



**中國有色金屬有限公司\***  
China Nonferrous Metals Company Limited

*(Incorporated in Bermuda with limited liability)*

Stock Code: 8306



## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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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, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

## HIGHLIGHTS

- Achieved a turnover of approximately RMB822.41 million for the nine months ended 30 September 2010, representing an approximately 280.33% increase as compared with that of the corresponding period in 2009.
- Recorded a net profit of approximately RMB54.77 million for the nine months ended 30 September 2010 (2009: RMB37.06 million) representing an increase of RMB17.71 million.
- The Directors do not recommend an interim dividend for the nine months ended 30 September 2010.

## UNAUDITED CONSOLIDATED INCOME STATEMENT

The board of directors of China Nonferrous Metals Company Limited (the “Board”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the nine months ended 30 September 2010, together with the comparative figures for the corresponding period in 2009 as follows:

	Notes	Nine months ended 30 September		Three months ended 30 September	
		2010 RMB'000 (unaudited)	2009 RMB'000 (unaudited) (represented)	2010 RMB'000 (unaudited)	2009 RMB'000 (unaudited) (represented)
<b>Continuing operations</b>					
Revenue	3	822,406	216,232	539,285	129,081
Cost of sales		(746,657)	(137,488)	(504,693)	(85,437)
Gross profit		75,749	78,744	34,592	43,644
Other income		3,084	484	2,659	276
Change in fair value of derivative financial instruments		64,827	31,643	20,199	31,643
Gain on disposal of subsidiaries		2,659	–	–	–
Selling and distribution costs		(6,596)	(6,348)	(4,391)	(4,303)
Administrative expenses		(35,131)	(30,288)	(14,343)	(13,910)
Equity-settled share options expenses		(8,162)	(4,255)	(2,390)	(526)
Profit from operation		96,430	69,980	36,326	56,824
Finance costs	4	(34,325)	(41,355)	(8,875)	(13,819)
Profit before income tax		62,105	28,625	27,451	43,005
Income tax (expense)/credit	5	(5,265)	1,295	(4,189)	5,622
<b>Profit for the period from continuing operations</b>		56,840	29,920	23,262	48,627
<b>Discontinuing operation</b>					
<b>(Loss)/Profit for the period from a discontinuing operation</b>		(2,072)	7,138	–	2,619
<b>Profit for the period</b>		54,768	37,058	23,262	51,246

## UNAUDITED CONSOLIDATED INCOME STATEMENT

	Notes	Nine months ended 30 September		Three months ended 30 September	
		2010 RMB'000 (unaudited)	2009 RMB'000 (unaudited) (represented)	2010 RMB'000 (unaudited)	2009 RMB'000 (unaudited) (represented)
<b>Attributable to:</b>					
Owners of the Company		53,603	31,864	22,482	50,802
Non-controlling interests		1,165	5,194	780	444
<b>Profit for the period</b>		<b>54,768</b>	37,058	<b>23,262</b>	51,246
<b>Continuing operations</b>					
<b>Attributable to:</b>					
Owners of the Company		54,954	27,412	22,482	49,102
Non-controlling interests		1,886	2,508	780	(475)
<b>Profit for the period</b>		<b>56,840</b>	29,920	<b>23,262</b>	48,627
<b>Discontinuing operation</b>					
<b>Attributable to:</b>					
Owners of the Company		(1,351)	4,452	–	1,700
Non-controlling interests		(721)	2,686	–	919
<b>(Loss)/Profit for the period</b>		<b>(2,072)</b>	7,138	–	2,619
Dividend	6	–	–	–	–
<b>Earnings per share</b>					
Basic	7				
– For profit from continuing and discontinued operations		1.45 cents	1.20 cents	0.53 cents	1.86 cents
– For profit from continuing operations		1.49 cents	1.03 cents	0.53 cents	1.80 cents
Diluted					
– For profit from continuing and discontinued operations		1.34 cents	0.78 cents	0.46 cents	0.94 cents
– For profit from continuing operations		1.36 cents	0.73 cents	0.46 cents	0.91 cents

## UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended 30 September 2010

	Nine months ended 30 September		Three months ended 30 September	
	2010 RMB'000 (unaudited)	2009 RMB'000 (unaudited)	2010 RMB'000 (unaudited)	2009 RMB'000 (unaudited)
Profit for the period	54,768	37,058	23,262	51,246
<b>Other comprehensive income</b>				
Exchange differences arising on translation of foreign operations	(786)	(282)	692	272
Total other comprehensive income for the period	(786)	(282)	692	272
Total comprehensive income attributable to owners of the Company	53,982	36,776	23,954	51,518
<b>Attributable to:</b>				
Owners of the Company	52,817	31,582	23,174	51,074
Non-controlling interests	1,165	5,194	780	444
	53,982	36,776	23,954	51,518

## NOTES :

### 1. GENERAL INFORMATION AND BASIS OF PRESENTATION

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 GEM with effect from 28 February 2005 (the "Listing Date").

The consolidated financial statements are presented in Renminbi ("RMB"), which is the functional currency of the Company.

The Company is an investment holding company. Its principal subsidiaries are engaged in the mining, trading and processing of mineral resources.

The unaudited consolidated results 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 unaudited consolidated results 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 "GEM Listing Rules").

The accounting policies adopted in preparing the unaudited consolidated results for the nine months ended 30 September 2010 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009. The consolidated results for the nine months ended 30 September 2010 are unaudited but have been reviewed by the Company's audit committee.

### 2. ADOPTION OF NEW OR AMENDED IFRSs

In the current period, the Group has applied for the first time the following new and revised IFRSs, which are relevant to and effective for the Group's financial statements for the annual financial period beginning on 1 January 2010.

IFRS 3 (Revised)	Business Combinations
IAS 27 (Revised)	Consolidated and Separate Financial Statements
Improvements to IFRSs 2009	

The Group applies IFRS 3 (Revised) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in IAS 27 (Revised) Consolidated and Separate Financial Statements in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current reporting period in which IFRS 3 (Revised) and IAS 27 (Revised) are applicable, the application of IFRS 3 (Revised), IAS 27 (Revised) and the consequential amendments to other IFRSs had no effect on the unaudited condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which IFRS 3 (Revised), IAS 27 (Revised) and the consequential amendments to the other IFRSs are applicable.

The adoption of these new and revised IFRSs did not change the Group's accounting policies as followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009. The Directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

### 3. REVENUE

The Group is engaged in trading, mining and processing of mineral resources. Revenue recognised during the three months and nine months ended 30 September 2010 are as follows:

	Continuing operations		Discontinued operation		Continuing operations		Discontinued operation	
	Nine months ended		Nine months ended		Three months ended		Three months ended	
	30 September		30 September		30 September		30 September	
	2010	2009	2010	2009	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Revenue:</b>								
Sale and distribution of organic potash fertilisers	-	-	7,079	106,464	-	-	-	29,568
Trading, mining and processing of mineral resources	822,406	216,232	-	-	539,285	129,081	-	-
	822,406	216,232	7,079	106,464	539,285	129,081	-	29,568

### 4. FINANCE COSTS

	Continuing operations		Discontinued operation		Continuing operations		Discontinued operation	
	Nine months ended		Nine months ended		Three months ended		Three months ended	
	30 September		30 September		30 September		30 September	
	2010	2009	2010	2009	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Wholly repayable within five years								
- interest on bank loans	5,037	2,429	-	1,568	1,009	907	-	586
- interest on other loans	2,406	5,695	146	2,027	474	2,262	-	601
Interest on convertible bonds	26,865	33,214	-	-	7,386	10,644	-	-
Interest on finance lease liabilities	17	17	-	-	6	6	-	-
Total financial costs on financial liabilities not at fair value through profit or loss	34,325	41,355	146	3,595	8,875	13,819	-	1,187



## 5. INCOME TAX EXPENSE/(CREDIT)

	Continuing operations		Discontinued operation		Continuing operations		Discontinued operation	
	Nine months ended 30 September		Nine months ended 30 September		Three months ended 30 September		Three months ended 30 September	
	2010	2009	2010	2009	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Current								
- Hong Kong	4,358	-	-	-	2,860	-	-	-
- Overseas taxation	3,206	1,506	-	1,264	2,495	(4,080)	-	463
Deferred taxation	7,564	1,506	-	1,264	5,355	(4,080)	-	463
	(2,299)	(2,801)	-	-	(1,166)	(1,542)	-	-
Total tax charge/(credit) for the period	5,265	(1,295)	-	1,264	4,189	(5,622)	-	463

The amounts represented provision for the PRC Enterprise Income Tax ("EIT") and Hong Kong Profits Tax on the Group's estimated assessable profit for the three months ended and the nine months ended 30 September 2010 and 2009 respectively.

Hong Kong Profits Tax has been provided at the rate of 16.5% on the Group's estimated assessable profits arising from Hong Kong during the period. No provision of Hong Kong Profits Tax had been made for the nine months ended 30 September 2009 as the Group had no assessable profits arising in or deriving from Hong Kong. Income tax expense for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Pursuant to the EIT law passed in the Tenth National People's Congress on 16 March 2007, the new EIT rate 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.

## 6. DIVIDEND

No dividend has been paid or declared by the Group for the nine months ended 30 September 2010 (30 September 2009: Nil).

## 7. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	Nine months ended 30 September		Three months ended 30 September	
	2010 RMB'000 (unaudited)	2009 RMB'000 (unaudited) (represented)	2010 RMB'000 (unaudited)	2009 RMB'000 (unaudited) (represented)
<b>Earnings</b>				
Earnings attributable to owners of the Company	<b>53,603</b>	31,864	<b>22,482</b>	50,802
Less: (Loss)/Profit from discontinued operations	<b>(2,072)</b>	7,138	–	2,619
Result from discontinued operation attributable to non-controlling interests	<b>721</b>	(2,686)	–	(919)
(Loss)/Profit attributable to owners of the Company from the discontinued operation	<b>(1,351)</b>	4,452	–	1,700
Profit attributable to owners of the Company from the continuing operations	<b>54,954</b>	27,412	<b>22,482</b>	49,102
	'000	'000	'000	'000
<b>Number of shares</b>				
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>3,686,710</b>	2,657,768	<b>4,177,695</b>	2,716,777
Effect of dilutive potential ordinary shares in respect of share options	<b>105,059</b>	118,547	<b>105,059</b>	114,285
Effect of dilutive potential ordinary shares in respect of convertible bonds	<b>2,205,922</b>	5,502,165	<b>2,101,050</b>	3,688,043
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>5,997,691</b>	8,278,480	<b>6,383,804</b>	6,519,105

The calculation of the diluted earning per share is based on the profit from the continuing and discontinued operations for the period ended 30 September 2010 attributable to the owners of the Company of RMB80,468,000, which is profit for the period attributable to owners of the Company of RMB53,603,000 adjusted to reflect the effect of deemed exercise or conversion of convertible bonds of RMB26,865,000.

The calculation of the diluted earning per share is based on the profit from the continuing operations for the period ended 30 September 2010 attributable to the owners of the Company of RMB81,819,000, which is profit for the period attributable to owners of the Company of RMB54,954,000 adjusted to reflect the effect of deemed exercise or conversion of convertible bonds of RMB26,865,000.

In the calculation of the diluted earnings per share attributable to the owners of the Company, the potential shares arising from the conversion of the Company's warrants had not been taken into account as it had an anti-dilutive effect for the period ended 30 September 2010.

## 8. SHARE CAPITAL AND RESERVES

For the nine months ended 30 September 2009

	Attributable to owners of the Company													
	Share capital	Share premium	Treasury shares	Capital redemption reserve	Capital reserve	Statutory reserve	Translation reserve	Special reserve	Convertible bonds		Retained profits	Total	Non-controlling interests	Total
									Share option reserve	equity reserve				
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
Balance at 31 December 2008 and 1 January 2009 (audited)	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	41	26,831	-	-	-	-	-	-	-	-	-	26,872	-	26,872
Share issue expenses	-	(1,296)	-	-	-	-	-	-	-	-	-	(1,296)	-	(1,296)
Shares repurchase	(4)	(1,335)	440	-	-	-	-	-	-	-	-	(899)	-	(899)
Shares repurchase expenses	-	(12)	-	-	-	-	-	-	-	-	-	(12)	-	(12)
Convertible bonds exercised	93	51,318	-	-	-	-	-	-	-	(20,097)	-	31,314	-	31,314
Share options exercised	24	4,370	-	-	-	-	-	(405)	-	-	-	3,989	-	3,989
Shares sub-division expenses	-	(85)	-	-	-	-	-	-	-	-	-	(85)	-	(85)
Equity-settled share option arrangements	-	-	-	-	-	-	-	-	4,255	-	-	4,255	-	4,255
Transactions with owners	154	79,791	440	-	-	-	-	-	3,850	(20,097)	-	64,138	-	64,138
Profit for the period	-	-	-	-	-	-	-	-	-	-	31,864	31,864	5,194	37,058
<b>Other comprehensive income</b>														
Currency translation	-	-	-	-	-	-	(282)	-	-	-	-	(282)	-	(282)
Total comprehensive profit for the period	-	-	-	-	-	-	(282)	-	-	-	31,864	31,582	5,194	36,776
Transfer to redemption reserve	-	-	-	4	-	-	-	-	-	-	(4)	-	-	-
Balance at 30 September 2009 (unaudited)	1,223	346,227	-	5	6,782	9,144	(2,812)	(129)	7,260	210,767	62,789	641,256	356,883	998,139

## For the nine months ended 30 September 2010

	Attributable to owners of the Company															
	Share capital	Share premium	Warrant reserve	Capital redemption reserve		Statutory reserve	Translation reserve	Special reserve	Specific reserve	Other reserve	Share option reserve	Convertible bonds equity reserve		Retained profits	Non-controlling interests	Total
				RMB'000	RMB'000							RMB'000	RMB'000			
Balance at 31 December 2009 and 1 January 2010 (audited)	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
Warrant issued	-	-	6,256	-	-	-	-	-	-	-	-	-	-	6,256	-	6,256
Transaction costs attributable to issue of warrants	-	-	(874)	-	-	-	-	-	-	-	-	-	-	(874)	-	(874)
Placing and subscription of new shares	102	63,249	-	-	-	-	-	-	-	-	-	-	-	63,351	-	63,351
Share issue expenses	-	(1,436)	-	-	-	-	-	-	-	-	-	-	-	(1,436)	-	(1,436)
Issue of convertible bonds	-	-	-	-	-	-	-	-	-	-	-	1,344	-	1,344	-	1,344
Convertible bonds exercised	370	203,211	-	-	-	-	-	-	-	-	-	(57,257)	-	146,324	-	146,324
Convertible bonds expense	-	(24)	-	-	-	-	-	-	-	-	-	-	-	(24)	-	(24)
Share options exercised	2	2,021	-	-	-	-	-	-	-	(650)	-	-	-	1,373	-	1,373
Equity-settled share option arrangements	-	-	-	-	-	-	-	-	-	8,162	-	-	-	8,162	-	8,162
Disposal of subsidiaries	-	-	-	-	(6,782)	(9,336)	1,515	129	-	-	-	-	-	(14,474)	(49,836)	(64,310)
Transactions with owners	474	267,021	5,382	-	(6,782)	(9,336)	1,515	129	-	-	7,512	(55,913)	-	210,002	(49,836)	160,166
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	-	53,603	53,603	1,165	54,768
<b>Other comprehensive income</b>																
Currency translation	-	-	-	-	-	-	(786)	-	-	-	-	-	-	(786)	-	(786)
Total comprehensive profit for the period	-	-	-	-	-	-	(786)	-	-	-	-	-	53,603	52,817	1,165	53,982
Share options lapsed	-	-	-	-	-	-	-	-	-	-	(241)	-	241	-	-	-
Balance at 30 September 2010 (unaudited)	1,698	612,631	5,382	6	-	-	(2,244)	-	5,343	6,964	16,550	137,154	143,149	926,633	299,395	1,226,028

## 9. EVENT AFTER THE REPORTING PERIOD

Pursuant to a subscription agreement dated on 6 October 2010, the Company has conditionally agreed to allot and issue 200,000,000 Shares at the subscription price of HK\$0.25 per subscription share to Ruffy Investments Limited (the "Subscriber") for offsetting the amount of HK\$50 million due and payable by the Company to the Subscriber. The subscription agreement is subject to Independent Shareholders' approval under the GEM Listing Rules. Details of the above transaction are set out in the circular of the Company dated 27 October 2010.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial highlights

Completion of the disposal of the 100% equity interest in Sungreen Investment Limited and its subsidiaries (together referred to as the "Sungreen Group"), whose principal business is the manufacture and distribution of organic potash fertilizers, took place on 31 March 2010. Consequently, the result of the fertilizer's business for the period ended 30 September 2010 had been classified as a discontinued operation.

Revenue for the Group for the nine months ended 30 September 2010 amounted to approximately RMB822.41 million, representing an increase of approximately 280.33% as compared with the corresponding period in 2009. During the reporting period, gross profit amounted to approximately RMB75.75 million, representing a decrease of approximately 3.80% over the same period last year. Net profit recorded by the Group for the period amounted to approximately RMB54.77 million compared to a net profit of approximately RMB37.06 million recorded in the same period last year.

### Market review

#### Lead

Total global supply of lead for the first seven months of this year stood at 5.107 million tons whilst total consumption for the same period was only 5.055 million tons, representing a supply surplus of 52,000 tons. There was a 30,000 tons cut in supply surplus of 82,000 tons recorded for the same period last year.

#### World refined lead supply and usage

	2010	2009
January-July		
Metal production (ton)	<b>5,107,000</b>	4,976,000
Metal usage (ton)	<b>5,055,000</b>	4,894,000
Surplus (ton)	<b>52,000</b>	82,000

Source: International Lead and Zinc Study Group ("ILZSG")

Although we are still witnessing a supply surplus for the first seven months of this year, the size of the surplus has been reduced from 82,000 tons for the same period last year. It is expected that the supply surplus will be reduced further due to gradual recovery in the global economy and the persistent improvement on demand created by the automobile industry in China. The outlook for lead is that surplus supply will eventually be turned into a deficit and China may turn from a net lead export to a net import country gradually.

## Zinc

Total global supply of zinc was 7,273,000 tons for the first seven months of this year whilst total consumption was 7,122,000, representing a surplus of 151,000 tons. When compared to the supply surplus of 258,000 tons for the same period last year, there was a substantial reduction of 107,000 tons.

### World refined Zinc supply and usage

	2010	2009
January-July		
Metal production (ton)	<b>7,273,000</b>	6,259,000
Metal usage (ton)	<b>7,122,000</b>	6,001,000
Surplus (ton)	<b>151,000</b>	258,000

Source: ILZSG

The zinc market is still being over supplied despite the fact that surpluses have narrowed in the first seven months of this year when compared to the same period last year. Production is estimated to increase disproportionately to consumption implying that the supply surplus may stay for some time.

## Business review

After the financial tsunami, as a result of the active fiscal policy and the moderately-loose monetary policy as well as the PRC government's determination to maintain a GDP growth of 8%, the sign of recovery of the PRC economy became more apparent. During the reporting period, the management reacted promptly and effectively to the changing market conditions and was able to increase production volume to meet the recovering demand of zinc and lead. However, the trading business carries a much lower gross margin. Thus, our gross profit margin was squeezed when compared with last corresponding period.

Gross profit margin by segment is as follows:

	2010	2009
Fertilizers (classified as a discontinued operation)	<b>17.80%</b>	23.20%
Nonferrous Metal Mining	<b>39.60%</b>	37.70%
Metal Trading	<b>6.00%</b>	35.80%

The significant decrease of the gross profit margin in the metal trading business when compared with the corresponding period in 2009 was due to the disappearance of the contribution by one-off revenue generated from a customer who entered into a tailing mine contract of approximately RMB51.28 million with the Group during the period ended 30 September 2009. Tailing mine is a residual substance after removal of zinc and lead elements from raw ores which carries a very low production value. The gross profit generated from such contract was high and the overall figure of gross profit was adjusted upward as a result of such sizeable contract in 2009. Higher gross profit margin was recorded in last corresponding period.

## Prospect

The Company is optimistic about future metal prices. The zinc and lead price quoted on Shanghai Nonferrous Metals Website have climbed from approximately RMB10,000 and RMB10,116 per ton in early 2009 to RMB17,800 and RMB16,500 per ton in September 2010 respectively. As a result of the strong demand for lead and zinc in China and other international markets, steady increases in sale orders since the first quarter of the year has made substantial improvement on performance of the Group.

Looking ahead, the Group will continue to seize opportunities brought by the economic growth in China. Operating and financial performance is expected to improve further driven by capacity increases and acquisitions. Other than the zinc and lead mine located in Naimanqi in Inner Mongolia, which will soon be formally acquired by the Group, the Group intends to seek and to acquire other zinc and lead mines with strong investment prospects and potential for generating stable future earnings for the Group.

## Financial performance analysis

### Revenue

Turnover for the nine months ended 30 September 2010 was approximately RMB822.41million, representing an increase of approximately RMB606.17 million or approximately 280.33% as compared to the turnover recorded for the corresponding period ended 30 September 2009.

The increase in turnover for the current period was substantially due to 1) increased production of our mining operations located in Inner Mongolia, 2) favorable metal prices for our mining products. After a long period of testing and calibration for the new 600,000 tonne per annum (“tpa”) production facility during which the production activities were temporarily suspended for over two months in the first quarter of 2009, production of the mine located in Inner Mongolia has eventually returned to normal since mid-2009. Consequently, significant improvement on production volume has been made to the current period when compared with the 2009.

However, the gross profit has decreased by RMB2.99 million from RMB78.74 million for the nine months ended 30 September 2009 to RMB75.75 million for the period ended 30 September 2010. The decrease was due to the disappearance of the contribution by one-off revenue generated from a customer who entered into a tailing mine contract of approximately RMB51.28 million with the Group during the period ended 30 September 2009. Tailing mine is a residual substance after removal of zinc and lead elements from raw ores which carries a very low production value. The gross profit generated from such contract was high and the overall figure of gross profit in 2009 was adjusted upward as a result of such sizeable contract. Higher gross profit was recorded in last corresponding period.

In addition, gross profit margin has decreased by approximately 27.2% from 36.4% for the period ended 30 September 2009 to approximately 9.2% for the period ended 30 September 2010. Although metal prices have recovered substantially in the current period from its low in early 2009 which has made significant improvement on the average selling prices of our mining products during the period, the decrease was mainly due to the increase in nonferrous metals trading business which carries a much lower gross margin than mining and processing of mineral resources. However, the Board believes that this trading business represents a promising opportunity for the Group to broaden its customers and earning base.



The following are the sales volume and average selling prices for each of our mining products and trading business in respect of the period ended 30 September 2010 and 2009:

	Nine months ended 30 September 2010			Nine months ended 30 September 2009		
	Sales volume (ton)	Selling price (RMB/ton)	Total Revenue (RMB'000)	Sales volume (ton)	Selling price (RMB/ton)	Total Revenue (RMB'000)
Zinc concentrates	8,856	9,496.90	84,105	9,321	7,178.60	66,912
Lead concentrates, crude lead and lead ingots	17,054	14,843.37	253,139	8,055	10,788.16	86,899
Sulphuric acid	28,258	203.24	5,743	15,922	149.60	2,382
Silver	9,418	3,067,075.81	28,886	3,567	2,454,947	8,757
Gold (gram)	13,659	228.85	3,126	-	-	-
Iron concentrates	3,736	670.04	2,503	-	-	-
Copper cathode	8,423	52,820.14	444,904	-	-	-
Tail mine	-	-	-	1,200,000	42.735	51,282
<b>Total Revenue</b>			<b>822,406</b>			<b>216,232</b>

#### Other income

During the period, other income was approximately RMB3.08 million representing an increase of approximately RMB2.6 million or approximately 537.19% as compared with approximately RMB0.48 million of the same period of 2009. The increase was mainly attributable to the additional miscellaneous income received during the period.

#### Changes in fair value of derivative financial instruments

It represents the gain or loss arising from the changes in fair value of the metal commodity future contracts used to hedge against the Group's purchases and inventory. For the nine months ended 30 September 2010, the Group recorded a profit on future contracts of RMB64.83 million (2009: RMB31.64 million). The Group did not enter into any commodities futures contracts unrelated to the business operations during the period.

The Group continued to take a prudent approach to hedge the inventory position through appropriate zinc, lead and copper future contracts during the period. Strict internal policies and procedures are in place to ensure the position is regularly reviewed and that the Group is not exposed to undue market risk and the management is not allowed in entering into any commodities futures contract for speculation purposes.

## Operating expenses

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

Selling and distribution expenses for the nine months ended 30 September 2010 amounted to approximately RMB6.60 million, the increase was in tandem with the increased turnover of the Group's mining operation in Inner Mongolia.

Administrative expenses for the nine months ended 30 September 2010 amounted to approximately RMB35.13 million, representing an increase of approximately 15.99% compared with the same period last year. The increase was attributable to the increase in staff costs as a result of continued expansion of production scale and additional professional fees in respect of corporate exercises carried out in the reporting period.

## Finance costs

Finance cost for the nine months ended 30 September 2010 amounted to approximately RMB34.33 million, representing a decrease of approximately RMB7.03 million compared with the same period in 2009. The decrease was due to the repayment of loans.

## Profit for the period attributable to owners of the Company

Profit attributable to the owners of the Company for the nine months ended 30 September 2010 amounted to approximately RMB53.60 million, as compared to a profit of approximately RMB31.86 million reported in the corresponding period.

Net profit recorded in the period was attributable to the profits generated from the mining operation in Inner Mongolia acquired in July 2008, gain on metal commodity future contracts and increase in trading of nonferrous metals products.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2010, the interests and short positions of the Directors and the chief executive and their associates 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); (b) required to be recorded in the register kept by the Company pursuant to section 352 of the SFO or; (c) as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the Directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

### 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 (%)
Xu Bing	Beneficial owner	1,500,000	0.03

(b) Share options

Name	Capacity	Number of options held	Number of underlying shares
Directors			
Zhou Ze Fan	Beneficial owner	10,000,000	10,000,000
Ng Tang	Beneficial owner	3,000,000	3,000,000
Kang Hongbo	Beneficial owner	11,500,000	11,500,000
Han Qiong	Beneficial owner	4,000,000	4,000,000
		28,500,000	28,500,000

Save as disclosed herein, as at 30 September 2010, none of the directors and chief executive of the Company had any interests and short positions in the shares, underlying shares and 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); (b) required to be recorded in the register kept by the Company pursuant to section 352 of the SFO or; (c) as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the Directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules.

## SHARE OPTION SCHEME

As at 30 September 2010, options to subscribe for an aggregate of 759,960,000 shares of the Company had been granted to certain Directors, employees and suppliers/advisors of the Group. Details of outstanding options were as follows:

Name or category of participant	Number of share options				At 30 September 2010	Date of grant of share options (note a)	Exercise period of share options	Exercise price of share options*
	At 1 January 2010 (represented)*	Granted during the period	Exercised during the period	Lapsed during the period				
<b>Directors</b>								
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
	11,500,000	-	-	-	11,500,000			

Name or category of participant	Number of share options				At 30 September 2010	Date of grant of share options (note a)	Exercise period of share options	Exercise price of share options*	
	At 1 January 2010 (represented)*	Granted during the period	Exercised during the period	Lapsed during the period					
<b>Directors</b>									
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				
<b>Other employees</b>									
In aggregate	1,500,000	-	-	(1,500,000)	-	12 June 2008	Period 5	0.340	
	5,500,000	-	(4,000,000)	-	1,500,000	15 May 2009	Period 7	0.216	
	5,000,000	-	-	-	5,000,000	20 May 2009	Period 9	0.234	
	22,980,000	-	-	(640,000)	22,340,000	4 December 2009	Period 12	0.260	
	22,980,000	-	-	(640,000)	22,340,000	4 December 2009	Period 13	0.260	
	34,470,000	-	-	(960,000)	33,510,000	4 December 2009	Period 14	0.260	
	34,470,000	-	-	(960,000)	33,510,000	4 December 2009	Period 15	0.260	
	-	358,510,000	-	-	358,510,000	28 July 2010	Period 16	0.246	
	126,900,000	358,510,000	(4,000,000)	(4,700,000)	476,710,000				
	<b>Suppliers/Advisors</b>								
	In aggregate	131,250,000	-	-	-	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	
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	
256,250,000		-	(1,500,000)	-	254,750,000				
413,150,000		358,510,000	(7,000,000)	(4,700,000)	759,960,000				

\* 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
Period 16	28 July 2010 to 30 May 2015

Notes:

- (a) The vesting date of the share options for Period 2, 6, 8, 11 and 16 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.

## SUBSTANTIAL SHAREHOLDERS

As at 30 September 2010, so far as the Directors were aware, the following persons or companies (other than the Directors and chief executive of the Company) had an interest or short position in the shares, underlying shares and debenture 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:

Name of substantial shareholder	Capacity	Number of Shares	Percentage of shareholding (%)
Ruffy Investments Limited (Note)	Beneficial owner	2,142,452,050	48.51
Mei Wei (Note)	Held by controlled corporation	2,142,452,050	
	Beneficial owner	419,560,000	9.49
		<hr/>	
		2,562,012,050	58.00

*Notes:*

A convertible bond in the sum of HK\$372,298,194 which can be converted into 1,692,264,518 shares at the conversion price of HK\$0.22 and 450,187,532 shares were held by Ruffy Investments Limited, which is wholly-owned by Mr. Mei Wei. Mr. Mei Wei was deemed to be interested in these shares under the SFO.

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 Division 2 and 3 of 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 30 September 2010.

## **CORPORATE GOVERNANCE**

The Company has complied throughout the nine months ended 30 September 2010 with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 to the GEM Listing Rules with certain deviations in respect of the distinctive roles of chairman and chief executive officer as described in the 2009 annual report. 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 Board continues to believe 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.

Also, 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 had complied with the required standard of dealings and its code of conduct regarding directors' securities transactions during the reporting period.

## **FOREIGN EXCHANGE EXPOSURE**

Since most of the income and expense as well as assets and liabilities of the Group are denominated in RMB, the Directors consider the Group has no material foreign exchange exposure.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

## EMPLOYEES AND REMUNERATION POLICIES

At 30 September 2010, the Group had approximately 407 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 society security scheme of the PRC and contributions to the Mandatory Provident Fund Scheme of Hong Kong. The Group remunerated its employees in accordance with their work performance and experience.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the nine months ended 30 September 2010, save as disclosed below, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company:

- (i) On 6 January 2010 and 4 March 2010, the Company entered into a top-up placing agreement with, among others, Peace Town Securities Limited (the "Placing Agent") for the placement of 229,556,000 and 59,880,000 ordinary shares of the Company at a price of HK\$0.2465 and HK\$0.257 per share respectively. On 19 January 2010 and 18 March 2010, the top-up placements were completed respectively.
- (ii) On 2 August 2010, 717,000,000 listed warrants (the "Warrants") were issued and listed on GEM (stock code: 8343) pursuant to a placing agreement signed with Kingston Securities Limited. The issue price per warrant was HK\$0.01 and the subscription price was HK\$0.26. Upon the exercise of the subscription rights attaching to the Warrants in full, a maximum of 717,000,000 new shares (subject to adjustments) will fall to be issued and allotted for up to approximately HK\$186,420,000 in cash. The exercise period of the Warrants is from the date of listing of the Warrants up to 1 August 2012.
- (iii) 1,058,684,670 ordinary shares were issued pursuant to the exercise of the conversion rights attached to the 3% coupon convertible bonds due 2015 issued by the Company in 2008 during the reporting period.



## 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 of Directors and the Company's auditors in matter coming within the scope of the Group audit. It also reviews and supervises the financial reporting process and internal control procedures of the Group. The members of the audit committee comprises three independent non-executive directors, namely Mr. Liu Yaosheng, Mr. Chau Kam Wing Donald (who is the chairman) and Mr. Chen Mingxian.

The Group's unaudited consolidated results for the nine months ended 30 September 2010 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards.

## MATERIAL ACQUISITION AND DISPOSAL

Save for completion of the disposal of Sungreen Group on 31 March 2010, no material acquisitions or disposals of subsidiaries and associated companies have been made by the Company during the nine months ended 30 September 2010.

## PUBLIC FLOAT

For the nine-month period ended 30 September 2010, the Company has maintained the public float requirement as stipulated by GEM Listing Rules.

On behalf of the Board  
**China Nonferrous Metals Company Limited**  
**Kang Hongbo**  
*Executive director*

Hong Kong,  
12 November 2010

*As at the date of this report, the executive directors of the Company are Mr. Zhuo Ze Fan, Ms. Xie Yi Ping, Dr. Yu Heng Xiang, Mr. Ng Tang, Mr. Xu Bing, Mr. Kang Hongbo and Ms. Han Qiong; the independent non-executive directors of the Company are Mr. Liu Yaosheng, Mr. Chau Kam Wing Donald and Mr. Chen Mingxian.*