balances with non-bank financial institutions		–	22
Bank balances and cash		21,140	94,126
		21,140	94,148
Discontinued operation (note 10):			
Balances with non-bank financial institutions		14	–
Bank balances and cash		90,184	–
		90,198	–
		111,338	94,148

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Attributable to owners of the Company															
	Share capital	Share premium	Treasury shares (note 34(d))	Capital redemption reserve	Capital reserve	Statutory reserves	Translation reserve	Special reserve	Specific reserve	Other reserve	Share option reserve	Convertible bonds equity reserve (note 32)	Retained profits	Total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008	848	77,201	–	–	6,782	8,818	(929)	(129)	–	–	1,145	–	22,620	116,356	48,221	164,577
Placing and subscription of new shares	54	54,684	–	–	–	–	–	–	–	–	–	–	–	54,738	–	54,738
Share issue expenses	–	(3,119)	–	–	–	–	–	–	–	–	–	–	–	(3,119)	–	(3,119)
Issue of new shares	168	138,315	–	–	–	–	–	–	–	–	–	–	–	138,483	–	138,483
Share repurchase	(1)	(641)	(440)	–	–	–	–	–	–	–	–	–	–	(1,082)	–	(1,082)
Share repurchase expenses	–	(4)	–	–	–	–	–	–	–	–	–	–	–	(4)	–	(4)
Equity-settled share option arrangements	–	–	–	–	–	–	–	–	–	–	2,265	–	–	2,265	–	2,265
Arising from acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	–	291,467	291,467
Issue of convertible bonds	–	–	–	–	–	–	–	–	–	–	–	230,864	–	230,864	–	230,864
Transactions with owners	221	189,235	(440)	–	–	–	–	–	–	–	2,265	230,864	–	422,145	291,467	713,612
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	–	8,636	8,636	12,001	20,637
Other comprehensive income																
Currency translation	–	–	–	–	–	–	(1,601)	–	–	–	–	–	–	(1,601)	–	(1,601)
Total comprehensive income for the year	–	–	–	–	–	–	(1,601)	–	–	–	–	–	8,636	7,035	12,001	19,036
Transfer to capital redemption reserve	–	–	–	1	–	–	–	–	–	–	–	–	(1)	–	–	–
Transfer to statutory reserve	–	–	–	–	–	326	–	–	–	–	–	–	(326)	–	–	–
At 31 December 2008 and 1 January 2009	1,069	266,436	(440)	1	6,782	9,144	(2,530)	(129)	–	–	3,410	230,864	30,929	545,536	351,689	897,225

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Attributable to owners of the Company															
	Share capital	Share premium	Treasury shares (note 34(d))	Capital redemption reserve	Capital reserve	Statutory reserves	Translation reserve	Special reserve	Specific reserve	Other reserve	Share option reserve	Convertible bonds equity reserve (note 32)	Retained profits	Total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009	1,069	266,436	(440)	1	6,782	9,144	(2,530)	(129)	–	–	3,410	230,864	30,929	545,536	351,689	897,225
Placing and subscription of new shares	42	26,831	–	–	–	–	–	–	–	–	–	–	–	26,873	–	26,873
Share issue expenses	–	(1,304)	–	–	–	–	–	–	–	–	–	–	–	(1,304)	–	(1,304)
Share repurchase	(2)	(1,454)	–	–	–	–	–	–	–	–	–	–	–	(1,456)	–	(1,456)
Share repurchase expenses	–	(16)	–	–	–	–	–	–	–	–	–	–	–	(16)	–	(16)
Convertible bonds exercised	94	51,318	–	–	–	–	–	–	–	–	–	(15,942)	–	35,470	–	35,470
Convertible bonds exercised expenses	–	(13)	–	–	–	–	–	–	–	–	–	–	–	(13)	–	(13)
Partial offset of convertible bonds	–	–	–	–	–	–	–	–	–	–	–	(21,855)	–	(21,855)	–	(21,855)
Share option exercised	24	4,368	–	–	–	–	–	–	–	–	(405)	–	–	3,987	–	3,987
Share sub-division expenses	–	(119)	–	–	–	–	–	–	–	–	–	–	–	(119)	–	(119)
Equity-settled share option arrangements	–	–	–	–	–	–	–	–	–	–	6,544	–	–	6,544	–	6,544
Additional interest in subsidiaries acquired by the Group	–	–	–	–	–	–	–	–	–	6,964	–	–	–	6,964	(7,004)	(40)
Transactions with owners	158	79,611	–	–	–	–	–	–	–	6,964	6,139	(37,797)	–	55,075	(7,004)	48,071
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	–	58,303	58,303	3,381	61,684
Other comprehensive income																
Currency translation	–	–	–	–	–	–	(443)	–	–	–	–	–	–	(443)	–	(443)
Total comprehensive income for the year	–	–	–	–	–	–	(443)	–	–	–	–	–	58,303	57,860	3,381	61,241
Cancellation of treasury shares	(3)	(437)	440	–	–	–	–	–	–	–	–	–	–	–	–	–
Share option lapsed	–	–	–	–	–	–	–	–	–	–	(270)	–	270	–	–	–
Transfer to specific reserve as a result of the change in PRC regulations	–	–	–	–	–	–	–	–	5,343	–	–	–	–	5,343	–	5,343
Transfer to capital redemption reserve	–	–	–	5	–	–	–	–	–	–	–	–	(5)	–	–	–
Transfer to statutory reserve	–	–	–	–	–	192	–	–	–	–	–	–	(192)	–	–	–
At 31 December 2009	**1,224**	**345,610**	**–**	**6**	**6,782**	**9,336**	**(2,973)**	**(129)**	**5,343**	**6,964**	**9,279**	**193,067**	**89,305**	**663,814**	**348,066**	**1,011,880**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

1. GENERAL INFORMATION

China Nonferrous Metals Company Limited (the "Company") was incorporated in Bermuda on 14 April 2004 as an exempted company under the Companies Act 1981 of Bermuda (as amended). Its shares are listed on the Growth Enterprises Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 28 February 2005.

The Company's registered office is Claredon House, 2 Church Street, Hamilton HM11, Bermuda and Company's principal place of business is Suites 1704-1705, 17th Floor, Dah Sing Financial Centre, 108 Gloucester Road, Wanchai, Hong Kong.

The principal activity of the Company is investment holding. Its principal subsidiaries of the Company's subsidiaries are set out in note 18 to the financial statements.

The financial statements on pages 32 to 134 have been prepared in accordance with International Financial Reporting Standards ("IFRSs") which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretation issued by the International Accounting Standards Board. The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "Listing Rules").

The financial statements for the year ended 31 December 2009 were approved and authorised for issue by the board of directors on 24 March 2010.

2. ADOPTION OF NEW AND AMENDED IFRSs

In the current year, the Company and its subsidiaries (the "Group") has applied for the first time the following new standards, amendments and interpretations (the "new IFRSs"), which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2009:

IAS 1 (Revised 2007)	Presentation of Financial Statements
IAS 23 (Revised 2007)	Borrowing Costs
IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or an Associate
IFRS 2 (Amendments)	Share-based Payment – Vesting Conditions and Cancellations
IFRS 7 (Amendments)	Improving Disclosure about Financial Instruments
IFRS 8	Operating segments
Various	Annual Improvements to IFRSs 2008

Other than as noted below, the adoption of the new IFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

2. ADOPTION OF NEW AND AMENDED IFRSs *(Continued)*

IAS 1 (Revised 2007) Presentation of Financial Statements

The adoption of IAS 1 (Revised 2007) makes certain changes to the format and titles of the primary financial statements and to the presentation of some items within these statements. It also gives rise to additional disclosures.

The measurement and recognition of the Group's assets, liabilities, income and expenses is unchanged. However, some items that were recognised directly in equity are now recognised in other comprehensive income, for example translation reserve. IAS 1 affects the presentation of owner changes in equity and introduces a 'Statement of comprehensive income'. Comparatives have been restated to conform with the revised standard. The Group has applied changes to its accounting policies on presentation of financial statements and segment reporting retrospectively. However, the changes to the comparatives have not affected the consolidated statement of financial position at 1 January 2008 and accordingly this statement is not presented.

IAS 27 (Amendments) Cost of an Investment in a Subsidiary, Jointly Controlled Entity or an Associate

The amendment requires the investor to recognise dividends from a subsidiary, joint controlled entity or an associate in profit or loss irrespective the distributions are out of the investee's pre-acquisition or post-acquisition reserves. In prior years, the Group recognised dividends out of pre-acquisition reserves as a recovery of its investment in the subsidiaries, jointly controlled entity or associates (i.e. a reduction of the cost of investment). Only dividends out of post-acquisition reserves were recognised as income in profit or loss.

Under the new accounting policy, if the dividend distribution is excessive, the investment would be tested for impairment according to the Company's accounting policy on impairment of non-financial assets.

The new accounting policy has been applied prospectively as required by these amendments to IAS 27 and therefore no comparatives have been restated.

IFRS 7 (Amendments) Improving disclosures about financial instruments

The amendments require additional disclosure for financial instruments which are measured at fair value in the statement of financial position. These fair value measurements are categorised into a three-level fair value hierarchy, which reflects the extent of observable market data used in making the measurement. In addition, the maturity analysis for derivative financial liabilities is disclosed separately and should show remaining contractual maturities for those derivatives where this information is essential for an understanding of the timing of the cash flows. The Group has taken advantage of the transitional provisions in the amendments and has not provided comparative information in respect of the new requirements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

2. ADOPTION OF NEW AND AMENDED IFRSs *(Continued)*

IFRS 8 Operating Segments

The adoption of IFRS 8 has not affected the identified and reportable operating segments for the Group. However, reported segment information is now based on internal management reporting information that is regularly reviewed by the chief operating decision maker. In the previous annual financial statements, segments were identified by reference to the dominant source and nature of the Group's risk and returns. Comparatives have been restated on a basis consistent with the new standard.

Annual Improvements to IFRSs 2008

In October 2008, the IASB issued its first Annual Improvement to IFRSs which set out amendments to a number of IFRSs. These are separate transitional provisions for each standard.

At the date of authorisation of these financial statements, the following new and amended IFRSs have been published but are not yet effective, and have not been adopted early by the Group.

IAS 24 (Revised)	Related Party Disclosures – Revised Definition of Related Parties[7]
IAS 27 (Amendments)	Consolidated and Separate Financial Statements – Consequential Amendments Arising from Amendments to IFRS 3[1]
IAS 28 (Amendments)	Investments in Associates – Consequential Amendments Arising from Amendments to IFRS 3[1]
IAS 31 (Amendments)	Interests in Joint Ventures – Consequential Amendments Arising from Amendments to IFRS 3[1]
IAS 32 (Amendments)	Financial Instruments: Presentation – Amendments Relating to Classification of Rights Issue[5]
IAS 39 (Amendments)	Financial Instruments: Recognition and Measurement – Amendments for Eligible Hedged Items[1]
IFRS 1 (Revised)	First-time Adoption of International Financial Reporting Standards –Revised and Restructured[1]
IFRS 1 (Amendments)	First-time Adoption of International Financial Reporting Standards – Amendment Relating to Oil and Gas Assets and Determining whether an Arrangement Contains a Lease[4]
IFRS 2 (Amendments)	Share-based Payment – Amendment Relating to Group Cash-settled Share-based Payment Transactions[4]
IFRS 3 (Revised)	Business Combinations – Comprehensive Revision on Applying the Acquisition Method[1]
IFRS 5 (Amendments)	Non-current Assets Held for Sale and Discontinued Operations – Amendments resulting from May 2008 Annual Improvement to IFRSs[1]
IFRS 9	Financial Instruments – Classification and Measurement[8]
IFRIC – INT 14 (Amendments)	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction (Amendment with Respect to Voluntary Prepaid Contributions)[7]
IFRIC – INT 17	Distributions of Non-cash Assets to Owners[1]
IFRIC – INT 18	Transfers of Assets from Customers[2]
IFRIC – INT 19	Extinguishing Financial Liabilities with Equity Instruments[6]
Various	Annual Improvements to IFRS 2009[3]

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

2. ADOPTION OF NEW AND AMENDED IFRSs *(Continued)*

Annual Improvements to IFRSs 2008 (Continued)

Notes:

[1] Effective for annual periods beginning on or after 1 July 2009

[2] Transfers received on or after 1 July 2009

[3] Generally effective for annual periods beginning on or after 1 July 2009 and 1 January 2010 unless otherwise stated in the specific IFRSs

[4] Effective for annual periods beginning on or after 1 January 2010

[5] Effective for annual periods beginning on or after 1 February 2010

[6] Effective for annual periods beginning on or after 1 July 2010

[7] Effective for annual periods beginning on or after 1 January 2011

[8] Effective for annual periods beginning on or after 1 January 2013

The directors of the Company anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new and amended IFRSs that are expected to have impact on the Group's accounting policies is provided below. Certain new and amended IFRSs have been issued but are not expected to have a material impact of the Group's financial statements.

IFRS 3 (Revised) Business Combinations

The standard is applicable in reporting periods beginning on or after 1 July 2009 and will be applied prospectively. The new standard still requires the use of the purchase method (now renamed the acquisition method) but introduces material changes to the recognition and measurement of consideration transferred and the acquiree's identifiable asset and liabilities, and the measurement of non-controlling interests (previously known as minority interest) in the acquiree. The new standard is expected to have a significant effect on business combinations occurring in reporting periods beginning on or after 1 July 2009.

IFRS 9 Financial Instruments

The standard is effective for accounting periods beginning on or after 1 January 2013 and addresses the classification and measurement of financial assets. The new standard reduces the number of measurement categories of financial assets and all financial assets will be measured at either amortised cost or fair value based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains and losses will be recognised in profit or loss except for those on certain equity investments which will be presented in other comprehensive income. The directors are currently assessing the possible impact of the new standard on the Group's result and financial position in the first year of application.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

2. ADOPTION OF NEW AND AMENDED IFRSs *(Continued)*

IAS 27 (Revised) Consolidated and Separate Financial Statements

The revised standard is effective for accounting periods beginning on or after 1 July 2009 and introduces changes to the accounting requirements for the loss of control of a subsidiary and for changes in the Group's interest in subsidiaries. Total comprehensive income must be attributed to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. The directors do not expect the standard to have a material effect on the Group's financial statements.

Annual Improvements to IFRSs 2009

The IASB has issued Improvement to International Financial Reporting Standards 2009. Most of the amendments become effective for annual period beginning on or after 1 January 2010. The Group expects the amendment to IAS 17 "Leases" to be relevant to the Group's accounting policies. Prior to the amendment, IAS 17 generally required a lease of land to be classified as an operating lease. The amendment requires a lease of land to be classified as an operating or finance lease in accordance with the general principles in IAS 17. The Group will need to reassess the classification of its unexpired leases of land at 1 January 2010 on the basis of information existing at the inception of those leases in accordance with the transitional provisions for the amendment. The amendment will apply retrospectively except where the necessary information is not available. In that situation, the leases will be assessed on the date when the amendment is adopted. The directors are currently assessing the possible impact of the amendment on the Group's results and financial position in the first year of application.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the year presented unless otherwise stated. The adoption of new or amended IFRSs and the impacts on the Group's financial statements, if any, are disclosed in note 2.

The financial statements have been prepared on the historical cost basis except for certain financial assets and liabilities and in accordance with IFRSs. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The area involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and subsidiaries (together referred to as the "Group") made up to 31 December each year.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Non-controlling interest represents the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Group and are not the Group's financial liabilities.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separated from the equity attributable to the owners of the Company. Profit or loss attributable to the non-controlling interests are presented separately in the consolidated income statement as an allocation of the Group's results. Where losses applicable to the non-controlling exceeds the non-controlling interest in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the non-controlling interest to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to the non-controlling interest only after the minority's share of losses previously absorbed by the Group has been recovered.

3.3 Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.3 Subsidiaries (Continued)

In consolidation financial statements, acquisition of subsidiaries (other than those common control) is accounted for by applying the purchase method. This involves the estimation of fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated statement of financial position at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

3.4 Foreign currency translation

The Group's operations are principally conducted in the People's Republic of China (the "PRC"). Accordingly, the consolidated financial statements have been presented in Renminbi ("RMB"), being the functional and presentation currency of all principal companies in the Group.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the income statement.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into RMB. Assets and liabilities have been translated into RMB at the closing rates at the balance sheet date. Income and expenses have been converted into RMB at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the translation reserves in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 have been treated as assets and liabilities of the foreign operation and translated into RMB at the closing rates.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.5 Revenue recognition

Revenue is measured at the fair value for the sale of goods and rendering of services, net of rebates and discounts. 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 as follows:

(i) Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer accepted the goods;

(ii) Rental income is recognised on a time proportion basis over the lease term;

(iii) Dividend income is recognised when the right to receive payment has been established; and

(iv) Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

3.6 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at acquisition cost less accumulated depreciation and accumulated impairment losses. The cost of asset comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.6 *Property, plant and equipment (Continued)*

Depreciation on the following property, plant and equipment is calculated using the straight-line method to allocate their costs less their residual values over their estimated useful lives, as follows:

Buildings	Over the shorter of the term of the leasehold interests in land and the expected useful live of 50 years
Leasehold improvements	3 to 5 years
Plant and machinery	5 to 10 years
Furniture, fixtures and equipment	5 years
Motor vehicles	5 to 8 years

Depreciation on the mining structures is provided to write off the cost of the mining structures using units of production method based on the proven and probable mineral reserves.

The assets' residual value and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Construction in progress represents leasehold buildings, plant and machinery and mining structures under development and is stated at cost less any impairment losses, and is not depreciated. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

3.7 *Prepaid land lease payments*

Prepaid land lease payments represent up-front payments to acquire the land use rights/leasehold land. They are stated at cost less accumulated amortisation and accumulated impairment losses. The determination if an arrangement is or contains a lease and the lease is an operating lease is detailed in note 3.11. Amortisation is calculated on a straight line basis over the lease term except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets.

3.8 *Intangible assets (other than goodwill)*

Intangible assets acquired separately are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for the intangible assets with finite useful lives are provided on the following bases over their estimated useful lives. Amortisation commences when the intangible assets are available for use.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.8 Intangible assets (other than goodwill) (Continued)

Mining rights

The mining rights are amortised using units of production method based on the proven and probable mineral reserves.

Technical know-how and patent

The technical know-how and patent are amortised on the straight-line basis over a period of 5 years and 10 years, respectively.

3.9 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

Where any Group company purchases the Company's equity share capital (Treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's owners until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of the Company. No gain or loss is recognised in the income statement on the purchase, sales reissue or cancellation of such shares.

3.10 Impairment of non-financial assets

Goodwill arising on acquisition of subsidiaries, property, plant and equipment, prepaid land lease payments and intangible assets are subject to impairment testing.

Goodwill and other intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions 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 assessment of time value of money and the risk specific to the asset.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.10 Impairment of non-financial assets (Continued)

For the purpose of assessing impairment, where an asset does not generate cash inflows largely independent from those other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflow independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other non-financial assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.11 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, except that property held under operating leases.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.11 Leases (Continued)

(ii) *Assets acquired under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligation under finance leases.

Subsequent accounting for assets held under finance lease agreements corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges.

Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) *Operating lease charges as the leasee*

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease term except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(iv) *Assets leased out under operating leases as the lessor*

Assets leased out under operating leases are measured and presented according to the nature of the assets. Initial direct cost incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the rental income.

Rental income receivable from operating leases is recognised in profit or loss on a straight-line basis over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payment receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.12 Financial assets

The Group's accounting policies for financial assets are set out below.

Financial assets other than hedging instruments are classified into the following categories (i) financial assets at fair value through profit or loss; (ii) loans and receivables, and (iii) available-for-sale financial assets.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed an appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

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

Financial assets at fair value through profit or loss include financial assets held for trading.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term, or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.12 Financial assets *(Continued)*

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

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or

- the assets are part of a group of financial assets which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the group of financial assets is provided internally on that basis to the key management personnel; or

- the financial asset contains an embedded derivative that would need to be separate recorded.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value changes in fair value recognised in the income statement. Fair value is determined by reference to active market transactions or using a valuation technique where no active market exists. Fair value gain or loss does not include any dividend or interest earned on these financial assets. Dividend and interest income is recognised in accordance with the Group's policies in note 3.5 to the financial statements.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fee that are an integral part of the effective interest rate and transaction cost.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.12 Financial assets *(Continued)*

(iii) Available-for-sale financial assets

Non-derivative financial assets that do not qualify for inclusion in any of the other categories financial assets are classified as available-for-sale financial assets.

All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value excluding any dividend and interest income is recognised directly in other comprehensive income and accumulated separately in the available-for-sale financial assets revaluation reserve in equity, except for impairment losses (see the policy below) and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity would be recognised in income statement. Interest calculated using the effective interest method is recognsied in income statement.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised cost of asset is recognsied in profit or loss, and other changes are recgonised in other comprehensive income.

For available-for-sale investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

Impairment of financial assets

At each balance sheet date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one ore more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.12 Financial assets (Continued)

Impairment of financial assets (Continued)

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

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

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

Loss events in respect of a group of financial assets include observable data indicating that there is a measureable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

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

(i) Loans and receivables

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flow (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in income statement for the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in income statement for the period in which the reversal occurs.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.12 Financial assets *(Continued)*

Impairment of financial assets (Continued)

(ii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in the income statement as impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the income statement.

Reversals in respect of investment in equity instruments classified as available-for-sale are not recognised in the income statement. The subsequent increase in fair value is recognised directly in equity. Impairment losses in respect of investment in debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment losses were recognised. Reversal of impairment losses in such circumstances are recognised in the income statement.

(iii) Financial assets carried at cost

The amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flow discounted at the current market rate of return for a similar financial asset. Such impairment losses are reversed in subsequent periods.

For financial assets other than financial assets at fair value through profit or loss and trade receivables that are stated at amortised cost, impairment losses are written off against the corresponding assets directly. Where the recovery of trade receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of trade receivables is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account in respect of that receivable 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

For the year ended 31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.13 Inventories

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

Cost is determined using the weighted average basis, and in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

3.14 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities for all deductible temporary difference, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.15 Employee benefits

(i) Retirement benefit obligations

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. Under the rule of the MPF Schemes, the employer and its employees are each required to make contributions to the scheme of rate specified in the rules. The only obligation of the Group with respect of the MPF Scheme is to make the required contributions under Scheme. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee.

The Group also participates in a defined contribution retirement scheme organised by the relevant local government authority in the PRC. Certain employees of the Group eligible to participate in the retirement scheme are entitled to retirement benefits from the scheme. The local government authority is responsible for the pension liabilities to these retired employees. The Group is required to make monthly contributions to the retirement scheme up to the time of retirement of the eligible employees, at certain percentage of the local standard basic salaries.

(ii) Short-term employee benefit

Provision for bonus due are recognised when the Group has a present legal or constructive obligations as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

(iii) Share-based employee compensation

All share-based payment arrangements granted after 7 November 2002 and had not vested on 1 January 2005 are recognised in the financial statements. The Group operates equity-settled share-based compensation plans for remuneration of its employee.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. The value is appraised at the grant date and excludes the impact of any non-market vesting conditions.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.15 Employee benefits *(Continued)*

(iii) Share-based employee compensation (Continued)

All share-based compensation is recognised as an expense in income statement with a corresponding credit to equity share option reserve, net of deferred tax where applicable. If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from pervious estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally vested.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

3.16 Cash and cash equivalents

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

For the purpose of the balance sheets, bank and cash balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

3.17 Financial liabilities

The Group's financial liabilities include trade payables, other payables, amounts due to related companies, amounts due to former and non-controlling equity holders of subsidiaries, borrowings, derivative financial instruments and convertible bonds.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in finance costs in the income statement. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.17 *Financial liabilities (Continued)*

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

(i) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(ii) Bank and other borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction cost) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

(iii) Convertible bonds that contain an equity component

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

Convertible bonds issued by the Company that contain both financial liability and equity components are classified separately into respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest rate for similar non-convertible debts. The difference between the proceeds of the issue of the convertible bonds and the fair value assigned to the liability component, representing the call option for conversion of the bond into equity, is included equity as convertible bonds equity reserve.

The liability component is subsequently carried at amortised cost using the effective interest method. The equity component will remain in equity until conversion or redemption of the bond.

When the bond is converted, the convertible bonds equity reserve and the carrying value of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the convertible bonds equity reserve is released directly to retained profits.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.17 Financial liabilities *(Continued)*

(iv) Finance lease liabilities

Finance lease liabilities are measured at initial value less the capital element of lease repayments (see note 3.11).

3.18 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into or the derivative is separated from the host contracts and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

3.19 Related parties

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.20 Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any post-amendment qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Borrowing cost of pre-amendment qualifying assets and other borrowing costs are expensed as incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset 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 being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

3.21 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are recognised in the income statement on a straight line basis over the expected lives of the related assets.

Government grants related to assets are presented in the statement of financial position by setting up the grant as deferred income. Government grants relating to income is presented in gross under "Other income" in the income statement.

3.22 Research and development expenditure

Cost associated with research activities are expensed in the income statement as they occur. Costs that are directly attributable to the development phase are recognised as intangible assets provided they meet the following recognition requirements:

(i) demonstration of technical feasibility of the prospective product for internal use or sale;

(ii) there is intention to complete the intangible asset and use or sell it;

(iii) the group's ability to use or sell the intangible asset is demonstrated;

(iv) the intangible asset will generate probable economic benefits through internal use or sale;

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.22 Research and development expenditure *(Continued)*

(v) sufficient technical, financial and other resources are available for completion; and

(vi) the intangible asset can be reliably measured.

Direct costs include employee costs incurred on development along with an appropriate portion of relevant overheads. The costs of internally generated product developments are recognised as intangible assets. They are subject to the same subsequent measurement method as externally acquired intangible assets.

All other development costs are expensed as incurred.

3.23 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation 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. All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

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 uncertain events not wholly within the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisation, if appropriate.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.24 *Financial guarantee issued*

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specific debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for issuance of the guarantee, the consideration is recognised in accordance with the Group's policies to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantee issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation, where appropriate.

3.25 *Segment reporting*

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the chief operating decision maker, directors of the Company, for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the directors are determined following the Group's major product and services lines.

The Group has identifies the following reportable segments:

(i) Fertilizers: manufacture and sale of organic potash fertilizer products; and

(ii) Nonferrous metal mine: mining, processing and trading of mineral resources.

Each of these operating segments is managed separately as each of the product and service lines requires different sources as well as marketing approaches. All inter-segment transfers are carried out at arms length prices.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.26 Discontinued operation

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if early. It also occurs when the operation is abandoned.

When an operation is classified as discontinued, a single amount is presented on the face of the income statement, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

Non-current assets (or disposal group) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

Impairment losses on non-current assets held for sale (or disposal group) are recognised in profit or loss. As long as non-current asset is classified as held for sale or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated and amortised.

The comparative figures for the year ended 31 December 2008 have been represented to reflect the discontinued operation for the current year presentation as detailed in note 10 to the financial statement.

4. CRITICAL ACCOUNTING ESTIMATES

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

4. CRITICAL ACCOUNTING ESTIMATES *(Continued)*

(i) Estimation of mineral reserves

Mining rights and mining structures are depreciated and amortised using units of production method based on the proven and probable mineral reserves. Such estimates are made based on the management's knowledge, experience and industry practice. Estimates which were valid when originally made may need to be updated when new information or techniques become available. By nature, reserves estimates depend to some extent on interpretations and deductions which may prove to be inaccurate. As further information becomes available, the estimates are likely to change. This may result in alternations to the Group's mining operations and development plans which may, in turn, adversely affect the Group's mining operations and performance.

(ii) Depreciation and amortisation

The Group depreciates the property, plant and equipment and amortises prepaid land lease payments and the intangible assets in accordance with the accounting policies stated in note 3.6, note 3.7 and note 3.8 respectively. The estimated useful lives reflect the management estimate of the periods that the Group intends to derive future economic benefits from the use of these assets. In particular, the mining rights and mining structures are amortised and depreciated using units of production method, utilising only proved and probable mineral reserves as the depletion base. The estimated mineral reserves reflect the management estimation on the intention to derive future economic benefits from the mining rights (see note 4(i)). The management assesses annually the estimated reserves of the mine. However, the licence period of the mining rights held by the Group expires by January 2019 which is shorter than the estimated useful lives of the mine estimated by the management. Management of the Group is of the opinion that the Group will be able to renew the licence of the mining rights from the relevant authority continuously and at minimal charges. If the expectation differs from the original estimate, such differences will impact the depreciation and the amortisation charged in the year in which such estimate is changed.

(iii) Allowance for and written off of irrecoverable debtors

The Group's management determines the allowance for irrecoverable debtors on a regular basis. This estimate is based on the credit history of the Group's debtors, past default experience and the current market condition. When the Group's management determines that there are indicators of significant financial difficulties of the debtors such as default or delinquency in payments, allowance for debtors are estimated. The Group's management reassesses the estimations at the balance sheet dates.

When the Group's management determines the debtors are uncollectible, they are written off against the allowance account for debtors. Any amount held in the allowance account in respect of those debtors are reversed.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

4. CRITICAL ACCOUNTING ESTIMATES *(Continued)*

(iv) Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at cash reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value-in-use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows.

(v) Income taxes

The Group is subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provision in the period in which such determination is made.

(vi) Share-based payment compensation

The share-base payment expense is subject to the limitation of the option pricing model and the uncertainty in estimates used by management in the assumptions. The estimates include limited early exercise behaviour, expected interval and frequency of open exercise periods in the share option life, and other relevant parameters of the share option model.

(vii) Net realisable value of inventories

These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. The Group's management will reassess the estimations at the balance sheet dates.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

5. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, derived from the Group's principal activities recognised during the year is as follows:

	Continuing operations		Discontinued operation		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Revenue:						
Sales of goods	**269,045**	77,612	**117,229**	142,159	**386,274**	219,771
Other income:						
Bank interest income	**50**	62	**316**	593	**366**	655
Refund of value-added tax (note a)	**–**	–	**9,283**	11,518	**9,283**	11,518
Forfeiture of deposits received (note b)	**–**	29,001	**–**	–	**–**	29,001
Sales of scrap materials	**869**	1,320	**–**	–	**869**	1,320
Gain on disposal of prepaid land lease payments	**–**	–	**–**	1,753	**–**	1,753
Government grants and subsidies (note c)	**–**	–	**1,330**	2,000	**1,330**	2,000
Rental income	**–**	550	**–**	–	**–**	550
Gain on revising the estimated future cash flows of liability component of convertible bonds after the partial offset (note 32)	**3,527**	–	**–**	–	**3,527**	–
Recovery of bad debts	**–**	–	**732**	–	**732**	–
Other income	**108**	–	**291**	835	**399**	835
Total	**4,554**	30,933	**11,952**	16,699	**16,506**	47,632

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

5. REVENUE AND OTHER INCOME *(Continued)*

Notes:

(a) Pursuant to an approval document issued State Tax Finance Bureau 財税(2004) 197號, a subsidiary of the Group was entitled to a refund of the value-added tax paid in relation to the sales of organic potash fertilizer products with effect from 1 December 2004.

(b) For the year ended 31 December 2008, forfeiture of deposits received was arisen from the expropriation of customers' deposits for the sales and purchase agreement of the Group's mineral resources. At 31 December 2008, the Group was sued by a customer for return of the deposit of RMB20,000,000 and the litigation is still pending. In the opinion of the Group's legal advisers, the Group has a good defence against such claim. Details are set out in note 40(b) to the financial statements.

(c) Government grants and subsidies represented unconditional monetary award of RMB570,000 (2008: RMB2,000,000) and RMB760,000 (2008: Nil) from relevant authorities in the PRC in respect of the Group's contribution in products improvement arising from its participation in fertilizers business and for subsidising to the Group's fertilizers business during the year ended 31 December 2009 respectively.

6. SEGMENT INFORMATION

The Group manages its businesses by business operations. On first-time adoption of IFRS 8, Operating segments and in a manner consistent with the way in which information is reported internally to the Group's directors for the purposes of resource allocation and performance assessment, the Group has only identified two business segments as described in note 3.25 to the financial statements. Further, the Group disposed of a segment as described in note 10 to the financial statements.

The directors manage that the Group's operation as a single business segment. The Group's operation is monitored and strategic decision are made on the basis of operating results, consolidated assets and liabilities as reflected in the Group's financial statements prepared under IFRS.

The directors consider that the majority of the Group's revenue is from customers in the PRC and on this basis PRC is regarded as the country of domicile. For both 2008 and 2009, the Group had over 90% of its revenue and profit derived within the PRC and the Group's assets are located in the PRC. Accordingly, no further segmental information is presented.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

7. PROFIT FROM OPERATION

Profit from operation is arrived at after charging/(crediting):

	Continuing operations		Discontinued operation		Consolidated	
	2009 RMB'000	2008 RMB'000	**2009 RMB'000**	2008 RMB'000	**2009 RMB'000**	2008 RMB'000
Directors' emoluments (note 14(a))	**1,197**	759	**–**	–	**1,197**	759
Other staff costs	**8,570**	3,212	**4,357**	7,695	**12,927**	10,907
Equity-settled share options expenses	**1,408**	475	**–**	–	**1,408**	475
Retirement benefit schemes contribution (excluding those of directors)	**1,180**	610	**116**	133	**1,296**	743
Total staff costs	**12,355**	5,056	**4,473**	7,828	**16,828**	12,884
Less: Staff costs included in the research and development costs	**–**	–	**(601)**	(582)	**(601)**	(582)
	12,355	5,056	**3,872**	7,246	**16,227**	12,302
Depreciation of property, plant and equipment	**9,150**	4,120	**4,685**	4,981	**13,835**	9,101
Less: Depreciation included in the research and development costs	**–**	–	**(93)**	(94)	**(93)**	(94)
	9,150	4,120	**4,592**	4,887	**13,742**	9,007

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

7. PROFIT FROM OPERATION *(Continued)*

	Continuing operations		Discontinued operation		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Cost of inventories sold	**168,972**	71,403	**89,626**	105,888	**258,598**	177,291
Amortisation of mining rights	**9,792**	7,987	**–**	–	**9,792**	7,987
Amortisation of other intangible assets	**–**	–	**125**	665	**125**	665
Amortisation of prepaid land lease payments	**22**	–	**759**	908	**781**	908
Auditors' remuneration	**881**	982	**–**	–	**881**	982
Operating lease expenses in respect of rented premises	**1,506**	1,150	**878**	898	**2,384**	2,048
Written off of property, plant and equipment	**–**	–	**70**	107	**70**	107
Loss on disposal of property, plant and equipment	**–**	–	**471**	–	**471**	–
Research and development costs	**–**	–	**1,832**	1,809	**1,832**	1,809
Bad debt written off	**–**	–	**5,564**	–	**5,564**	–
Provision of impairment loss recognised on trade receivables	**–**	–	**3,179**	439	**3,179**	439
(Reversal)/provision of impairment loss recognised on other receivables	**–**	–	**(685)**	552	**(685)**	552

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

8. FINANCE COSTS

	Continuing operations		Discontinued operation		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Wholly repayable within five years						
– interest on bank loans	**5,109**	1,663	**1,785**	2,114	**6,894**	3,777
– interest on other loans	**5,755**	3,580	**2,807**	3,100	**8,562**	6,680
Interest on convertible bonds	**42,152**	22,236	**–**	–	**42,152**	22,236
Interest on finance lease liabilities	**22**	4	**–**	–	**22**	4
Total financial costs on financial liabilities not at fair value through profit or loss	**53,038**	27,483	**4,592**	5,214	**57,630**	32,697

9. INCOME TAX EXPENSE

(a) Income tax expense in the income statement represents:

	Continuing operations		Discontinued operation		Consolidated	
	2009	2008	**2009**	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Current						
– Hong Kong	**–**	–	**–**	–	**–**	–
– Overseas taxation	**2,838**	9,582	**348**	245	**3,186**	9,827
	2,838	9,582	**348**	245	**3,186**	9,827
Deferred taxation (note 33)	**(2,543)**	(1,698)	**(598)**	(1,090)	**(3,141)**	(2,788)
Total tax charge for the year	**295**	7,884	**(250)**	(845)	**45**	7,039

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

9. INCOME TAX EXPENSE *(Continued)*

(a) Income tax expense in the income statement represents: *(Continued)*
No provision for Hong Kong Profits Tax has been made as the Group had no assessable profits arising in Hong Kong during the years presented. Income tax expense for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Pursuant to the PRC EIT law passed by the Tenth national People's Congress on 16 March 2007, the new enterprise income tax rates for domestic and foreign enterprises were unified at 25% and became effective from 1 January 2008. Subsequent to 16 March 2007, the implementation measure on transitional policy of preferential tax rate was announced and the Group's entitlement to certain tax concessions is still applicable.

(b) The income tax expense for the year can be reconciled to the profit before income tax as per the consolidated income statement as follows:

	2009 **RMB'000**	2008 RMB'000
Profit/(loss) before income tax		
Continuing operations	**64,985**	19,183
Discontinued operation	**(3,256)**	8,493
Profit before income tax	**61,729**	27,676
Tax at the domestic income tax rate of 25% (2008: 25%)	**15,432**	6,919
Tax effect of non-taxable and non-deductible items, net	**10,819**	5,445
Tax concession	**(30,841)**	(6,447)
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	**4,635**	1,122
Income tax expenses for the year	**45**	7,039

During the year, the Group has calculated the EIT at 25% due to the unification of PRC EIT rate on 1 January 2008.

(c) At the balance sheet date, deferred tax liabilities amounted to RMB6,400,000 (2008: RMB5,028,000) in respect of the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries have not been recognised. No deferred tax liabilities have been recognised in respect of these differences because the Group is in a position to control the dividend policies of these subsidiaries and it is probable that such differences will not reverse in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

10. DISCONTINUED OPERATION

During the year ended 31 December 2009, the directors planned to sell the entire equity interest in Sungreen Investment Limited ("Sungreen") and its subsidiaries (together referred as to the "Sungreen Group") and has entered into a sale and purchase agreement with Billion Prestige Limited ("Billion Prestige"), an independent third party whereby the Group agreed to sell and the Billion Prestige agreed to buy the entire equity interest in Sungreen Group and the amount due to the Group for an initial consideration of RMB130 million. Accordingly, the assets and liabilities attributable to Sungreen Group have been presented as disposal group held for sale as at 31 December 2009. The disposal of Sungreen Group is still in progress at the approval date of these financial statements. The directors expected that the proceeds of the disposal are greater than the net carrying amount of the relevant assets and liabilities and therefore no impairment is necessary. Details of the disposal have been set out in the announcement and circular of the Company dated 21 December 2009 and 8 January 2010 respectively.

The results of Sungreen Group for the year are presented below:

	2009 **RMB'000**	2008 RMB'000
(Loss)/profit for the year from a discontinued operation		
Revenue	**117,229**	142,159
Cost of sales	**(89,626)**	(105,888)
Gross profit	**27,603**	36,271
Other income	**11,952**	16,699
Selling and distribution costs	**(20,951)**	(27,757)
Administrative expenses	**(17,268)**	(11,506)
Profit from operation	**1,336**	13,707
Finance costs	**(4,592)**	(5,214)
(Loss)/profit before income tax	**(3,256)**	8,493
Income tax credit	**250**	845
(Loss)/profit for the year from a discontinued operation	**(3,006)**	9,338

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

10. DISCONTINUED OPERATION *(Continued)*

The major classes of assets and liabilities of Sungreen Group classified as held for sale as at 31 December are as follows:

	2009 RMB'000
Assets	
Property, plant and equipment (note 15)	**15,498**
Intangible assets (note 16)	**21**
Prepaid land lease payments (note 17)	**36,086**
Deposits	**43,350**
Inventories	**3,829**
Trade receivables (note (a))	**60,843**
Other receivables, deposits and prepayment	**2,451**
Available-for-sale financial assets	**400**
Balances with non-bank financial institutions	**14**
Bank balances and cash	**90,184**
Assets classified as held for sale	**252,676**
Liabilities	
Trade payables (note (b))	**1,073**
Other payables and accrued charges	**3,315**
Amount due to a related company	**234**
Amounts due to non-controlling equity holders of subsidiaries	**17,225**
Borrowings (note 30(b))	**40,000**
Provision for tax	**1,178**
Liabilities directly associated with assets classified as held for sale	**63,025**
Net assets directly associated with disposal group (excluding non-controlling interests)*	**189,651**

* The net assets directly associated with the disposal group included the amount of inter-company balance of RMB68,920,000, which is due from this disposal group to the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

10. DISCONTINUED OPERATION *(Continued)*

The net cash flows incurred by Sungreen Group are as follows:

	2009 RMB'000
Net cash generated from operating activities	**31,231**
Net cash generated from investing activities	**313**
Net cash used in financing activities	**(25,592)**
Net cash inflow	**5,952**

Notes:

(a) Trade receivables

The ageing analysis of the Sungreen Group's trade receivables (net of allowance for impairment) as at 31 December 2009 is as follows:

	2009 RMB'000
0 to 60 days	**5,742**
61 to 120 days	**7,070**
121 to 180 days	**16,543**
Over 180 days	**31,488**
	60,843

The ageing analysis of these trade receivables (net of allowance for impairment) that are neither individually nor collectively considered to be impaired are as follows:

	2009 RMB'000
Neither past due nor impaired	**29,355**
1 to 60 days past due	**1,537**
Over 60 days past due	**29,951**
	60,843

The Group has a policy of allowing trade customers with credit normally within 180 days.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

10. DISCONTINUED OPERATION *(Continued)*

Notes: *(Continued)*

(a) Trade receivables *(Continued)*

As at 31 December 2009, the Group has determined these trade receivables for RMB31,488,000 were past due but not impaired. These receivables related to a number of independent customers for whom there is no recent history of default. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been significant change in credit quality and the balances are still considered fully recoverable. Trade receivables that were neither past due nor impaired related to a large number of independent customers that have a good track record with the Group. The Group does not hold any collateral or other credit enhancements over these balances.

(b) Trade payables

The ageing analysis of the Sungreen Group's trade payable as at 31 December 2009 is as follows:

	2009 **RMB'000**
0 to 90 days	95
91 to 180 days	17
181 to 365 days	885
Over 365 days	76
	1,073

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

10. DISCONTINUED OPERATION *(Continued)*

	2009	2008 (represented)
(Loss)/earnings per share		
– Basic, from discontinued operation	**RMB(0.07) cent**	RMB0.25 cent
– Diluted, from discontinued operation	**RMB(0.03) cent**	RMB0.24 cent

The calculation of basic and diluted earnings per share from the discontinued operation are based on:

	2009	2008 (represented)
(Loss)/profit attributable to owners of the Company from the discontinued operation (note 13)	**RMB(1,965,000)**	RMB5,961,000
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation (note 13)	**2,739,601,085**	2,350,216,300
Add: Effect of exercise of share options	**161,298,740**	141,604,949
Effect of deemed exercise or conversion of convertible bonds	**3,235,723,209**	–
Weighted average number of ordinary shares used in the diluted earnings per share calculation	**6,136,623,034**	2,491,821,249

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Of the consolidated profit attributable to the owners of the Company of RMB58,303,000 (2008: RMB8,636,000), a loss of RMB52,348,000 (2008: RMB30,867,000) has been dealt with in the financial statements of the Company.

12. DIVIDEND

During the years ended 31 December 2009 and 2008, no dividend was paid or proposed, nor has any dividend been proposed since the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

13. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic and diluted earnings/(loss) per share are based on:

	2009 **RMB'000**	2008 RMB'000
Earnings		
Profit attributable to owners of the Company	**58,303**	8,636
Less: (Loss)/profit from discontinued operation	**(3,006)**	9,338
Result from discontinued operation attributable to non-controlling interests	**1,041**	(3,377)
(Loss)/profit attributable to owners of the Company from the discontinued operation	**(1,965)**	5,961
Profit attributable to owners of the Company from the continuing operations	**60,268**	2,675

The calculation of the basic earning per share is based on the profit for the year attributable to the owners of the Company of RMB58,303,000 (2008: RMB8,636,000) and on the weighted average of 2,739,601,085 (2008 (represented): 2,350,216,300) ordinary shares in issue during the year. For the year ended 31 December 2009, the calculation of basic earnings per share for profit attributable to owners of the Company from the continuing operations is based on the profit for the year attributable to owners of the Company from the continuing operations of RMB60,268,000 (2008: RMB2,675,000) and on the weighted average of 2,739,601,085 (2008 (represented): 2,350,216,300) ordinary shares in issue during the year.

The calculation of the diluted earning per share is based on the profit for the year ended 31 December 2009 attributable to the owners of the Company of RMB100,455,000, which is profit for the year attributable to owners of the Company of RMB58,303,000 adjusted to reflect the effect of deemed exercise or conversion of convertible bonds of RMB42,152,000, and on the weighted average of 6,136,623,034 ordinary shares outstanding during the year, being the weighted average number of ordinary shares of 2,739,601,085 used in basic earnings per share calculation and adjusted for the effect of deemed exercise or conversion of share options and convertible bonds existing during the year of 161,298,740 and 3,235,723,209 shares respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

13. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY *(Continued)*

In the calculation of diluted earning per share attributable to the owners of the Company for the year ended 31 December 2008, the Company's convertible bonds were not taken into account as they had an anti-dilutive effect. Therefore, the calculation of diluted earnings per share is based on the profit for the year attributable to owners of the Company from the continuing operations of RMB8,636,000 and on the weighted average of 2,491,821,249 (as represented) ordinary shares outstanding during the year, being the weighted average number of ordinary shares of 2,350,216,300 (as represented) used in basic earnings per share calculation and adjusted for the effect of share options existing during the year of 141,604,949 (as represented).

The calculation of diluted earnings per share attributable to the owners of the Company from the continuing operations for the year ended 31 December 2009, is based on adjusted earnings of RMB102,420,000, which is profit for the year attributable to owners of the Company from the continuing operations of RMB60,268,000 adjusted to reflect the effect of deemed exercise or conversion of convertible bonds of RMB42,152,000, and on the weighted average of 6,136,623,034 ordinary shares outstanding during the year, being the weighted average number of ordinary shares of 2,739,601,085 used in basic earnings per share calculation and adjusted for the effect of deemed exercise or conversion of share options and convertible bonds existing during the year of 161,298,740 and 3,235,723,209 shares respectively.

In the calculation of diluted earning per share attributable to the owners of the Company from the continuing operations for the year ended 31 December 2008, the Company's convertible bonds were not taken into account as they had an anti-dilutive effect. Therefore, the calculation of diluted earnings per share is based on the profit for the year attributable to owners of the Company from the continuing operations of RMB2,675,000 and on the weighted average of 2,491,821,249 (as represented) ordinary shares outstanding during the year, being the weighted average number of ordinary shares of 2,350,216,300 (as represented) used in basic earnings per share calculation and adjusted for the effect of share options existing during the year of 141,604,949 (as represented).

The weighted average number of shares for the purpose of calculating basic earnings per share for the year ended 31 December 2008 has been represented to reflect the share subdivision during the year ended 31 December 2009 as detailed in note 34(f) to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) *Directors' emoluments*

The details of directors' remuneration of each director for the years ended 31 December 2009 and 2008 are set out below:

Name of director	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Employee share option benefits RMB'000	Contributions to retirement benefits scheme RMB'000	Total RMB'000
2009					
Executive directors:					
Mr. Zhuo Ze Fan	–	354	10	7	371
Ms. Xie Yi Ping	–	247	–	–	247
Dr. Yu Heng Xiang	32	–	–	–	32
Mr. Ng Tang	64	–	3	–	67
Mr. Xu Bing	32	–	108	–	140
Mr. Kang Hongbo (i)	53	–	10	–	63
Ms. Han Qiong (i)	40	–	4	–	44
Independent non-executive directors:					
Mr. Zhao Shuo Guo	83	–	–	–	83
Mr. Chau Kam Wing Donald	81	–	–	–	81
Mr. Yang Rui (ii)	46	–	–	–	46
Mr. Chen Mingxian (i)	23	–	–	–	23
	454	601	135	7	1,197

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) ***Directors' emoluments*** *(Continued)*

Name of director	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Employee share option benefits RMB'000	Contributions to retirement benefits scheme RMB'000	Total RMB'000
2008					
Executive directors:					
Mr. Zhuo Ze Fan	–	356	–	5	361
Ms. Xie Yi Ping	–	155	–	–	155
Dr. Yu Heng Xiang *	23	–	–	–	23
Mr. Ng Tang #	59	–	–	–	59
Mr. Xu Bing *	10	–	–	–	10
Independent non-executive directors:					
Mr. Zhao Shuo Guo	54	–	–	–	54
Mr. Yue Kwai Wa, Ken ^	5	–	–	–	5
Mr. Leung Yiu Wing *, ^	22	–	–	–	22
Mr. Chau Kam Wing Donald *	35	–	–	–	35
Mr. Yang Rui *	35	–	–	–	35
	243	511	–	5	759

(i) Appointed during the year ended 31 December 2009

(ii) Resigned during the year ended 31 December 2009

* Appointed during the year ended 31 December 2008

^ Resigned during the year ended 31 December 2008

Re-designated as executive director with effect from 12 June 2008

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2009 and 2008.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Employees' emoluments

The five highest paid individuals in the Group during the year included two (2008: two) directors, details of whose emoluments have been disclosed in note (a) above. The emoluments of the remaining three (2008: three) non-director, highest paid individuals for the year are as follows:

	2009	2008
	RMB'000	RMB'000
Basic salaries, bonus and allowances	**2,935**	1,959
Share-based payments	**485**	475
Retirement benefits scheme contribution	**38**	25
	3,458	2,459

The number of the remaining highest paid individuals whose enrolments fell within the following band is as follows:

	2009	2008
Nil to HK$1,000,000	**1**	1
HK$1,000,001 to HK$2,000,000	**2**	2

During the years ended 31 December 2009 and 2008, no emoluments were paid by the Group to any of the directors or the five highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Mining structures RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2008								
Cost	17,116	8,203	–	33,716	1,988	5,264	7,103	73,390
Depreciation	(7,031)	(8,171)	–	(20,968)	(1,656)	(2,931)	–	(40,757)
Net carrying amount	10,085	32	–	12,748	332	2,333	7,103	32,633
Year ended 31 December 2008								
Opening net carrying amount	10,085	32	–	12,748	332	2,333	7,103	32,633
Additions	–	216	1,025	214	834	662	38,018	40,969
Acquisition of subsidiaries (note 37)	13,520	–	91,980	24,414	163	3,132	18,240	151,449
Disposal	–	–	–	–	–	–	(7,639)	(7,639)
Written off	–	(2)	–	(27)	(27)	(51)	–	(107)
Transfers	384	–	–	–	–	–	(384)	–
Depreciation	(1,474)	(86)	(1,517)	(4,795)	(255)	(974)	–	(9,101)
Exchange difference	–	2	–	–	(11)	(5)	–	(14)
Closing net carrying amount	22,515	162	91,488	32,554	1,036	5,097	55,338	208,190
At 31 December 2008 and 1 January 2009								
Cost	31,020	8,228	93,005	58,283	2,852	8,866	55,338	257,592
Depreciation	(8,505)	(8,066)	(1,517)	(25,729)	(1,816)	(3,769)	–	(49,402)
Net carrying amount	22,515	162	91,488	32,554	1,036	5,097	55,338	208,190
Year ended 31 December 2009								
Opening net carrying amount	22,515	162	91,488	32,554	1,036	5,097	55,338	208,190
Additions	30,159	–	3,475	21,077	224	114	86,600	141,649
Discontinued operation (note 10)	(8,462)	–	–	(5,839)	(105)	(1,092)	–	(15,498)
Disposal	–	–	–	–	–	(471)	–	(471)
Written off	–	–	–	(70)	–	–	–	(70)
Transfers	82,854	–	–	–	–	–	(82,854)	–
Depreciation	(2,821)	(92)	(942)	(8,394)	(327)	(1,259)	–	(13,835)
Closing net carrying amount	**124,245**	**70**	**94,021**	**39,328**	**828**	**2,389**	**59,084**	**319,965**
At 31 December 2009								
Cost	126,917	8,228	96,480	45,594	1,195	3,739	59,084	341,237
Depreciation	(2,672)	(8,158)	(2,459)	(6,266)	(367)	(1,350)	–	(21,272)
Net carrying amount	**124,245**	**70**	**94,021**	**39,328**	**828**	**2,389**	**59,084**	**319,965**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Notes:

(a) At 31 December 2009, the official property title certificates for certain of the Group's buildings with carrying amounts of approximately RMB1,432,000 (2008: RMB8,096,000) in aggregate have not yet been issued by the relevant local government authorities. The carrying amount of the Group's building of approximately RMB932,000 in aggregate have not yet obtained the official property title certificates and was classified as assets held for sale. The directors are of the opinion that the Group's right and interest in such buildings will not be therefore severely prejudiced.

(b) At 31 December 2009, the Group's property, plant and equipment at the net carrying amount of RMB15,498,000 were classified as assets held for sale (note 10), of which the net carrying amount of RMB13,446,000 (2008: RMB10,644,000) were pledged to secure banking facilities granted to the Group (note 30).

(c) At 31 December 2009, the Group's property, plant and equipment at the net carrying amount of RMB139,742,000 (2008: Nil) were pledged to secure banking facilities granted to the Group (note 30).

(d) The net carrying amount of the Group's property, plant and equipment held under financial lease arrangement included in the total amount of motor vehicles at 31 December 2009 amounted to RMB365,000 (2008: RMB461,000).

16. INTANGIBLE ASSETS

	Technical know-how RMB'000	**Patent** RMB'000	**Mining rights** RMB'000	**Total** RMB'000
At 1 January 2008				
Cost	3,600	1,250	–	4,850
Amortisation	(3,060)	(979)	–	(4,039)
Net carrying amount	540	271	–	811
Year ended 31 December 2008				
Opening net carrying amount	540	271	–	811
Acquisition of subsidiaries (note 37)	–	–	1,094,116	1,094,116
Amortisation	(540)	(125)	(7,987)	(8,652)
Closing net carrying amount	–	146	1,086,129	1,086,275
At 31 December 2008 and 1 January 2009				
Cost	3,600	1,250	1,094,116	1,098,966
Amortisation	(3,600)	(1,104)	(7,987)	(12,691)
Net carrying amount	–	146	1,086,129	1,086,275

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

16. INTANGIBLE ASSETS *(Continued)*

	Technical know-how RMB'000	Patent RMB'000	Mining rights RMB'000	Total RMB'000
Year ended 31 December 2009				
Opening net carrying amount	–	146	1,086,129	1,086,275
Discontinued operation (note 10)	–	(21)	–	(21)
Amortisation	–	(125)	(9,792)	(9,917)
Closing net carrying amount	**–**	**–**	**1,076,337**	**1,076,337**
At 31 December 2009				
Cost	–	–	1,094,116	1,094,116
Amortisation	–	–	(17,779)	(17,779)
Net carrying amount	**–**	**–**	**1,076,337**	**1,076,337**

Mining rights represent the right for mining in Wulatezhong Qi, an autonomous region in Inner Mongolia of the PRC with an aggregate mining area of 1.1014 square kilometer. The mining rights will expire in January 2019. In the opinion of directors, the Group will be able to renew the licence of the mining rights from the relevant authority continuously and at minimal charges.

Note: At 31 December 2009, the Group's mining rights at the net carrying amount of RMB1,076,337,000 (2008: Nil) were pledged to secure banking facilities granted to the Group (note 30).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

17. PREPAID LAND LEASE PAYMENTS

	2009 **RMB'000**	2008 RMB'000
At beginning of the year		
Cost	**38,015**	31,458
Accumulated amortisation	**(1,170)**	(3,097)
Net carrying amount	**36,845**	28,361
For the year ended 31 December		
Opening net carrying amount	**36,845**	28,361
Additions	**2,114**	33,330
Disposals	**–**	(23,938)
Discontinued operation (note 10)	**(36,086)**	–
Amortisation	**(781)**	(908)
Closing net carrying amount	**2,092**	36,845
At end of the year		
Cost	**2,114**	38,015
Accumulated amortisation	**(22)**	(1,170)
Net carrying amount	**2,092**	36,845
Analysed for reporting purposes as:		
Current asset	**42**	737
Non-current assets	**2,050**	36,108
	2,092	36,845

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

17. PREPAID LAND LEASE PAYMENTS *(Continued)*

Notes:

(a) During the year ended 31 December 2008, according to the city development plan in 楊陵區人民政府, the government has swapped the Group's land use right in respect of a land located in the PRC with the land use rights in respect of another two pieces of land, which were valued on 8 March 2008 and 25 December 2008 by Grant Sherman Appraisal Limited ("Grant Sherman"), an independent firm of professional valuers at RMB33,330,000 on an open market basis. During the year ended 31 December 2009, the Group obtained the land use right certificate in respect of the second land.

(b) At 31 December 2009, the Group's prepaid land lease payment from continuing operations at the net carrying amount of RMB2,092,000 (2008: Nil) was pledged to secure bank facilities granted to the Group (note 30).

The Group's prepaid land lease payments from a discontinued operation at the net carrying amount of RMB36,086,000 were classified as assets held for sale as at 31 December 2009 (note 10) and the net carrying amount of RMB3,703,000 (2008: RMB31,555,000) were pledged to secure banking facilities granted to the Group (note 30).

18. LIST OF PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at 31 December 2009 are as follows:

Name	Place of incorporation/ registration and operation	Particulars of Issued capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Directly	Indirectly	
Best Era Assets Limited	British Virgin Islands ("BVI")	US$1	–	100%	Investment holding
Sungreen Agro Strategic Holdings Limited	BVI	US$10,000	–	100%	Investment holding
Sungreen Investment Limited	BVI	US$1,000	100%	–	Investment holding
陝西巨川富萬鉀股份有限公司	PRC	RMB50,000,000	–	65%	Manufacture and distribution of organic potash fertilizers

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

18. LIST OF PRINCIPAL SUBSIDIARIES *(Continued)*

Details of the principal subsidiaries at 31 December 2009 are as follows: *(Continued)*

Name	Place of incorporation/ registration and operation	Particulars of Issued capital/ registered capital	Percentage of equity interest attributable to the Company Directly	Indirectly	Principal activities
陝西巨川環保農資有限公司	PRC	RMB1,000,000	–	65%	Sales and distribution of organic potash fertilizers
Silver Venture Investment Limited	BVI	US$1	100%	–	Inactive
China Nonferrous Metals Management Limited	HK	HK$2,000,000	100%	–	Inactive
Yongbao Resources Exploitation and Development Limited	BVI	US$1	100%	–	Investment holding
Straight Upward Investments Limited ("Straight Upward")	BVI	US$100	–	100%	Investment holding
Sky King Development Limited	HK	HK$1	–	100%	Investment holding
深圳市睿汭科技有限公司	PRC	RMB100,000,000	–	100%	Investment holding
巴盟烏中旗甲勝盤鉛鋅硫鐵礦業開發有限責任公司 ("Jiashengpan")	PRC	RMB150,000,000	–	75%	Mining and processing of mineral resources and holding of mining licence in the PRC
深圳市銀池科技有限公司 ("銀池科技")	PRC	RMB1,000,000	–	100% (2008: 96%)	Investment holding
青海鈺洋商貿有限公司 ("青海鈺洋")	PRC	RMB20,000,000	–	100% (2008: 96%)	Trading of nonferrous metals

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

18. LIST OF PRINCIPAL SUBSIDIARIES *(Continued)*

The financial statements of the Company's subsidiaries are audited by Grant Thornton for statutory purpose or Group consolidation purpose.

During the year ended 31 December 2009, the Group's subsidiaries, 烏拉特中旗天寶礦業有限責任公司 ("Tianbao Mining Company") and Jiashengpan are merged (together "New Jiashengpan Resources") to streamline the structure for the Group's mining operations.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

19. DEPOSITS

	Notes	2009 RMB'000	2008 RMB'000
Deposits for acquisition of subsidiaries	(a)	**33,553**	8,803
Deposits for acquisition of property, plant and equipment	(b)	**7,529**	85,695
		41,082	94,498

Notes:

(a) As at 31 December 2009, the deposits for acquisition of equity instruments amounted to RMB33,553,000 (2008: RMB8,803,000) comprised the followings:

(i) The amount of RMB8,803,000 (equivalent to HK$10,000,000) (2008: RMB8,803,000 (equivalent to HK$10,000,000)) represented the deposits paid to Shenzhen City First Create Investment Company Limited ("First Create"), a related company, for the proposed acquisition of the entire equity interest in 赤峰市古金洞礦業有限責任公司 ("赤峰古金") which is a company established in the PRC and principally engaged in the exploration and intended to be engaged in mining of mineral resources in the PRC. The acquisition is still in progress as at the approval date of these financial statements.

(ii) The amount of RMB24,750,000 represented the deposits paid to First Create, a related company, for the proposed acquisition of 55% equity interest in 奈曼旗烜大礦業有限公司 ("奈曼旗烜大") which is a company established in the PRC and principally engaged in the exploration, mining and trading of mineral resources in the PRC. The acquisition is still in progress as at the approval date of these financial statements.

(b) The amount of RMB7,529,000 (2008: RMB85,695,000) were paid for the acquisition of property, plant and equipment for the Group's development projects to expand the production capacity in the Group's mining business in the PRC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

20. INVENTORIES

	2009 RMB'000	2008 RMB'000
Raw materials	**15,593**	4,203
Work in progress	**–**	2,301
Finished goods	**34,288**	17,550
	49,881	24,054

21. TRADE RECEIVABLES

	2009 RMB'000	2008 RMB'000
Trade receivables	**84,680**	74,702
Less: Allowance for impairment	**–**	(2,626)
	84,680	72,076

The ageing analysis of the trade receivables (net of allowance for impairment) is as follows:

	2009 RMB'000	2008 RMB'000
0 to 60 days	**77,500**	5,970
61 to 120 days	**1,389**	19,788
121 to 180 days	**2,101**	17,311
Over 180 days	**3,690**	29,007
	84,680	72,076

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

21. TRADE RECEIVABLES *(Continued)*

The movement in the allowance for impairment of trade receivables is as follows:

	2009 RMB'000	2008 RMB'000
At beginning of year	**2,626**	2,187
Impairment recognised for the year	**3,179**	439
Impairment loss written off	**(2,626)**	–
Discontinued operation	**(3,179)**	–
At end of year	**–**	2,626

The ageing analysis of these trade receivables (net of allowance for impairment) that are neither individually nor collectively considered to be impaired are as follows:

	2009 RMB'000	2008 RMB'000
Neither past due nor impaired	**79,282**	39,361
1 to 60 days past due	**1,708**	21,224
Over 60 days past due	**3,690**	11,491
	84,680	72,076

The Group has a policy of allowing trade customers with credit normally within 90 (2008: 180) days.

As at 31 December 2009, the Group has determined trade receivables of RMB5,398,000 (2008: RMB32,715,000) were past due but not impaired. These receivables related to a number of independent customers for whom there is no recent history of default. Based on past experience, the directors are of the opinion that no provision for impairment 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. Trade receivables that were neither past due nor impaired related to a large number of independent customers that have a good track record with the Group. The Group does not hold any collateral or other credit enhancements over these balances.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

22. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2009 **RMB'000**	2008 RMB'000
Other receivables (note)	**95,128**	99,082
Deposits	**866**	379
Prepayments	**73,302**	22,440
	169,296	121,901

Note: At 31 December 2008, balances included the amount due from Hung Kam Holdings Limited ("Hung Kam") of approximately RMB85,726,000 in which Mr. Mei Wei, a substantial shareholder of the Company, had a directorship during the year ended 31 December 2008. Mr. Mei Wei resigned as the director of Hung Kam on 31 May 2008. Mr. Mei Wei has undertaken to indemnify any loss that the Group may incur in consequence of any failure or default in repayment by Hung Kam.

During the year ended 31 December 2009, Mr. Mei Wei, a substantial shareholder of the Company, was appointed as a director of Hung Kam. As at 31 December 2009, the receivable from Hung Kam was included in amounts due from related companies (note 24).

The movement in the provision for impairment on other receivables is as follows:

	2009 **RMB'000**	2008 RMB'000
At beginning of year	**1,041**	489
Impairment (reversed)/recognised for the year	**(685)**	552
Impairment loss written off	**(92)**	–
Discontinued operation	**(264)**	–
At end of year	**–**	1,041

None of the other receivables is either past due or impaired except for those disclosed in the above movement. These receivables related to debtors for whom there is no recent history of default.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2009 RMB'000	2008 RMB'000
Unlisted equity securities, at cost	–	400

The above unlisted available-for-sale financial assets represent investments in unlisted equity securities issued by private entities incorporated in the PRC.

The unlisted available-for-sale financial assets are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant and the probability of the various estimates is significant. At the balance sheet date, the available-for-sale financial assets were transferred to "assets classified as held for sale" relating to the discontinued operation (note 10).

24. AMOUNTS DUE FROM RELATED COMPANIES

	Notes	2009 RMB'000	2008 RMB'000	Maximum balance outstanding during the year RMB'000
First Create	(a)	**2,703**	32,190	32,190
Rixi International Limited ("Rixi")	(a), (b)	–	71,131	71,131
Shenzhen City Dingyu Trading Development Limited	(a)	**41,946**	45,105	45,105
深圳市港瑞投資有限公司	(a)	–	31,110	31,110
西部礦業西藏雅江礦業有限公司	(a)	**2,000**	2,000	2,000
西藏愷隆實業開發有限公司	(a)	–	2,925	2,925
西部礦業西藏資源投資有限公司	(c)	–	15,000	15,000
Hung Kam	(a)	**50,015**	–	50,015
		96,664	199,461	

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For the year ended 31 December 2009

24. AMOUNTS DUE FROM RELATED COMPANIES *(Continued)*

Notes:

(a) Mr. Mei Wei, a substantial shareholder of the Company, and any of his close family members have beneficial interest or directorship in these companies.

(b) The amount due from Rixi included a receivable in relation to the profit shortfall which is arisen from the acquisition of subsidiaries. Details of which are set out in note 37(a) to the financial statements.

(c) Dr. Yu Heng Xiang, an executive director of the Company, has beneficial interest or directorship in this company.

The amounts are unsecured, non-interest bearing and repayable on demand. The Company's substantial shareholder, Mr. Mei Wei, has undertaken to indemnify any loss that the Group may incur in consequence of any failure or default in repayment by these related companies.

25. BALANCES WITH NON-BANK FINANCIAL INSTITUTIONS

At 31 December 2008, balances with non-bank financial institutions comprised deposits carrying interest at floating rates and earned interest ranging from 0.36% to 0.72% per annum.

26. BANK BALANCES AND CASH

	2009 RMB'000	2008 RMB'000
Cash in hand	**492**	107
Cash at bank	**49,100**	94,019
	49,592	94,126
Less: Pledged bank deposits	**(28,452)**	–
	21,140	94,126

Cash at bank earns interest at floating rates based on daily bank deposit rates and earn interest ranging from 0.01% to 0.72% (2008: 0.36% to 0.72%) per annum.

At 31 December 2009, the Group from continuing operations had cash and bank balances denominated in RMB amounting to approximately RMB24,041,000 (2008 (continuing and discontinued operations): approximately RMB90,192,000), which were deposited with banks in the PRC and held in hand. The RMB is not freely convertible into foreign currencies. Under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

27. TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	2009 RMB'000	2008 RMB'000
0 to 90 days	**47,601**	18,289
91 to 180 days	**2,223**	98
181 to 365 days	**185**	1,159
Over 365 days	**2,032**	46
	52,041	19,592

28. OTHER PAYABLES AND ACCRUED CHARGES

	2009 RMB'000	2008 RMB'000
Other payables	**38,335**	32,131
Accrued interest charges (note)	**9,680**	9,994
Accrued charges	**2,650**	704
	50,665	42,829

Note: At 31 December 2009, the accrued charges consist of RMB8,339,000 in relation to the interest payable of convertible bonds to Ruffy Investments Limited ("Ruffy"), a related company of the Group in which Mr. Mei Wei, a substantial shareholder of the Company, has a directorship. Details of which are set out in note 32 to the financial statements.

At 31 December 2008, the accrued charges consist of RMB9,994,000 in relation to the interest payable of convertible bonds to Rixi, a related company of the Group. Details of which are set out in note 32 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

29. AMOUNTS DUE TO RELATED COMPANIES AND FORMER AND NON-CONTROLLING EQUITY HOLDERS OF SUBSIDIARIES

The amounts due to related companies in which Mr. Mei Wei, a substantial shareholder of the Company, and any of his close family members have beneficial interest or directorship in these companies, are unsecured, non-interest bearing and repayable on demand.

The amounts due to former and non-controlling equity holders of subsidiaries are unsecured, non-interest bearing and repayable on demand.

30. BORROWINGS

	Notes	Original Currency	2009 RMB'000	2008 RMB'000
Current				
Finance lease liabilities	(a)	HK$	**98**	98
Bank loans – secured	(b)	RMB	**106,437**	16,000
Bank loans – unsecured	(b)	RMB	**45,000**	60,000
Other loans – secured	(b)	US$, RMB	**65,274**	58,013
Other loans – unsecured	(b)	RMB	**15,000**	–
			231,809	134,111
Non-current				
Finance lease liabilities	(a)	HK$	**279**	377
Bank loans – secured	(b)	RMB	**32,851**	–
Other loans – secured	(b)	US$, RMB	**–**	59,006
			33,130	59,383
			264,939	193,494

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

30. BORROWINGS *(Continued)*

Notes (a):

During the year ended 31 December 2009, the Group has leased its motor vehicle under a finance lease and has remaining lease terms of four (2008: five) years. Finance lease liabilities are effectively secured as the rights to lease asset revert to the lessor in the even of default. These leases do not have options to renew or any contingent rental provisions.

The analysis of the obligations under finance leases is as follows:

	2009 **RMB'000**	2008 RMB'000
Amounts payable:		
Within one year	**120**	120
In the second year	**120**	120
In the third to fifth years	**223**	341
	463	581
Less: Future finance charges on finance lease	**(86)**	(106)
Present value of finance lease liabilities	**377**	475
The present value of finance lease liabilities is as follows:		
Within one year	**98**	98
In the second year	**98**	98
In the third to fifth years	**181**	279
	377	475
Less: Portion due within one year included under current liabilities	**(98)**	(98)
Non-current portion included under non-current liabilities	**279**	377

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

30. BORROWINGS *(Continued)*

Notes (b):

	2009 RMB'000	2008 RMB'000
Analysed into:		
Bank loans repayables:		
Within one year or on demand	**151,437**	76,000
In the second year	**32,851**	–
In the third to fifth years, inclusive	**–**	–
	184,288	76,000
Analysed into:		
Other loans repayables:		
Within one year or on demand	**80,274**	58,013
In the second year	**–**	29,006
In the third to fifth years, inclusive	**–**	30,000
	80,274	117,019
	264,562	193,019

For continuing operations:

The Group's bank and other loans at 31 December 2009 were secured by:

(i) charges over the Group's property, plant and equipment in which their aggregate carrying amount as at 31 December 2009 was RMB139,742,000 (2008: Nil);

(ii) charges over the Group's mining rights in which the carrying amount as at 31 December 2009 was RMB1,076,337,000 (2008: Nil);

(iii) charges over the Group's prepaid land lease payment in which their aggregate carrying amount as at 31 December 2009 was RMB2,092,000 (2008: Nil);

(iv) charges over the Group's pledged bank deposit of RMB28,452,000 (2008: Nil);

(v) guarantee by a related party, 青海汭銀投資擔保有限公司;

(vi) guarantees by related companies, being Temmex Corporation in which Mr. Mei Wei is an equity holder and First Create, and several contracts in relation to the Group's sale and purchase of mineral resources; and

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

30. BORROWINGS *(Continued)*

Notes (b): *(Continued)*

(vii) guarantees by a related company, being China Victory International Development Limited in which Mr. Mei Wei is an equity holder and Mr. Mei Wei and his close family members.

As at 31 December 2008 and 2009, the secured and unsecured bank and other loans of the Group are at fixed rates.

For discontinued operation:

(i) charges over the Group's property, plant and equipment in which their aggregate carrying amount as at 31 December 2009 was RMB13,446,000 (2008: RMB10,644,000);

(ii) charges over the Group's prepaid land lease payments in which their aggregate carrying amount as at 31 December 2009 was RMB3,703,000 (2008: RMB31,555,000);

(iii) guarantee by an independent third party, 西安開米股份有限公司. The Group also provided cross-guarantee to the same party for the bank borrowing of RMB13,000,000 (2008: RMB20,000,000); and

(iv) guarantee by Mr. Zhuo Ze Fan, the director of the Company and a corporate guarantee by 陝西巨川實業有限責任公司 in which Mr. Zhuo Ze Fan has beneficial interest.

Except for the secured and unsecured bank loans with aggregate carrying amount of RMB16,000,000 and RMB15,000,000 respectively which are interest-bearing at floating rate ranging from 6.14% to 7.38% as at 31 December 2008, all other bank loans are at fixed rates.

As at 31 December 2009, the bank loan is at fixed rate.

The secured other loans with aggregate carrying amount of RMB30,000,000 (2008: RMB30,000,000) which are interest-bearing at floating rates ranging from 8.64% to 9.79% (2008: 9.79%) as at 31 December 2009.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

31. DERIVATIVE FINANCIAL INSTRUMENTS

	2009 **RMB'000**	2008 RMB'000
Classified as held for trading		
– Future contracts, at fair value *	–	29

* in relation to future contracts of soya bean in the PRC.

The fair value of future contracts are determined using quoted future price at the balance sheet date.

During the year ended 31 December 2008, the Group entered into derivative financial instruments in relation to sale and purchase of mineral resources with Hung Kam, in which Mr. Mei Wei, a substantial shareholder of the Company, had a directorship. The Group recognised a net gain of RMB26,158,000 arising from the change in fair value of derivative financial instruments during the year ended 31 December 2008.

As at the approval date of these financial statements, the directors confirmed that the Group does not have material exposure to derivative financial instruments.

32. CONVERTIBLE BONDS

On 9 July 2008, the Company issued convertible bonds with a principal amount of HK$756,900,000 ("Convertible Bonds"), which bear coupon interest rate at 3% per annum payable semi-annually in arrears. The Convertible Bonds were issued as part of the consideration for the acquisition of entire issued share capital of Straight Upward and its subsidiaries (collectively referred as to the "Straight Upward Group") (see note 37(a)). The Convertible Bonds due on 2015 are convertible into fully paid ordinary shares with a par value of HK$0.0004 (represented) each of the Company at an initial conversion price of HK$0.22 (represented), subject to adjustments on the occurrence of dilutive or concentrative event.

The bondholders of the Convertible Bonds will have the right to convert the whole or part of the outstanding principal amount of the Convertible Bonds that any conversion shall be made in amounts of not less than a whole multiple of HK$5,000,000. The Convertible Bonds remain outstanding on the maturity date shall be redeemed at its then outstanding principal amount, inclusive of interest as accrued.

On initial recognition, the fair value of the liability component of the Convertible Bonds was calculated using a market interest rate for an equivalent non-convertible bond. The liability component is subsequently stated at amortised cost under the effective interest method. The equity component of the Convertible Bonds was recognised at fair value and was included in shareholders' equity in convertible bonds equity reserve.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

32. CONVERTIBLE BONDS *(Continued)*

The Convertible Bonds recognised in the balance sheet were calculated as follows:

	Liability component RMB'000	**Equity component** RMB'000
Net carrying amounts on initial recognition	430,511	230,864
Interest expenses	22,236	–
Interest accrued	(9,994)	–
Exchange realignment	59	–
Net carrying amounts at 31 December 2008 and 1 January 2009	442,812	230,864
Partial offset of convertible bonds against shortfall in profit guarantee (note a)	(49,055)	(21,855)
Gain on revising the estimated future cash flows of liability component of convertible bonds after the partial offset	(3,527)	–
Arising from exercise of conversion rights (note b)	(35,477)	(15,942)
Interest expenses	42,152	–
Interest paid and accrued	(18,176)	–
Exchange realignment	105	–
Net carrying amounts at 31 December 2009	**378,834**	**193,067**

Notes:

(a) During the year ended 31 December 2009, the Convertible Bonds were partially offset in relation to the compensation regarding to the shortfall of profit guarantee of the Tianbao Mining Company. The partial offset of the Convertible Bonds led to a gain of approximately RMB3,527,000. Such gain was arisen from the revised estimate future cash flows of the principal amount of Convertible Bonds after partial offset by computing the present value at the original effective interest rate. The partial offset of the Convertible Bonds was completed on 24 August 2009.

(b) During the year ended 31 December 2009, the Convertible Bonds at the principal amount of HK$58,364,000 were converted into ordinary shares of the Company and total number of ordinary shares converted was approximately 265,289,091 (note 34(h)).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

32. CONVERTIBLE BONDS *(Continued)*

The fair value of the equity component of the Convertible Bonds was calculated using the Binominal model with the major inputs used in the model as follows:

	9 July 2008
Stock price	HK$1.64
Expected volatility	83.02%
Risk free rate	3.43%
Expected life	7 years
Expected dividend yield	0%

Interest expense on the Convertible Bonds is calculated using the effective interest method by applying the effective interest rate of 10.18% (2008: 10.18%) to the adjusted liability component.

33. DEFERRED TAX ASSET AND LIABILITIES

Deferred tax asset and liabilities are calculated in full on temporary differences under the liability method using principal taxation rate of 25% (2008: 25%).

(a) The movement on deferred tax assets during the year is as follows:

	Fair value adjustment of property, plant and equipment RMB'000
At 1 January 2008 and 2009	–
Acquisition of subsidiaries (note 37(a))	251
At 31 December 2008 **and 2009**	**251**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

33. DEFERRED TAX ASSET AND LIABILITIES *(Continued)*

(b) The movement on deferred tax liabilities during the year is as follows:

	Accelerated tax depreciation RMB'000	Fair value adjustment of mining rights RMB'000	Value-added tax refundable RMB'000	Total RMB'000
At 1 January 2008	–	–	1,688	1,688
Acquisition of subsidiaries (note 37(a))	2,500	268,752	–	271,252
Charge/(credit) for the year (note 9)	300	(1,998)	(1,090)	(2,788)
At 31 December 2008 and 1 January 2009	2,800	266,754	598	270,152
Charge/(credit) for the year (note 9)	(95)	(2,448)	(598)	(3,141)
At 31 December 2009	**2,705**	**264,306**	**–**	**267,011**

34. SHARE CAPITAL

	Number of shares '000	Amount HK$'000
Authorised:		
Ordinary shares of HK$0.01 each at 1 January 2008	5,000,000	50,000
Shares Subdivision 2008 (note b)	20,000,000	–
Ordinary shares of HK$0.002 each at 31 December 2008 and 1 January 2009	25,000,000	50,000
Shares Subdivision 2009 (note f)	100,000,000	–
Ordinary shares of HK$0.0004 each at 31 December 2009	**125,000,000**	**50,000**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

34. SHARE CAPITAL *(Continued)*

	Number of shares '000	Amount RMB'000
Issued:		
Ordinary shares of HK$0.01 each at 1 January 2008	80,000	848
Placing and subscription of new shares (note a)	5,900	54
Shares Subdivision 2008 (note b)	343,600	–
Issue of consideration shares (note c)	96,000	168
Repurchased and cancelled (note d)	(750)	(1)
Ordinary shares of HK$0.002 each at 31 December 2008 and 1 January 2009	524,750	1,069
Placing and subscription of new shares (note e)	117,308	42
Shares Subdivision 2009 (note f)	2,129,000	–
Share options exercised (note g)	29,750	24
Conversion rights of Convertible Bonds exercised (note h)	265,289	94
Repurchased and cancelled (note i)	(4,650)	(5)
Ordinary shares of HK$0.0004 each at 31 December 2009	**3,061,447**	**1,224**

During the year ended 31 December 2008 and 2009, the movements in share capital were as follows:

(a) On 5 March 2008, the Company and Callaway Group Limited ("Callaway"), a company beneficially owned by Mr. Zhuo Ze Fan, who is a director of the Company, entered into a placing agreement with Shenyin Wanguo Securities (HK) Limited ("Shenyin Wanguo") for the placement of 5,900,000 ordinary shares of the Company owned by Callaway at a price of HK$10.17 per share. Pursuant to a conditional subscription agreement between the Company and Callaway on the same date, Callaway subscribed for 5,900,000 new ordinary shares of the Company at a price of HK$10.17 per share. On 18 March 2008, the subscription was completed and raised total consideration of RMB54,738,000 (equivalent to approximately HK$60,003,000) (before expenses).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

34. SHARE CAPITAL *(Continued)*

(b) Pursuant to the ordinary resolution passed on 24 April 2008, with effect from 25 April 2008, one share of HK$0.01 each in the issued and unissued share capital of the Company were subdivided into five shares of HK$0.002 each ("Shares Subdivision 2008"). The authorised share capital of the Company remained at HK$50,000,000 but was divided into 25,000,000,000 shares of HK$0.002 each.

(c) On 9 July 2008, 96,000,000 new ordinary shares of HK$0.002 each ("Consideration Shares") were issued to Ruffy Investments Limited, a nominee company assigned by Rixi International Limited, a company beneficially owned by Mr. Mei Wei, who is a substantial shareholder of the Company, as a part of the consideration for the business combination as detailed in note 37(a). The 96,000,000 Consideration Shares were recorded at HK$1.64 each, being the published share price available at the date of acquisition. The 96,000,000 Consideration Shares of HK$0.002 each rank pari passu in all respect with the existing issued shares of the Company.

(d) During the year ended 31 December 2008, the Company repurchased a total of 2,120,000 ordinary shares of HK$0.002 each in the capital of the Company at an aggregate price of RMB1,082,000. The highest price paid and the lowest price paid was HK$0.99 and HK$0.365 respectively. 750,000 of the repurchased shares were fully cancelled and the issued share capital of the Company was reduced by the nominal value of these shares accordingly. The premium payable on repurchase was charged against the share premium. An amount equivalent to the nominal value of the shares cancelled was transferred from retained earnings to the capital redemption reserve. The remaining 1,370,000 repurchased shares of HK$0.002 each with a repurchased cost of approximately RMB440,000 were held as treasury shares as at the balance sheet date.

(e) On 25 August 2009 and 9 September 2009, the Company entered into a placing agreement with Ace Ocean Group Limited ("Ace Ocean"), a company beneficially owned by Mr. Mei Wei, who is a substantial shareholder of the Company, and Daren Investments Limited ("Daren") for the placement of 57,687,500 and 59,620,000 ordinary shares of the Company respectively at a price of HK$0.26 per share. On 4 September 2009 and 25 September 2009, the subscriptions were completed and raised total consideration of RMB13,216,000 (equivalent to approximately HK$15,000,000) and RMB13,657,000 (equivalent to approximately HK$15,501,000) (before expenses) respectively.

(f) Pursuant to the ordinary resolution passed on 19 August 2009, with effect from 20 August 2009, one share of HK$0.002 each in the issued and unissued share capital of the Company were subdivided into five shares of HK$0.0004 each ("Shares Subdivision 2009"). The authorised share capital of the Company remained at HK$50,000,000 but was dividend into 125,000,000,000 shares of HK$0.0004 each.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

34. SHARE CAPITAL *(Continued)*

(g) During the year ended 31 December 2009, the subscription rights attaching to 4,000,000, 4,500,000, 625,000, 625,000 (before Shares Subdivision 2009) and 20,000,000 (after Shares Subdivision 2009) share options issued pursuant to the share option scheme of the Company which both were exercised at the subscription price of HK$0.34 per share and HK$0.066 per share respectively. Had the Shares Subdivision 2009 taken place on 1 January 2009, the share options of 68,750,000 shares of HK$0.0004 each in issue for a total cash consideration of RMB3,987,000 (equivalent to approximately HK$4,538,000) (before expenses) (note 35).

(h) During the year ended 31 December 2009, 265,289,091 ordinary shares of HK$0.0004 each were issued pursuant to the exercise of the conversion rights attaching to the Company's Convertible Bonds at a conversion price of approximately HK$0.22 per share (note 32).

(i) During the year ended 31 December 2009, 1,370,000 treasury shares of HK$0.002 each repurchased in the previous year were fully cancelled and the issued share capital of the Company was reduced by the nominal value of these shares accordingly. The Company repurchased a total of 880,000 ordinary shares of HK$0.002 each in the capital of the Company at an aggregate price of RMB898,000 before the Shares Subdivision 2009. The highest price paid and the lowest paid was HK$1.29 and HK$1.03 respectively. 880,000 of the repurchased shares were fully cancelled and the issued share capital of the Company was reduced by the nominal value of these shares accordingly. After the Shares Subdivision 2009, the Company repurchased a total of 2,400,000 ordinary shares of HK$0.0004 each in the capital of the Company at an aggregate price of RMB558,000. The highest price paid and the lowest paid was HK$0.265 and HK$0.260 respectively. 2,400,000 of the repurchased shares were fully cancelled and the issued share capital of the Company was reduced by the nominal value of these shares accordingly. The premium payable on repurchase was charged against the share premium. Had the Shares Subdivision 2009 taken place on 1 January 2009, the total repurchased shares of 13,650,000 ordinary shares of HK$0.0004 each were fully cancelled.

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35. SHARE OPTION SCHEME

The Company's share option scheme (the "Share Option Scheme") was adopted pursuant to the resolutions of the shareholders passed on 16 February 2005 for the primary purposed of providing the people and the parties working for the interest of the Group with an opportunity to obtain equity interest in the Company, thus linking their interest with the interest of the Group and thereby providing them with incentives to work better for the interest of the Group an/or rewards for their contribution and support to the Group. The board of directors may, at its discretion, invite (i) employees of the Company (whether full-time or part-time) or any of its subsidiaries or associated companies; (ii) chief executive, directors (whether executive directors or non-executive directors or independent non- executive directors) of the Company or any its subsidiaries or associated companies; (iii) any shareholder of any member of the Company or any of its subsidiaries or associated companies; (iv) suppliers of good and/or services to the Company or any of its subsidiaries or associated companies; (v) any customers of the Company or any of its subsidiaries or associated companies: (vi) any person or entity that provides research, development or other technical support to the Company or any of its subsidiaries or associated companies; (vii) any adviser (technological, technical, financial, legal or otherwise) or consultants engaged by or worked for the Company or any of its subsidiaries or associated companies; and (viii) joint venture partner or counter-party to any business operation or business arrangements of the Group (together, the "Participants" and each a "Participant"), to take up options ("Option") to subscribe for shares at a price calculated in accordance with paragraph below. No performance target is required to be achieved before an option can be exercised.

HK$1.00 is payable by the Participant to the Company on acceptance of the option offer as consideration for the grant.

At the time of adoption of the Share Option Scheme, the Company may seek approval of its shareholders in a general meeting to authorise the directors to grant Option sunder the Share Option Scheme and any other Share Option Schemes of the Company entitling the grantees to exercise up to an aggregate of 10% (the "Scheme Mandate Limit") of the total number of shares of the Company in issue immediately following completing of the placing (excluding (a) any shares issued pursuant to Share Option Scheme and any other Share Option Schemes of the Company: and (b) any pro rata entitlements to further shares issued in respect of these shares mentioned in (a) unless the Company obtains a fresh approval form the shareholders).

An Option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period of not more than 10 years to be notified by the board of directors to each grantee, which period shall commence on the date on which an offer of the grant of an Option is accepted or deemed to be accepted or deemed to be accepted in accordance with the terms of the Share Option Scheme and expire on the last day of such period as determined by the board.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

35. SHARE OPTION SCHEME *(Continued)*

The Share Option Scheme will remain valid and effective for a period of 10 years commencing on 16 February 2005, after which period no further Options will be granted but in respect of all Option which remain exercisable at the end of such period, the provisions of the Share Option Scheme shall remain in full force and effect. Unless otherwise determined by the directors of the Company at their discretion, there is no requirement of minimum period of which a share option must be held.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of any ordinary share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meeting.

Movement in share options during the year ended 31 December 2009 are as follows:

	Number of share options								
Name or category of participant	At 1 January 2009 (represented)*	Granted during the year	Exercised during the year	Reclassified during the year	Lapsed during the year	At 31 December 2009	Date of grant of share options (note a)	Exercise period of share options	Exercise price of share options*
Directors									
Mr. Zhou Ze Fan	–	2,000,000	–	–	–	2,000,000	4 December 2009	Period 12	0.260
	–	2,000,000	–	–	–	2,000,000	4 December 2009	Period 13	0.260
	–	3,000,000	–	–	–	3,000,000	4 December 2009	Period 14	0.260
	–	3,000,000	–	–	–	3,000,000	4 December 2009	Period 15	0.260
	–	10,000,000	–	–	–	10,000,000			
Mr. Ng Tang	–	600,000	–	–	–	600,000	4 December 2009	Period 12	0.260
	–	600,000	–	–	–	600,000	4 December 2009	Period 13	0.260
	–	900,000	–	–	–	900,000	4 December 2009	Period 14	0.260
	–	900,000	–	–	–	900,000	4 December 2009	Period 15	0.260
	–	3,000,000	–	–	–	3,000,000			
Mr. Xu Bing	–	1,500,000	–	–	–	1,500,000	20 May 2009	Period 9	0.234
Mr. Kang Hongbo		–	–	1,500,000	–	1,500,000	20 May 2009	Period 9	0.234
	–	2,000,000	–	–	–	2,000,000	4 December 2009	Period 12	0.260
	–	2,000,000	–	–	–	2,000,000	4 December 2009	Period 13	0.260
	–	3,000,000	–	–	–	3,000,000	4 December 2009	Period 14	0.260
	–	3,000,000	–	–	–	3,000,000	4 December 2009	Period 15	0.260
	–	10,000,000	–	1,500,000	–	11,500,000			

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

35. SHARE OPTION SCHEME *(Continued)*

Movement in share options during the year ended 31 December 2009 are as follows: *(Continued)*

Name or category of participant	Number of share options						Date of grant of share options (note a)	Exercise period of share options	Exercise price of share options*
	At 1 January 2009 (represented)*	Granted during the year	Exercised during the year	Reclassified during the year	Lapsed during the year	At 31 December 2009			
Directors									
Ms. Han Qiong	–	800,000	–	–	–	800,000	4 December 2009	Period 12	0.260
	–	800,000	–	–	–	800,000	4 December 2009	Period 13	0.260
	–	1,200,000	–	–	–	1,200,000	4 December 2009	Period 14	0.260
	–	1,200,000	–	–	–	1,200,000	4 December 2009	Period 15	0.260
	–	4,000,000	–	–	–	4,000,000			
Other employees									
In aggregate	3,125,000	–	(3,125,000)	–	–	–	17 December 2007	Period 3	0.066
	3,125,000	–	(3,125,000)	–	–	–	17 December 2007	Period 4	0.066
	4,000,000	–	–	–	(2,500,000)	1,500,000	12 June 2008	Period 5	0.340
	–	5,500,000	–	–	–	5,500,000	15 May 2009	Period 7	0.216
	–	5,000,000	–	–	–	5,000,000	20 May 2009	Period 9	0.234
	–	22,980,000	–	–	–	22,980,000	4 December 2009	Period 12	0.260
	–	22,980,000	–	–	–	22,980,000	4 December 2009	Period 13	0.260
	–	34,470,000	–	–	–	34,470,000	4 December 2009	Period 14	0.260
	–	34,470,000	–	–	–	34,470,000	4 December 2009	Period 15	0.260
	10,250,000	125,400,000	(6,250,000)	–	(2,500,000)	126,900,000			
Suppliers/Advisors									
In aggregate	40,000,000	–	(40,000,000)	–	–	–	14 December 2007	Period 1	0.066
	153,750,000	–	(22,500,000)	–	–	131,250,000	17 December 2007	Period 2	0.066
	20,000,000	–	–	–	–	20,000,000	12 June 2008	Period 6	0.340
	–	40,000,000	–	–	–	40,000,000	19 May 2009	Period 8	0.220
	–	3,000,000	–	(1,500,000)	–	1,500,000	20 May 2009	Period 9	0.234
	–	3,500,000	–	–	–	3,500,000	17 August 2009	Period 10	0.272
	–	10,000,000	–	–	–	10,000,000	4 December 2009	Period 11	0.260
	–	10,000,000	–	–	–	10,000,000	4 December 2009	Period 12	0.260
	–	10,000,000	–	–	–	10,000,000	4 December 2009	Period 13	0.260
	–	15,000,000	–	–	–	15,000,000	4 December 2009	Period 14	0.260
	–	15,000,000	–	–	–	15,000,000	4 December 2009	Period 15	0.260
	213,750,000	106,500,000	(62,500,000)	(1,500,000)	–	256,250,000			
	224,000,000	260,400,000	(68,750,000)	–	(2,500,000)	413,150,000			

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

35. SHARE OPTION SCHEME *(Continued)*

Movement in share options during the year ended 31 December 2008* are as follows:

	Number of share options							
Name or category of participant	At 1 January 2008 (represented)*	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2008	Date of grant of share options (note a)	Exercise period of share options	Exercise price of share options*
Other employees								
In aggregate	3,125,000	–	–	–	3,125,000	17 December 2007	Period 3	0.066
	3,125,000	–	–	–	3,125,000	17 December 2007	Period 4	0.066
	–	4,000,000	–	–	4,000,000	12 June 2008	Period 5	0.34
	6,250,000	4,000,000	–	–	10,250,000			
Suppliers/Advisors								
In aggregate	40,000,000	–	–	–	40,000,000	14 December 2007	Period 1	0.066
	153,750,000	–	–	–	153,750,000	17 December 2007	Period 2	0.066
	–	20,000,000	–	–	20,000,000	12 June 2008	Period 6	0.34
	193,750,000	20,000,000	–	–	213,750,000			
	200,000,000	24,000,000	–	–	224,000,000			

* The exercise price and number of share options were adjusted for the effect of Shares Subdivision 2009.

Period 1	14 December 2007 to 31 December 2010
Period 2	17 December 2007 to 31 December 2010
Period 3	17 June 2008 to 11 June 2011
Period 4	17 December 2008 to 17 December 2011
Period 5	12 December 2008 to 11 June 2013
Period 6	12 June 2008 to 11 June 2013
Period 7	15 November 2009 to 14 May 2014
Period 8	19 May 2009 to 18 May 2014
Period 9	20 March 2010 to 19 May 2014
Period 10	17 June 2010 to 16 August 2014
Period 11	4 December 2009 to 3 December 2014
Period 12	4 December 2010 to 3 December 2014
Period 13	4 December 2011 to 3 December 2014
Period 14	4 December 2012 to 3 December 2014
Period 15	4 December 2013 to 4 December 2014

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

35. SHARE OPTION SCHEME *(Continued)*

Notes:

(a) The vesting date of the share options for Period 2, 6, 8 and 11 are the date of grant. The vesting date of the share options for Period 5 and 7 will vest after six months from the date of grant. The vesting date of the share options for Period 9 and 10 will vest after ten months from the date of grant. The vesting date of the share options for Period 12, 13, 14 and 15 will vest after to one, two, three and four years from the date of grant respectively.

(b) The weighted average exercise prices of share options are as follows:

	Weighted average exercise prices of share options
For the year ended 31 December 2009	
At 1 January 2009	0.096
Granted during the year	0.252
Exercised during the year	0.066
At 31 December 2009	0.198
For the year ended 31 December 2008 (represented)	
At 1 January 2008	0.066
Granted during the year	0.340
At 31 December 2008	0.096

(c) The weighted average remaining contractual life of the share options outstanding at 31 December 2009 was approximately 1,278 days (2008: 833 days).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

35. SHARE OPTION SCHEME *(Continued)*

The fair values of the share options granted during the year ended 31 December 2009 were calculated using the binominal model. The inputs into model were as follows:

For the year ended 31 December 2009

Expected volatility (%)	62.09% – 76.78%
Expected life (year)	3 – 5 years
Risk free rate (%)	0.81% – 1.81%
Expected dividend yield (%)	0%

For the year ended 31 December 2008

Expected volatility (%)	66.17%
Expected life (year)	1.5 to 1.8 years
Risk free rate (%)	3.41%
Expected dividend yield (%)	0%

The expected life of the options is based on the historical data over one year and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

At 31 December 2009, the Company had 413,150,000 (2008 (represented): 224,000,000) share options outstanding under the Share Option Scheme, which are exercisable and represented approximately 13.5% (2008: 8.5%) of the Company's share in issue at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 413,150,000 (2008 (represented): 224,000,000) additional ordinary shares of the Company and additional share capital of HK$166,000 (2008: HK$89,600) and share premium of HK$81,464,000 (2008: HK$21,270,000) (before issue expenses).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

36. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity.

(i) Share premium

The share premium mainly includes shares issued at a premium.

(ii) Capital redemption reserve

The capital redemption reserve of the Group represents the nominal value of the share capital of the Company repurchased and cancelled.

(iii) Capital reserve

Capital reserve represented the loan from shareholder that have been waived pursuant to the deed of waiver prior to the listing of the shares of the Company on the GEM of the Stock Exchange.

(iv) Statutory reserves

In accordance with relevant PRC regulations, certain subsidiaries of the Company are required to appropriate not less than 10% of their profits after tax to the respective statutory reserves, until the respective balances of the fund reach 50% of the respective registered capitals. Subject to certain restrictions as set out in the relevant PRC regulations, these statutory reserves may be used to offset against their respective accumulated losses, if any.

(v) Special reserve

The special reserve represented the difference between the nominal value of share capital issued by the Company and the nominal value of share capital of the subsidiaries at the time of group reorganisation.

(vi) Specific reserve

In accordance with relevant PRC regulations, a subsidiary of the Company is required to provide that production maintenance fee and safety fund and other expense of similar nature are required to be charged to cost of production and credited to a specific reserve retrospectively.

(vii) Other reserve

The other reserve represented the difference between the consideration and the carrying amount of the net assets attributable to the additional interests in subsidiaries being acquired from non-controlling equity holders.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

37. ACQUISITION OF SUBSIDIARIES

(a) On 9 July 2008, the Group acquired entire equity interest in Straight Upward at an initial consideration of RMB811,962,000 from Rixi (note 24). The principal activity of Straight Upward is indirect holding of 75% equity interest in Tianbao Mining Company and Jiashengpan (together "New Jiashengpan Resources"). The Straight Upward Group is principally engaged in mining and processing of mineral resources and holding of mining licence in the PRC.

Details of the net assets acquired and goodwill are as follows:

	RMB'000
Total purchase consideration, at fair value:	
Cash consideration (net of 2007 profit guarantee shortfall) (see below)	24,664
Issue of Consideration Shares	138,483
Issue of Convertible Bonds	661,375
Waiver of amount due to a related company	(12,560)
Total consideration	811,962
Direct costs relating to the acquisition	4,150
Fair value of net assets acquired	(757,451)
Goodwill	58,661
Subsequent adjustment resulting from 2008 profit guarantee shortfall (see below)	(69,407)
Excess over the cost of a business combination recognised in the income statement	(10,746)

The goodwill is attributable to the synergies of the acquired business expected to arise after the Group's acquisition of the Straight Upward Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

37. ACQUISITION OF SUBSIDIARIES *(Continued)*

(a) *(Continued)*

The assets and liabilities arising from the acquisition are as follows:

	Fair value	**Carrying amount**
	RMB'000	RMB'000
Property, plant and equipment	151,427	152,429
Mining rights	1,094,116	19,107
Deferred tax assets	251	–
Deposits for acquisition of property, plant and equipment	18,673	18,673
Inventories	31,397	31,397
Trade receivables	32,566	32,566
Deposits, prepayments and other receivables	95,096	95,096
Amounts due from related companies	113,915	113,915
Bank balances and cash	3,057	3,057
Derivative financial instruments	9,192	9,192
Trade payables	(13,466)	(13,466)
Other payables and accrued charges	(41,225)	(41,225)
Provision for tax	(38,564)	(38,564)
Amount due to a related company (waived in the transaction)	(12,560)	(12,560)
Amounts due to related companies	(3,256)	(3,256)
Amount due to non-controlling equity holder of a subsidiary	(5,022)	(5,022)
Bank and other borrowings	(116,476)	(116,476)
Deferred taxation	(271,252)	(2,500)
Non-controlling interests	(290,418)	(223,230)
Net assets attributed to the Group acquired	757,451	19,133

	RMB'000
Bank balances and cash in subsidiaries acquired	3,057
Cash consideration (net of 2007 profit guarantee shortfall)	(24,664)
Direct costs relating to the acquisition	(4,150)
Net outflow	(25,757)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

37. ACQUISITION OF SUBSIDIARIES *(Continued)*

(a) *(Continued)*

Since its acquisition, the Straight Upward Group contributed revenue of RMB38,705,000 and net profit of RMB11,883,000 to the Group for the period from 9 July 2008 (date of acquisition) to 31 December 2008.

Had the combination taken place on 1 January 2008, the revenue and the net profit of the Group for the year ended 31 December 2008 would have been RMB248,159,000 and RMB115,371,000 respectively. These pro forma information are for illustrative purposes only and are not necessarily an indication of revenue and result of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor are they intended to be a projection of future results.

The initial consideration is subject to adjustment depending on the financial performance of New Jiashengpan Resources and the details of which have been set out in the relevant circular of the Company dated 13 June 2008 (the "VSA Circular").

As disclosed in the VSA Circular, the actual profit after tax and any extraordinary and exceptional items of New Jiashengpan Resources was less than RMB170 million for the financial year ended 31 December 2007. The profit shortfall amount of RMB1,723,000 has been set off against the initial cash consideration accordingly.

As disclosed in the VSA Circular, Rixi committed and guaranteed that the profit after tax after extraordinary and exceptional items of New Jiashengpan Resources will not be less than RMB200 million for the financial year ended 31 December 2008 (the "2008 Guaranteed Profit"). If the actual audited net profits after tax and any extraordinary or exceptional items of New Jiashengpan Resources for the financial year ended 31 December 2008 (the "2008 Actual Profit") is less than the 2008 Guaranteed Profit, Rixi shall pay to the Group on a dollar to dollar basis an amount in HK$ equivalent to 75% of the difference between RMB200 million and the 2008 Actual Profit (the "2008 Profit Guarantee Shortfall Amount"). The 2008 Profit Guarantee Shortfall Amount shall be satisfied by Rixi in HK$, either (i) in cash or cashier order; or (ii) by setting off against the face value of the Convertible Bonds for the time being outstanding. At the balance sheet date, the Group and Rixi have agreed that the 2008 Profit Guarantee Shortfall Amount was approximately RMB69,407,000. The 2008 Profit Guarantee Shortfall Amount was included in the amount due from Rixi in note 24. The excess of the 2008 Profit Guarantee Shortfall Amount over the goodwill initially recognised at date of acquisition, amounting to RMB10,746,000 was included in excess over the costs of business combinations recognised in income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

37. ACQUISITION OF SUBSIDIARIES *(Continued)*

(b) On 1 September 2008, the Group acquired 96% equity interest in 銀池科技 and its associate, 青海鈺洋 (together, the "Yinchi Group") at a consideration of RMB960,000. The Yinchi Group is principally engaged in trading of nonferrous metal.

Details of the net assets acquired and goodwill are as follows:

	RMB'000
Total purchase consideration	960
Fair value of net assets acquired	(2,256)
Excess over the cost of a business combination recognised in the income statement	(1,296)

The assets and liabilities arising from the acquisition are as follows:

	Fair value RMB'000	**Carrying amount** RMB'000
Interest in associate	8,363	8,363
Prepayments and other receivables	59	59
Amounts due from related companies	3,576	3,576
Bank balances and cash	12	12
Accruals and other payables	(50)	(50)
Amounts due to the Group	(6,710)	(6,710)
Amount due to an associate	(2,900)	(2,900)
Non-controlling interests	(94)	(94)
Net assets attributed to the Group acquired	2,256	2,256

Bank balance and cash in subsidiaries acquired	12
Cash consideration	(960)
Net outflow	(948)

Since its acquisition, the Yinchi Group did not contribute revenue to the Group but made a loss of RMB24,000 to the Group for the period from 1 September 2008 to 31 December 2008.

Had the combination taken place on 1 January 2008, the revenue and the net profit of the Group for the year ended 31 December 2008 would have been RMB219,771,000 and RMB22,549,000 respectively. These pro forma information are for illustrative purposes only and are not necessarily an indication of revenue and result of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor are they intended to be a projection of future results.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

37. ACQUISITION OF SUBSIDIARIES *(Continued)*

(c) On 8 September 2008, the Group acquired additional 62% effective equity interest in 青海鈺洋 at a consideration of RMB13,000,000. 青海鈺洋 is principally engaged in trading of nonferrous metal.

Details of the net assets acquired and goodwill are as follows:

	RMB'000
Total purchase consideration	13,000
Transfer from interest in an associate	8,363
Fair value of net assets acquired	(22,939)
Excess over the cost of a business combination recognised in the income statement	(1,576)

The assets and liabilities arising from the acquisition are as follows:

	Fair value RMB'000	**Carrying amount** RMB'000
Property, plant and equipment	22	22
Inventories	3,522	3,522
Trade receivables	2,694	2,694
Prepayments and other receivables	16,204	16,204
Amounts due from the Group	33,573	33,573
Amounts due from related companies	39,431	39,431
Bank balances and cash	370	370
Trade payables	(737)	(737)
Accruals and other payables	(5,185)	(5,185)
Amounts due to related companies	(21,000)	(21,000)
Bank and other borrowings	(45,000)	(45,000)
Non-controlling interest	(955)	(955)
Net assets attributed to the Group acquired	22,939	22,939

Bank balance and cash in subsidiaries acquired	370
Cash consideration	(13,000)
Net outflow	(12,630)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

37. ACQUISITION OF SUBSIDIARIES *(Continued)*

(c) *(Continued)*

Since its acquisition, the 青海鈺洋 contributed revenue of RMB38,907,000 and net profit of RMB27,241,000 to the Group for the period from 8 September 2008 to 31 December 2008.

Had the combination taken place on 1 January 2008, the revenue and the net profit of the Group for the year ended 31 December 2008 would have been RMB240,614,000 and RMB25,376,000 respectively. These pro forma information are for illustrative purposes only and are not necessarily an indication of revenue and result of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor are they intended to be a projection of future results.

38. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS

In addition to those disclosed elsewhere in the financial statements, the Group had the following major non-cash transactions:

(a) During the year ended 31 December 2009, the Company and Ruffy in which Mr. Mei Wei, a substantial shareholder of the Company, has a directorship, entered a deed of set-off (the "Deed"). Pursuant to the Deed, Ruffy has agreed to set off each of the 2007 and 2008 Profit Guarantee Shortfall Amount in aggregate of approximately RMB70,910,000 (equivalent to approximately HK$80,488,000) against the principal amount of the Convertible Bonds held by Ruffy.

(b) During the year ended 31 December 2009, the Group purchased the property, plant and equipment of RMB39,489,000 which was transferred from the deposits paid for acquisition of property, plant and equipment.

(c) During the year ended 31 December 2008, according to the city development plan in 楊陵區人民政府, the government has swapped the Group's land use right in respect of a land located in the PRC with the land use rights in respect of another two pieces of land, which were valued on 8 March 2008 and 25 December 2008 by Grant Sherman, an independent firm of professional valuers at RMB33,330,000 on an open market basis (note 17). The amount of gain on disposal of prepaid land lease payments and the construction in progress erected thereon was RMB1,753,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

38. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS *(Continued)*

(d) During the year ended 31 December 2008, the Group issued 96,000,000 new ordinary shares of the Company and the Convertible Bonds in the principal amount of HK$756,900,000 (equivalent to approximately RMB665,764,000) as part of the consideration for the acquisition of Straight Upward Group to Rixi (note 37(a)). In addition, the amount of 2008 Profit Guarantee Shortfall Amount of RMB69,407,000 was included in the amount due from Rixi in note 24.

(e) During the year ended 31 December 2008, the Group entered into finance lease arrangement in respect of purchase of motor vehicle with a total capital value at the inception of the lease of RMB491,000.

39. COMMITMENTS

At the balance sheet date, the Group had the following outstanding commitments:

(a) Operating lease arrangement

As lessee

At the respective balance sheet date, the Group had outstanding commitments payable under non-cancellable operating lease in respect of rented premises which fall due as follows:

	2009	2008
	RMB'000	RMB'000
Within one year	**1,392**	2,026
In the second to fifth year inclusive	**508**	1,884
	1,900	3,910

Operating lease payments represent rental payable by the Group for its office premises. Leases are negotiated for terms ranging from two to three (2008: two to three) years. Certain leases contain an option to renew the lease and renegotiated the terms at the expiry dates or at date mutually agreed between the Group and the landlords. None of the leases include contingent rentals.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

39. COMMITMENTS *(Continued)*

(a) Operating lease arrangement *(Continued)*

As lessor

At the respective balance sheet date, the Group had future minimum lease receivable under non-cancellable operating leases with its tenant which fall due as follows:

	2009 **RMB'000**	2008 RMB'000
Within one year	**–**	1,574
In the second to fifth year inclusive	**–**	9,200
After five years	**–**	8,299
	–	19,073

During the year ended 31 December 2009, the tenant terminated the operating lease arrangement.

(b) Capital commitments

	2009 **RMB'000**	2008 RMB'000
Property, plant and equipment		
– Authorised but not contracted for	**1,429**	1,429
– Contracted but not provided for	**48,965**	57,224
	50,394	58,653

(c) Other commitments

At the balance sheet date, the Group had commitment in relation to the acquisition of subsidiaries in the PRC of RMB136,988,000 (2008: RMB35,212,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

40. CONTINGENT LIABILITIES

(a) As at 31 December 2009, the Group has given financial guarantee to banks in respect of banking facilities utilised by an independent third party amounted to RMB13,000,000 (2008: RMB20,000,000).

(b) As at 31 December 2008 and 2009, the Group is the defendant in a pending litigation and dispute arising from a sale and purchase agreement of mineral resources with a customer. The customer claims against the Group for (i) voiding the sale and purchase agreement of mineral resources; (ii) returning the deposit of RMB20,000,000 paid to the Group; and (iii) bearing the legal cost in connection with this pending litigation and dispute.

After taking into account of legal advices from the Group's PRC legal advisers, the directors consider that the Group has a good defence against such claim and it is not probable that the forfeited deposit of RMB20,000,000 has to be returned to the customer. Mr Mei Wei has undertaken to indemnify any loss that the Group may incur in this pending litigation.

41. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following material related party transactions:

(a) Nature of transactions

	Notes	**2009 RMB'000**	2008 RMB'000
Rental charges and sub-charges payable by the Group	(i)	**789**	789
Sales of goods to a related company	(ii)	**120,416**	55,334

Notes:

(i) Rental charges and sub-charges were charges in accordance with a tenancy agreement dated 29 February 2007 entered into between the Group and Xi'an Juchuan Investments. Mr. Zhuo Ze Fan, the director of the Company, has beneficial interests in Xi'an Juchuan Investments.

(ii) Balance represented sales of mineral resources to First Create. Mr. Mei Wei, a substantial shareholder of the Company, has beneficial interest or directorship in First Create. The sales were based on mutually agreed terms.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

41. RELATED PARTY TRANSACTIONS *(Continued)*

(b) *Compensation of key management personnel*

The remuneration of directors and other members of key management during the year are follows:

	2009 RMB'000	2008 RMB'000
Short-term benefits	**2,599**	2,189
Share-based payments	**481**	311
Post-employment benefits	**28**	24
	3,108	2,524

(c) Certain borrowings of the Group in the amount of RMB40,000,000 (2008: RMB61,000,000) are guaranteed by Mr. Zhuo Ze Fan, a director of the Company and a related company of the Group. Details of these transactions are set out in note 30 to the financial statements.

(d) Certain borrowing of the Group in the carrying amount of approximately RMB40,274,000 (equivalent to US$5,897,000) (2008: approximately RMB87,019,000 (equivalent to US$12,750,000)) are borrowed from non-bank financial institution, which are guaranteed by Temmex Corporation in which Mr. Mei Wei is an equity holder and First Create and several contracts in relation to the Group's sale and purchase of mineral resources. Details of these transactions are set out in note 30 to the financial statements.

(e) Certain borrowings of the Group in the carrying amount of RMB159,989,000 are borrowed from financial institution, which are guaranteed by First Create, 青海汭銀投資擔保有限公司 and China Victory International Limited in which Mr. Mei Wei and his close family members have directorship.

(f) The Group entered into a sale and purchase agreement with First Create in relation to the acquisition of 55% equity interest in 奈曼旗烜大. The total consideration is RMB82,500,000. As at 31 December 2009, deposit of RMB24,750,000 was paid to First Create and the acquisition is still in progress at the approval date of these financial statements.

(g) The Group entered into a sale and purchase agreement with Mr. Mei Wei, a substantial shareholder of the Company, in relation to the acquisition of entire equity interest in 天祝縣玉天建材有限責任公司. The total consideration is RMB44,020,000 (equivalent to HK$50,000,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

41. RELATED PARTY TRANSACTIONS *(Continued)*

(h) During the year ended 31 December 2009, the Group acquired additional 4% equity interest in 銀池科技 from the non-controlling interest at a consideration of RMB40,000. The difference between the consideration and the carrying amount of the net assets attributable to the additional interest in subsidiaries being acquired from non-controlling interest has been dealt with in the other reserve.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including currency risk, interest risk and other price risk), credit risk and liquidity risk.

Financial risk management is coordinated at the Group's headquarters, in close co-operation with the Board of Directors. The overall objectives in managing financial risk focus on securing the Group's short or medium term cash flows by minimising its exposure to financial markets. Long term financial investments are managed to generate lasting returns with acceptable risk levels.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(a) *Categories of financial assets and liabilities*

The carrying amounts presented in the balance sheets relate to the following categories of financial assets and financial liabilities.

Financial assets

	2009 RMB'000	2008 RMB'000
Loans and receivables		
– Trade receivables	**84,680**	72,076
– Other receivables	**95,128**	99,082
– Amounts due from related companies	**96,664**	199,461
– Pledged bank deposits	**28,452**	–
– Balance with non-bank financial institutions	**–**	22
– Bank balances and cash	**21,140**	94,126
	326,064	464,767
Available-for-sale financial assets	**–**	400
	326,064	465,167

Financial liabilities

	2009 RMB'000	2008 RMB'000
Measured at amortised cost		
– Trade payable	**52,041**	19,592
– Other payables	**38,335**	32,131
– Amounts due to related companies	**2,077**	434
– Amounts due to former and non-controlling equity holders of subsidiaries	**5,022**	22,247
– Borrowings	**264,939**	193,494
– Convertible bonds	**378,834**	442,812
	741,248	710,710
At fair value through profit or loss		
– Derivative financial instruments	**–**	29
	741,248	710,739

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Foreign currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposures to currency risk arise from the change in fair value of derivative financial instruments from a related company, the Group's borrowings, which are mainly denominated in United Stated Dollars ("US$"). These are not the functional currencies of the Group entities to which these transactions relate.

The Group currently does not have foreign currency hedging policy but the management continuously monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Foreign currency sensitivity

The sensitivity analysis below have been determined based on the exposure to foreign currency risk at the reporting dates.

If the foreign currency rate of US$ against RMB had been increased/decreased by 10% at the beginning of the year and all other variables were held constant, the Group's profit after tax and retained profits would decrease/increase by approximately RMB3,019,000 (2008: RMB6,524,000). The assumed changes have no impact on the Group's other components of equity.

The 10% increase or decrease represents management's assessment of a reasonably possible change in foreign currency rates over the period until the next annual balance sheet date.

(c) Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities, mainly the interest bearing bank balances and floating-rate bank and other borrowings at prevailing market interest rates. The management monitors interest rate exposures and will consider hedging significant interest rate risk should the need arise.

Interest rate sensitivity

The sensitivity analysis below have been determined based on the exposure to interest bearing bank balances and floating-rate bank and other borrowings at the balance sheet dates. The analysis is prepared assuming the relevant assets and liabilities outstanding at the balance sheet date were outstanding for that whole year.

If interest rates had been 1% higher/lower and all other variables were held constant, the profit for the year ended 31 December 2009 would increase/decrease by RMB159,000 (2008: RMB141,000). The assumed changes have no impact on the Group's other components of equity. This is mainly attributable to the Group's exposure to interest rates on its interest bearing bank balances is higher than that of the floating-rate borrowings.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(d) Price risk

The derivative financial instruments are stated at fair value and exposure the Group to quoted future price risk.

Price sensitivity
The sensitivity analysis of the Group's profit after tax and retained earnings to a reasonably possible change in the fair value of derivative financial instruments until the next annual balance sheet is assessed to be immaterial. Changes in fair value of derivative financial instruments have no impact on other components of equity.

(e) Credit risk

At the balance sheet date, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from:

– the carrying amount of the respective reconginsed financial assets as stated in the consolidated balance sheet; and

– the amount of contingent liabilities in relation to financial guarantee issued by the Group (note 40(a)).

In order to minimise the credit risk, the management of the Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management considers that the Group's credit risk is significantly reduced. The management of the Group considers that the Group has no significant exposure to credit risk through the granting of financial guarantee as the counterparty is creditworthy third party and has low risk of default in repayment.

In the opinion of directors, the credit risk on liquid funds, including balances with non-bank financial institutions is limited because the counterparties are reputable banks and financial institutions.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(f) Liquidity risk

The management has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining sufficient bank balances and banking facilities. The Group continuously monitors the forecast and actual cash flows and the maturity profiles of financial liabilities.

The maturity profile of the Group's financial liabilities as at the balance sheet date, base on the contracted undiscounted payments, was as follows:

	On demand or less than three months RMB'000	Three to twelve months RMB'000	More than one year RMB'000	Total RMB'000
At 31 December 2009				
Non-derivative financial liabilities				
Trade payables	52,041	–	–	52,041
Other payables	38,335	–	–	38,335
Amounts due to related companies	2,077	–	–	2,077
Amounts due to former and non-controlling equity holders of subsidiaries	5,022	–	–	5,022
Borrowings	119,097	112,712	37,443	269,252
Convertible bonds	–	–	544,138	544,138
	216,572	**112,712**	**581,581**	**910,865**
At 31 December 2008				
Non-derivative financial liabilities				
Trade payables	19,592	–	–	19,592
Other payables	32,131	–	–	32,131
Amount due to a related company	434	–	–	434
Amounts due to former and non-controlling equity holders of subsidiaries	22,247	–	–	22,247
Borrowings	59,528	74,583	69,830	203,941
Convertible bonds	–	–	665,764	665,764
	133,932	74,583	735,594	944,109
Derivative financial liabilities				
Gross settled derivative financial instruments				
– cash inflow	1	–	–	1
– cash outflow	(30)	–	–	(30)
	(29)	–	–	(29)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(f) Liquidity risk (Continued)

At the date of these financial statements, the directors considered that it was not probable that the borrower of the loan would default the repayment of the loan and therefore no provision for the Group's obligation under the financial guarantee has been made as the amount is immaterial.

43. CAPITAL MANAGEMENT

The Group's capital management objective include:

(i) to safeguard the Group's ability to continue as a going concern, so that it continues to provide returns for owners and benefits for other stakeholders;

(ii) to support the Group's stability and growth; and

(iii) to provide capital for the purpose of strengthening the Group's risk management capability.

The Group actively and regularly review and manages its capital structure to ensure optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group currently does not adopt any formal dividend policy.

The Group sets the amount of equity capital in proportion to its overall financing structure. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount dividends paid to owners, return capital to owners, issue new shares or raise new debts, or sell assets to reduce debt.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

43. CAPITAL MANAGEMENT *(Continued)*

The capital-to-overall financial ratio at the balance sheet date was as follows:

	Group	
	2009	2008
	RMB'000	RMB'000
Capital		
Total equity	**1,011,880**	897,225
Overall financing		
Borrowings	**264,939**	193,494
Convertible bonds	**378,834**	442,812
	643,773	636,306
Capital-to-overall financing ratio	**1.57 times**	1.41 times

44. POST BALANCE SHEET EVENTS

In addition to those disclosed elsewhere in these financial statements, the Group had the following material post balance sheet events:

(a) Pursuant to an announcement and circular dated 21 December 2009 and 8 January 2010 respectively, the Company entered into disposal agreement with Billion Prestige in relation to dispose the entire equity interest in Sungreen Group (the "Disposal") and the intercompany loan at an initial consideration of RMB130 million (the "Consideration"). The Consideration is subject to the adjustment between the initial net assets value as at 30 June 2009 and the post-completion date net assets value.

Save as disclosed elsewhere in these financial statements, subsequent to the balance sheet date, the Company passed the ordinary resolution on 25 January 2010 for the Disposal. The assets and liabilities of the Sungreen Group are classified as assets classified as held for sale and liabilities directly associated with assets classified as held for sale respectively. The disposal of Sungreen Group is still in progress at the approval date of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2009

44. POST BALANCE SHEET EVENTS *(Continued)*

(b) On 6 January 2010, the Company entered into the placing agreement with Callaway and Peace Town Securities Limited ("Peace Town") for the placing of up to 229,556,000 ordinary shares of the Company at a price of HK$0.2465 per share. Pursuant to a subscription agreement on the same date, Callaway subscribed for 229,556,000 new ordinary shares of the Company at a price of HK$0.2465 per share. On 19 January 2010, the subscription completed and raised total consideration of approximately HK$56,586,000 (before expenses).

(c) On 4 March 2010, the Company entered into the placing agreement with Ruffy and Peace Town for the placing of up to 59,880,000 ordinary shares of the Company at a price of HK$0.257 per share. Pursuant to a subscription agreement on the same date, Ruffy subscribed for 59,880,000 new ordinary shares of the Company at a price of HK$0.257 per share. On 18 March 2010, the subscription completed and raised total consideration of approximately HK$15,389,000 (before expenses).

(d) On 9 March 2010, the Company, L & W Holdings Limited and Delta Glory Limited entered into the subscription agreements in respect of the issue of the convertible bonds in the principal aggregate amount of HK$30,000,000 due 2012 at its face value (with each subscriber subscribing for the convertible bonds in the outstanding amount of HK$15,000,000 each). The subscription raised total consideration of approximately HK$30,000,000 (before expenses). The subscription of convertible bonds is still in progress at the approval date of these financial statements.