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 **2010**

* for identification only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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.

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Corporate Information

EXECUTIVE DIRECTORS

Mr. MEI Ping
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. LIU Yaosheng
Mr. CHAU Kam Wing, Donald
Mr. CHEN Mingxian

COMPLIANCE OFFICER

Mr. MEI Ping

COMPANY SECRETARY

Mr. LI Chi Chung, Michael

AUDIT COMMITTEE

Mr. CHAU Kam Wing, Donald
Mr. LIU Yaosheng
Mr. CHEN Mingxian

REMUNERATION COMMITTEE

Ms. XIE Yi Ping
Mr. LIU Yaosheng
Mr. CHAU Kam Wing, Donald

NOMINATION COMMITTEE

Mr. MEI Ping
Mr. LIU Yaosheng
Mr. CHAU Kam Wing, Donald

AUTHORISED REPRESENTATIVES

Mr. MEI Ping
Mr. Li Chi Chung, Michael

STOCK CODE

8306

LISTED WARRANT

8343

COMPANY WEBSITE

www.cnm.com.hk

LEGAL ADVISERS

Michael Li & Co.

AUDITORS

BDO Limited
Certified Public Accountants
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

PRINCIPAL BANKERS

Hang Seng Bank
Standard Chartered Bank

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN BERMUDA

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

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Hamilton HM 11
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HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suites 1704-05
17/F, Dah Sing Financial Centre
108 Gloucester Road
Wanchai
Hong Kong

Financial Highlights

	2010 RMB'000	2009 RMB'000	2008 RMB'000 (represented)	2007 RMB'000 (represented)	2006 RMB'000 (represented)
Revenue					
– Continuing operations	**492,063**	269,045	77,612	–	–
– Discontinued operation	**7,079**	117,229	142,159	144,759	135,545
	499,142	386,274	219,771	144,759	135,545
Gross profit					
– Continuing operations	**111,113**	100,073	6,209	–	–
– Discontinued operation	**1,257**	27,603	36,271	48,886	53,628
	112,370	127,676	42,480	48,886	53,628
Profit/(loss) attributable to owners of the Company					
– Continuing operations	**61,527**	60,268	2,675	–	–
– Discontinued operation	**9,505**	(1,965)	5,961	10,067	7,915
	71,032	58,303	8,636	10,067	7,915
Equity attributable to owners of the Company	**1,046,950**	663,814	545,536	116,356	105,129
Total assets	**2,253,596**	2,142,516	1,938,099	265,820	213,518
Total liabilities	**903,180**	1,130,636	1,040,874	101,243	68,100

	2010 RMB	2009 RMB	2008 RMB (represented)	2007 RMB (represented)	2006 RMB (represented)
Earnings per share (cents)					
Basic					
– For profit from continuing and discontinued operations	**1.81**	2.13	0.37	0.50	0.40
– For profit from continuing operations	**1.57**	2.20	0.12	–	–
Diluted					
– For profit from continuing and discontinued operations	**1.64**	1.64	0.35	N/A	N/A
– For profit from continuing operations	**1.49**	1.67	0.11	N/A	N/A

Milestone

TARGET:

To become a leading company to explore and produce quality zinc, lead and other minerals and precious metals in China

2010 November	Mr. Mei Ping was appointed as an executive director, general manager and chairman of the Group
March	Disposal of 100% of the equity interest in the fertilizer business

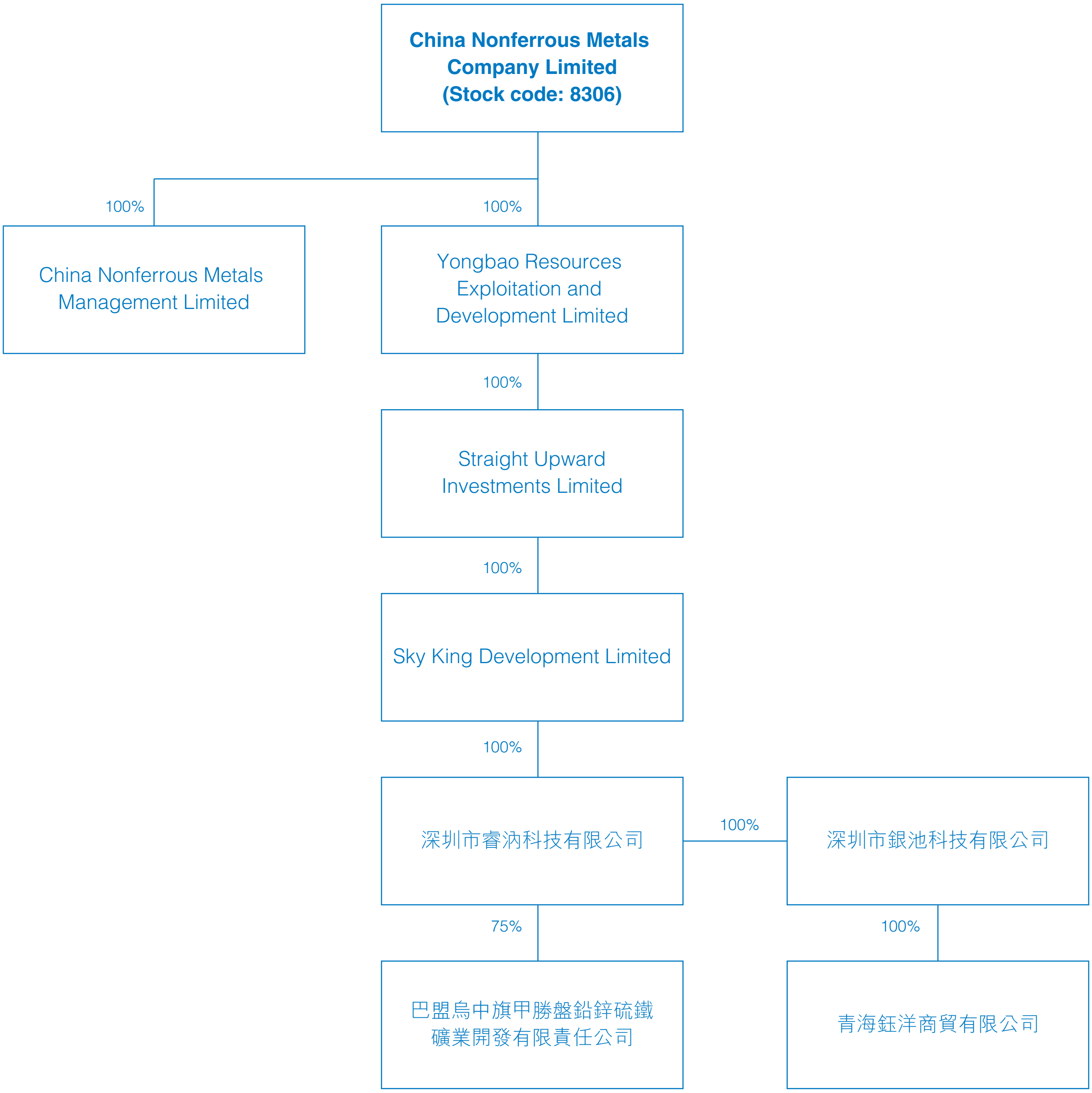
2009 Mid year	Completion of the increased production capacity to 1.02 million tonnes per annum by the addition of a 600,000 tonnes per annum concentrator in Jiashengpan
October	Conditional acquisition of 奈曼旗烜大礦業有限公司, a company with a zinc-lead Mine in Naimanqi, Tongliao City, Inner Mongolia for a consideration of RMB82.5 million

2008 July	Shift in business focus to metal mining by the acquisition of Wulatezhong Qi, Inner Mongolia (Bameng Wuzhong Qi Jiashengpan Zinc, Lead and Pyrite Resources Exploitation Company Limited ("Jiashengpan"), thus the Group commenced the nonferrous metals mining business
August	Conditional acquisition of Chifeng City Gujingdong Kuangye Limited Corporation（赤峰市古金洞礦業有限責任公司）, a company with a lead and zinc mine situated in Inner Mongolia for a consideration of HK$50 million
September	1. Acquired Qinghai Yuyang Trading Limited, a company principally engaged in trading of nonferrous and precious metals with main focus in zinc and lead. 2. The Company name changed to China Nonferrous Metals Company Limited to better reflect the change in business focus

2005 February	Listed on GEM HKEX (Stock code#8306) Engaged in manufacturing, sale and distribution of a series of fertilizers under the brand name of "Fuwanjia"

Group Structure

The Group Structure with major subsidiaries as at 31 December 2010 is as follows:



Chairman's Statement

Dear Shareholders,

On behalf of the Board (the "Board") of Directors (the "Directors") of China Nonferrous Metals Company Limited (the "Company"), I hereby present the operating results of the Company and its subsidiaries (collectively referred to the "Group") for the year ended 31 December 2010 as follows:

The Group achieved an outstanding performance in its business development in 2010. With the great support and dedication from its management and staff, our operations experienced phenomenal growth. Our revenue soared by 82.9% to RMB492.1 million from 2009, while net profit improved by 23.6% to RMB76.3 million. These outstanding performances laid a solid foundation for the Group's sustainable growth. We paid relentless efforts to enhance the management of our mine in Wulatezhong Qi, Inner Mongolia (Bameng Wuzhong Qi Jiashengpan Zinc, Lead and Pyrite Resources Exploitation Company Limited) ("Jiashengpan") and allocated additional resources to consolidate our production, environmental protection and safety facilities to ensure that our production could be carried out in a safer, more environmentally friendly and efficient manner.

MARKET REVIEW

The global economic downturn and the sub-prime mortgage crisis occurred in mid-2008 pushed the United States and the rest of the world into an economic recession. In response, worldwide governments' introduced economic stimulus measures by adopting moderately-loose monetary policy in 2009. In addition, the announcement of the new round of quantitative easing, more commonly known as "QE2" from the US Federal Reserve in November 2010, the global economy has been able to recover gradually.

Under the influence of global economic downturn, nonferrous metals prices were significantly reduced in the international market. Extracted from Shanghai Metals Exchange Markets website, prices of zinc and lead were dropped from its highest of approximately RMB20,000 per ton in 2008 to approximately RMB10,000 per ton in early 2009. According to an article issued by Ministry of Land and Resources of the People's Republic of China, expenditure on geological research and exploration works in the People's Republic of China (the "PRC") had increased by 20% up to RMB27.7 billion from the first three quarters of 2009 to 2010. With the nonferrous metals prices have gradually recovered since 2009, it is expected that capital investment on geological works will continue to increase in 2011. Therefore, the outlook for metal prices remains positive in the foreseeable future.

OPERATION AND BUSINESS REVIEW

Jiashengpan had made smooth progress in its mining activities as planned. With the addition of a brand new concentrator with 600,000 tonnes annual capacity at Wulatezhong Qi, Inner Mongolia in 2009, total production capacity at Jiashengpan has been increased to 1,020,000 tonnes per annum. The newly constructed concentrator is equipped with the latest processing technologies which greatly improved the recovery rate of our floatation process as well as reducing the unit cost of production. The additional processing capacity together with the improved processing technologies has made significant contributions to the increase volume of production and unit production costs. Accordingly, both turnover and gross margin of the Group have increased significantly in 2010. The management will continue to monitor and review the efficiency and effectiveness of the mining operations and to react promptly and effectively to any changes in market conditions in order to capitalize on any favourable conditions which the market may present.

Chairman's Statement

In order to enlarge the Group's sales network, the Group will continue to leverage on the connections and expertise of Shenzhen First Create Investments Limited 深圳市冠欣投資有限公司 and Shenzhen First Create Mining Group Limited 深圳市冠欣礦業集團有限公司 (collectively referred to as "First Create Group"), companies incorporated in the PRC and beneficially owned by Mr. Mei Wei, a substantial shareholder of the Company, in its metal trading business. The Group will explore new sales channels both locally and abroad so as to increase its market share in the domestic market as well as expanding its operation abroad.

In mitigating market risks, the Group has put in place a strictly controlled hedging programme whereby future contracts are used to hedge against inventory to avoid the risk arising from price fluctuation in metal products that the Group produces.

The Group had also placed emphasis to implement comprehensive occupational health, safety and environmental protection measures for its mining operations. The management continually review and scrutinize the rules and regulations prescribed by the Chinese Government with regard to environmental, health and safety and to ensure effective controls are put in place to comply strictly with Government rules and regulations. We are pleased to report that no casualty has occurred at our mine during the year 2010.

Corporate Social Responsibility (CRS) is taken seriously by the Group and its management. During 2010, the Group had donated approximately RMB5.1 million to China Social Entrepreneur Foundation whose mission is to be a leading social force that plays a significant role in promoting the harmony and progress of human beings.

OUTLOOK

Given the continuing economic growth and accelerated industrialization and urbanization in the PRC, natural resources are in short supply. The Board considers that the demand for natural resources will maintain the Group's growth momentum and continue to reach new heights. Looking ahead, the Group will capitalize on the economic growth in the PRC and the investment opportunities brought with it. Organically, growth is expected to be driven by capacity expansion and improved operational efficiencies. The Group intends to seize any investment opportunity that may be presented in order to further strengthen our investment portfolio of mining assets so as to provide a solid revenue base to generate additional future earnings for the Group.

Finally, I would like to take this opportunity to express my gratitude to the Directors, management and our staff for their contributions made to the development of the Group. At the same time, I would like to express my appreciation to shareholders for their continued support. In return for your support, we are fully committed to do our best to bring better returns to our shareholders in the future.

Mei Ping
Chairman

25 March 2011

Biographical Details of Directors and Senior Management

DIRECTORS

Executive Directors

Mr. Mei Ping, aged 51, is the chairman of the Board, executive director, and general manager of the Company. Mr. Mei graduated with a Bachelor's Degree in optical physics from Changchun Institute of Optics and Fine Mechanics, the PRC, in 1983. Mr. Mei also obtained a Master's Degree in automation from Beijing Aeronautical and Astronautical Institute, the PRC, in 1989. After graduation, Mr. Mei worked for the Ministry of Aviation Industry of the PRC with main research focused on metal fatigues in airplanes and ship fire controls. Thereafter, Mr. Mei worked in Ministry of Coal Industry of the PRC, and was primarily responsible for gas locking system for ventilation and power supply. Until 1993, Mr. Mei had worked in 13 different Mining Bureaus in the PRC including but not limited to Datong, Pingdingshan, and Huanan mainly responsible for the ventilation and safety management controls in mines. Mr. Mei also worked for Intel (China) Co. Ltd. during 1993 to 1995 and was responsible for the application of computer operating systems. Between 1995 and 2009, Mr. Mei worked as a ventilation and safety engineer for the Jinhuagong Coal Mine of Datong Mining Bureau; the general manager of Beijing Aotianshengye Trading Company Limited whose principal business is zinc and lead trading as well as being a manager for the research in zinc lead pyrite processing techniques.

Mr. Zhuo Ze Fan, aged 40, is the founder of the Group, who has extensive experience in planning, corporate management and business development. Mr. Zhuo graduated with a Master of Business Administration Degree in 1999 which was jointly organized by North West University and Shaanxi MBA College. He is currently the Honorable Chairman of MBA Association of Northwest University, 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). He was granted an honor of "2006 The Outstanding Contributions Experts in Shaanxi Province" (陝西省有突出貢獻專家). Mr. Zhuo is also a member of the Tenth Session Shaanxi Provincial Political Consultative Committee (陝西省十屆政協委員會) and the vice chairman of the National Organization of Agriculture Industry under All-China Federation of Industry and Commerce (全國工商聯農業產業商會). Mr. Zhuo is currently an executive director and Chief Executive Officer of Sino Union Energy Investment Group Limited (Stock Code: 346), which is listed on the main board of the Stock Exchange.

Ms. Xie Yi Ping, aged 48, is an accountant in the PRC. Ms. Xie had more than 20 years of experience working in finance departments of several companies before she joined the Group. Ms. Xie graduated from Shaanxi University of Finance and Economics with a Bachelor's Degree in accounting in 1997. Ms Xie is currently an executive director of Sino Union Energy Investment Group Limited (Stock Code: 346), the shares of which are listed on the main board of the Stock Exchange.

Dr. Yu Heng Xiang, aged 42, is a professor in Department of Resources and Environmental Engineering in Guilin University of Technology. He holds a Bachelor's degree in Geology, specializing in Exploration Geochemistry and a Master's Degree in Geology, specializing in Mining Exploration and Survey from Guilin University of Technology and a doctorate in Geology, specializing in Structural Geology from Changsha Institute of Geotectonics, Chinese Academy of Sciences. Dr. Yu joined the Group in April 2008.

Mr. Ng Tang, aged 50, is an executive director of China Best Group Holding Limited (Stock Code: 370), the shares of which are listed on the main board of the Stock Exchange and the principal activities of which include, according to its latest published annual report, freight forwarding (including provision of related global logistics services) and raw coal mining and coke manufacturing. He is currently an independent non-executive director of Sino Union Energy Investment Group Limited, a company listed on the main board of the Stock Exchange, (Stock Code: 346). Mr. Ng has over 15 years' experience in corporate management both in Hong Kong and the PRC. He graduated from East China University of Politics and Law Department. Mr. Ng joined the Group in February 2005.

Biographical Details of Directors and Senior Management

Mr. Xu Bing, aged 42, 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. 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 38, graduated with a Bachelor's Degree in investment management from Zhongnan University of Finance and Economics, and a Master's Degree in finance from Nankai University, the PRC. Mr. Kang is a seasoned banker who began his banking career in China Construction Bank Shenzhen Branch in 1995. He was appointed as sub-branch manager in 2001. During the period, Mr. Kang was mainly responsible for credit analysis and management and business operation. From 2005 to 2008, Mr. Kang worked at the Shenzhen Development Bank where he was a sub-branch manager and director of personal finance of Shenzhen Branch. In 2008, Mr. Kang joined Shenzhen First Create Investment Limited, a company whose majority shareholding is owned by Mr. Mei Wei, a substantial shareholder of the Company. Mr. Kang is currently Vice President of Shenzhen First Create Investment Limited. He joined the Group in June 2009.

Ms. Han Qiong, aged 31, graduated with a Bachelor's Degree in financial management from Peking University, Beijing, the PRC 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) and a certified tax agent (practicing) in China. Before joining the Company as an executive Director, Ms. Han was 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. Chau Kam Wing, Donald, aged 48, has over 20 years of experience in auditing, taxation and financial management and had been appointed as financial controller of a number of companies listed in Hong Kong. Mr. Chau obtained a Master Degree in Business Administration from the University of San Francisco, United States in 2000. He is also a fellow member of The Association of Chartered Certified Accountants and a practicing member of the Hong Kong Institute of Certified Public Accountants. Mr. Chau is an independent non-executive director of China Water Affairs Group Limited (stock code: 855), Carpenter Tan Holdings Limited (stock code: 837) and Zhejiang Shibao Company Limited (stock code: 1057), which are listed on the main board of the Stock Exchange. Mr. Chau is also an independent non-executive director of Eco-Tek Holdings Limited (stock code: 8169), which is listed on the Growth Enterprise Market of the Stock Exchange. Mr. Chau has been appointed as an independent non-executive Director since 12 June 2008.

Mr. Chen Mingxian, aged 43, obtained a Master's Degree in Business Administration from Guanghua School of Management of Peking University, the 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. Mr. Chen has been appointed as an independent non-executive Director since September 2009.

Biographical Details of Directors and Senior Management

Mr. Liu Yaosheng, aged 37, graduated with a Bachelor's Degree in computer information systems from Windsor University, Canada in 1999. Mr. Liu also obtained a Master's Degree in Business Administration from Wilfrid Laurier University, Waterloo, Ontario, Canada in 2004. Mr. Liu started his career as a fund manager in Investors Group, Canada starting from 2000. Currently, Mr. Liu is the research director of Cypress House Asset Management Company Limited in Hong Kong, in which he manages assets in excess of HK$3 billion. Mr. Liu is an experienced fund manager with global investment experience. He is familiar with Hong Kong investment environment and has broad connection with the investment banking industry.

SENIOR MANAGEMENT

Mr. Tsang Chung Sing, Edward, aged 56, is the director of business development of the Company. 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 38, is the Financial Controller of the Group. Ms. Liu 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.

MANAGEMENT TEAM

Mr. Mei Ping, He holds several positions of the Company including, chairman of the Board, executive Director and general Manager. He graduated with a master degree in 1989. He is the elder brother of Mr. Mei Wei, who is a substantial shareholder of the Company.

Mr. Mei Wei, aged 47, 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, 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, a company that he formed in Shenzhen, the PRC in 2002 began to invest in zinc and lead mines in the PRC. 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's 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

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 year ended 31 December 2010 had been classified as a discontinued operation.

MARKET REVIEW

Lead

Total global supply of lead for this year stood at 9.401 million tons whilst total consumption was only 9.353 million tons, representing a supply surplus of 48,000 tons. There was a 9,000 tons cut in supply surplus of 57,000 tons recorded for the same in last corresponding period.

World refined lead supply and usage

	2010	2009
January-December		
Metal production (ton)	**9,401,000**	8,866,000
Metal usage (ton)	**9,353,000**	8,809,000
Surplus (ton)	**48,000**	57,000

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

Although we are still witnessing a supply surplus for this year, the size of the surplus has been reduced from 57,000 tons for the same in 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 the PRC may turn from a net lead export to a net import country gradually.

Zinc

Total global supply of zinc was 12,764,000 tons for this year whilst total consumption was 12,500,000, representing a surplus of 264,000 tons. When compared to the supply surplus of 446,000 tons for the same in last corresponding period, there was a substantial reduction of 182,000 tons.

World refined Zinc supply and usage

	2010	2009
January-December		
Metal production (ton)	**12,764,000**	11,263,000
Metal usage (ton)	**12,500,000**	10,817,000
Surplus (ton)	**264,000**	446,000

Source: ILZSG

The zinc market is still being over supplied despite the fact that surpluses have narrowed this year when compared to the same in last corresponding period. 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. Total gross profit margin reduced significantly as a result of increase in trading income which carries a much lower gross profit margin.

Revenue and gross profit margin by segment is as follows:

	2010		2009	
	RMB'000	**%**	RMB'000	%
Fertilizers (classified as a discontinued operation)	**7,079**	N/A	117,229	N/A
Continuing operations				
Nonferrous Metal Mining	**167,588**	**34.05%**	102,445	38.07%
Service income	**30,855**	**6.27%**	–	–
Metal Trading	**293,620**	**59.68%**	166,600	61.93%
	492,063		269,045	

Gross profit margin by segment is as follows:

	2010	2009
Fertilizers (classified as a discontinued operation)	**17.76%**	23.54%
Nonferrous Metal Mining	**37.87%**	38.84%
Service income	**N/A**	–
Metal Trading	**5.72%**	36.22%
Overall gross profit margin of continuing operations	**22.58%**	37.20%

Overall decrease in the gross profit margin of the Group was as follows:

(1) Significant dropped of gross profit margin in the metal trading business was due to (i) keen price competition with other competitors in order to increase the market share during the year; and (ii) the absence 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 in 2009. Tailing mine is a residual substance after removal of zinc and lead elements from raw ores which carries a very low production value. Such contract contributed to a high gross profit margin of the Group in 2009.

(2) Gross profit decrease in the nonferrous metal mining while compared with 2009 was mainly due to (i) full year depreciation expense arisen from the completion of production capacity at the mine whilst only 9 months of the year was accounted for in 2009; (ii) increased operation expenses such as labor, electricity, raw material cost and other production costs; (iii) increased amortization of mining right as a result of the increase in the unit of production.

Revenue

Turnover for the year ended 31 December 2010 was approximately RMB492.1 million, representing an increase of approximately RMB223.0 million or approximately 82.9% as compared to the turnover recorded last year.

The increase in turnover for the year was substantially due to (1) increased production of our mining operations located in Inner Mongolia; and (2) favourable metal prices for our mining products. After a long period of testing and calibration for the new 600,000 tons 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 2009.

The gross profit has increased by approximately RMB11.0 million from approximately RMB100.1 million for the year ended 31 December 2009 to approximately RMB111.1 million for the year ended 31 December 2010. The increase was attributable to (i) an agency income from nonferrous trading business; (ii) increase in metal trading volumes; and (iii) increase in production volume and selling price. However, the gross profit margin has decreased by approximately 14.6% from approximately 37.2% for the year ended 31 December 2009 to approximately 22.6% for the year ended 31 December 2010. 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 the incremental 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 year ended 31 December 2010 and 2009:

	2010			2009		
	Sales volume approximately (ton)	**Selling price approximately (RMB/ton)**	**Total Revenue approximately (RMB'000)**	Sales volume approximately (ton)	Selling price approximately (RMB/ton)	Total Revenue approximately (RMB'000)
Zinc concentrates	**18,852**	**10,140.67**	**191,172**	12,765	8,177.90	104,391
Lead concentrates, crude lead and lead ingots	**14,404**	**14,104.48**	**203,161**	8,819	10,145.02	89,469
Sulphuric acid	**40,533**	**232.99**	**9,444**	27,898	163.05	4,549
Silver	**14**	**3,074,357.14**	**43,041**	7.145	2,414,975.50	17,255
Gold (gram)	**8,317**	**547.55**	**4,554**	12,269	171.08	2,099
Iron concentrates	**3,736**	**670.04**	**2,503**	–	–	–
Copper concentrates and copper cathode	**157**	**46,707.01**	**7,333**	–	–	–
Tail mine	–	–	–	1,200,000	42.735	51,282
Service income	–	–	**30,855**	–	–	–
			492,063			269,045

OTHER INCOME

During the year, total other income was approximately RMB32.0 million representing an increase of approximately RMB27.4 million or approximately 602.6% as compared with approximately RMB4.6 million of 2009.

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 year ended 31 December 2010, the Group recorded a profit on future contracts of approximately RMB94.0 million (2009: approximately RMB72.2 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 year amounted to approximately RMB7.9 million, as compared to approximately RMB10.5 million reported last year. The decrease was attributable to the fact that our suppliers typically delivered the nonferrous metal to our customers at their expense for the metal trading business.

Administrative expenses for the year increased to approximately RMB42.2 million, as compared to approximately RMB41.8 million reported 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 during the year.

Finance costs

Finance cost for the year ended 31 December 2010 amounted to approximately RMB42.8 million, representing a decrease of approximately RMB10.3 million compared with the same in 2009. The decrease was due to the repayment of loans.

Profit for the period attributable to owners of the Company

The net profit for the year ended 31 December 2010 increased to approximately RMB76.3 million, an increase of approximately RMB14.6 million or 23.6%. Excluding the employee share options expenses, the net profit increased by approximately RMB48.4 million or 71.0%.

Net profit recorded in the year 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.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

Shareholders' Funds

The Group adopts a prudent policy for its financial resources management. The Group had bank and cash balances of approximately RMB14.68 million, as compared to approximately RMB49.59 million reported last year.

Total shareholders' funds amounted to approximately RMB1,047.0 million, an increase of approximately 57.7% as compared to approximately RMB663.8 million reported at 31 December 2009.

FINANCIAL POSITION

As at 31 December 2010, the outstanding borrowings of the Group amounted to approximately RMB99.3 million (2009: approximately RMB264.9 million), comprising of short term bank and other borrowings repayable within one year of approximately RMB97.7 million (2009: approximately RMB231.8 million). The Group has long term other borrowings repayable after one year of approximately RMB1.6 million (2009: approximately RMB33.1 million).

As at 31 December 2010, the total asset value of the Group was approximately RMB2,253.6 million (2009: approximately RMB2,142.5 million). Total liabilities was approximately RMB903.2 million (2009: approximately RMB1,130.6 million). Gearing ratio of the Group, calculated as total liabilities excluding minority interest over total assets was approximately 40.0% (2009: approximately 52.8%).

FOREIGN EXCHANGE EXPOSURE

The Group has bank balances, sales and purchases denominated in foreign currencies which expose the Group to foreign currency risk. The currency risk for those subsidiaries with functional currency in Hong Kong Dollars ("HKD") were mainly attributable to the bank balances, trade receivables, trade payables denominated in United States Dollars ("USD") as at the end of the reporting period. As the exchange rate of HKD is pegged against USD, the Directors were of the opinion that the currency risk of USD was insignificant to the Group.

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.

PLEDGE OF ASSETS

As at 31 December 2010, the Group had the following pledged assets:

(i) charges over the Group's property, plant and equipment in which their aggregate carrying amount as at 31 December 2010 was RMB136.5 million (2009: RMB139.7 million);

(ii) charges over the Group's mining rights in which the carrying amount as at 31 December 2010 was RMB1,061.6 million (2009: RMB1,076.3 million);

(iii) charges over the Group's prepaid land lease payment in which their aggregate carrying amount as at 31 December 2010 was RMB2.0 million (2009: RMB2.1 million);

(iv) charges over the Group's pledged bank deposit of RMB3.5 million (2009: RMB28.5 million).

Save as disclosed above, the Group had no other pledge of assets as at 31 December 2010.

CONTINGENT LIABILITIES

As at 31 December 2009, the Group was the defendant in a pending litigation and dispute arising from a sale and purchase agreement of mineral resources (the "Relevant Agreement") with a customer. The customer claimed against a PRC Mining Subsidiary 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 costs in connection with this pending litigation and dispute.

Upon the guidance of the relevant PRC courts, a settlement plan, which was endorsed by the PRC courts on 17 August 2010, had been reached between the PRC Mining Subsidiary and the claimant for the litigation, pursuant to which:

1. The parties agree to release the other from the obligations under the Relevant Agreement. Hence, the Relevant Agreement shall become null and void;

2. In consideration for the deposit of RMB20,000,000 already paid by the claimant to the PRC Mining Subsidiary, the PRC Mining Subsidiary agrees to keep available an aggregate amount of 320,000 tons of mineral tailings for claimant's collection for a period of five years commencing 1 August 2010. Alternatively, the claimant may, during this period, request the PRC Mining Subsidiary to process such mineral tailings on its behalf; and

3. If the 320,000 tons of mineral tailings are not collected within the five-year period mentioned above, the PRC Mining Subsidiary agrees to extend the five-year period for collection or processing for an additional twelve months. After expiry of the extended twelve-month period, the claimant shall be deemed to have waived its right to the 320,000 tonnes of mineral tailings and the PRC Mining Subsidiary shall not be liable for or be required to refund the deposit of RMB20,000,000 to the claimant in such event.

As at 31 December 2010, 320,000 tons of mineral tailings had not yet been collected by claimant.

EMPLOYEE INFORMATION

As at 31 December 2010, the Group had approximately 364 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 remunerates its employees in accordance with their work performance and experience.

Total employees' remuneration incurred for the year ended 31 December 2010 amounted to approximately RMB60.2 million (2009: approximately RMB16.8 million). The Directors received remuneration of approximately RMB2.3 million during the year ended 31 December 2010 (2009: approximately RMB1.2 million).

THE NONFERROUS METALS MARKET IN PRC AND PROSPECT

The output of 10 nonferrous metals, including aluminum and copper, rose approximately 23.9% year on year to approximately 26.14 million tons in the first 10 months of 2010 in the PRC. The output of lead climbed approximately 8.8% to approximately 3.35 million tonnes and that of zinc rose approximately 21.0% to approximately 4.26 million tonnes. The lead and zinc refined production contributed approximately 44.7% and 40.5% respectively to global production of nonferrous metals.

According to the overall guideline for the nonferrous metal industrial development during "The 12th Five-Year Plan" period (2011-2015), the PRC government would regulate the production level and the combined output of 10 nonferrous metals, which included copper, aluminum, lead and zinc, would be limited to 41 million tonnes by 2015. To cope with the targets set in the Nonferrous Metal Industry Promotion Planning《有色金屬產業調整和振興規劃》announced in May 2009, the sector would focus on meeting domestic market demand. Meanwhile, it would make best use of resources both domestic and abroad, vigorously develop a circular economy, control blind expansion of smelting capacity, eliminate backward production capacity and increase independent innovation, so as to promote industrial restructuring and upgrading.

China Nonferrous Metals Industry Association predicted the apparent consumption of the 4 basic nonferrous metals would reach approximately 43.8 million tons in 2015, of which approximately 8.3 million tons, approximately 24 million tons, approximately 5 million tons and approximately 6.5 million tons are copper, aluminum, lead and zinc respectively. Thus, emphasis would also be given to the control of extra smelting capacity development. In addition to output limit, the nonferrous metal sector would vigorously enhance the additional value of products and develop the downstream processing industry.

In view of the aforesaid favourable market sentiment in the nonferrous metals industry, 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 2010 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 2010.

BOARD OF DIRECTORS

The Board comprises eleven Directors, of whom eight being executive Directors (including the chairman of the Board), and three being independent non-executive Directors. The Directors' profile is set out on pages 9 to 11 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. Mei Ping *(chairman of the Board and general manager) (appointed on 26 November 2010)*	0/2
Mr. Zhuo Ze Fan	0/39
Ms. Xie Yi Ping	3/39
Dr. Yu Heng Xiang	2/39
Mr. Ng Tang	0/39
Mr. Xu Bing	1/39
Mr. Kang Hongbo	38/39
Ms. Han Qiong	35/39

Independent non-executive Directors	Attendance
Mr. Chen Mingxian	6/39
Mr. Chau Kam Wing, Donald	9/39
Mr. Zhao Shou Guo *(resigned on 18 June 2010)*	0/21
Mr. Liu Yaosheng *(appointed on 18 June 2010)*	5/18

Each of Mr. Liu, Mr. Chau and Mr. Chen is appointed for successive term of 1 year. Their appointment are renewable upon expiry and all of them 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. Mei Ping is the chairman of the Board 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 all 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. Mei Ping, 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. Liu Yaosheng 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.

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, two 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. Mei Ping (who is the chairman of the Nomination Committee), Mr. Liu Yaosheng 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, two meetings (in which all members of nomination committee were present for all meetings) were held for approving the appointment of Mr. Han Qiong and Mr. Liu Yaosheng 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 CONTROLS

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. The procedures provide reasonable but not absolute assurance against material errors, losses or fraud.

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

Currently, the Group's external auditors are BDO Limited. For the year ended 31 December 2010, the remuneration paid and payable to the auditors of the Company, BDO Limited, for provision of audit services were approximately RMB700,000. During the year ended 31 December 2010, approximately RMB80,000 was paid and payable to the Company's auditors, Grant Thornton (resigned on 22 November 2010) and BDO Limited (appointed on 22 November 2010) for provision of non-audit services during the year ended 31 December 2010. The Audit Committee approved the appointment of BDO Limited 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. Liu Yaosheng, Mr. Chau Kam Wing, Donald (who is the chairman of the Audit Committee) and Mr. Chen Mingxian. Before the resignation of Mr. Zhao Shou Guo on 18 June 2010. Mr. Zhao was a member of audit committee. After Mr. Zhao's resignation, Mr. Liu Yaosheng joined the Board and the Audit Committee since 18 June 2010. 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 2010, all of which were attended by all members at the time of relevant meeting. The Group's 2010 quarterly and interim reports and 2010 annual report have been reviewed by the Audit Committee.

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 35 to 36 of this annual report.

Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2010.

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 for completion of the disposal of entire equity interest of the fertilizer business on 31 March 2010, 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 2010 are set out in the consolidated income statement on page 37 to 38 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.

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 32 to the consolidated financial statements.

In order to increase the Group's general working capital and used for future investment in the mining business in PRC, the Company has carried out the following activities:

(a) 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 and raised consideration of approximately HK$56.6 million and HK$15.4 million (before expenses) respectively.

(b) On 17 March 2010, the Company issued convertible bonds in the principal aggregate amount of approximately HK$30 million due 2012 at its face value and gross proceeds was approximately of HK$30 million.

(c) On 2 August 2010, 717 million 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 million new shares (subject to adjustments) will fall to be issued and allotted for up to approximately HK$186.4 million in cash. The placing of warrants was completed on 2 August 2010. The gross proceeds on the issue of warrants was HK$7.2 million and the net proceeds (after deducting transaction cost) of HK$6.0 million, were recognised in warrant reserve in equity. The exercise period of the Warrants is from the date of listing of the Warrants up to 1 August 2012.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the Consolidated Statement of Changes in Equity on pages 45 to 46 of this annual report and in note 34 to the financial statements respectively.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders at 31 December 2010 and 2009 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.

DONATIONS

Charitable donations made by the Group during the year amounted to approximately RMB5.1 million.

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
Ms. Han Qiong
Mr. Mei Ping *(appointed on 26 November 2010)*

Independent non-executive Directors:
Mr. Chau Kam Wing, Donald
Mr. Chen Mingxian
Mr. Liu Yaosheng *(appointed on 18 June 2010)*
Mr. Zhao Shou Guo *(resigned on 18 June 2010)*

In accordance bye-law clause 87 of the Company's bye-laws, Mr. Mei Ping, Mr. Zhuo Ze Fan, Ms. Xie Yi Ping, Dr. Yu Heng Xiang, Mr. Xu Bing, Mr. Liu Yaosheng and Mr. Chau Kam Wing, Donald will retire and, being eligible, save for Mr. Chau Kam Wing, Donald who will not offer himself for re-election due to his other engagement, Mr. Mei Ping, Mr. Zhuo Ze Fan, Ms. Xie Yi Ping, Dr. Yu Heng Xiang, Mr. Xu Bing and Mr. Liu Yaosheng will 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 9 to 11 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. Mei, Ms. Xie and Mr. Zhuo 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. Mei, Ms. Xie and Mr. Zhuo 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, Mr. Chen and Mr. Liu 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. Due to other engagement, Mr. Chau Kam Wing, Donald will not offer himself for re-election in the forthcoming AGM.

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

As at 31 December 2010, 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 in accordance with 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*

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	0.2%	4 Dec 09	4 Dec 2010 to 3 Dec 2014	HK$0.26
Ng Tang	Beneficial owner	3,000,000	0.06%	4 Dec 09	4 Dec 2010 to 3 Dec 2014	HK$0.26
Kang Hongbo	Beneficial owner	1,500,000	0.03%	20 May 09	20 Mar 2010 to 19 May 2014	HK$0.234
	Beneficial owner	10,000,000	0.2%	4 Dec 09	4 Dec 2010 to 3 Dec 2014	HK$0.26
	Subtotal:	11,500,000				
Han Qiong	Beneficial owner	4,000,000	0.08%	4 Dec 09	4 Dec 2010 to 3 Dec 2014	HK$0.26

Save as disclosed herein, as at 31 December 2010, 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 on 16 February 2005. A summary of the principal terms and conditions of the share option scheme is set out in note 33 to the financial statements. Up to 31 December 2010, 596,710,000 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 2010, 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:

Name of Shareholders	Type of interests	Position	Number of Shares	Approximate percentage
Ruffy Investments Limited *(Note)*	Beneficial owner	Long	2,343,352,050	48.89%
Mr. Mei Wei *(Note)*	Interest in controlled corporation	Long	2,343,352,050	48.89%
	Beneficial owner	Long	419,560,000	8.75%
			2,762,912,050	57.64%

Notes:

As at 31 December 2010, Ruffy Investments Limited, a wholly owned corporation of Mr. Mei Wei, is interested in 419,560,000 Shares. Mr. Mei Wei is deemed to be interested in those 419,560,000 shares by virtue of section 336 of Securities and Futures Ordinance controlled corporation.

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 2010.

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 59% of the total purchases of the Group and the largest supplier accounted for approximately 46% of the total purchases of the Group. The aggregate sales attributable to the Group's five largest customers during the year accounted for approximately 95% of the total sales of the Group and sales to the largest customer included therein amounted to approximately 66%.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Connected Transactions

Relationship between the Group and each of the relevant connected persons

Ruffy Investments Limited, a company incorporated in the British Virgin Islands, is wholly owned by Mr. Mei Wei, who is a substantial shareholder of the Company. Ruffy Investments Limited is considered to be a connected person to the Company.

深圳市冠欣投資有限公司 and 深圳市冠欣礦業集團有限公司 (collectively referred as "First Create Group"), these companies established under the laws of the PRC with limited liability which are beneficially owned as to 53% and 55% respectively by Mr. Mei Wei. First Create Group is a connected person to the Company under the GEM Listing Rules.

(a) *Placement of 200,000,000 new shares to Ruffy Investments Limited*

Reference is made to the circular of the Company dated 27 October 2010, on 6 October 2010 (after trading hours), the Company entered into the subscription agreement with Ruffy Investments Limited ("the "Subscriber"). Pursuant to which the Company has conditionally agreed to allot and issue 200,000,000 Shares ("the Subscription Shares") at the subscription price of HK$0.25 per subscription share to the Subscriber for offsetting the amount of HK$50 million due and payable by the Company to the Subscriber. The Subscription Shares are not subject to any lock-up provisions, and the Subscriber is free to transfer any of the Subscription Shares as it considers desirable after completion of the subscription. As at the date of the promotion Mr. Mei Wei, the Subscriber and their respective associates in aggregate held approximately 11.47% of the then entire issued share capital of the Company and Mr. Mei Wei was a director of a subsidiary of the Company. The transaction was duly passed by the independent shareholders at the special general meeting of the Company held on 12 November 2010 and it was completed on 15 November 2010.

(b) *Grant of 358,510,000 share options to Mr. Mei Wei*

Reference is made to the circular of the Company dated on 9 July 2010, the Company had conditionally resolved to grant 358,510,000 options to Mr. Mei for him to subscribe for Shares at HK$0.2460 per share on 31 May 2010 and validity period of the options was from 28 July 2010 to 30 May 2015. The transaction was duly passed by the independent shareholders at the special general meeting of the Company held on 28 July 2010.

Continuing Connected Transactions

As the Group would like to enlarge the metal trading transactions with First Create Group, it therefore entered into a new zinc supply agreement (the "Zinc Supply Agreement"), a new lead supply agreement (the "Lead Supply Agreement"), a new copper supply agreement (the "Copper Supply Agreement"), a new zinc procurement agreement (the "Zinc Procurement Agreement"), a new lead procurement agreement (the "Lead Procurement Agreement") and a new copper procurement agreement (the "Copper Procurement Agreement") (collectively referred as "Zinc, Lead and Copper Agreement") with First Create Group on 31 May 2010.

As stated in the circular of the Company dated 9 July 2010, the transactions contemplated under Zinc, Lead and Copper Agreement entered into between the Group and First Create Group 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 shareholders' approval for the above transactions was obtained on 28 July 2010. On 28 July 2010, a special general meeting was held and the independent shareholders had approved the Zinc, Lead and Copper Agreement. As Mr. Mei Wei and his associates had a material interest in the transactions contemplated under Zinc, Lead and Copper Agreement, they abstained from voting on the resolutions passed in the special general meeting held on 28 July 2010 pursuant to the GEM Listing Rules. All the resolutions were validly passed.

The annual cap amounts for the zinc, lead and copper products for each of the three financial years ending 31 December 2012 are as follows:

Agreement	Product	For the financial year end 31 December 2010 RMB million	For the financial year end 31 December 2011 RMB million	For the financial year end 31 December 2012 RMB million
Zinc Supper Agreement	Zinc concentrates and ingots	1,134	2,005	3,440
Lead Supper Agreement	Lead concentrates, crude lead, refined lead and lead ingots containing gold and/or silver	513	980	2,080
Copper Supper Agreement	Copper concentrates, copper cathodes and copper ingots containing gold and/or silver	6,832	11,664	15,222
Zinc Procurement Agreement	Zinc concentrates and ingots	630	1,025	1,490
Lead Procurement Agreement	Lead concentrates, crude lead, refined lead and lead ingots containing gold and/or silver	246	464	880
Copper Procurement Agreement	Copper concentrates, copper cathodes and copper ingots containing gold and/or silver	296	705	1,444

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 confirming that the continuing connected transactions with the following findings:

(i) the continuing connected transactions have received the approval of the Board;

(ii) the management considered that the sales of lead concentrates, crude 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 crude lead and lead ingots are stated in the said agreements, and based on understand from the management, the sales of crude 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 2010 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 Company and its shareholders as a whole.

Save as disclosed herein and elsewhere in the financial statements, (i) there were no other transactions which need to be disclosed as connected or continuing connected transactions in accordance with the requirements of the GEM Listing Rules; and (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 33 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 20 to 23 of the annual report.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

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 and Mr. Chen Mingxian.

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 2010.

EVENTS AFTER THE REPORTING DATE

Details of significant events occurring after the reporting date are set out in note 41 to the consolidated financial statements.

AUDITORS

The financial statements in respect of the previous two financial years were audited by Grant Thornton ("GTHK"), now known as JBPB & Co. Due to a merger of the businesses of GTHK and BDO Limited ("BDO") to practise in the name of BDO, GTHK resigned and BDO was appointed as auditors of the Company effective from 22 November 2010. The financial statements for the year ended 31 December 2010 were audited by BDO.

A resolution will be submitted to the forthcoming annual general meeting to re-appoint BDO Limited as auditors of the Company.

On behalf of the Board
China Nonferrous Metals Company Limited

Mei Ping
Chairman

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

25 March 2011

Independent Auditor's Report

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TO THE SHAREHOLDERS 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") and its subsidiaries (together "the Group") set out on pages 37 to 124, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated income statement, consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, 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 about whether the consolidated financial statements are free from material misstatement.

Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2010 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.

BDO Limited
Certified Public Accountants
Lo Ngai Hang
Practising Certificate Number P04743

Hong Kong, 25 March 2011

Consolidated Income Statement

For the year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Continuing operations			
Revenue	5	**492,063**	269,045
Cost of sales		**(380,950)**	(168,972)
Gross profit		**111,113**	100,073
Other income	5	**31,998**	4,554
Change in fair value of derivative financial instruments		**93,980**	72,205
Selling and distribution costs		**(7,932)**	(10,509)
Administrative expenses		**(42,228)**	(41,756)
Equity-settled share options expenses		**(40,388)**	(6,544)
Profit from operation	7	**146,543**	118,023
Finance costs	8	**(42,780)**	(53,038)
Profit before income tax		**103,763**	64,985
Income tax expense	9	**(36,274)**	(295)
Profit for the year from continuing operations		**67,489**	64,690
Discontinued operation			
Gain/(Loss) for the year from a discontinued operation	10	**8,779**	(3,006)
Profit for the year		**76,268**	61,684

Consolidated Income Statement

For the year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Attributable to:			
Owners of the Company		**71,032**	58,303
Non-controlling interests		**5,236**	3,381
Profit for the year		**76,268**	61,684
Continuing operations			
Attributable to:			
Owners of the Company		**61,527**	60,268
Non-controlling interests		**5,962**	4,422
Profit for the year		**67,489**	64,690
Discontinued operation			
Attributable to:			
Owners of the Company		**9,505**	(1,965)
Non-controlling interests		**(726)**	(1,041)
Gain/(Loss) for the year		**8,779**	(3,006)
Earnings per share	13		
Basic			
– For profit from continuing and discontinued operations		**1.81 cents**	2.13 cents
– For profit from continuing operations		**1.57 cents**	2.20 cents
Diluted			
– For profit from continuing and discontinued operations		**1.64 cents**	1.64 cents
– For profit from continuing operations		**1.49 cents**	1.67 cents

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
Profit for the year	**76,268**	61,684
Other comprehensive income		
Exchange differences arising on translation of foreign operations	**2,138**	(443)
Reclassification adjustment – Disposal of subsidiaries	**(8,305)**	–
Total other comprehensive income for the year	**(6,167)**	(443)
Total comprehensive income for the year attributable to owners of the Company	**70,101**	61,241
Attributable to:		
Owners of the Company	**64,865**	57,860
Non-controlling interests	**5,236**	3,381
	70,101	61,241

Consolidated Statement of Financial Position

As at 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	**345,318**	319,965
Intangible assets	16	**1,061,640**	1,076,337
Prepaid land lease payments	17	**2,007**	2,050
Deposits	19	**66,043**	41,082
Deferred tax assets	31(a)	**251**	251
		1,475,259	1,439,685
Current assets			
Inventories	20	**63,202**	49,881
Prepaid land lease payments	17	**42**	42
Trade and note receivables	21	**306,938**	84,680
Other receivables, deposits and prepayments	22	**323,688**	169,296
Financial assets at fair value through profit and loss	29	**12,182**	–
Amounts due from related companies	23	**57,610**	96,664
Pledged bank deposits	24	**3,501**	28,452
Cash and bank balances	24	**11,174**	21,140
		778,337	450,155
Assets classified as held for sale	10	**–**	252,676
		778,337	702,831
Current liabilities			
Trade payables	25	**108,713**	52,041
Other payables and accrued charges	26	**68,618**	50,665
Amounts due to related companies	27	**14,140**	2,077
Financial liabilities at fair value through profit and loss	29	**14,090**	–
Amounts due to former and non-controlling equity holders of subsidiaries	27	**5,022**	5,022
Borrowings	28	**97,667**	231,809
Provision for tax		**76,102**	47,022
		384,352	388,636
Liabilities directly associated with assets classified as held for sale	10	**–**	63,025
		384,352	451,661
Net current assets		**393,985**	251,170
Total assets less current liabilities		**1,869,244**	1,690,855

Consolidated Statement of Financial Position

As at 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Non-current liabilities			
Borrowings	28	**1,610**	33,130
Convertible bonds	30	**253,967**	378,834
Deferred tax liabilities	31(b)	**263,251**	267,011
		518,828	678,975
Net assets		**1,350,416**	1,011,880
EQUITY			
Equity attributable to owners of the Company			
Share capital	32	**1,828**	1,224
Reserves	34	**1,045,122**	662,590
		1,046,950	663,814
Non-controlling interests		**303,466**	348,066
Total equity		**1,350,416**	1,011,880

On behalf of the Board

Mei Ping **Kang Hongbo**

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Cash flows from operating activities			
Profit before income tax from continuing operations		**103,763**	64,985
Gain/(Loss) before income tax from discontinued operation	10	**8,779**	(3,256)
Profit before income tax		**112,542**	61,729
Adjustments for:			
Finance costs	8	**42,926**	57,630
Interest income	5	**(249)**	(366)
Equity-settled share options expenses		**40,388**	6,544
Depreciation of property, plant and equipment	15	**13,370**	13,835
Amortisation of prepaid land lease payments	17	**232**	781
Amortisation of intangible assets	16	**14,718**	9,917
Loss on disposal of property, plant and equipment		**–**	471
Written off of property, plant and equipment	15	**–**	70
Provision of impairment loss recognised on trade and note receivables	21	**–**	3,179
Reversal of impairment loss recognised on other receivables	22	**–**	(685)
Gain on revising the estimated future cash flow of liability component of convertible bonds after the partial offset	5	**–**	(3,527)
Gain on disposal of subsidiaries		**(10,852)**	–
Operating profit before working capital changes		**213,075**	149,578
Increase in inventories		**(13,188)**	(29,656)
Increase in trade and note receivables		**(222,054)**	(76,626)
Increase in other receivables, deposits and prepayments		**(153,770)**	(120,071)
Decrease in amounts due from related companies		**39,054**	102,797
Increase in trade payables		**57,029**	33,522
Increase in other payables and accrued charges		**26,678**	18,184
Increase in amounts due to related companies		**12,256**	1,877
Increase/(Decrease) in derivative financial instruments		**1,908**	(29)
Cash (used in)/generated from operations		**(39,012)**	79,576
Income tax paid		**(10,970)**	(4,271)
Net cash (used in)/generated from operating activities		**(49,982)**	75,305

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Cash flows from investing activities			
Deposits paid for acquisition of property, plant and equipment		**(5,123)**	(4,673)
Purchase of property, plant and equipment		**(23,138)**	(102,160)
Purchase of prepaid land lease payments		**–**	(2,114)
Interest received		**249**	366
Acquisition of non-controlling interest		**–**	(40)
Deposit paid for acquisition of a subsidiary		**(27,674)**	(24,750)
Decrease/(Increase) in pledged bank deposits		**24,951**	(28,452)
Disposal of subsidiaries (net of cash and cash equivalents disposed)		**33,164**	-
Transaction costs of disposal of subsidiaries		**(1,069)**	–
Net cash generated from/(used in) investing activities		**1,360**	(161,823)
Cash flows from financing activities			
Issue of new shares	32	**106,200**	26,873
Share issue expenses		**(3,295)**	(1,304)
Share repurchase		**–**	(1,456)
Share repurchase expenses		**–**	(16)
Share options exercised	32	**10,066**	3,987
Shares sub-division expenses		**–**	(119)
Issue of convertible bonds		**26,383**	–
Convertible bonds conversion expenses		**(24)**	(13)
New bank and other borrowings raised		**–**	291,700
Repayment of bank and other borrowings		**(167,373)**	(180,157)
Interest paid on bank and other borrowings		**(14,008)**	(15,456)
Interest paid on convertible bonds		**(6,250)**	(19,866)
Interest paid on finance lease liabilities		**(34)**	(22)
Capital element on finance lease liabilities		**(471)**	(98)
Issue of warrants		**6,256**	–
Warrants issue expenses		**(942)**	–
Net cash (used in)/generated from financing activities		**(43,492)**	104,053
Net (decrease)/increase in cash and cash equivalents		**(92,114)**	17,535
Cash and cash equivalents at beginning of year		**111,338**	94,148
Effect of foreign exchange, net		**(8,050)**	(345)
Cash and cash equivalents at end of year		**11,174**	111,338

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Analysis of cash and cash equivalents			
Continuing operations:			
Cash and bank balances		**11,174**	21,140
Discontinued operation (note 10):			
Balances with non-bank financial institutions		**–**	14
Cash and bank balances		**–**	90,184
		–	90,198
		11,174	111,338

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Attributable to owners of the Company																
	Share capital RMB'000	Share premium RMB'000	Treasury shares (note 32(e)) RMB'000	Warrant reserve (note 34(ii)) RMB'000	Capital redemption reserve RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000	Translation reserve RMB'000	Special reserve RMB'000	Specific reserve RMB'000	Other reserve RMB'000	Share option reserve RMB'000	Convertible bonds equity reserve (note 30) RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total 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 set off 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 reserves	–	–	–	–	–	–	192	–	–	–	–	–	–	(192)	–	–	–
At 31 December 2009 and 1 January 2010	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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Attributable to owners of the Company																
	Share capital RMB'000	Share premium RMB'000	Treasury shares (note 32(e)) RMB'000	Warrant reserve (note 34(ii)) RMB'000	Capital redemption reserve RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000	Translation reserve RMB'000	Special reserve RMB'000	Specific reserve RMB'000	Other reserve RMB'000	Share option reserve RMB'000	Convertible bonds equity reserve (note 30) RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2010	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
Warrants issued	–	–	–	6,256	–	–	–	–	–	–	–	–	–	–	6,256	–	6,256
Transaction costs attributable to issue of warrants	–	–	–	(942)	–	–	–	–	–	–	–	–	–	–	(942)	–	(942)
Placing and subscription of new shares	170	106,030	–	–	–	–	–	–	–	–	–	–	–	–	106,200	–	106,200
Share issue expenses	–	(3,295)	–	–	–	–	–	–	–	–	–	–	–	–	(3,295)	–	(3,295)
Issue of convertible bonds	–	–	–	–	–	–	–	–	–	–	–	–	1,343	–	1,343	–	1,343
Convertible bonds exercised	388	232,636	–	–	–	–	–	–	–	–	–	–	(74,139)	–	158,885	–	158,885
Convertible bonds exercised expenses	–	(24)	–	–	–	–	–	–	–	–	–	–	–	–	(24)	–	(24)
Share option exercised	46	12,235	–	–	–	–	–	–	–	–	–	(2,215)	–	–	10,066	–	10,066
Equity-settled share option arrangements	–	–	–	–	–	–	–	–	–	–	–	40,388	–	–	40,388	–	40,388
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(49,836)	(49,836)
Transactions with owners	604	347,582	–	5,314	–	–	–	–	–	–	–	38,173	(72,796)	–	318,877	(49,836)	269,041
Profit for the year	–	–	–	–	–	–	–	–	–	–	–	–	–	71,032	71,032	5,236	76,268
Other comprehensive income																	
Currency translation	–	–	–	–	–	–	–	2,138	–	–	–	–	–	–	2,138	–	2,138
Reclassification adjustment – Disposal of subsidiaries	–	–	–	–	–	–	–	(8,305)	–	–	–	–	–	–	(8,305)	–	(8,305)
	–	–	–	–	–	–	–	(6,167)	–	–	–	–	–	–	(6,167)	–	(6,167)
Total comprehensive income for the year	–	–	–	–	–	–	–	(6,167)	–	–	–	–	–	71,032	64,865	5,236	70,101
Share option lapsed	–	–	–	–	–	–	–	–	–	–	–	(1,847)	–	1,847	–	–	–
Disposal of subsidiaries	–	–	–	–	–	(6,782)	(9,336)	–	129	–	–	–	–	15,989	–	–	–
Utilization of specific reserve	–	–	–	–	–	–	–	–	–	(606)	–	–	–	–	(606)	–	(606)
At 31 December 2010	**1,828**	**693,192**	**–**	**5,314**	**6**	**–**	**–**	**(9,140)**	**–**	**4,737**	**6,964**	**45,605**	**120,271**	**178,173**	**1,046,950**	**303,466**	**1,350,416**

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 Clarendon 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. The principal subsidiaries of the Company's are engaged in the mining, processing and trading of mineral resources. Details of the activities of the principal subsidiaries of the Company are set out in note 18 to the financial statements. Other than the disposal transactions as described below in this note, there were no significant changes in the Group's operations during the year.

The Company entered into a conditional sale and purchase agreement (the "S&P Agreement") with a purchaser on 16 December 2009 to dispose the entire equity interest of the Group's subsidiary Sungreen Investment Limited and its subsidiaries (together referred as to the "Sungreen Group") (the "Disposal"). This transaction contemplated under the S&P Agreement was completed on 31 March 2010 (the "Completion Date"). Details of the Disposal were set out in the circular of the Company dated 8 January 2010.

The financial statements on pages 37 to 124 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 2010 were approved and authorised for issue by the board of directors on 25 March 2011.

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 2010:

IFRS 3 (Revised 2008)	Business Combinations
IAS 27 (Revised 2008)	Consolidated and Separate Financial Statements
Various	Annual Improvements to IFRSs 2009

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.

IFRS 3 (Revised 2008) Business Combinations

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 assets and liabilities, and the measurement of non-controlling interest (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, but does not have significant impact on the Group's financial statements in the current year financial positions and performance.

IAS 27 (Revised 2008) Consolidation and Separate Financial Statements

The adoption of IFRS 3R required that the revised IAS 27 ("IAS 27R") is adopted at the same time. IAS 27R introduced changes to the accounting requirements for transactions with non-controlling (formerly called "minority") interest and the loss of control of a subsidiary. Similar to HKFRS 3R, the adoption of IAS 27R is applied prospectively. The adoption of IAS 27R did not have an impact in the current period financial positions and performance.

Annual improvements to IFRSs 2009

The Annual Improvements to IFRSs 2009 ("2009 Improvements") made several minor amendments to IFRSs. The only amendment relevant to the Group relates to IAS 17 Leases. The amendment requires that leases of land are classified as finance or operating applying the general principles of IAS 17. Prior to this amendment, IAS 17 generally required a lease of land to be classified as an operating lease. The Group has reassessed the classification of the land elements of its unexpired leases at 1 January 2010 on the basis of information existing at the inception of those leases and has determined that none of its leases require reclassification.

At date of authorisation of these financial statements, certain new and amended IFRSs have been published but are not yet effective, and have not been adopted early by the Group for the year ended 31 December 2010.

2. ADOPTION OF NEW AND AMENDED IFRSs (Continued)

Annual improvements to IFRSs 2009 (Continued)

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 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 asset. 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 results and financial position in the first year of application.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with all applicable IFRSs, IASs and Interpretations (hereinafter collectively referred to as the "IFRSs") and the disclosure requirements of Hong Kong Companies Ordinance. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

(b) Basis of measurement and going concern assumption

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.1 Basis of preparation (Continued)

(b) Basis of measurement and going concern assumption (Continued)

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.

(c) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the Company is Hong Kong dollars ("HK$"). The consolidated financial statements are presented in Renminbi ("RMB") since most of the companies comprising the Group are operating in RMB environment and the functional currency of most of the companies comprising the Group is RMB.

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 the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the reporting date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

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 reporting 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.

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. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

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.

In consolidation financial statements, acquisition of subsidiaries (other than those common control) is accounted for by applying the acquisition 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 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 earlier. 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 consolidated 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.

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

(iii) 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; and

(iv) Service income is recognised when services are rendered.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 profit or loss.

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 profit or loss during the financial period in which they are incurred.

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 resources.

The assets' residual value and useful lives are reviewed, and adjusted if appropriate, at each reporting 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Mining rights

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

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 profit or loss on the purchase, sales reissue or cancellation of such shares.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

(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 profit or loss 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 profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

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 and (ii) loans and receivables.

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 and sales 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.

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 profit or loss. 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.

Impairment of financial assets

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Financial assets (Continued)

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;
- 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 profit or loss for the period in which the impairment occurs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Financial assets (Continued)

(i) Loans and receivables (Continued)

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 profit or loss for the period in which the reversal occurs.

For financial assets other than financial assets at fair value through profit or loss and trade and note receivables that are stated at amortised cost, impairment losses are written off against the corresponding assets directly. Where the recovery of trade and note 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 and note receivables is remote, the amount considered irrecoverable is written off against trade and note 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.

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 reporting 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 profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Accounting for income taxes (Continued)

Deferred tax is calculated using the liability method on temporary differences at the reporting 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 reporting date.

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15 Employee benefits (Continued)

(i) Retirement benefit obligations (Continued)

Contributions to the above defined contribution retirement plans are recognised as an expenses in profit or loss when the services are rendered by employees.

(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 reporting 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.

All share-based compensation is recognised as an expense in profit or loss 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 previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally vested.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15 Employee benefits (Continued)

(iii) Share-based employee compensation (Continued)

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 statement of cash flows, 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 consolidated statement of financial position, 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 and accrued charges, amounts due to related companies, amounts due to former and non-controlling equity holders of subsidiaries, borrowings, financial liabilities at fair value through profit or loss 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 in accordance with the Group's accounting policy for borrowing costs (note 3.20). A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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 profit or loss.

(i) Trade payables, other payables and accrued charges

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Financial liabilities (Continued)

(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 profit or loss 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 bond 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 bond 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 bond 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 bond equity reserve is released directly to retained profits.

(iv) Finance lease liabilities

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 profit or loss.

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 a 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.

3.20 Borrowing costs

Borrowing costs incurred for the acquisition, construction or production of any 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. Other borrowing costs are expensed as incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20 Borrowing costs (Continued)

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 profit or loss 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 profit or loss 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 profit or loss.

3.22 Research and development expenditure

Cost associated with research activities are expensed in profit or loss 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;

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

(vi) the intangible asset can be reliably measured.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.22 Research and development expenditure (Continued)

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

Provision 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 reporting 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.24 Financial guarantee issued (Continued)

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 executive directors 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 only one segment following disposal of fertilizers operations in 2010.

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:

(i) Estimation of mineral resources

Mining rights and mining structures are depreciated and amortised using units of production method based on the proven and probable mineral resources. 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, resources 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.

4. CRITICAL ACCOUNTING ESTIMATES (Continued)

(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 resources 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 resources 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 reporting 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.

(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.

4. CRITICAL ACCOUNTING ESTIMATES (Continued)

(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 reporting dates.

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	
	2010	2009	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue:						
Sales of goods	461,208	269,045	7,079	117,229	468,287	386,274
Income from indent trading (note a)	30,855	–	–	–	30,855	–
	492,063	269,045	7,079	117,229	499,142	386,274
Other income:						
Bank interest income	167	50	82	316	249	366
Refund of value-added tax (note b)	–	–	734	9,283	734	9,283
Sales of scrap materials	4,471	869	–	–	4,471	869
Government grants and subsidies (note c)	–	–	353	1,330	353	1,330
Gain on revising the estimated future cash flows of liability component of convertible bonds after the partial offset (note 30)	–	3,527	–	–	–	3,527
Recovery of bad debts	–	–	206	732	206	732
Compensation income	27,224	–	–	–	27,224	–
Other income	136	108	43	291	179	399
Total	31,998	4,554	1,418	11,952	33,416	16,506

5. REVENUE AND OTHER INCOME (Continued)

Notes:

(a) During the year, the Group entered into indent trading transactions of nonferrous metals and the gross invoiced sale amount was approximately RMB687 million (2009: nil). Pursuant to 2009 amendments to IAS 18 Revenue, the Group's sale amount received from its indent trading of nonferrous metals are deemed as cash collected on behalf of the principal as an agent. Accordingly, the net amount receivable in return for services performed is recognised as revenue.

(b) Pursuant to an approval document issued by State Tax Finance Bureau 財稅(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.

(c) Government grants and subsidies represented unconditional monetary award of RMB353,000 (2009: RMB1,330,000) 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 the Group's fertilizers business during the year ended 31 December 2010.

6. SEGMENT INFORMATION

The Group disposed of the fertilizers operations as described in note 10 to the financial statements. The directors manage the Group's continuing operations 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 were prepared under IFRS.

The Group's principle place of operations is in Mainland China. The Group's assets are located in Mainland China. The result of its revenue from external customers in different countries is as follows:

	2010 **RMB'000**	2009 RMB'000
– Mainland China	**461,208**	269,045
– Hong Kong	**30,855**	–
Total sales	**492,063**	269,045

7. PROFIT FROM OPERATION

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

	Continuing operations		Discontinued operation		Consolidated	
	2010	2009	**2010**	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Directors' emoluments (note 14(a))	**2,308**	1,197	**–**	–	**2,308**	1,197
Other staff costs	**15,822**	8,570	**829**	4,357	**16,651**	12,927
Equity-settled share options expenses (excluding those of directors)	**39,235**	1,408	**–**	–	**39,235**	1,408
Retirement benefit schemes contribution (excluding those of directors)	**2,034**	1,180	**8**	116	**2,042**	1,296
Total staff costs	**59,399**	12,355	**837**	4,473	**60,236**	16,828
Less: Staff costs included in the research and development costs	**–**	–	**(114)**	(601)	**(114)**	(601)
	59,399	12,355	**723**	3,872	**60,122**	16,227
Depreciation of property, plant and equipment	**12,250**	9,150	**1,120**	4,685	**13,370**	13,835
Less: Depreciation included in the research and development costs	**–**	–	**(22)**	(93)	**(22)**	(93)
	12,250	9,150	**1,098**	4,592	**13,348**	13,742
Cost of inventories sold	**380,950**	168,972	**5,822**	89,626	**386,772**	258,598
Amortisation of mining rights	**14,697**	9,792	**–**	–	**14,697**	9,792
Amortisation of other intangible assets	**–**	–	**21**	125	**21**	125
Amortisation of prepaid land lease payments	**43**	22	**189**	759	**232**	781
Auditors' remuneration	**697**	881	**–**	–	**697**	881
Operating lease expenses in respect of rented premises	**1,597**	1,506	**202**	878	**1,799**	2,384
Written off of property, plant and equipment	**–**	–	**–**	70	**–**	70
Loss on disposal of property, plant and equipment	**–**	–	**–**	471	**–**	471
Research and development costs	**–**	–	**458**	1,832	**458**	1,832
Bad debt written off	**–**	–	**–**	5,564	**–**	5,564
Provision of impairment loss recognised on trade and note receivables	**–**	–	**–**	3,179	**–**	3,179
(Reversal)/provision of impairment loss recognised on other receivables	**–**	–	**–**	(685)	**–**	(685)
Foreign exchange loss, net	**821**	104	**–**	–	**821**	104

8. FINANCE COSTS

	Continuing operations		Discontinued operation		Consolidated	
	2010	2009	**2010**	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Wholly repayable within five years						
– interest on bank loans	**6,137**	5,109	**–**	1,785	**6,137**	6,894
– interest on other loans	**7,725**	5,755	**146**	2,807	**7,871**	8,562
Interest on convertible bonds	**33,411**	42,152	**–**	–	**33,411**	42,152
Interest on finance lease liabilities	**34**	22	**–**	–	**34**	22
Total financial costs on financial liabilities not at fair value through profit or loss	**47,307**	53,038	**146**	4,592	**47,453**	57,630
Less: interest capitalised included in construction in progress (note 15)	**(4,527)**	–	**–**	–	**(4,527)**	–
	42,780	53,038	**146**	4,592	**42,926**	57,630

The borrowing cost have been capitalised at a rate of 9.48% per annum (2009: nil).

9. INCOME TAX EXPENSE

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

	Continuing operations		Discontinued operation		Consolidated	
	2010	2009	**2010**	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Current						
– Hong Kong	**3,451**	–	**–**	–	**3,451**	–
– PRC taxation	**36,583**	2,838	**–**	348	**36,583**	3,186
	40,034	2,838	**–**	348	**40,034**	3,186
Deferred taxation (note 31)	**(3,760)**	(2,543)	**–**	(598)	**(3,760)**	(3,141)
Total tax charge for the year	**36,274**	295	**–**	(250)	**36,274**	45

9. INCOME TAX EXPENSE (Continued)

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 year ended 31 December 2010. No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2009 as the Group had no assessable profits arising in Hong Kong during the year ended 31 December 2009. Income tax expense for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Pursuant to the PRC Enterprise Income Tax 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:

	2010 **RMB'000**	2009 RMB'000
Profit before income tax		
Continuing operations	**103,763**	64,985
Discontinued operation	**8,779**	(3,256)
Profit before income tax	**112,542**	61,729
Tax at the domestic income tax rate of 25% (2009: 25%)	**28,136**	15,432
Tax effect of non-taxable and non-deductible items, net	**9,406**	10,819
Tax concession	**–**	(30,841)
Tax effect of tax losses not recognised	**1,097**	–
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	**(2,365)**	4,635
Income tax expenses for the year	**36,274**	45

(c) At 31 December 2010, deferred tax liabilities amounted to RMB2,553,000 (2009: RMB6,400,000) 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.

(d) At 31 December 2010, the Group has unrecognised tax losses of RMB4,388,000 (2009: nil) available for offsetting against future taxable profits of the Group's companies which incurred losses. Deferred tax assets have not been recognised in respect of these losses due to the unpredictability of future profit streams.

10. DISCONTINUED OPERATION

On 31 March 2010, the Group completed the disposal of subsidiaries to Billion Prestige Limited in relation to the dispose of the entire equity interest in Sungreen Group for a consideration of approximately RMB123,888,000. Accordingly, the assets and liabilities attributable to Sungreen Group have been presented as disposal group held for sale as at 31 December 2009. 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. Since then, the Group ceased its fertilizers operation. The result of fertilizers operation included in these financial statements is as follows:

	3 months to 31/03/2010 RMB'000	12months to 31/12/2009 RMB'000
Loss for the year from a discontinued operation		
Revenue	**7,079**	117,229
Cost of sales	**(5,822)**	(89,626)
Gross profit	**1,257**	27,603
Other income	**1,418**	11,952
Selling and distribution costs	**(3,117)**	(20,951)
Administrative expenses	**(1,485)**	(17,268)
(Loss) /Profit from operation	**(1,927)**	1,336
Finance costs	**(146)**	(4,592)
Loss before income tax	**(2,073)**	(3,256)
Income tax credit	**–**	250
	(2,073)	(3,006)
Gain on disposal of subsidiaries (note 35 (a))	**10,852**	–
Gain/(Loss) for the year from a discontinued operation	**8,779**	(3,006)

10. DISCONTINUED OPERATION (Continued)

The net cash flows generated from a discontinued operation are as follows:

	2010 RMB'000	2009 RMB'000
Net cash generated from operating activities	**625**	31,231
Net cash generated from investing activities	**45**	313
Net cash used in financing activities	**(146)**	(25,592)
Net cash inflow	**524**	5,952

The major classes of assets and liabilities of Sungreen Group classified as held for sale as at 31 December 2009 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	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	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	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

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Of the consolidated profit attributable to the owners of the Company of RMB71,032,000 (2009: RMB58,303,000), a loss of RMB4,336,000 (2009: RMB52,348,000) has been dealt with in the financial statements of the Company.

12. DIVIDEND

During the years ended 31 December 2010 and 2009, no dividend was paid or proposed, nor has any dividend been proposed since the reporting date.

13. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

(a) From continuing and discontinued operations

	2010 **RMB'000**	2009 RMB'000
Earnings		
Profit attributable to owners of the Company	**71,032**	58,303
Effect of dilutive potential ordinary shares in respect of convertible bonds	**33,411**	42,152
Profit attributable to owners of the Company from the continuing operations	**104,443**	100,455

	2010 **'000**	2009 '000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**3,915,089**	2,739,601
Effect of dilutive potential ordinary shares in respect of share options	**100,585**	161,299
Effect of dilutive potential ordinary shares in respect of convertible bonds	**2,350,646**	3,235,723
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**6,366,320**	6,136,623

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

(b) From continuing operations

	2010 RMB'000	2009 RMB'000
Earnings		
Profit attributable to owners of the Company	**71,032**	58,303
Less: Gain/(Loss) from discontinued operation	**8,779**	(3,006)
Result from discontinued operation attributable to non-controlling interests	**726**	1,041
Gain/(Loss) attributable to owners of the Company from the discontinued operation	**9,505**	(1,965)
Profit attributable to owners of the Company from the continuing operations	**61,527**	60,268

(c) From discontinued operation

Basic and dilutive earnings per share attributable to owner of the Company from the discontinued operation was RMB0.24 cents per share and RMB0.15 cents per share respectively (2009: RMB0.07 cents loss per share and RMB0.03 cents loss per share respectively), based on the profit for the period ended 31 March 2010 attributable to owners of the Company from discontinued operation of RMB9,505,000 (2009: loss RMB1,965,000) and the denominators details in (a) above.

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The details of directors' remuneration of each director for the years ended 31 December 2010 and 2009 are set out below:

Name of director	Fees	Salaries, allowances and benefits in kind	Employee share option benefits	Contributions to retirement benefits scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2010					
Executive directors:					
Mr. Mei Ping(i)	10	–	–	–	10
Mr. Zhuo Ze Fan	–	54	484	–	538
Ms. Xie Yi Ping	61	24	–	–	85
Dr. Yu Heng Xiang	31	–	–	–	31
Mr. Ng Tang	63	–	145	–	208
Mr. Xu Bing	53	–	39	–	92
Mr. Kang Hongbo*	209	–	523	–	732
Ms. Han Qiong*	157	–	194	–	351
Independent non-executive directors:					
Mr. Liu Yaosheng(i)	49	–	–	–	49
Mr. Zhao Shuo Guo(ii)	23	–	–	–	23
Mr. Chau Kam Wing Donald	105	–	–	–	105
Mr. Chen Mingxian	84	–	–	–	84
	845	78	1,385	–	2,308

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' emoluments(Continued)

Name of director	Fees	Salaries, allowances and benefits in kind	Employee share option benefits	Contributions to retirement benefits scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000	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*	53	–	10	–	63
Ms. Han Qiong*	40	–	4	–	44
Independent non-executive directors:					
Mr. Zhao Shuo Guo(ii)	83	–	–	–	83
Mr. Chau Kam Wing Donald	81	–	–	–	81
Mr. Yang Rui^	46	–	–	–	46
Mr. Chen Mingxian*	23	–	–	–	23
	454	601	135	7	1,197

(i) Appointed during the year ended 31 December 2010

(ii) Resigned during the year ended 31 December 2010

* Appointed during the year ended 31 December 2009

^ Resigned during the year ended 31 December 2009

There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2010 and 2009.

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Employees' emoluments

The five highest paid individuals in the Group during the year included two (2009: two) directors, details of whose emoluments have been disclosed in note (a) above. The emoluments of the remaining three (2009: three) non-director, highest paid individuals for the year are as follows:

	2010 **RMB'000**	2009 RMB'000
Basic salaries, bonus and allowances	**2,275**	2,935
Share-based payments	**30,452**	485
Retirement benefits scheme contribution	**31**	38
	32,758	3,458

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

	2010	2009
Nil to HK$1,000,000	**1**	1
HK$1,000,001 to HK$2,000,000	**1**	2
Over HK$2,000,000	**1**	–

During the years ended 31 December 2010 and 2009, 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.

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 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 11)	(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 and 1 January 2010								
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
Year ended 31 December 2010								
Opening net carrying amount	**124,245**	**70**	**94,021**	**39,328**	**828**	**2,389**	**59,084**	**319,965**
Additions	**887**	**–**	**8,243**	**3,083**	**213**	**4,280**	**20,977**	**37,683**
Transfers	**–**	**–**	**32,535**	**6,567**	**–**	**–**	**(39,102)**	**–**
Depreciation	**(2,173)**	**(69)**	**(1,557)**	**(6,985)**	**(338)**	**(1,128)**	**–**	**(12,250)**
Exchange realignment	**–**	**(1)**	**–**	**–**	**(17)**	**(62)**	**–**	**(80)**
Closing net carrying amount	**122,959**	**–**	**133,242**	**41,993**	**686**	**5,479**	**40,959**	**345,318**
At 31 December 2010								
Cost	**127,804**	**8,228**	**137,258**	**55,244**	**1,378**	**7,947**	**40,959**	**378,818**
Depreciation	**(4,845)**	**(8,228)**	**(4,016)**	**(13,251)**	**(692)**	**(2,468)**	**–**	**(33,500)**
Net carrying amount	**122,959**	**–**	**133,242**	**41,993**	**686**	**5,479**	**40,959**	**345,318**

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

Note:

(a) As at 31 December 2010, the official property title certificates for certain of the Group's buildings with carrying amounts of approximately RMB500,000 (2009: RMB1,432,000) 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 as at year ended 31 December 2009. 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 were pledged to secure banking facilities granted to the Group.

(c) At 31 December 2010, the Group's property, plant and equipment at the net carrying amount of RMB136,536,000 (2009: RMB139,742,000) were pledged to secure banking facilities granted to the Group (note 28).

(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 2010 amounted to RMB2,274,000 (2009: RMB365,000).

(e) Construction in progress at 31 December 2010 primarily represents costs incurred in connection with the Group's mining facilities in the PRC. Included in additions to construction in progress for the year ended 31 December 2010 is capitalised borrowing cost of RMB4,527,000 (2009: nil).

16. INTANGIBLE ASSETS

	Technical know-how RMB'000	Patent RMB'000	Mining rights RMB'000	Total RMB'000
At 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
Year ended 31 December 2009				
Opening net carrying amount	–	146	1,086,129	1,086,275
Discontinued operation (note 11)	–	(21)	–	(21)
Amortisation	–	(125)	(9,792)	(9,917)
Closing net carrying amount	–	–	1,076,337	1,076,337
At 31 December 2009 and 1 January 2010				
Cost	–	–	1,094,116	1,094,116
Amortisation	–	–	(17,779)	(17,779)
Net carrying amount	–	–	1,076,337	1,076,337
Year ended 31 December 2010				
Opening net carrying amount	**–**	**–**	**1,076,337**	**1,076,337**
Amortisation	**–**	**–**	**(14,697)**	**(14,697)**
Closing net carrying amount	**–**	**–**	**1,061,640**	**1,061,640**
At 31 December 2010				
Cost	**–**	**–**	**1,094,116**	**1,094,116**
Amortisation	**–**	**–**	**(32,476)**	**(32,476)**
Net carrying amount	**–**	**–**	**1,061,640**	**1,061,640**

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 approximately 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 2010, the Group's mining rights at the net carrying amount of RMB1,061,640,000 (2009: RMB1,076,337,000) were pledged to secure banking facilities granted to the Group (note 28).

17. PREPAID LAND LEASE PAYMENTS

	2010 RMB'000	2009 RMB'000
At beginning of the year		
Cost	**2,114**	38,015
Accumulated amortisation	**(22)**	(1,170)
Net carrying amount	**2,092**	36,845
For the year ended 31 December		
Opening net carrying amount	**2,092**	36,845
Additions	**–**	2,114
Discontinued operation (note 10)	**–**	(36,086)
Amortisation	**(43)**	(781)
Closing net carrying amount	**2,049**	2,092
At end of the year		
Cost	**2,114**	2,114
Accumulated amortisation	**(65)**	(22)
Net carrying amount	**2,049**	2,092
Analysed for reporting purposes as:		
Current asset	**42**	42
Non-current assets	**2,007**	2,050
	2,049	2,092

Note:

At 31 December 2010, the Group's prepaid land lease payment from continuing operations at the net carrying amount of RMB2,049,000 (2009: RMB2,092,000) was pledged to secure bank facilities granted to the Group (note 28).

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).

18. LIST OF PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at 31 December 2010 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	
Silver Venture Investment Limited	BVI	US$1	100%	–	Inactive
China Nonferrous Metals Management Limited	HK	HK$2,000,000	100%	–	Trading of nonferrous metals (2009: 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%	Trading of derivative financial instruments
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%	Investment holding
青海鈺洋商貿有限公司(“青海鈺洋”)	PRC	RMB20,000,000	–	100%	Trading of nonferrous metals and derivative financial instruments

The financial statements of the Company’s subsidiaries are audited by BDO Limited for statutory purpose or Group consolidation purpose.

18. LIST OF PRINCIPAL SUBSIDIARIES (Continued)

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	2010 RMB'000	2009 RMB'000
Deposits for acquisition of subsidiaries	(a)	**61,227**	33,553
Deposits for acquisition of property, plant and equipment	(b)	**4,816**	7,529
		66,043	41,082

Note:

(a) As at 31 December 2010, the deposits for acquisition of equity instruments amounted to RMB61,227,000 (2009: RMB33,553,000) mainly comprised the followings:

(i) The amount of RMB8,803,000 (equivalent to HK$10,000,000) (2009: 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 RMB52,424,000 (2009: 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 RMB4,816,000 (2009: RMB7,529,000) 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.

20. INVENTORIES

	2010 RMB'000	2009 RMB'000
Raw materials	**17,146**	15,593
Finished goods	**46,056**	34,288
	63,202	49,881

21. TRADE AND NOTE RECEIVABLES

	2010 RMB'000	2009 RMB'000
Trade and note receivables	**306,938**	84,680
Less: Allowance for impairment	**–**	–
	306,938	84,680

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

	2010 RMB'000	2009 RMB'000
0 to 60 days	**123,596**	77,500
61 to 120 days	**17,246**	1,389
121 to 180 days	**3,850**	2,101
181 to 365 days	**162,246**	3,690
	306,938	84,680

21. TRADE AND NOTE RECEIVABLES (Continued)

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

	2010	2009
	RMB'000	RMB'000
At beginning of year	**–**	2,626
Impairment recognised for the year	**–**	3,179
Impairment loss written off	**–**	(2,626)
Discontinued operation	**–**	(3,179)
At end of year	**–**	–

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

	2010	2009
	RMB'000	RMB'000
Neither past due nor impaired	**140,566**	79,282
1 to 60 days past due	**118,436**	1,708
61 to 180 days past due	**44,224**	3,690
181 to 365 days past due	**3,712**	–
At end of year	**306,938**	84,680

The Group has a policy of allowing trade customers with credit normally within 90 (2009: 90) days, except for certain customers where the terms are extended to 180 days (2009: nil).

As at 31 December 2010, the Group has determined trade receivables of RMB166,372,000 (2009: RMB5,398,000) 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 and settlement subsequent to reporting date, 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 and note 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.

22. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2010 RMB'000	2009 RMB'000
Other receivables	**157,671**	95,128
Deposits	**127,377**	866
Prepayments	**38,640**	73,302
	323,688	169,296

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

	2010 RMB'000	2009 RMB'000
At beginning of year	**–**	1,041
Impairment (reversed)/recognised for the year	**–**	(685)
Impairment loss written off	**–**	(92)
Discontinued operation	**–**	(264)
At end of year	**–**	–

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

	2010 RMB'000	2009 RMB'000
Neither past due nor impaired	**86,203**	95,128
1 to 6 months past due	**11,902**	–
Over 6 months past due	**59,566**	–
At end of year	**157,671**	95,128

The directors of the Company consider that no impairment of other receivables is necessary as there was no recent history of default in respect of these debtors.

The directors of the Company consider that the fair values of current portion of deposits and other receivables are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

23. AMOUNTS DUE FROM RELATED COMPANIES

	2010 RMB'000	2009 RMB'000
Shenzhen City First Create Investment Limited	–	2,703
Shenzhen City Dingyu Trading Development Limited	–	41,946
西部礦業西藏雅江礦業有限公司	2,000	2,000
Hung Kam Holdings Limited	55,610	50,015
	57,610	96,664

Note: Mr. Mei Wei, a substantial shareholder of the Company, and none of his close family members have beneficial interest or directorship in these companies above.

The amounts due 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.

24. CASH AND BANK BALANCES

	2010 RMB'000	2009 RMB'000
Cash in hand	237	492
Cash at bank	14,438	49,100
	14,675	49,592
Less: Pledged bank deposits	(3,501)	(28,452)
	11,174	21,140

Cash at bank earns interest at floating rates based on daily bank deposit rates and earn interest ranging from 0.01% to 0.72% (2009: 0.01% to 0.72%) per annum.

At 31 December 2010, the Group from continuing operations had cash and bank balances denominated in RMB amounting to approximately RMB11,326,000 (2009: approximately RMB24,041,000), 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.

25. TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	2010 RMB'000	2009 RMB'000
0 to 90 days	**64,399**	47,601
91 to 180 days	**32,289**	2,223
181 to 365 days	**11,303**	185
Over 365 days	**722**	2,032
	108,713	52,041

26. OTHER PAYABLES AND ACCRUED CHARGES

	2010 RMB'000	2009 RMB'000
Other payables	**55,527**	38,335
Accrued interest charges (note)	**7,899**	9,680
Accrued charges	**5,192**	2,650
	68,618	50,665

Note: At 31 December 2010, the accrued interest charges consist of RMB6,464,000 (2009: 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 30 to the financial statements.

27. AMOUNTS DUE TO RELATED COMPANIES 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 none 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 non-controlling equity holders of subsidiaries are unsecured, non-interest bearing and repayable on demand.

28. BORROWINGS

	Notes	Original currency	2010 RMB'000	2009 RMB'000
Current				
Finance lease liabilities	(a)	HK$	**478**	98
Bank loans – secured	(b)	RMB	**33,689**	106,437
Bank loans – unsecured	(b)	RMB	**45,000**	45,000
Other loans – secured	(b)	US$, RMB	**18,500**	65,274
Other loans – unsecured	(b)	RMB	**–**	15,000
			97,667	231,809
Non-current				
Finance lease liabilities	(a)	HK$	**1,610**	279
Bank loans – secured	(b)	RMB	**–**	32,851
			1,610	33,130
			99,277	264,939

Notes (a)

During the year ended 31 December 2010, the Group has leased its motor vehicle under a finance lease and has remaining lease terms of five (2009: four) 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.

28. BORROWINGS (Continued)

Notes (a) (Continued)

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

	2010 RMB'000	2009 RMB'000
Amounts payable:		
Within one year	**549**	120
In the second year	**549**	120
In the third to fifth years	**1,285**	223
	2,383	463
Less: Future finance charges on finance lease	**(295)**	(86)
Present value of finance lease liabilities	**2,088**	377
The present value of finance lease liabilities is as follows:		
Within one year	**478**	98
In the second year	**478**	98
In the third to fifth years	**1,132**	181
	2,088	377
Less: Portion due within one year included under current liabilities	**(478)**	(98)
Non-current portion included under non-current liabilities	**1,610**	279

Notes (b)

	2010 RMB'000	2009 RMB'000
Analysed into:		
Bank loans repayables:		
Within one year or on demand	**78,689**	151,437
In the second year	**–**	32,851
	78,689	184,288
Analysed into:		
Other loans repayables:		
Within one year or on demand	**18,500**	80,274
	97,189	264,562

28. BORROWINGS (Continued)

Notes (b) (Continued)

For continuing operations:

The Group's bank and other loans at 31 December 2010 were secured by:

(i) charges over the Group's property, plant and equipment in which their aggregate carrying amount as at 31 December 2010 was RMB136,536,000 (2009: RMB139,742,000);

(ii) charges over the Group's mining rights in which the carrying amount as at 31 December 2010 was RMB1,061,640,000 (2009: RMB1,076,337,000);

(iii) charges over the Group's prepaid land lease payment in which their aggregate carrying amount as at 31 December 2010 was RMB2,049,000 (2009: RMB2,092,000);

(iv) charges over the Group's pledged bank deposit of RMB3,501,000 (2009: RMB28,452,000); and

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

As at 31 December 2010, the secured and unsecured bank loans and other loans are at fixed rates 6.75% and 6.90% per annum (2009: 6.75% and 6.90%).

For discontinued operation as at 31 December 2009:

(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;

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

(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; 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.

As at 31 December 2009, the bank loan is at fixed rate 5.84% per annum.

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

29. FINANCIAL ASSETS/LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2010 RMB'000	2009 RMB'000
Financial assets at fair value through profit or loss classified as held for trading – Future contracts in relation to nonferrous metals, at fair value	12,182	–
Financial liabilities at fair value through profit or loss classified as held for trading – Future contracts in relation to nonferrous metals, at fair value	14,090	–

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

Maturity	Underlying commodity	Fair value 2010 RMB'000	Fair value 2009 RMB'000
21 January 2011 – 24 March 2011	LME Copper *	12,182	–

(b) Financial liabilities at fair value through profit or loss

Maturity	Underlying commodity	Fair value 2010 RMB'000	Fair value 2009 RMB'000
21 January 2011 – 24 March 2011	LME Copper *	14,090	–

Note:

* London Metal Exchange registered contracts

The directors determine the fair value of the above future contracts are determined with reference to the publicly available market price at the reporting date.

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

30. CONVERTIBLE BONDS

On 9 July 2008, the Company issued convertible bonds with a principal amount of HK$756,900,000 (the "2008 Convertible Bonds"), which bear coupon interest rate at 3% per annum payable semi-annually in arrears. The 2008 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"). The 2008 Convertible Bonds due on 2015 are convertible into fully paid ordinary shares with a par value of HK$0.0004 each of the Company at an initial conversion price of HK$0.22, subject to adjustments on the occurrence of dilutive or concentrative event.

On 9 March 2010, the Company and two subscribers entered into the subscription agreements in respect of the issue of the convertible bonds (the "CB Subscription Agreements"). Pursuant to the CB Subscription Agreements, the Company issued the two years 1% per annum plus the prime lending rate per annum quoted by The Hongkong and Shanghai Banking Corporation Limited coupon convertible bonds up to aggregate amount of HK$30,000,000 (the "2010 Convertible Bonds"). Based on the conversion price of HK$0.285 per conversion share, a maximum number of 105,263,156 conversion shares will fall to be allotted and issued upon exercise of the conversion rights attached to the convertible bonds. The CB Subscription Agreements had been completed on 17 March 2010.

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 the difference between the proceeds received and the fair value of the liability component and was included in shareholders' equity in convertible bonds equity reserve.

30. CONVERTIBLE BONDS (Continued)

The convertible bonds recognised in the statement of financial position were calculated as follows:

	2008 Convertible Bonds RMB'000	2010 Convertible Bonds RMB'000	**Total RMB'000**
Liability component			
Net carrying amounts at 31 December 2008 and 1 January 2009	442,812	–	**442,812**
Partial offset of convertible bonds due to shortfall in profit guarantee (note a)	(49,055)	–	**(49,055)**
Gain on revising the estimated future cash flows of liability component of convertible bonds after the partial offset	(3,527)	–	**(3,527)**
Arising from exercise of conversion rights (note b)	(35,477)	–	**(35,477)**
Interest expenses	42,152	–	**42,152**
Interest paid and accrued	(18,176)	–	**(18,176)**
Exchange realignment	105	–	**105**
Net carrying amounts at 31 December 2009	378,834	–	**378,834**
Issue of 2010 Convertible Bonds	–	25,040	**25,040**
Arising from exercise of conversion rights (note b)	(146,324)	(12,560)	**(158,884)**
Interest expenses	31,853	1,558	**33,411**
Interest paid and accrued	(13,084)	(1,065)	**(14,149)**
Exchange realignment	(9,687)	(598)	**(10,285)**
Liability component at 31 December 2010	241,592	12,375	**253,967**

30. CONVERTIBLE BONDS (Continued)

	2008 Convertible Bonds RMB'000	2010 Convertible Bonds RMB'000	**Total RMB'000**
Equity component			
Net carrying amounts at 31 December 2008 and 1 January 2009	230,864	–	**230,864**
Partial offset of convertible bonds due to shortfall in profit guarantee (note a)	(21,855)	–	**(21,855)**
Arising from exercise of conversion rights (note b)	(15,942)	–	**(15,942)**
Net carrying amounts at 31 December 2009	193,067	–	**193,067**
Issue of 2010 Convertible Bonds	–	1,343	**1,343**
Arising from exercise of conversion rights (note b)	(73,468)	(671)	**(74,139)**
Equity component at 31 December 2010	119,599	672	**120,271**

Note:

(a) During the year ended 31 December 2009, the 2008 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 2008 Convertible Bonds after partial offset by computing the present value at the original effective interest rate. The partial offset of the 2008 Convertible Bonds was completed on 24 August 2009.

(b) During the year ended 31 December 2010, the 2008 Convertible Bonds at the principal amount of HK$232,911,000 (2009: RMB58,364,000) were converted into ordinary shares of the Company and total number of ordinary shares converted was approximately 1,058,684,000 (2009: 265,289,000) and the 2012 Convertible Bonds at the principal amount of HK$15,000,000 (2009: nil) were converted into ordinary shares of the Company and total number of ordinary shares converted was approximately 52,632,000 (2009: nil) (note 32).

30. 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:

	2008 Convertible Bonds
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 2008 Convertible Bonds and 2010 Convertible Bonds is calculated using the effective interest method by applying the effective interest rate of 10.18% and 8.76% (2009: 10.18% and nil) respectively to the adjusted liability component.

31. 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% (2009: 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 2009, 31 December 2009 and 2010	251

31. DEFERRED TAX ASSET AND LIABILITIES (Continued)

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

	Accelerated tax depreciation	Fair value adjustment of mining rights	Value-added tax refundable	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 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 and 1 January 2010	2,705	264,306	–	267,011
Charge/(credit) for the year (note 9)	(86)	(3,674)	–	(3,760)
At 31 December 2010	**2,619**	**260,632**	**–**	**263,251**

32. SHARE CAPITAL

	Number of shares	Amount
	'000	HK$'000
Authorised:		
Ordinary shares of HK$0.002 each at 1 January 2009	25,000,000	50,000
Shares Subdivision (note b)	100,000,000	–
Ordinary shares of HK$0.0004 each at 31 December 2009 and 2010	**125,000,000**	**50,000**

32. SHARE CAPITAL (Continued)

	Number of shares '000	Amount RMB'000
Issued:		
Ordinary shares of HK$0.002 each at 1 January 2009	524,750	1,069
Placing and subscription of new shares (note a)	117,308	42
Shares Subdivision (note b)	2,129,000	–
Share options exercised (note c)	29,750	24
Conversion rights of Convertible Bonds exercised (note d)	265,289	94
Repurchased and cancelled (note e)	(4,650)	(5)
Ordinary shares of HK$0.0004 each at 31 December 2009	3,061,447	1,224
Placing and subscription of new shares (note f)	489,436	170
Share options exercised (note c)	130,250	46
Conversion rights of Convertible Bonds exercised (note d)	1,111,316	388
Ordinary shares of HK$0.0004 each at 31 December 2010	**4,792,449**	**1,828**

During the year ended 31 December 2009 and 2010, the movements in share capital were as follows:

(a) 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.

(b) 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 ("Share Subdivision 2009"). The authorised share capital of the Company remained at HK$50,000,000 but was divided into 125,000,000,000 shares of HK$0.0004 each.

(c) During the year ended 31 December 2010 and 2009, the subscription rights attaching to 111,250,000, 4,000,000 and 12,000,000 and 3,000,000 (2009: 40,000,000, 22,500,000, 3,125,000 and 3,125,000) share options issued pursuant to the share option scheme of the Company which both were exercised at the subscription price of HK$0.066 per share, HK$0.216 per share, HK$ 0.22 per share and HK$0.234 per share (2009: HK$ 0.34 per share and HK$0.066 per share) respectively. The share options of 130,250,000 shares (2009: 68,750,000 shares) of HK$0.0004 each in issue for a total cash consideration of RMB10,066,000 (equivalent to approximately HK$11,549,000 (2009: RMB3,987,000 (equivalent to approximately HK$4,538,000)) (before expenses) (note 33).

32. SHARE CAPITAL (Continued)

(d) During the year ended 31 December 2010 and 2009, 1,058,684,000 and 52,632,000 (2009: 265,289,000 and Nil) ordinary shares of HK$0.0004 each were issued pursuant to the exercise of the conversion rights attaching to the Company's 2008 Convertible Bonds and 2010 Convertible Bonds at a conversion price of approximately HK$0.22 and HK$0.285 per share respectively (note 30).

(e) 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 Share 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 Share Subdivision 2009, the Company repurchase 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.

(f) 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 placement were completed and raised total consideration of HK$56,586,000 (equivalent to approximately RMB49,815,000) and HK$15,389,000 (equivalent to approximately RMB13,546,000) (before expenses) respectively.

On 6 October 2010, the Company entered into a subscription agreement (the "Subscription Agreement") with Ruffy Investments Limited ("Ruffy"). Pursuant to which the Company has conditionally agreed to issue 200,000,000 shares at HK$0.25 per share to the Ruffy. The Company is currently indebted to Ruffy HK$50,000,000 (the "Shareholder Loan"). The issuance of 200,000,000 shares payable by Ruffy would be set-off in full against the Shareholder's Loan at the completion date. The Subscription Agreement was completed on 15 November 2010.

33. 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 and/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 options under 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 from 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.

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.

33. SHARE OPTION SCHEME (Continued)

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 2010 are as follows:

	Number of share options								
Name or category of participant	At 1 January 2010	Granted during the year	Exercise during the year	Reclassified during the year	Lapsed during the year	At 31 December 2010	Date of grant of share options (note a)	Exercise period of share options	Exercise price of share option*
Directors									
Mr. Zhuo Ze Fan	2,000,000	–	–	–	–	2,000,000	04/12/2009	Period 12	0.260
	2,000,000	–	–	–	–	2,000,000	04/12/2009	Period 13	0.260
	3,000,000	–	–	–	–	3,000,000	04/12/2009	Period 14	0.260
	3,000,000	–	–	–	–	3,000,000	04/12/2009	Period 15	0.260
	10,000,000	–	–	–	–	10,000,000			
Mr. Ng Tang	600,000	–	–	–	–	600,000	04/12/2009	Period 12	0.260
	600,000	–	–	–	–	600,000	04/12/2009	Period 13	0.260
	900,000	–	–	–	–	900,000	04/12/2009	Period 14	0.260
	900,000	–	–	–	–	900,000	04/12/2009	Period 15	0.260
	3,000,000	–	–	–	–	3,000,000			
Mr. Xu Bing	1,500,000	–	(1,500,000)	–	–	–	20/05/2009	Period 9	0.234
Mr. Kang Hongbo	1,500,000	–	–	–	–	1,500,000	20/05/2009	Period 9	0.234
	2,000,000	–	–	–	–	2,000,000	04/12/2009	Period 12	0.260
	2,000,000	–	–	–	–	2,000,000	04/12/2009	Period 13	0.260
	3,000,000	–	–	–	–	3,000,000	04/12/2009	Period 14	0.260
	3,000,000	–	–	–	–	3,000,000	04/12/2009	Period 15	0.260
	11,500,000	–	–	–	–	11,500,000			
Ms. Han Qiong	800,000	–	–	–	–	800,000	04/12/2009	Period 12	0.260
	800,000	–	–	–	–	800,000	04/12/2009	Period 13	0.260
	1,200,000	–	–	–	–	1,200,000	04/12/2009	Period 14	0.260
	1,200,000	–	–	–	–	1,200,000	04/12/2009	Period 15	0.260
	4,000,000	–	–	–	–	4,000,000			

33. SHARE OPTION SCHEME (Continued)

	Number of share options								
Name or category of participant	At 1 January 2010	Granted during the year	Exercise during the year	Reclassified during the year	Lapsed during the year	At 31 December 2010	Date of grant of share options (note a)	Exercise period of share options	Exercise price of share option*
Other employees									
In aggregate	1,500,000	–	–	–	(1,500,000)	–	12/06/2008	Period 5	0.340
	5,500,000	–	(4,000,000)	–	–	1,500,000	15/05/2009	Period 7	0.216
	5,000,000	–	–	–	–	5,000,000	20/05/2009	Period 9	0.234
	22,980,000	–	–	–	(640,000)	22,340,000	04/12/2009	Period 12	0.260
	22,980,000	–	–	–	(640,000)	22,340,000	04/12/2009	Period 13	0.260
	34,470,000	–	–	–	(960,000)	33,510,000	04/12/2009	Period 14	0.260
	34,470,000	–	–	–	(960,000)	33,510,000	04/12/2009	Period 15	0.260
	–	358,510,000	–	–	–	358,510,000	04/12/2009	Period 16	0.246
	126,900,000	358,510,000	(4,000,000)	–	(4,700,000)	476,710,000			
Suppliers/Advisors									
In aggregate	131,250,000	–	(111,250,000)	–	(20,000,000)	–	17/12/2007	Period 2	0.066
	20,000,000	–	–	–	–	20,000,000	12/06/2008	Period 6	0.340
	40,000,000	–	(12,000,000)	–	(20,000,000)	8,000,000	19/05/2009	Period 8	0.220
	1,500,000	–	(1,500,000)	–	–	–	20/05/2009	Period 9	0.234
	3,500,000	–	–	–	–	3,500,000	17/08/2009	Period 10	0.272
	10,000,000	–	–	–	–	10,000,000	04/12/2009	Period 11	0.260
	10,000,000	–	–	–	–	10,000,000	04/12/2009	Period 12	0.260
	10,000,000	–	–	–	–	10,000,000	04/12/2009	Period 13	0.260
	15,000,000	–	–	–	–	15,000,000	04/12/2009	Period 14	0.260
	15,000,000	–	–	–	–	15,000,000	04/12/2009	Period 15	0.260
	256,250,000	–	(124,750,000)	–	(40,000,000)	91,500,000			
	413,150,000	358,510,000	(130,250,000)	–	(44,700,000)	596,710,000			

33. SHARE OPTION SCHEME (Continued)

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	Granted during the year	Exercise 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 option*
Directors									
Mr. Zhuo Ze Fan	–	2,000,000	–	–	–	2,000,000	04/12/2009	Period 12	0.260
	–	2,000,000	–	–	–	2,000,000	04/12/2009	Period 13	0.260
	–	3,000,000	–	–	–	3,000,000	04/12/2009	Period 14	0.260
	–	3,000,000	–	–	–	3,000,000	04/12/2009	Period 15	0.260
	–	10,000,000	–	–	–	10,000,000			
Mr. Ng Tang	–	600,000	–	–	–	600,000	04/12/2009	Period 12	0.260
	–	600,000	–	–	–	600,000	04/12/2009	Period 13	0.260
	–	900,000	–	–	–	900,000	04/12/2009	Period 14	0.260
	–	900,000	–	–	–	900,000	04/12/2009	Period 15	0.260
	–	3,000,000	–	–	–	3,000,000			
Mr. Xu Bing	–	1,500,000	–	–	–	1,500,000	20/05/2009	Period 9	0.234
Mr. Kang Hongbo	–	–	–	1,500,000	–	1,500,000	20/05/2009	Period 9	0.234
	–	2,000,000	–	–	–	2,000,000	04/12/2009	Period 12	0.260
	–	2,000,000	–	–	–	2,000,000	04/12/2009	Period 13	0.260
	–	3,000,000	–	–	–	3,000,000	04/12/2009	Period 14	0.260
	–	3,000,000	–	–	–	3,000,000	04/12/2009	Period 15	0.260
	–	10,000,000	–	1,500,000	–	11,500,000			
Ms. Han Qiong	–	800,000	–	–	–	800,000	04/12/2009	Period 12	0.260
	–	800,000	–	–	–	800,000	04/12/2009	Period 13	0.260
	–	1,200,000	–	–	–	1,200,000	04/12/2009	Period 14	0.260
	–	1,200,000	–	–	–	1,200,000	04/12/2009	Period 15	0.260
	–	4,000,000	–	–	–	4,000,000			

33. SHARE OPTION SCHEME (Continued)

Name or category of participant	Number of share options: At 1 January 2009	Granted during the year	Exercise 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 option*
Other employees									
In aggregate	3,125,000	–	(3,125,000)	–	–	–	17/12/2007	Period 3	0.660
	3,125,000	–	(3,125,000)	–	–	–	17/12/2007	Period 4	0.660
	4,000,000	–	–	–	(2,500,000)	1,500,000	12/06/2007	Period 5	0.340
	–	5,500,000	–	–	–	5,500,000	15/05/2009	Period 7	0.216
	–	5,000,000	–	–	–	5,000,000	20/05/2009	Period 9	0.234
	–	22,980,000	–	–	–	22,980,000	04/12/2009	Period 12	0.260
	–	22,980,000	–	–	–	22,980,000	04/12/2009	Period 13	0.260
	–	34,470,000	–	–	–	34,470,000	04/12/2009	Period 14	0.260
	–	34,470,000	–	–	–	34,470,000	04/12/2009	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)	–	–	–	14/12/2007	Period 1	0.066
	153,750,000	–	(22,500,000)	–	–	131,250,000	17/06/2008	Period 2	0.066
	20,000,000	–	–	–	–	20,000,000	12/06/2008	Period 6	0.340
	–	40,000,000	–	–	–	40,000,000	19/05/2009	Period 8	0.220
	–	3,000,000	–	(1,500,000)	–	1,500,000	20/05/2009	Period 9	0.234
	–	3,500,000	–	–	–	3,500,000	17/08/2009	period10	0.272
	–	10,000,000	–	–	–	10,000,000	04/12/2009	Period 11	0.260
	–	10,000,000	–	–	–	10,000,000	04/12/2009	Period 12	0.260
	–	10,000,000	–	–	–	10,000,000	04/12/2009	Period 13	0.260
	–	15,000,000	–	–	–	15,000,000	04/12/2009	Period 14	0.260
	–	15,000,000	–	–	–	15,000,000	04/12/2009	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			

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

33. SHARE OPTION SCHEME (Continued)

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 2011 to 3 December 2014
Period 15	4 December 2011 to 3 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 share options for Period 5 and 7 are subject to half year vesting period. The share option for Period 9 and 10 are subject to ten months vesting period. The vesting period of the share options for Period 12, 13, 14 and 15 are subject to one, two, three and four years vesting period respectively.

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

	Weighted average exercise prices of share options HK$
For the year ended 31 December 2010	
At 1 January 2010	**0.198**
Granted during the year	**0.246**
Exercised during the year	**0.089**
At 31 December 2010	**0.253**
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

33. SHARE OPTION SCHEME (Continued)

Notes: (Continued)

(c) The weighted average remaining contractual life of the share options outstanding at 31 December 2010 was approximately 1,517 days (2009: 1,278 days).

(d) The weighted average share price at the date of exercise was HK$0.258 (2009: HK$0.251).

(e) The weighted average share price at the date of grant was HK$0.255 (2009: HK$0.252).

The fair values of the share options granted during the year ended 31 December 2010 were calculated using the binominal model. The inputs into model were as follows:

For the year ended 31 December 2010

Expected volatility (%)	**67.67%**
Expected life (year)	**2.41 years**
Risk free rate (%)	**0.62%**
Expected dividend yield (%)	**0%**

For the year ended 31 December 2009

Expected volatility (%)	62.09-76.78%
Expected life (year)	3 to 5 years
Risk free rate (%)	0.81%.1.81%
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 2010, the Company had 596,710,000 (2009: 413,150,000) share options outstanding under the Share Option Scheme, which are exercisable and represented approximately 12.5% (2009: 13.5%) 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 596,710,000 (2009: 413,150,000) additional ordinary shares of the Company and additional share capital of HK$239,000 (2009: HK$166,000) and share premium of HK$203,045,000 (2009: HK$81,464,000) (before issue expenses).

34. 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.

34. RESERVES (Continued)

(ii) Warrant reserve

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 placing of warrants was completed on 2 August 2010. The gross proceeds on the issue of warrants was HK$7,170,000 and the net proceeds (after deducting transaction cost) of HK$6,090,000, were recognised in warrant reserve in equity. The exercise period of the Warrants is from the date of listing of the Warrants up to 1 August 2012.

As at 31 December 2010, no Warrants have been exercised by registered holders.

(iii) Capital redemption reserve

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

(iv) 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.

(v) 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.

(vi) 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.

(vii) 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. Appropriations to specific reserve for prior year were adjusted by the Group in 2009.

(viii) 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.

35. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS

(a) Disposal of subsidiaries

Net assets/(liabilities) of Sungreen Group at the date of disposal were as follows:

	RMB'000
Net assets/(liabilities) disposed of:	
Property, plant and equipment	14,378
Prepaid land lease payment	35,897
Deposits paid	43,350
Available-for-sale financial assets	400
Inventories	3,696
Trade receivables	60,639
Other receivables, deposits and prepayments	1,829
Bank and cash balances and balance with non-financial institutions	90,724
Trade payables	(1,430)
Other payables and accrued charges	(20,545)
Amounts due to related company	(427)
Amount due to equity holders of subsidiaries	(17,225)
Borrowings	(40,000)
Provision for taxation	(1,178)
Non-controlling interests	(49,836)
	120,272
Release of translation reserve	(8,305)
Due to group companies disposal of	(51,262)
Costs incurred for disposal	1,069
Net gain on disposal of subsidiaries	10,852
	72,626
Satisfied by:	
Cash	123,888
Waiver of amounts due from the disposed subsidiaries by the Group	(51,262)
	72,626
An analysis of net inflow of cash and cash equivalents in respect of the disposal of Sungreen Group is as follows:	
Cash consideration	123,888
Bank and cash balances disposed	(90,724)
Net inflow of cash and cash equivalents in respect of the Disposal	33,164

35. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS (Continued)

(b) 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.

(c) During the year ended 31 December 2010, the Group purchased the property, plant and equipment of RMB7,836,000 (2009: RMB39,489,000) which was transferred from the deposits paid for acquisition of property, plant and equipment.

36. COMMITMENTS

At the reporting date, the Group had the following outstanding commitments:

(a) Operating lease arrangement

As lessee

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

	2010	2009
	RMB'000	RMB'000
Within one year	**717**	1,392
In the second to fifth year inclusive	**229**	508
	946	1,900

Operating lease payments represent rental payable by the Group for its office premises. Leases are negotiated for terms ranging from two to three (2009: 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.

36. COMMITMENTS (Continued)

(b) Capital commitments

	2010 RMB'000	2009 RMB'000
Property, plant and equipment		
– Authorised but not contracted for	**–**	1,429
– Contracted but not provided for	**10,543**	48,965
	10,543	50,394

(c) Other commitments

At the reporting date, the Group had commitment in relation to the acquisition of subsidiaries in the PRC of RMB84,564,000 (2009: RMB136,988,000).

37. CONTINGENT LIABILITIES

As at 31 December 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.

Upon the civil mediation endorsed by the relevant PRC courts on 17 August 2010, pursuant to which a subsidiary of the Group agreed to keep available an aggregate of 320,000 tonnes of mineral tailings for claimant's collection for a period of five years commencing 1 August 2010 to settle the litigation. As at the year ended 31 December 2010, 320,000 tonnes of mineral tailings had not been collected by claimant.

38. 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	2010 RMB'000	2009 RMB'000
Rental charges and sub-charges payable by the Group	(i)	–	789
Sales of goods to related companies	(ii)	**327,419**	120,416

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 and Hung Kam Holdings Limited. Mr. Mei Wei, a substantial shareholder of the Company, has beneficial interest or directorship in First Create and Hung Kam Holdings Limited. The sales were based on mutually agreed terms.

(b) Compensation of key management personnel

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

	2010 RMB'000	2009 RMB'000
Short-term benefits	**3,198**	2,599
Share-based payments	**1,385**	481
Post-employment benefits	**21**	28
	4,604	3,108

(c) As at 31 December 2009, certain borrowing of the Group in the carrying amount of approximately RMB40,274,000 (equivalent to US$5,897,000) 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 28 to the financial statements.

38. RELATED PARTY TRANSACTIONS (Continued)

(d) As at 31 December 2010, certain borrowings of the Group in the carrying amount of RMB45,000,000 are borrowed from financial institution, which are guaranteed by 青海汭銀投資擔保有限公司 in which Mr. Mei Wei and his close family members have a directorship. As at 31 December 2009, 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 a directorship.

(e) 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 2010 and 2009, deposit of RMB52,424,000 (2009: RMB24,750,000) was paid to First Create and the acquisition is still in progress at the approval date of these financial statements.

(f) As at 31 December 2009, 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).

(g) 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.

39. 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.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Categories of financial assets and liabilities

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

Financial assets

	2010 RMB'000	2009 RMB'000
Loans and receivables		
– Trade and note receivables	**306,938**	84,680
– Other receivables	**157,671**	95,128
– Amounts due from related companies	**57,610**	96,664
– Pledged bank deposits	**3,501**	28,452
	525,720	304,924
Bank balances and cash	**11,174**	21,140
	536,894	326,064
At fair value through profit or loss		
– Financial assets at fair value through profit or loss	**12,182**	–
	549,076	326,064

Financial liabilities

	2010 RMB'000	2009 RMB'000
Measured at amortised cost		
– Trade payable	**108,713**	52,041
– Other payables and accrued charges	**68,618**	50,665
– Amounts due to related companies	**14,140**	2,077
– Amounts due to former and non-controlling equity holders of subsidiaries	**5,022**	5,022
– Borrowings	**99,277**	264,939
– Convertible bonds	**253,967**	378,834
	549,737	753,578
At fair value through profit or loss		
– Financial liabilities at fair value through profit or loss	**14,090**	–
	563,827	753,578

39. 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, sales and purchases of non-ferrous metals, 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.

In 2009, 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. The assumed changes have no impact on the Group's other components of equity.

In 2010, the Group's exposure to currency exchange rate was minimal as the group companies held most of their financial assets/liabilities in their own functional currencies as at 31 December 2010.

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 reporting 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 reporting dates. The analysis is prepared assuming the relevant assets and liabilities outstanding at the reporting 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 2010 would increase/decrease by RMB110,000 (2009: RMB159,000). 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.

39. 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 reporting date is assessed to be immaterial. Changes in fair value of derivative financial instruments have no impact on other components of equity.

(e) Fair values

The carrying amounts of the financial assets and financial liabilities as disclosed under current assets and current liabilities, respectively, approximate their fair values as they are all short term in nature.

The following table presents financial assets measured at fair value in the statement of financial position in accordance with the fair value hierarchy. The hierarchy groups financial assets into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(e) Fair values (Continued)

At 31 December 2010, the financial assets measured at fair value in the statement of financial position are grouped into the fair value hierarchy as follows:

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	2010 Total RMB'000
Assets				
Financial assets at fair value through profit or loss				
– Future contracts	12,182	–	–	12,182
Liabilities				
Financial liabilities at fair value through profit or loss				
– Future contracts	14,090	–	–	14,090

There have been no significant transfers between levels 1, 2 and 3 in the reporting period.

Note: Fair value of the future contracts have been determined by reference to their quoted bid prices at the reporting date.

(f) Credit risk

At the reporting 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 recognised financial assets as stated in the consolidated reporting date.

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 reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. The Company's substantial shareholder, Mr. Mei Wei, has undertaken to indemnify any loss the Company may incur in consequence of any failure or default in repayment by certain receivables of the Group to minimize the Group's credit risk. In this regard, the management considers that the Group's credit risk is significantly reduced.

The Group had concentration of credit risk of its trade and note receivables on two customers which represented 85.3% (2009: nil) of the aggregate amount of the Group's trade and note receivables as at 31 December 2010.

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.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(g) 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 reporting 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 2010				
Non-derivative financial liabilities				
Trade payables	**108,713**	**–**	**–**	**108,713**
Other payables and accrued charges	**68,618**	**–**	**–**	**68,618**
Amounts due to related companies	**14,140**	**–**	**–**	**14,140**
Amounts due to non-controlling equity holders of subsidiaries	**5,022**	**–**	**–**	**5,022**
Borrowings	**73,151**	**25,881**	**1,829**	**100,861**
Convertible bonds	**–**	**–**	**339,877**	**339,877**
	269,644	**25,881**	**341,706**	**637,231**
Financial liabilities at fair value through profit and loss	**14,090**	**–**	**–**	**14,090**
	283,734	**25,881**	**341,706**	**651,321**
At 31 December 2009				
Non-derivative financial liabilities				
Trade payables	52,041	–	–	52,041
Other payables and accrued charges	50,665	–	–	50,665
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
	228,902	112,712	581,581	923,195

40. 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.

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

	Group	
	2010	2009
	RMB'000	RMB'000
Capital		
Total equity	**1,350,416**	1,011,880
Overall financing		
Borrowings	**99,277**	264,939
Convertible bonds	**253,967**	378,834
	353,244	643,773
Capital-to-overall financing ratio	**3.82 times**	1.57 times

41. EVENTS AFTER THE REPORTING DATE

(i) On 17 January 2011, the Company entered into a placing of existing shares and top-up subscription agreement (the "Top-up Agreement") with Ruffy and Peace Town Securities Limited (the "Placing Agent") pursuant to which the Placing Agent agreed to place 200,000,000 existing Shares at HK$0.22 per share on behalf of Ruffy. The Top-up Agreement was completed on 26 January 2011. Further details of the Top-up Agreement was set out in the announcement of the Company dated 17 January 2011.

(ii) Pursuant to an announcement dated 9 March 2011, a wholly-owned subsidiary of the Company entered into an acquisition agreement with the vendor to acquire 60% of issued capital in Ever Champion Limited at an initial consideration of HK$197,000,000.

The vendor is currently the sole legal and beneficial owner of Ever Champion Limited, which indirectly owns and holds 25% equity interest in Jiashengpan, a subsidiary of the Company. Upon completion of the acquisition, the Group will effectively own 90% equity interests in Jiashengpan.

The acquisition is still in progress as at the approval date of these financial statements.