

THIRD QUARTERLY REPORT 2011



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

*(Incorporated in Bermuda with limited liability)*

Stock Code: 8306

\* for identification only

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

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*This report, for which the directors (the “Directors”) of China Nonferrous Metals Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”) for the purposes of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

## HIGHLIGHTS

- Achieved a turnover of approximately RMB382.2 million for the nine months ended 30 September 2011, representing an approximately 51.9% increase as compared with that of the corresponding period in 2010.
- Net profit of the Group attributable to owners of the Company for the nine months ended 30 September 2011 amounted to approximately RMB23.6 million, representing an approximately 56.0% decrease as compared with that of the corresponding period in 2010.
- The Directors do not recommend dividend for the nine months ended 30 September 2011.

## UNAUDITED CONSOLIDATED INCOME STATEMENT

The board (the "Board") of directors (the "Director") of China Nonferrous Metals Company Limited is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the nine months ended 30 September 2011, together with the comparative figures, which have been represented, for the corresponding period in 2010 as follows:

	Notes	Nine months ended 30 September		Three months ended 30 September	
		2011 RMB'000 (unaudited)	2010 RMB'000 (unaudited) (represented)	2011 RMB'000 (unaudited)	2010 RMB'000 (unaudited) (represented)
<b>Continuing operations</b>					
Revenue	3	382,241	251,623	163,317	119,376
Cost of sales		(341,361)	(185,069)	(148,814)	(93,979)
Gross profit		40,880	66,554	14,503	25,397
Other income		15,500	3,084	4,294	2,659
Change in fair value of derivative financial instruments		49,452	64,827	15,300	20,199
Gain on disposal of subsidiaries		–	2,659	–	–
Selling and distribution costs		(7,080)	(6,596)	(2,558)	(4,391)
Administrative expenses		(29,309)	(25,936)	(11,280)	(5,148)
Equity-settled share options expenses		(3,843)	(8,162)	(1,278)	(2,390)
Profit from operation		65,600	96,430	18,981	36,326
Finance costs	4	(24,234)	(34,325)	(8,360)	(8,875)
Profit before income tax		41,366	62,105	10,621	27,451
Income tax expense	5	(15,206)	(5,265)	(4,226)	(4,189)
<b>Profit for the period from continuing operations</b>		<b>26,160</b>	<b>56,840</b>	<b>6,395</b>	<b>23,262</b>
<b>Discontinued operation</b>					
<b>Loss for the period from a discontinued operation</b>		<b>–</b>	<b>(2,072)</b>	<b>–</b>	<b>–</b>
<b>Profit for the period</b>		<b>26,160</b>	<b>54,768</b>	<b>6,395</b>	<b>23,262</b>

## UNAUDITED CONSOLIDATED INCOME STATEMENT

	Notes	Nine months ended 30 September		Three months ended 30 September	
		2011 RMB'000 (unaudited)	2010 RMB'000 (unaudited)	2011 RMB'000 (unaudited)	2010 RMB'000 (unaudited)
<b>Attributable to:</b>					
Owners of the Company		23,603	53,603	6,193	22,482
Non-controlling interests		2,557	1,165	202	780
<b>Profit for the period</b>		<b>26,160</b>	54,768	<b>6,395</b>	23,262
<b>Continuing operations</b>					
<b>Attributable to:</b>					
Owners of the Company		23,603	54,954	6,193	22,482
Non-controlling interests		2,557	1,886	202	780
<b>Profit for the period</b>		<b>26,160</b>	56,840	<b>6,395</b>	23,262
<b>Discontinued operation</b>					
<b>Attributable to:</b>					
Owners of the Company		–	(1,351)	–	–
Non-controlling interests		–	(721)	–	–
<b>Loss for the period</b>		–	(2,072)	–	–
Dividend	6	–	–	–	–
<b>Earnings per share</b>					
Basic	7				
– For profit from continuing and discontinued operations		0.47 cents	1.45 cents	0.12 cents	0.53 cents
– For profit from continuing operations		0.47 cents	1.49 cents	0.12 cents	0.53 cents
<b>Diluted</b>					
– For profit from continuing and discontinued operations		0.47 cents	1.34 cents	0.12 cents	0.46 cents
– For profit from continuing operations		0.47 cents	1.36 cents	0.12 cents	0.46 cents

## UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the nine months ended 30 September 2011

	Nine months ended 30 September		Three months ended 30 September	
	2011 RMB'000 (unaudited)	2010 RMB'000 (unaudited)	2011 RMB'000 (unaudited)	2010 RMB'000 (unaudited)
Profit for the period	26,160	54,768	6,395	23,262
<b>Other comprehensive income</b>				
Exchange differences arising on translation of foreign operations	(4,151)	(786)	(112)	692
Total other comprehensive income for the period	(4,151)	(786)	(112)	692
Total comprehensive income attributable to owners of the Company	22,009	53,982	6,283	23,954
<b>Attributable to:</b>				
Owners of the Company	19,452	52,817	6,081	23,174
Non-controlling interests	2,557	1,165	202	780
	22,009	53,982	6,283	23,954

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, prior year adjustment is required and net amount receivable in return for services performed is recognised as revenue.

	<b>RMB'000</b>
Decrease in revenue	<b>570,783</b>
Decrease in cost of sales	<b>(570,783)</b>
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Impact on consolidated income statement – Profit for the period	–

Prior year adjustment related to the reclassification of amortization of mining right from administrative expenses to cost of sales, was made on comparative figures to be consistent with the presentation in the 2010 annual report.

	<b>RMB'000</b>
Increase in cost of sales	<b>9,195</b>
Decrease in administrative expenses	<b>(9,195)</b>
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Impact on consolidated income statement – Profit for the period	–

## NOTES:

### 1. GENERAL INFORMATION AND BASIS OF PRESENTATION

The Company was incorporated in Bermuda on 14 April 2004 as an exempted company under the Companies Act 1981 of Bermuda (as amended). Its shares are listed on the GEM with effect from 28 February 2005 (the "Listing Date").

The 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.

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

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

The accounting policies adopted in preparing the unaudited consolidated results for the nine months ended 30 September 2011 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010. The consolidated results for the nine months ended 30 September 2011 are unaudited but have been reviewed by the Company's audit committee.



## 2. ADOPTION OF NEW OR AMENDED IFRSs

In the current period, the Group has applied for the first time the following new and revised IFRSs, which are effective for the Group's financial statements for the annual financial period beginning on 1 January 2011.

IFRSs (Amendments)	Improvements to IFRSs 2010 except for the amendments to IFRS 3 (Revised in 2008), IAS 1, IAS 27 and IAS 28 <sup>1</sup>
IFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters <sup>3</sup>
IAS 24 (Revised)	Related Party Disclosures <sup>4</sup>
IAS 32 (Amendments)	Classification of Rights Issues <sup>2</sup>
IFRIC – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement <sup>4</sup>
IFRIC – Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>3</sup>

<sup>1</sup> *Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.*

<sup>2</sup> *Effective for annual periods beginning on or after 1 February 2010.*

<sup>3</sup> *Effective for annual periods beginning on or after 1 July 2010.*

<sup>4</sup> *Effective for annual periods beginning on or after 1 January 2011.*

The adoption of these new and revised IFRSs did not change the Group's accounting policies as followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010. The Directors of the Company anticipate that the adoption of the new IFRSs has no material impact on the results and the financial position of the Group.



## 5. INCOME TAX EXPENSE

	Continuing operations		Discontinued operation		Continuing operations		Discontinued operation	
	Nine months ended 30 September		Nine months ended 30 September		Three months ended 30 September		Three months ended 30 September	
	2011	2010	2011	2010	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Current								
- Hong Kong	-	4,358	-	-	-	2,860	-	-
- Overseas taxation	17,523	3,206	-	-	5,418	2,495	-	-
Deferred taxation	17,523	7,564	-	-	5,418	5,355	-	-
	(2,317)	(2,299)	-	-	(1,192)	(1,166)	-	-
Total tax charge for the period	15,206	5,265	-	-	4,226	4,189	-	-

Approximately RMB17,523,000 (2010: RMB7,564,000) represented provision for the PRC Enterprise Income Tax ("EIT") and Hong Kong Profits Tax on the Group's estimated assessable profit for the nine months ended 30 September 2011 and 2010 respectively.

No provision of Hong Kong Profits Tax had been made during the period as the Group had no assessable profits arising in or deriving from Hong Kong. Hong Kong Profits Tax has been provided at the rate of 16.5% on the Group's estimated assessable profits arising from Hong Kong for the nine months ended 30 September 2010. Income tax expense for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

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

## 6. DIVIDEND

No dividend has been paid or declared by the Group for the nine months ended 30 September 2011 (30 September 2010: Nil).

## 7. 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

	Nine months ended 30 September		Three months ended 30 September	
	2011 RMB'000 (unaudited)	2010 RMB'000 (unaudited)	2011 RMB'000 (unaudited)	2010 RMB'000 (unaudited)
<b>Earnings</b>				
Profit attributable to owners of the Company	23,603	53,603	6,193	22,482
Effect of dilutive potential ordinary shares in respect of convertible bonds	-	26,865	-	7,386
Profit attributable to owners of the Company from the continuing operations	23,603	80,468	6,193	29,868

	Nine months ended 30 September		Three months ended 30 September	
	2011 '000	2010 '000	2011 '000	2010 '000
<b>Number of shares</b>				
Weighted average number of ordinary shares for the purposes of basic earnings per share	4,988,208	3,686,710	5,006,540	4,177,695
Effect of dilutive potential ordinary shares in respect of share options	-	105,059	-	105,059
Effect of dilutive potential ordinary shares in respect of convertible bonds	-	2,205,922	-	2,101,050
Weighted average number of ordinary shares for the purposes of diluted earnings per share	4,988,208	5,997,691	5,006,540	6,383,804

In the calculation of the diluted earnings per share attributable to the owners of the Company, the potential shares arising from the conversion of the Company's warrants, share options and convertible bonds had not been taken into account as it had an anti-dilutive effect for the period ended 30 September 2011.

**(b) From continuing operations**

	Nine months ended 30 September		Three months ended 30 September	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
<b>Earnings</b>				
Profit attributable to owners of the Company	<b>23,603</b>	53,603	<b>6,193</b>	22,482
Less: Loss from discontinued operation	-	(2,072)	-	-
Result from discontinued operation attributable to non-controlling interests	-	721	-	-
Loss attributable to owners of the Company from the discontinued operation	-	(1,351)	-	-
Profit attributable to owners of the Company from the continuing operations	<b>23,603</b>	54,954	<b>6,193</b>	22,482

## 8. SHARE CAPITAL AND RESERVES

For the nine months ended 30 September 2011

	Attributable to owners of the Company												
	Share capital RMB'000	Share premium RMB'000	Warrant reserve RMB'000	Capital redemption reserve RMB'000	Translation reserve RMB'000	Specific reserve RMB'000	Other reserve RMB'000	Share option reserve RMB'000	Convertible bonds equity reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
Balance at 31 December 2010 and 1 January 2011 (audited)	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
Placing and subscription of new shares	68	37,573	-	-	-	-	-	-	-	-	37,641	-	37,641
Share issue expenses	-	(1,907)	-	-	-	-	-	-	-	-	(1,907)	-	(1,907)
Convertible bonds exercised	5	2,860	-	-	-	-	-	-	(926)	-	1,939	-	1,939
Equity-settled share option arrangements	-	-	-	-	-	-	-	3,843	-	-	3,843	-	3,843
Additional interest in subsidiaries acquired by the Group	-	-	-	-	-	-	(27,522)	-	-	-	(27,522)	(213,669)	(241,191)
Transactions with owners	73	38,526	-	-	-	-	(27,522)	3,843	(926)	-	13,994	(213,669)	(199,675)
Profit for the period	-	-	-	-	-	-	-	-	-	23,603	23,603	2,557	26,160
<b>Other comprehensive income</b>	-	-	-	-	-	-	-	-	-	-	-	-	-
Currency translation	-	-	-	-	(4,151)	-	-	-	-	-	(4,151)	-	(4,151)
Total comprehensive income for the period	-	-	-	-	(4,151)	-	-	-	-	23,603	19,452	2,557	22,009
Utilisation of specific reserve	-	-	-	-	-	(355)	-	-	-	-	(355)	-	(355)
Share options lapsed	-	-	-	-	-	-	-	(491)	-	491	-	-	-
At 30 September 2011 (unaudited)	1,901	731,718	5,314	6	(13,291)	4,382	(20,558)	48,957	119,345	202,267	1,080,041	92,354	1,172,395

## For the nine months ended 30 September 2010

	Attributable to owners of the Company																
	Share capital	Share premium	Warrant reserve	Capital redemption reserve		Statutory reserve	Translation reserve	Special reserve	Specific reserve	Other reserve	Share option reserve	Convertible bonds equity reserve		Retained profits	Total	Non-controlling interests	Total
				RMB'000	RMB'000							RMB'000	RMB'000				
Balance at 31 December 2009 and 1 January 2010 (audited)	1,224	345,610	-	6	6,782	9,336	(2,973)	(129)	5,343	6,964	9,279	193,067	89,305	663,814	348,066	1,011,880	
Warrant issued	-	-	6,256	-	-	-	-	-	-	-	-	-	-	6,256	-	6,256	
Transaction costs attributable to issue of warrants	-	-	(874)	-	-	-	-	-	-	-	-	-	-	(874)	-	(874)	
Placing and subscription of new shares	102	63,249	-	-	-	-	-	-	-	-	-	-	-	63,351	-	63,351	
Share issue expenses	-	(1,436)	-	-	-	-	-	-	-	-	-	-	-	(1,436)	-	(1,436)	
Issue of convertible bonds	-	-	-	-	-	-	-	-	-	-	-	1,344	-	1,344	-	1,344	
Convertible bonds exercised	370	203,211	-	-	-	-	-	-	-	-	-	(57,257)	-	146,324	-	146,324	
Convertible bonds expense	-	(24)	-	-	-	-	-	-	-	-	-	-	-	(24)	-	(24)	
Share options exercised	2	2,021	-	-	-	-	-	-	-	(650)	-	-	-	1,373	-	1,373	
Equity-settled share option arrangements	-	-	-	-	-	-	-	-	-	8,162	-	-	-	8,162	-	8,162	
Disposal of subsidiaries	-	-	-	-	(6,782)	(9,336)	1,515	129	-	-	-	-	-	(14,474)	(49,836)	(64,310)	
Transactions with owners	474	267,021	5,382	-	(6,782)	(9,336)	1,515	129	-	-	7,512	(55,913)	-	210,002	(49,836)	160,166	
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	-	53,603	53,603	1,165	54,768	
<b>Other comprehensive income</b>																	
Currency translation	-	-	-	-	-	-	(786)	-	-	-	-	-	-	(786)	-	(786)	
Total comprehensive profit for the period	-	-	-	-	-	-	(786)	-	-	-	-	-	53,603	52,817	1,165	53,982	
Share options lapsed	-	-	-	-	-	-	-	-	-	-	(241)	-	241	-	-	-	
Balance at 30 September 2010 (unaudited)	1,698	612,631	5,382	6	-	-	(2,244)	-	5,343	6,964	16,550	137,154	143,149	926,633	299,395	1,226,028	

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial highlights

Completion of the acquisition of a 15% indirect equity interest in Bameng Wuzhong Qi Jiashengpan Zinc, Lead and Pyrite Resources Exploitation Company Limited (“Jiashengpan”), a principal subsidiary of the Company, took place on 29 April 2011. Jiashengpan is principally engaged in the exploration and exploitation of the mineral resources extracted from the mine consisting of zinc, lead and sulphur. Since then, the Group’s beneficial shareholding in Jiashengpan has increased from 75% to 90%.

Revenue for the Group for the nine months ended 30 September 2011 amounted to approximately RMB382.2 million, representing an increase of approximately 51.9% as compared with the corresponding period in 2010. During the reporting period, gross profit amounted to approximately RMB40.9 million, representing a decrease of approximately 38.6% over the same period last year. Net profit of the Group attributable to owners of the Company for the period amounted to approximately RMB23.6 million compared to a net profit of approximately RMB53.6 million recorded in the same period last year.

### Market review

#### Lead

Total global supply of lead for the first eight months of this year stood at approximately 6.757 million tons whilst total consumption for the same period was only approximately 6.604 million tons, representing a supply surplus of 153,000 tons. During the year 2010, global lead production was approximately 9.401 million tons and consumption was approximately 9.353 million tons, representing a supply surplus of 48,000 tons.

World refined lead supply and usage

	2011	2010
January-August		
Metal production (ton)	<b>6,757,000</b>	6,144,000
Metal usage (ton)	<b>6,604,000</b>	6,092,000
Surplus (ton)	<b>153,000</b>	52,000

Source: *International Lead and Zinc Study Group (“ILZSG”)*



Approximate 10% increase in global refined lead metal production in the first eight months was primarily due to higher output in India, Mexico and China. The increase in global refined lead metal demand was driven mainly by strong recoveries in Europe and the United States as well as growth in Chinese apparent demand. It is expected that the size of the surplus will eventually be turned into a deficit as global economy continues to improve and the persistent improvement on demand created by the automobile industry in China.

## Zinc

Total global supply of zinc was approximately 8.606 million tons for the first eight months of this year whilst total consumption was approximately 8.343 million, representing a surplus of 263,000 tons. When compared to the supply surplus of 97,000 tons for the same period last year, there was an increment of 166,000 tons. During the year 2010, global zinc production was approximately 12.764 million tons and consumption was approximately 12.5 million tons, representing a supply surplus of 264,000 tons.

### World refined Zinc supply and usage

	2011	2010
January-August		
Metal production (ton)	<b>8,606,000</b>	8,362,000
Metal usage (ton)	<b>8,343,000</b>	8,265,000
Surplus (ton)	<b>263,000</b>	97,000

Source: ILZSG

The zinc market is still being over supplied in both 2011 and 2010. Production is estimated to increase disproportionately to consumption implying that the supply surplus may stay for some time.

## PRC Nonferrous Metal Market Industry Review

According to the article issued by Ministry of Industry and Information Technology of the PRC, total capital investments in nonferrous metals industry in the PRC had increased by 28.2% up to approximately RMB194.7 billion from the first half of 2010 to 2011. Of which expenditure on smelting works in the PRC had been increased by 33.7% up to approximately RMB86.5 billion and expenditure on mine extraction works had been increased by 15.0% up to approximately RMB35.2 billion in the first half of 2010 to 2011. Capital investments in nonferrous industry of the first half 2011 accounted for 1.56% of the overall capital investments in the PRC, increased by approximately 2.6% compared with last corresponding period. Given the substantial increase in the investment in nonferrous metal industry, the output of 10 nonferrous metals, including zinc and lead, rose approximately 7.27% to approximately 16.6 million tonnes for the first 6 months of 2011 in the PRC. The output of lead climbed approximately 23.5% to 2.2 million tonnes and zinc rose approximately 2.14% to 2.5 million tonnes. Profitability in the PRC nonferrous industry had reached approximately RMB65.4 billion, increased by 42.2% compared with the first five months of 2010 to 2011.

With the gradual spreading of the European debt crisis and the uncertainties surrounding the US economy, the global economy had been weaker than expected. These incidents caused adverse consequences in the financial markets around the world and impacted on most industrial sectors including nonferrous markets. Prices of zinc and lead from Shanghai Metals Exchange Markets in the mid-October 2011 were approximately RMB15,300 and RMB14,800 per tonne which were less than the average price of zinc and lead of RMB17,470 and RMB16,691 per tonne respectively for the first nine months in 2011. Nevertheless, the outlook for zinc and lead prices remained positive. An increase in zinc and lead prices can still be witnessed when comparing the prices in the first nine months of 2010 and 2011. Average prices for zinc and lead in the first nine months were approximately RMB17,470 per tonne (2010: RMB17,087 per tonne) and RMB16,691 per tonne (2010: RMB15,683 per tonne). With the introduction of stimulus measures by Governments worldwide and the persistent increase in the demand of nonferrous metals, zinc and lead prices are expected to remain stable in the short run and are likely to sustain an upward trend in the long run due primarily to limited resources in the world.

In addition, according to the preliminary statistics available from the National Bureau of Statistic of China, the PRC economy has demonstrated a strong growth in GDP in the year of 2011. The GDP growth in the first quarter, second quarter and third quarter of 2011 are 9.7%, 9.6% and 9.4% respectively which will further fortify the demand for base metals such as zinc and lead.

In view of the favourable historical statistics regarding the lead and zinc markets as illustrated above, the Directors of the Company consider the demand and price for lead and zinc may also experience positive growth in the long run.

Looking ahead, the Group will continue to further expand its existing capacity and explore investment opportunities in the PRC mining industry in order to establish its position as one of the industry leaders 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 future.

## Financial performance analysis

### Revenue

For the nine months ended 30 September 2011, the Group recorded a turnover of approximately RMB382.2 million, representing an increase of approximately 51.9% as compared with the turnover of approximately RMB251.6 million for the same period last year. Total costs of production increased approximately 84.5% to approximately RMB341.4 million compared with the same period in last corresponding period as a result of higher sales generated from the nonferrous trading business which carries a lower gross profit margin.

Revenue and gross profit margin as at period ended 30 September 2011 is as follows:

	2011		2010	
	RMB'000	%	RMB'000	%
<b>Continuing operations</b>				
Nonferrous Metal Mining	123,811	32.4	91,127	36.2
Metal Trading	258,430	67.6	129,550	51.5
Indent Trading	–		30,946	12.3
	<b>382,241</b>		251,623	

Gross profit margin by segment is as follows:

	2011 Approximately	2010 Approximately
<b>Continuing operations</b>		
Nonferrous Metal Mining	30.9%	29.6%
Metal Trading	1.0%	6.5%
Indent Trading	–	N/A
Overall gross margin	<b>10.7%</b>	26.5%

## Business review

### Mining

Mining activities of Jiashengpan, a principal subsidiary of the Group, remained stable and an increase in sales volume has been recorded. For the nine months ended 30 September 2011, revenue generated from sales of non-ferrous metal products amounted to approximately RMB123.8 million, representing an increase of 35.9% over the corresponding period in 2010. Approximately 30.9% gross profit margin was recorded for the nine months ended 30 September 2011 representing an increase of approximately 1.3% over the same period last year.

### Metal Trading

Total revenue generated from trading activities amounted to approximately RMB258.4 million for the 9 months ended 30 September 2011 (2010: RMB129.6 million) representing an increase of approximately RMB128.9 million or 99.5% over the same period last year. Gross margin on metal trading, however, has dropped significantly from approximately 6.5% to 1% when compared to the same period last year. During the first nine months of 2011, trading conditions for non-ferrous metals was not favourable and gross margins on our metal trading activities was adversely affected.

### Indent Trading

As reported in previous quarters of 2011, adverse trading conditions for our indent trading activities persisted in the third quarter of 2011 and no indent trading activities had been conducted by the Group since 1 January 2011. Indent trading activities may be resumed if trading conditions improve in the future.

Overall gross margin for the nine months ended 30 September 2011 has also been affected adversely by the reduction in gross margin on metal trading together with the fact that the Company has not carried out any indent trading activity as from 1 January 2011.

The reduction in profit attributable to owners of the Company for the period was mainly due to lower margin generated from metal commodity future contracts as well as the cessation of indent trading activities.

The following are the sales volume and average selling prices for each of our mining products and trading business in respect of the period ended 30 September 2011 and 2010:

	Nine months ended 30 September 2011			Nine months ended 30 September 2010		
	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	9,933	9,970.3	99,035	8,856	9,496.90	84,105
Lead concentrates, crude lead and lead ingots	11,569	13,630.5	157,691	7,354	12,099.67	88,981
Sulphuric acid	31,738	389.85	12,373	28,258	203.24	5,743
Silver	16.44	6,150,790.7	101,119	9.418	3,067,075.81	28,886
Associated gold metal (gram)	25,313	282.35	7,147	13,659	228.85	3,126
Iron concentrates	725	531	385	3,736	670.04	2,503
Copper cathode	-	-	-	157	46,707	7,333
Sulphuric concentrates	16,240	276.55	4,491	-	-	-
Indent trading	-	-	-	-	-	30,946
<b>Total Revenue</b>			<b>382,241</b>			<b>251,623</b>

## Other income

During the period, other income was approximately RMB15.5 million representing an increase of approximately RMB12.4 million or approximately 403% as compared with approximately RMB3.1 million for the same period in 2010.

## Changes in fair value of derivative financial instruments

It represents the gain or loss arising from the changes in fair value of the metal commodity future contracts used to hedge against the Group's purchases and inventory. For the nine months ended 30 September 2011, the Group recorded a profit on future contracts of approximately RMB49.5 million (2010: approximately RMB64.8 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 non-ferrous metal future contracts during the period. Strict internal policies and procedures are in place to ensure the position is regularly reviewed and that the Group is not exposed to undue market risk and the management is not allowed in entering into any commodities futures contract for speculation purposes.

### **Operating expenses**

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

Selling and distribution expenses for the nine months ended 30 September 2011 amounted to approximately RMB7.1 million, the increase was in tandem with the increase in turnover of the Group's mining operation in Inner Mongolia.

Administrative expenses for the nine months ended 30 September 2011 amounted to approximately RMB29.3 million (2010: RMB25.9 million). Administrative expenses mainly comprised of staff remuneration and social insurance, including directors' emoluments, of approximately RMB10.3 million, real estate tax, land use tax and various governmental expenses of approximately RMB5.3 million, and rental and management fees of approximately RMB1.3 million.

### **Finance costs**

Finance cost for the nine months ended 30 September 2011 amounted to approximately RMB24.2 million, representing a decrease of approximately RMB10.1 million compared with the same period in 2010. The decrease was due to the repayment of loans.

On the other hand, approximately RMB64,000,000 loans have been raised during the third quarter in 2011, however, the relevant interest expenses are not material as compared with the total finance costs.

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

Profit attributable to the owners of the Company for the nine months ended 30 September 2011 amounted to approximately RMB23.6 million, as compared to the profit of approximately RMB53.6 million reported in the corresponding period.

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

As at 30 September 2011, the interests and short positions of the Directors and the chief executive and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of the Hong Kong Special Administrative Region (the "SFO")), which were (a) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); (b) required to be recorded in the register kept by the Company pursuant to section 352 of the SFO or; (c) as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the Directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

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

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

Name of Director	Capacity	Number of Shares	Percentage of shareholding (%)
Xu Bing	Beneficial owner	1,500,000(L)	0.03
Kang Hongbo	Beneficial owner	11,400,000(L)	0.23

L: Long Position

## (b) Share options

The following Directors have been granted options under the share option scheme of the Company, details of 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
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	<u>10,000,000</u>	0.20%	4 Dec 09	4 Dec 2010 to 3 Dec 2014	HK\$0.26
	Subtotal:	<u>11,500,000</u>				
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 30 September 2011, none of the Directors and chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were (a) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); (b) required to be recorded in the register kept by the Company pursuant to section 352 of the SFO or; (c) as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by the Directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules.



## SHARE OPTION SCHEME

As at 30 September 2011, options to subscribe for an aggregate of 586,710,000 shares of the Company had been granted to certain Directors, employees and suppliers/advisors of the Group. Details of outstanding options were as follows:

Name or category of participant	Number of share options				At 30 September 2011	Date of grant of share options (note a)	Exercise period of share options	Exercise price of share option
	At 1 January 2011	Granted during the period	Exercise during the period	Lapsed during the period				
<b>Directors</b>								
Mr. Zhuo Ze Fan (note b)	2,000,000	-	-	(2,000,000)	-	04/12/2009	Period 7	0.260
	2,000,000	-	-	(2,000,000)	-	04/12/2009	Period 8	0.260
	3,000,000	-	-	(3,000,000)	-	04/12/2009	Period 9	0.260
	3,000,000	-	-	(3,000,000)	-	04/12/2009	Period 10	0.260
	10,000,000	-	-	(10,000,000)	-			
Mr. Ng Tang	600,000	-	-	-	600,000	04/12/2009	Period 7	0.260
	600,000	-	-	-	600,000	04/12/2009	Period 8	0.260
	900,000	-	-	-	900,000	04/12/2009	Period 9	0.260
	900,000	-	-	-	900,000	04/12/2009	Period 10	0.260
	3,000,000	-	-	-	3,000,000			
Mr. Kang Hongbo	1,500,000	-	-	-	1,500,000	20/05/2009	Period 4	0.234
	2,000,000	-	-	-	2,000,000	04/12/2009	Period 7	0.260
	2,000,000	-	-	-	2,000,000	04/12/2009	Period 8	0.260
	3,000,000	-	-	-	3,000,000	04/12/2009	Period 9	0.260
	3,000,000	-	-	-	3,000,000	04/12/2009	Period 10	0.260
	11,500,000	-	-	-	11,500,000			
Ms. Han Qiong	800,000	-	-	-	800,000	04/12/2009	Period 7	0.260
	800,000	-	-	-	800,000	04/12/2009	Period 8	0.260
	1,200,000	-	-	-	1,200,000	04/12/2009	Period 9	0.260
	1,200,000	-	-	-	1,200,000	04/12/2009	Period 10	0.260
	4,000,000	-	-	-	4,000,000			

Name or category of participant	Number of share options				At 30 September 2011	Date of grant of share options (note a)	Exercise period of share options	Exercise price of share option
	At 1 January 2011	Granted during the period	Exercise during the period	Lapsed during the period				
<b>Other employees</b>								
In aggregate	1,500,000	-	-	-	1,500,000	15/05/2009	Period 2	0.216
	5,000,000	-	-	-	5,000,000	20/05/2009	Period 4	0.234
	22,340,000	-	-	-	22,340,000	04/12/2009	Period 7	0.260
	22,340,000	-	-	-	22,340,000	04/12/2009	Period 8	0.260
	33,510,000	-	-	-	33,510,000	04/12/2009	Period 9	0.260
	33,510,000	-	-	-	33,510,000	04/12/2009	Period 10	0.260
	358,510,000	-	-	-	358,510,000	28/7/2010	Period 11	0.246
	476,710,000	-	-	-	476,710,000			
<b>Suppliers/Advisors</b>								
In aggregate	20,000,000	-	-	-	20,000,000	12/06/2008	Period 1	0.340
	8,000,000	-	-	-	8,000,000	19/05/2009	Period 3	0.220
	3,500,000	-	-	-	3,500,000	17/08/2009	Period 5	0.272
	10,000,000	-	-	-	10,000,000	04/12/2009	Period 6	0.260
	10,000,000	-	-	-	10,000,000	04/12/2009	Period 7	0.260
	10,000,000	-	-	-	10,000,000	04/12/2009	Period 8	0.260
	15,000,000	-	-	-	15,000,000	04/12/2009	Period 9	0.260
	15,000,000	-	-	-	15,000,000	04/12/2009	Period 10	0.260
	91,500,000	-	-	-	91,500,000			
	596,710,000	-	-	(10,000,000)	586,710,000			

Period 1	12 June 2008 to 11 June 2013
Period 2	15 November 2009 to 14 May 2014
Period 3	19 May 2009 to 18 May 2014
Period 4	20 March 2010 to 19 May 2014
Period 5	17 June 2010 to 16 August 2014
Period 6	4 December 2009 to 3 December 2014
Period 7	4 December 2010 to 3 December 2014
Period 8	4 December 2011 to 3 December 2014
Period 9	4 December 2012 to 3 December 2014
Period 10	4 December 2013 to 3 December 2014
Period 11	28 July 2010 to 30 May 2015

*Notes:*

- (a) The vesting date of the share options for Period 1, 3, 6 and 11 are the date of grant. The share options for Period 2 are subject to half year vesting period. The share option for Period 4 and 5 are subject to ten months vesting period. The vesting period of the share options for Period 7, 8, 9, and 10 are subject to one, two, three and four years vesting period respectively.
- (b) Mr. Zhuo Ze Fan retired by rotation as executive Director in accordance with bye-laws and the resolution in respect of his re-election was not passed by shareholders as ordinary resolution at the conclusion of the annual general meeting held on 5 May 2011. The share options lapsed due to his retirement.

## SUBSTANTIAL SHAREHOLDERS

As at 30 September 2011, 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, underlying shares and debentures of the Company which were discloseable under Divisions 2 and 3 of Part XV of the SFO and recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO and/or were directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meeting of any other members of the Group:

<b>Name of Shareholders</b>	<b>Type of interests</b>	<b>Position</b>	<b>Number of Shares</b>	<b>Approximate percentage</b>
Ruffy Investments Limited ( <i>Note 1</i> )	Beneficial owner	Long	3,092,101,140	61.76%
Mr. Mei Wei ( <i>Note 1 &amp; 2</i> )	Interest in controlled corporation	Long	3,092,101,140	61.76%
	Beneficial owner	Long	419,560,000	8.38%
			<b>3,511,661,140</b>	<b>70.14%</b>

*Note:*

1. These shares and underlying shares of the Company comprise of 1,399,836,622 shares and HK\$372,298,194 principal amount of convertible bonds which can be convertible into 1,692,264,518 Shares, were held by Ruffy Investments Limited, which is wholly-owned by Mr. Mei Wei. Mr. Mei Wei was deemed to be interested in these shares and the underlying shares under the SFO. Among the shares owned by Ruffy Investments Limited, (i) 1,065,809,090 shares have been pledged by Ruffy Investments Limited to Fleetwood Investments Limited; and (ii) 326,624,250 shares and HK\$370,957,666 principal amount of convertible bonds have been pledged by Ruffy Investments Limited to CCB International Group Holdings Limited.
2. These shares and underlying shares of the Company, comprise of 56,050,000 shares and 363,510,000 share options, were beneficially held by Mr. Mei Wei.

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, underlying shares and debentures of the Company which were discloseable under Divisions 2 and 3 of Part XV of the SFO and required to be recorded in the register required to be kept under Section 336 of the SFO and/or directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meeting of any other members of the Group as at 30 September 2011.

## **CORPORATE GOVERNANCE**

The Company has complied throughout the nine months ended 30 September 2011 with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 to the GEM Listing Rules with certain deviations in respect of the distinctive roles of chairman and chief executive officer as described in the 2010 annual report. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The Board continues to believe that this structure is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently. The Board has full confidence in Mr. Mei Ping, and believes that his appointment to the posts of Chairman and General Manager is beneficial to the business prospects of the Company.

Also, the Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors confirmed that they had complied with the required standard of dealings and its code of conduct regarding Directors' securities transactions during the reporting period.

## FOREIGN EXCHANGE EXPOSURE

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, other receivables and trade receivables 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.

## 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.

## DIRECTORS’ INTERESTS IN COMPETING BUSINESS

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

## **PURCHASE, REDEMPTION OR SALE OF SECURITIES OF THE COMPANY**

During the nine months ended 30 September 2011, save as disclosed below, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company:

- (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 Investments Limited 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 Investments Limited. The Top-up Agreement was completed on 26 January 2011; and
- (ii) 14,090,909 ordinary shares were issued pursuant to the exercise of the conversion rights attached to the 3% coupon convertible bonds due on 2015 issued by the Company in 2008 during the reporting period.

## **AUDIT COMMITTEE**

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

The audit committee provides a link between the Board of Directors and the Company's auditors in matter coming within the scope of the Group audit. It also reviews and supervises the financial reporting process and internal control procedures of the Group. The members of the audit committee comprises of three independent non-executive Directors, namely Mr. Liu Yaosheng, Mr. Chan Siu Lun (who is the Chairman) and Mr. Chen Mingxian.

The Group's unaudited consolidated results for the nine months ended 30 September 2011 have been reviewed by the audit committee, prior to recommending them for Board's approval.

## **MATERIAL ACQUISITION AND DISPOSAL**

Save for completion of the acquisition of 15% equity interest in Jiashengpan on 29 April 2011, no material acquisitions or disposals of subsidiaries and associated companies have been made by the Company during the nine months ended 30 September 2011.

## PUBLIC FLOAT

For the nine-month period ended 30 September 2011, the Company has maintained the public float requirement as stipulated by GEM Listing Rules.

On behalf of the Board  
**China Nonferrous Metals Company Limited**  
**Mei Ping**  
*Chairman*

Hong Kong,  
11 November 2011

*As at the date of this report, the executive Directors of the Company are Mr. Mei Ping, Ms. Xie Yi Ping, Dr. Yu Heng Xiang, Mr. Ng Tang, Mr. Xu Bing, Mr. Kang Hongbo and Ms. Han Qiong; the independent non-executive Directors of the Company are Mr. Liu Yaosheng, Mr. Chan Siu Lun and Mr. Chen Mingxian.*