ZHAOJIN

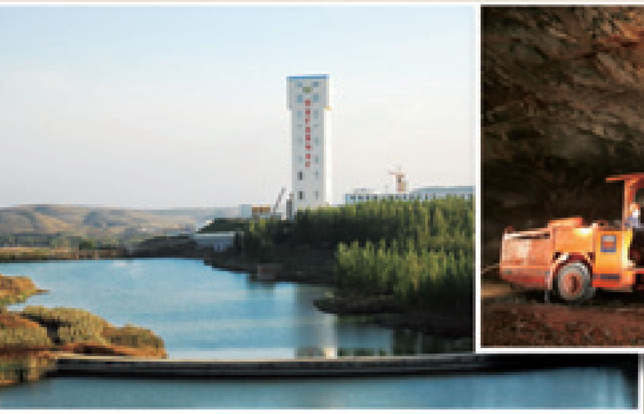
ZHAOJIN MINING INDUSTRY COMPANY LIMITED*
招金礦業股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1818)

金脈承千秋　仁義結天下

ANNUAL REPORT 2008



* For identification purposes only

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Corporate Information

Name of the Company

招金礦業股份有限公司

English Name of the Company

Zhaojin Mining Industry Company Limited

Legal Representative

Mr. Lu Dongshang

Executive Directors

Mr. Lu Dongshang *(Chairman)*
Mr. Wang Peifu
(President and Chief Executive Officer) (CEO)
Mr. Ma Yushan

Non-executive Directors

Mr. Liang Xinjun *(Vice Chairman)*
Mr. Wu Ping
Mr. Liu Gendong
Mr. Cong Jianmao

Independent non-executive Directors

Mr. Yan Hongbo
Mr. Ye Tianzhu
Ms. Chen Jinrong
Mr. Choy Sze Chung Jojo

Supervisors and Members of the Supervisory Committee

Mr. Wang Xiaojie *(Chairman)*
Mr. Cheng Binghai
Mr. Chu Yushan

Secretary to the Board

Mr. Wang Ligang

Company Secretary

Mr. Ngai Wai Fung

Qualified Accountant

Mr. Ma Ving Lung Nelson

Authorised Representatives

Mr. Lu Dongshang *(Chairman)*
Mr. Wang Peifu

Audit Committee Members

Ms. Chen Jinrong *(Chairman)*
Mr. Liu Gendong
Mr. Yan Hongbo
Mr. Choy Sze Chung Jojo

Corporate Information

Auditors

International Auditors:
Ernst & Young
18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

PRC Auditors:
Shulun Pan Certified Public Accountants
4/F, New Whampoa Finance Building
No. 61 Nanjing Road East
Shanghai
PRC

Legal Advisers

PRC Law:
King & Wood PRC Lawyers
28-29/F
Huai Hai Plaza
1045 Huaihai Road (M)
Shanghai
China

Hong Kong Law:
Huen Wong & Co.
in association with Fried, Frank, Harris,
Shriver & Jacobson LLP
9/F Gloucester Tower
The Landmark
15 Queen's Road Central
Central, Hong Kong

Registered Office

No. 299 Jinhui Road
Zhaoyuan City
Shandong, PRC

Principal Place of Business in Hong Kong

8th Floor
Gloucester Tower
The Landmark
15 Queen's Road Central
Central, Hong Kong

Hong Kong Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Rooms 1712-16, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

Bank of China
78 Fuqian Road
Zhaoyuan City
Shandong
PRC

Agricultural Bank of China
298 Wenquan Road
Zhaoyuan City
Shandong
PRC

Company Website

www.zhaojin.com.cn

Stock Code

1818

Corporate Profile

Zhaojin Mining Industry Company Limited ("Zhaojin Mining" or the "Company") (stock code: 1818) and its subsidiaries (the "Group") were jointly established by Shandong Zhaojin Group Company Limited (the "Zhaojin Group"), Shanghai Fosun Industrial Investment Co., Ltd. (the "Shanghai Fosun"), Shanghai Yuyuan Tourist Mart Co., Ltd. (the "Shanghai Yuyuan"), Shenzhen Guangxin Investments Co., Ltd. (the "Guangxin Investments") and Shanghai Laomiao Gold Co., Ltd. (the "Laomiao Gold") with the approval of the People's Government of Shandong Province. The Company was incorporated as a joint stock limited company in the People's Republic of China (the "PRC") on 16 April 2004 and listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 8 December 2006.

The Company is an integrated large-scale enterprise with exploration, mining, processing and smelting operations focusing on the gold production business. The Company is one of the leading gold producers and one of the largest enterprises of gold smelting in the PRC. Our principal products include standard Au9999 and Au9995 gold bullions. Our main production techniques and equipment are of advanced level domestically and internationally.

The Company is strategically based in the Zhaoyuan district in the Jiaodong peninsula of Shandong Province, the PRC, which has a long history of gold exploration and production. According to the China Gold Association, gold resources in Zhaoyuan district account for approximately 10% of the remaining gold resources in the PRC. Zhaoyuan district, which is named by China Gold Association as the "Gold Capital of the PRC", is the largest gold production base and its first gold production city in the PRC.

Recently, the Company has endeavored to focus on gold mining as well as technology and management innovation in order to strengthen our technologies and cost advantages in the industry. Thus, the Company has achieved remarkable results with increasing gold reserves, production volume and corporate efficiency. Meanwhile, the Company has proactively participated in the consolidation of gold resources and implemented strategies for expanding our resources in order to keep in line with the development of the industry. The Company has also endeavored to expand our operations into new areas, improve the overall development progress and further increase our resources. Currently, we possess 5 operating mines within the Zhaoyuan district, namely Dayingezhuang Gold Mine, Jinchiling Gold Mine, Xiadian Gold Mine, Hedong Gold Mine and Jintingling Gold Mine. The Company also owns 19 subsidiaries, joint venture and associates, with their businesses covering major gold production regions in the PRC. According to the Behre Dolbear Report, as at 31 December 2008, our gold resources under the Code of The Joint Ore Reserves Committee in Australia (the "JORC") were approximately 8,136 kozs (as at 31 December 2007: 6,769 kozs) and our minable gold reserves were approximately 5,314 kozs (as at 31 December 2007: 4,834 kozs).

Looking ahead, the Company will adhere to the strategy of "developing gold mining business in a righteous manner by leveraging on its long history". With favourable location, abundant resources, advanced techniques and technologies and innovative management model, the Company is committed to the pure gold production, continuously increasing gold reserves and gold production, proactively participating in the consolidation and development of domestic and overseas gold resources. The Company will strive to attain continuous growth in the profits and become one of the top and leading gold production enterprises in the PRC and the world with an aim to repay the shareholders and society with the best results.

Financial Summary

Financial Summary

Summary of Operating Results

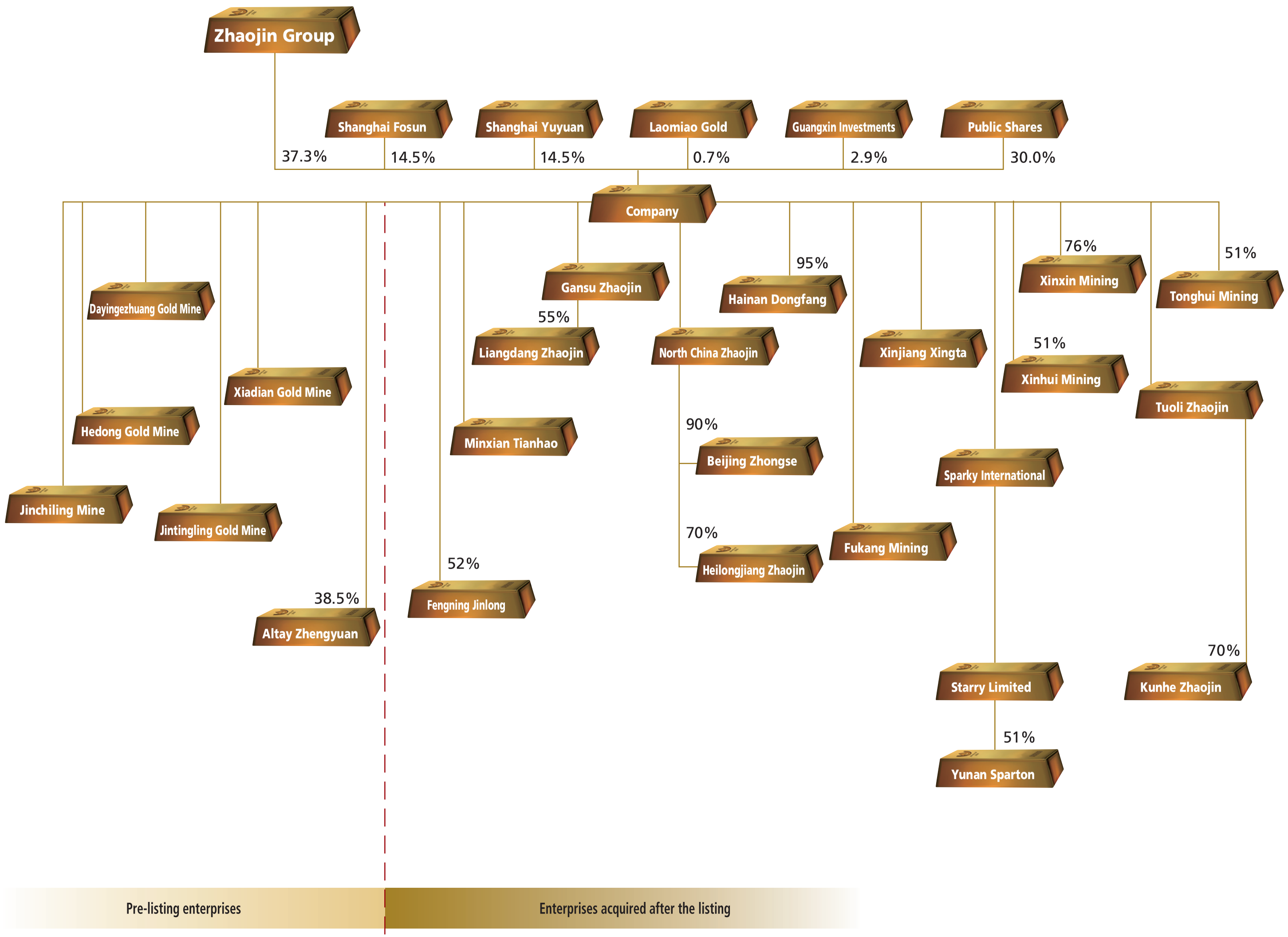
	For the year ended 31 December			
	2008	2007	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**2,152,731**	1,512,273	1,164,415	867,687
Gross profit	**1,079,917**	754,821	623,175	439,387
Share of profit/(loss) of associates	**2,672**	1,979	(1,935)	(717)
Profit before tax	**708,139**	559,995	517,750	239,976
Profit attributable to equity holders of the Company	**533,905**	388,447	351,190	162,891
Earnings per share (RMB)	**0.37**	0.27	0.24	0.11

Summary of Assets

	As at 31 December			
	2008	2007	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**5,930,985**	5,013,877	4,907,558	2,133,045
Cash and cash equivalents	**688,764**	1,625,689	2,695,397	138,565
Total liabilities	**(1,522,316)**	(1,260,663)	(1,443,134)	(1,328,005)
Net assets	**4,408,669**	3,753,214	3,464,424	805,040
Net assets per share (RMB)*	**3.02**	2.58	2.38	0.55

* *The above earning per share and net assets per share for 2005, 2006 and 2007 have been restated according to the total number of issued shares of 1,457,430,000 shares as at 31 December 2008.*

Corporate Structure



Note:

1. The transfer of 159,000,000 shares of the Company from Shanghai Fosun to Shanghai Yuyuan was passed at the general meeting of Shanghai Yuyuan convened on 2 December 2008. The transfer procedures are currently in progress and the proportion of shareholding shown in the chart reflects the proportion before completion of the transfer. After the transfer, Shanghai Yuyuan will hold 25.5% of the Company's shares, while Shanghai Fosun will hold 3.6% of the Company's shares.
2. The companies without indication of percentage in the chart are branch companies or wholly-owned subsidiaries of the Company.

Chairman's Statement

To Shareholders,

I am pleased to present the annual report of Zhaojin Mining Industry Company Limited and its subsidiaries (the "Group") for the year ended 31 December 2008 (the "Year") on behalf of the board of directors of the Company (the "Board"). I would also like to express our kind regards to all shareholders of the Company (the "Shareholders") on behalf of the Board and all staff members.

Year 2008 was an extraordinary year for the Company. Amidst the global financial turmoil and the sluggish environment of the mining industry, together with various significant challenges and difficulties encountered in our operations, including the integration of resources of mine exploration and mining rights in the PRC and the reorganization of Yantai Mine for safety reason, the Group remained confident in facing the challenges by adjusting our operating strategies and development progress, while successfully completed various targets set at the beginning of the year. The Group was committed to the pure gold production and mitigated considerable operating risks arising out of poly-metallic operations in the previous year. The Group also showed sound and rapid development by adhering to our objective of steady development and focusing on the development of technologies. In 2008, the Group continued to record substantial increase in certain key performance indicators and realized our commitment to the investors by accomplishing historical breakthroughs in our production, resources expansion, exploration and technology innovation. For the year ended 31 December 2008, the Group's total output of gold amounted to approximately 17,619 kg (approximately 566,464 ozs), of which gold production from the Group's mines accounted for approximately 9,825 kg (approximately 315,881 ozs), representing an increase of approximately 17.27%. The Group achieved smelting and processing gold production of approximately 7,794 kg (approximately 250,583 ozs) even under strong market pressure.

In accordance with the Hong Kong Financial Reporting Standards (the "HKFRS"), our annual sales revenue amounted to approximately RMB2,152,731,000 for the year ended 31 December 2008, representing an increase of approximately 42.35% as compared to the corresponding period in the previous year. Net profit amounted to approximately RMB538,122,000, representing an increase of approximately 43.15% as compared to the previous year. The Group's assets, shareholders' equity and earnings per share all accomplished constant and steady growth during the Year.

As the Group harvested growing results, we are committed to realizing our commitment to the market and repaying our Shareholders. The Board recommended a payment of a final cash dividend of RMB0.166 (before taxation) to Shareholders for the year ended 31 December 2008 (2007: RMB0.25 (before taxation)).

Chairman's Statement

Year 2009 will be an important year for the Group to seize every opporturnity and develop proactively against the overall turbulent business environment. We also expect to strengthen our business while following the market trend in order to achieve sound and rapid development this year. The Group will adhere to our pure gold production strategies and execute works by adopting "expansion, development and optimization" as our management objective, which includes striving for high-end gold mining market, adhering to technological development for our continuing operations and relying on practical and efficient management at low cost to perpetuate into a century-old enterprise. The Group endeavors to develop in a proactive manner in the view of the consolidation of mining industry and build up its strengths for growth during the sluggish environment of the mining industry.

As a Chinese proverb says, "the benevolent can gather strengths from others", Zhaojin Mining strives to develop its gold mining business by leveraging on thousand years of gold history of the PRC in a righteous manner. I would like to express my gratitude on behalf of the Board to all of our staff for their dedication and our Shareholders for their continuous support towards the Group. We undertake that we will take "maximization of Shareholders' interests" as our operational objective with an aim to gather strengths, create values, share the fruits of growth and contribute to our society.

Lu Dongshang
Chairman

6 March 2009

Management Discussion and Analysis

The following discussions should be read in conjunction with the audited financial statements of the Group and the notes thereto contained in this annual report and other sections.

Market Overview

For the year ended 31 December 2008, the value preservation ability of gold with both financial attribute and risk avoidance function has been clearly demonstrated under the highly volatile environment of the global financial market as well as the substantial adjustment of the commodities prices. The price trend for gold is relatively differential. The high gold price has been sustained throughout the year without declining as other major commodities price.

The average international spot price of gold in 2008 was US$871.96 per ounce (based on afternoon fix price of the London Gold Market), representing an increase of approximately 26.4% over the average price of US$689.89 per ounce in 2007. The opening price was US$837.20 per ounce while the closing price was US$884.30 per ounce in 2008. The domestic gold price trend was basically in line with the international gold price trend while the gold price has been swinging at the higher price levels. The opening price of the Au9999 gold in the Shanghai Gold Exchange was RMB195.03 per gram and reached RMB234.30 per gram while the closing price was RMB190.75 per gram. The average gold price for the year was approximately RMB194.95 per gram.

The average price of gold sold by the Group during the Year was approximately RMB193.20 per gram (approximately US$879.23 per ounce) (value added tax included), representing an increase of approximately 12.45% as compared to RMB171.81 per gram (approximately US$689.61 per ounce) in the previous year.

Revenue

For the year ended 31 December 2008, the Group's revenue was approximately RMB2,152,731,000 (2007: RMB1,512,273,000), representing an increase of approximately approximately 42.35% as compared to the previous year.

Gold Output

For the year ended 31 December 2008, the Group's total output of gold amounted to approximately 17,619 kg (approximately 566,464 ozs), of which gold production from the Group's mines increased by approximately 17.27% over the previous year and amounted to approximately 9,825 kg (approximately 315,881 ozs). Under significant market pressure, the Group achieved smelting and processing gold production of approximately 7,794 kg (approximately 250,583 ozs), representing a decrease of approximately 29.06% as compared to the previous year.

Net Profit

For the year ended 31 December 2008, the Group's net profit was approximately RMB538,122,000 (2007: RMB375,923,000), representing an increase of approximately 43.15% as compared to the previous year.

Management Discussion and Analysis

Earnings per Share

For the year ended 31 December 2008, earnings per share attributable to ordinary equity holders of the Company amounted to approximately RMB0.37 which were calculated based on the weighted average number of 1,457,430,000 ordinary shares in issue of the Company as adjusted by the bonus issue during the Year.

Analysis of Results

The substantial increase in profit was primarily attributable to the significant increase in gold output of the Group, higher gold selling price, reduced tax burden and commencement of copper operation.

Business Review

Principal Operations

During the Year, the Company overcame the difficulties such as the integration of resources of mine exploration and mining rights in the PRC and the reorganization of Yantai Mine for safety reason. We strengthened our confidence in development, conquered obstacles and challenges, and accomplished our mission to develop our business. Our major business showed tremendous growth.

For the year ended 31 December 2008, the Group's total output of gold amounted to approximately 17,619 kg (approximately 566,464 ozs), of which approximately 9,825 kg (approximately 315,881 ozs) of gold was from the Group's mines and approximately 7,794 kg (approximately 250,583 ozs) of gold was from processed gold after smelting.

Revenue amounted to approximately RMB2,152,731,000, representing an increase of approximately 42.35% as compared to the previous year. The net profit amounted to approximately RMB538,122,000, representing an increase of approximately 43.15% as compared to the previous year.

Outward Expansion

During the Year, the Group persisted on the principle of steady expansion as well as active yet prudent promotion of outward expansion. The total completed investment for the Year amounted to approximately RMB779,915,000 with 7 framework agreements concluded. Additional exploration area acquired amounted to 553.84 km^2 and additional mining area acquired amounted to 10.43 km^2, while the gold resources of approximately 31 tons (approximately 996,673 ozs) and gold mine production capacity of approximately 937.5 kg per year (approximately 30,141.32 ozs per year) were acquired. For details of the acquisition, please refer to the section headed "Acquisitions".

As at 31 December 2008, there were 19 subsidiaries of the Group outside Zhaoyuan district, covering 12 provinces in the major gold production regions nationwide. In 2008, the total gold output of the Group's subsidiaries outside Zhaoyuan amounted to approximately 1,052.75 kg (approximately 33,847 ozs), representing an increase of approximately 185.30% as compared to the previous year, generating a total revenue of approximately RMB383,655,000.

Management Discussion and Analysis

Exploration and increasing gold reserves

During the Year, the Group's investment in exploration amounted to approximately RMB112,500,000 for large scale geological exploration at deep underground, and in two wings, upper and lower panels and periphery of existing mines, which has further increased the resources level of the Group. During the Year, the Group raised the gold resources by approximately 35.6 tons (approximately 1,144,566 ozs) through exploration, which provides support for its future production of gold.

As at 31 December 2008, the Group owned 58 exploration rights in total, covering an aggregate exploration area of approximately 1,381.73 km^2 and 21 mining rights, covering an aggregate mining area of approximately 52.46 km^2. In accordance with the standards issued by the Joint Ore Reserves Committee ("JORC") in Australia, the total gold resources of the Group amounted to 253.06 tons (approximately 8,136,066 ozs) and the minable gold reserves amounted to 165.29 tons (approximately 5,314,196 ozs), representing an increase of 42 tons (approximately 1,350,331 ozs) and 15 tons (approximately 482,261 ozs), respectively, as compared to the previous year.

Infrastructure and technology reform

During the Year, the Group has accelerated the pace of and increased investment in infrastructure and technology reform. Three key construction projects valued at more than RMB100 million each have been launched and the actual investment made amounted to RMB470,000,000. In particular, the expansion projects of Dayingezhuang Gold Mine and Xiadian Gold Mine were completed ahead of schedule, thereby increasing the production capacity of the Group and laid a solid foundation for achieving the annual production target.

(1) **Expansion project of the low-ore grade mine deep mining and processing in Dayingezhuang Gold Mine.** This project, with a proposed investment of RMB157,160,000, commenced in January 2006. Major construction works include: the transformation of the south ventilation shaft, the expansion of the main and ancillary vertical shaft, the construction of the north ventilation shaft, the transformation of the ore processing plant, the development of a power transformation station and pipe network connecting the production facilities. The transformation of the ancillary shaft and ore processing plant were completed in September 2008 ahead of schedule, with the trial production commenced. The north ventilation shaft is under construction and has been excavated to 496 m level. The accumulated capital invested amounted to approximately RMB117,200,000. The mining and ore processing capacity increased from 3,000 tons per day to 4,000 tons per day.

(2) **Processing expansion project of 2,000 tons per day in Xiadian Gold Mine.** This project, with a proposed investment of RMB158,980,000, commenced in January 2006. Major construction works include: geological exploration, tunnel construction, mining facilities, enhancement facilities and transport facilities in the pit, underground drainage and ventilation, fine ore recovery facilities, ore processing facilities, tailings facilities, drainage system and transformer facilities. The transformation of the main vertical shaft and expansion of the ore processing plant were completed in September 2008 ahead of schedule, with production commenced. The accumulated capital invested amounted to approximately RMB166,730,000. The mining and ore processing capacity increased from 1,000 tons per day to 2,000 tons per day.

Management Discussion and Analysis

(3) **Multi-elements integrated recycle project in Jinchiling Gold Mine.** This project, with a proposed investment of RMB200,000,000, commenced in April 2008. Major construction works include: the construction of the raw material section, roasting section, purification section, conversion section, dehydration and finishing section and waste heat power station of the sulphur iron ores acid manufacturing equipment with an annual capacity of 200,000 tons using cyaniding tailings, as well as other ancillary public facilities, including the recycling water station, desalination station, power substation and control room. Currently, the core sections of the construction works of this project have been completed and is well-prepared for individual trial production. At present, the accumulated investment of this project amounted to RMB206,000,000.

Technological innovation

The Group has sustained its pioneering position in the technological innovation of the industry and dedicated to the technological development of gold mining. During the Year, the accumulated technological investments of the Group amounted to approximately RMB41,740,000. The Group has implemented 30 new scientific research and technological innovation projects in total, 3 of which have reached international advanced standard, 1 has reached domestic advanced level, 1 research and development project has been awarded with the Second Prize of Shandong Province Science and Technology Progress Award and 2 have been awarded with the Second Prize of Scientific Technology from the China Gold Association. The Group has applied for over 20 new patents and obtained 14 practical new model patents during the Year. In particular, with the application of new technologies and new equipment, such as flotation columns, vertical ball mills and microwave technologies to the smelting and drying process, the technological level of the Company has been further improved. The Company was accredited with certain domestic awards for its information infrastructure, including the Top 100 Information Technology Corporation and the Outstanding Award of IT Application Innovation in the PRC.

Enhancing production safety and environmental protection

During the Year, the Group has commenced an activity of "Enhancing Production Safety and Safety Issues Resolution" and increased its investments in the technology of safety and environmental protection. The Group endeavors to become an environmental friendly enterprise with high level of safety awareness to ensure production safety and environmental protection. During the Year, the Group has avoided casualties, fires, explosions, traffic, toxication and environmental pollution incidents and reached the required standard pollutant emission level. The Company has been awarded the Excellent Organization Award for Production Safety and Safety Issues Resolution in the PRC and was named as one of the Environmental Friendly Enterprises in Shandong Province.

Social responsibilities

The Group acknowledged its social responsibility as a corporate citizen, donating money and materials to disaster areas and supports their reconstruction. During the Year, the Group and its staff raised RMB60,000 for the victims suffering from blizzard in the southern region, RMB2,600,000 for the victims of earthquake in Wenchuan, Sichuan and RMB2,000,000 for education in the poverty-stricken area in Gansu Province.

Management Discussion and Analysis

Financial Review

Revenue

For the year ended 31 December 2008, the Group's revenue was approximately RMB2,152,731,000 (2007: RMB1,512,273,000), representing an increase of approximately 42.35% (2007: 29.87%) as compared to last year. Such increase was primarily attributable to a substantial increase in the gold output and the revenue generated from the gold and copper mines acquired during the Year as well as higher gold selling price.

Cost of Sales

For the year ended 31 December 2008, the Group's cost of sales was approximately RMB1,072,814,000, representing an increase of approximately 41.63% (2007: 39.95%) from approximately RMB757,452,000 in 2007. Such increase was primarily attributable to the higher volume of gold sales.

Gross Profit and Gross Profit Margin

During the Year, the Group's gross profit and gross profit margin were approximately RMB1,079,917,000 (2007: RMB754,821,000) and approximately 50.16% (2007: 49.91%), representing an increase of approximately 43.07% (2007: 21.13%) and an increase of approximately 0.25% (2007: a decrease of approximately 3.61%), respectively, as compared to the previous year. The increase in gross profit was primarily attributable to the increases in sales of gold, while the gross profit margin maintained at similar level to that of 2007.

Other Revenue and Gains

During the Year, the Group's other revenue and gains were approximately RMB58,875,000 (2007: RMB155,031,000), representing a decrease of approximately 62.02% from the previous year. The decrease in other revenue and gains was primarily attributable to (i) the decline of interest income; and (ii) the recognition of fair value gains of equity investments and derivative instruments in 2007. With the steady decrease in cash and bank balances due to the completion of the investment projects, interest income for the Year decreased accordingly.

Selling and Distribution Costs

For the year ended 31 December 2008, the Group's selling and distribution costs were approximately RMB19,982,000 (2007: RMB9,581,000), representing an increase of approximately 108.56% (2007: 69.01%) as compared to the previous year. Such increase was primarily attributable to the increase in sales of gold.

Management Discussion and Analysis

Administrative and Other Operating Expenses

The Group's administrative and other operating expenses were approximately RMB395,875,000 in 2008 (2007: RMB321,510,000), representing an increase of approximately 23.13% from 2007. Such increase was primarily attributable to the expansion of the business.

Finance Costs

For the year ended 31 December 2008, the Group's finance costs were approximately RMB17,468,000 (2007: RMB20,745,000), representing a decrease of approximately 15.80% (2007: 61.83%) from 2007. Such decrease was primarily attributable to several interest rate reductions in 2008 to improve liquidity in response to resisting the financial crisis by the Government.

Income Tax

The income tax expenses decreased by approximately RMB14,055,000 compared with the previous year. It is primarily because the statutory income tax rate has been changed to 25% in 2008 (2007: 33%), as a result of the implementation of the new PRC Income Taxation Law.

Profit Attributable to Shareholders

For the year ended 31 December 2008, the Group's profit attributable to the shareholders of the Company was approximately RMB533,905,000, representing an increase of approximately 37.45% (2007: 10.61%) from approximately RMB388,447,000 in 2007.

The net profit margin of the Group for the year ended 31 December 2008 was approximately 25.00% (2007: 24.86%), representing a slight increase from 2007.

Appropriation Proposal

The Board proposed the payment of a cash dividend of RMB0.166 (before taxation) (2007: RMB0.25 (before taxation)) per share.

Liquidity and Capital Resources

The working capital funding required by the Group mainly comes from its cash flows from operations and borrowings, while the Group's capital resources are used to fund its capital expenditures, operations and repayment of borrowings.

Management Discussion and Analysis

Net cash inflow/(outflow) from the followings:

	For the year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
Operating activities	**519,059**	374,613
Investing activities	**(1,317,492)**	(859,020)
Financing activities	**(129,690)**	(491,637)
Effect of foreign exchange rate changes, net	**(8,802)**	(93,664)
Net cash (outflow) inflow	**(936,925)**	(1,069,708)

Cash Flows and Working Capital

The Group's cash and cash equivalents have decreased from approximately RMB1,625,689,000 as at 31 December 2007 to approximately RMB688,764,000 as at 31 December 2008, primarily attributable to the acquisition of exploration rights and capital expenditures.

At the balance sheet date, the cash and cash equivalents of the Group denominated in Hong Kong dollars amounted to RMB23,737 (2007: RMB2,936,190) and those denominated in United States dollars amounted to RMB5,751,501 (2007: RMB981,836,667). All other cash and cash equivalents held by the Group are denominated in Renminbi.

Net Cash Flows from Operating Activities

The Group's net cash inflow from operating activities increased from approximately RMB374,613,000 in 2007 to approximately RMB519,059,000 in 2008, representing an increase of approximately 38.56%, which was attributable primarily to the higher gold revenue.

Net Cash Flow used in Investing Activities

The net cash flow used in investing activities is mainly affected by the Group's acquisition of subsidiaries, properties, plant and equipment, mining rights and exploration rights/assets, and its construction in progress. The net cash flow used in investing activities increased by approximately 53.37% from approximately RMB859,020,000 in 2007 to approximately RMB1,317,492,000 in 2008, which was attributable primarily to the acquisition of exploration rights and capital expenditure.

Management Discussion and Analysis

Net Cash Flows from Financing Activities

The net cash flows used in financing activities decreased from a net outflow of approximately RMB491,637,000 in 2007 to a net outflow of approximately RMB129,690,000 in 2008, which was attributable to the increase in proceeds from bank borrowings which offset the cash outflows of financing activities.

Borrowings

As at 31 December 2008, the Group had outstanding bank loans and other borrowings of RMB478,980,000 (2007: RMB375,590,000), of which RMB471,190,000 (2007: RMB352,800,000) shall be repaid within 1 year, RMB nil (2007: RMB15,000,000) shall be repaid in the second year and RMB7,790,000 (2007: RMB7,790,000) shall be repaid after 5 years. As at 31 December 2008, the Group had cash balances in excess of its borrowings, and hence had no gearing on a net basis.

All loans of the Group bear fixed interest rates and denominated in RMB.

Market Risks

The Group is exposed to various types of market risks, including fluctuation in gold prices and changes in interest rates, foreign exchange rates and inflation.

Gold Prices and Other Commodities Prices Risk

The Group's exposure to price risk relates principally to the market price fluctuation on gold, silver and copper which can affect the Group's results of operations. In addition, the Group enters into contracts for the processing of gold and silver concentrates with the liabilities settled through physical delivery of predetermined quantities of gold and silver. Price fluctuations affected the RMB denominated amounts of these liabilities. The Group's policy is to manage price risk exposure in relation to the tolling liabilities by holding physical inventories of gold and silver with which to settle them.

During the Year, the Group entered into AU(T+D) agreements, which substantially are forward commodity contracts, on the Shanghai Gold Exchange to hedge potential price fluctuations of gold for trading purpose. Under those agreements, the Company could forward buy or sell gold at current day's price by depositing 10% of the total transaction amount. Subsequently, it can complete the deal by either physically delivering the gold or entering into an offsetting agreement. There is no restriction imposed on the settlement period.

The price range of the forward commodity contracts is closely monitored by management. As at 31 December 2008, substantial part of the forward commodity contracts of the Group were settled and accordingly, a reasonably possible change of 10% in commodity price would have no material impact on the Group's and Company's profit and equity for the Year.

Management Discussion and Analysis

Interest Rate Risk

The Group's exposure to interest rate risk relates primarily to the Group's cash holdings and interest-bearing bank loans. The Group manages its interest rate exposure from certain cash holdings through placing them into appropriate short term deposits with a mixture of variable and fixed rates and manages the exposure from all of its interest-bearing loans through the use of fixed rates.

The Group had not used any interest rate swaps to hedge its exposure to interest rate risk during the Year.

Foreign Exchange Risk

All of the Group's transactions are carried out in RMB. The fluctuation of the RMB/USD exchange rate may affect the international and local gold price, which may therefore affect the Group's operating results. Fluctuations in exchange rates may have an adverse effect on our net assets, earnings and any dividend declared, which shall be converted or translated into Hong Kong dollars.

The Group has no hedging activities during the Year.

Employees and Remuneration Policy

As at 31 December 2008, the Group's total number of staff was 5,207. For the year ended 31 December 2008, the total staff costs of the Group were approximately RMB275,977,000 (2007: RMB239,525,000). The Group remunerates its employees based on their performance, experience and prevailing industry practices. Other benefits offered to the employees include retirement benefits plans, medical benefits plans and housing fund plans. The Group also provides training to its employees.

Charges

As at 31 December 2008, no charge had been made by the Group.

Substantial Investment

As at 31 December 2008, the details of the investments in associates are set out in note 13 on page 126 to the consolidated financial statements of this annual report.

Substantial Acquisitions and Disposal

For the year ended 31 December 2008, the details of substantial acquisitions and disposal made by the Group are set out in note 36 on page 158 and note 37 on page 160 to the consolidated financial statements of this annual report and set out on page 38 to page 39 under the section headed "Acquisitions" and on page 42 under the section headed "Post Balance Sheet Events" of this annual report.

Management Discussion and Analysis

Contingent Liabilities

The details of the contingent liabilities as at 31 December 2008 are set out in note 34 on page 154 to the consolidated financial statements of this annual report.

Business Outlook

Year 2009 will be an important year for the Group to seize every opportunity and develop proactively amid the weakening environment. The Group expects to strengthen its business while keeping in line with the market trend in order to achieve sound and rapid development this year. The Group will adhere to its pure gold production strategies, engage in active and prudent expansion, emphasize on shifting its focus to the enterprises outside Zhaoyuan and accelerate production reforming and upgrading so as to further strengthen the competitiveness of the Group and maximize the interests of both the Company and its shareholders.

Engagement in active and prudent outward expansion

The Group will strengthen its research in the market of mining rights and engage in its prudent outward expansion policy. After taking into account the results of its professional investigations, scientific findings and standardized operations, the Group will aim at acquiring large-scale mines and developing and improving their reserves mines progressively. With some of the existing enterprises located in the provinces of Gansu and Xinjiang, the Group will set up a principal production base in the western region of the PRC through resources consolidation of the whole region.

In 2009, the Group intends to invest RMB500,000,000 to acquire gold resources of 20 tons (approximately 643,015 ozs) and gold mine production capacity of 1,250 kg per year (approximately 40,188 ozs per year).

Shifting focus to enterprises located outside Zhaoyuan

The management of the Group's enterprises located outside Zhaoyuan will be one of the key focuses of the Group's management in 2009. "Through adopting the strategy of foundation strengthening, management standardization, cost control and efficiency enhancement", the Group strives to promote the integration of enterprises within and outside Zhaoyuan as well as the blending of evaluation and supervision, regulations and innovations and cost and effectiveness. The Group will implement its excellent management model developed at its Zhaoyuan enterprises to those outside Zhaoyuan, aiming at replacing the extensive management model of low efficiency but high production costs currently employed by the enterprises outside Zhaoyuan in a short period of time with the systematic, standardized and modern management model to enhance their management and profitability level in order to sustain its leading industry position in the industry.

Emphasis on production reform and upgrading

In order to speed up the reformation and further development, the Group will be committed to develop three major platforms, including the platforms for research and development, application and transformation of new achievements as well as technological upgrades. The Group currently has 24 planned technology innovation research projects with an investment of RMB41,620,000. It is expected that the scientific research will generate gold resources of 12 tons (approximately 385,809 ozs) to further improve the operation conditions and the neighbouring geological environment. The Group also had 23 planned reformation and construction projects with an investment of RMB315,210,000. Following the completion and commencement of production of these projects, mining capacity of the Group will be increased by 2,600 tons per day and the ore processing capacity of the Group will be increased by 2,700 tons per day. The Group will also speed up the reporting work of the State-level technical centre and the "Research Centre for Refractory Non-ferrous Metal" in Shandong Province.

Management Discussion and Analysis

Enhancing integration and development of gold resources

By adhering to the principle of "integration of planning, design, prospecting and survey, technology, research and development", the Group will strive for consolidating its geological resources while focusing on both regions "within and outside Zhaoyuan" as well as exploring in-depth deposits and clear areas of existing mines. The Group will also maintain its effort in proving, defining, and exploring the depth, boundaries and surrounding areas of in-depth deposits of the Zhaoping fault-line area with high potentials and good effects. The Group targets to achieve an explored gold resources of 35 tons (approximately 1,125,276 ozs) within the year.

Pursuing safe and environmental-friendly mines

The Group intends to implement new mining models encompassing safety production and environmental protection. With a view to enforce production safety through science and technology and develop mines with high safety awareness, the Group will emphasize certain advanced management systems, including application and upgrade of system automation, under-well staff tracking system and automatic observation system for tailings as well as development and trial of alarm system for stope roof management. The Group will promote its overall occupational health and safety and the effective operation and continuous improvement of environmental management system to raise its standardized safety levels. Through encouraging the enterprises outside Zhaoyuan to learn from those within Zhaoyuan and implementing advanced and outstanding management models in the enterprises within Zhaoyuan, the Group will commence different activities to strive for excellence. With an aim to gain recognition from the local government and community, the Group will continue its clean and safety production and develop enterprise the concept of enterprise safety, particularly focus on the comprehensive management of its newly acquired enterprises.

Reinforcing human resources management

Staff recruitment, evaluation and promotion by the Group will be based on effectiveness, cost and profit, innovation and growth, regardless of their origins and nationality. The Group promotes its international, diversified and scientific strategy of human resources through employing and deploying talents to further enhance its performance-driven evaluation mechanism and nurture our employees in a practical way.

Directors, Supervisors and Senior Management Profile

Details of personnel currently serving as directors (the "Directors"), supervisors (the "Supervisors"), secretary of the Board/company secretary and senior management of the Company during the Year and as of the date of this annual report are as follows:

Executive Directors

Mr. Lu Dongshang, aged 48, the chairman and an executive director of the Company, the Communist Party secretary to the Company, the vice chairman of Fengningjinlong Gold Mining Limited ("FNJL") (a subsidiary of the Company), the chairman of and the Communist Party secretary to Zhaojin Group, the vice president of the China Gold Association, the vice president of the China Mining Association and a council member of the Shanghai Gold Exchange. Mr. Lu has 27 years of professional experience in the gold mining industry and has made outstanding contribution to the development of China's mining industry. Mr. Lu worked for and held senior positions at several gold mines and mining groups in Zhaoyuan. Mr. Lu has received numerous awards, at the provincial, municipality and national levels, for his achievement in technological advancement. For instance, Mr. Lu was awarded the top award of Science and Technology in Yantai City, Middle-aged and Youth Expert with Outstanding Contributions in Shandong Province, the Second Award in National Scientific and Technological Advancement and Gold Medal for Outstanding Business Persons in the National Gold Industry, and granted a special allowance by the State Council. Mr. Lu graduated from the department of mining engineering of Shenyang Gold Institute, graduated from the Cheung Kong Graduate School of Business with an EMBA degree and qualified as an applied engineering technology researcher. Mr. Lu has been the chairman and executive director of the Company since April 2004.

Mr. Wang Peifu, aged 53, an executive director, president and Chief Executive Officer of the Company. Mr. Wang has over 33 years of experience in the gold production industry. Mr. Wang has served as the deputy mine manager of Zhaoyuan Canzhuang Gold Mine, the mine manager of Xiadian Gold Mine, the chairman and general manger of and the Communist Party secretary to Xiadian Gold Mine Co., Ltd, director and the deputy general manager of the Company, executive director of the First Session of the Board and the general manager of the Company. Mr. Wang has received numerous honors for his achievement in technology and business management, and has obtained three patents for his inventions. Mr. Wang is an applied engineering technology researcher and a certified safety engineer. Mr. Wang graduated from Kunming Industry University and Yantai University and obtained an EMBA degree from the Cheung Kong Graduate School of Business in October 2008. Mr. Wang has been the executive director of the Company since April 2004.

Mr. Ma Yushan, aged 57, an executive director and chief marketing officer of the Company. Mr. Ma has 38 years of experience in the gold production industry. He has been the millrun workshop director, the deputy general manager of Zhaoyuan Beijie Gold Mine, the deputy general manager of and the deputy Communist Party secretary to Zhaoyuan Gold Refinery Company Limited, the mine manager of and the Communist Party secretary to Hedong Gold Mine, the chairman of and the Communist Party secretary to Hedong Gold Mine Company Limited, executive director of the First Session of Board and deputy general manager of the Company and the mine manager of Hedong Gold Mine. Mr. Ma has been awarded honors for his achievements in technology developments and management. Mr. Ma is an applied engineering technology researcher and graduated from Shenyang Gold Institute. Mr. Ma has been the executive director of the Company since April 2004.

Directors, Supervisors and Senior Management Profile

Non-executive Directors

Liang Xinjun, aged 40, is an non-executive director, vice chairman of the Company, and has been an executive director, vice chairman and chief operating officer of Shanghai Fosun Group, a director of Yuyuan Tourist Mart and an independent director of Shanghai Oriental Pearl (Group) Co., Ltd.. Mr. Liang is a member of the Eleventh Shanghai Committee of Chinese People's Political Consultative Conference; vice chairman of China Young Entrepreneurs Association; executive vice chairman of China Science and Technology Private Entrepreneurs Association; executive vice president of Chamber of Metallurgy Industry of All- China Federation of Industry and Commerce; chairman of Taizhou Chamber of Commerce in Shanghai and executive vice chairman of Shanghai Fudan University Alumni Association. In October 2002, Mr. Liang was awarded the "First Session of Innovation Award of Shanghai Science and Technology Entrepreneur". In 2002, 2003, 2004 and 2007, Mr. Liang was named an "Outstanding Entrepreneur of China's Science and Technology Private Entrepreneur". In April 2004, Mr. Liang was named "Shanghai Municipal Labour Model" of the years 2001 to 2003. In December 2005, Mr. Liang was awarded the "First Session of Innovation Management Award for Young Entrepreneur in China". In June 2006, Mr. Liang was named an "Outstanding Party Member of Shanghai New Economic and Social Organisations". In April 2007, Mr. Liang was named a "Shanghai Outstanding Builder of Socialism with Chinese Characteristics". In July 2008, Mr. Liang was named a "Ten Outstanding Young People in Shanghai". Mr. Liang received a bachelor's degree in genetic engineering in 1991 from Fudan University and obtained a master's degree in business administration in 2007 from Cheung Kong Graduate School of Business.

Mr. Wu Ping, aged 45, a non-executive director of the Company, and also an executive director and chief administrative personnel officer of Fosun International Limited, the director and chief administrative personnel officer of Shanghai Fosun High Technology (Group) Co. Ltd., the president of Shanghai Yuyuan Tourist Mart Co., Ltd and was a non-executive director of the First Session of Board of the Company. Mr. Wu has been the non-executive director of the Company since April 2004.

Mr. Liu Gendong, aged 41, a non-executive director of the Company, and also the vice president of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (上海復星化工醫藥投資有限公司). Mr. Liu has been an officer and deputy supervisor of the Hong Kong and Macau Affairs Office of the State Council, the deputy general manager of the investment banking department of Tebon Securities Co., Ltd., the chairman of Xinjiang Xingta Mining Company Limited, the assistant to president of Shanghai Fosun Industrial Investment Co., Ltd. (上海復星產業投資有限公司), and non-executive director of the First Session of the Board of the Company. Mr. Liu holds an MBA degree from the University of Leeds in the UK, a master's degree in currency, banking and finance from Middlesex University in the UK and a bachelor's degree in laws from Peking University. Mr. Liu has been the non-executive director of the Company since April 2004.

Mr. Cong Jianmao, aged 46, a non-executive director of the Company, and also the deputy director of Zhaoyuan Municipal Finance Bureau. Mr. Cong has been the chief accountant of Zhaoyuan Municipal Commerce Bureau, the chairman of the board of supervisors of Zhaoyuan City State-owned Assets Operation Limited, and the chairman of the board of supervisors of Zhaojin Group. Mr. Cong graduated from Shandong TV University and Shandong Business Administration Institute. Mr. Cong has been the non-executive director of the Company since April 2004.

Directors, Supervisors and Senior Management Profile

Independent non-executive Directors

Mr. Yan Hongbo, aged 70, an independent non-executive director of the Company, and a supervisor of Beijing Zhonganjian Mining Investment Limited. Mr. Yan was the department head of the construction department of the State Administration for Gold, the chief engineer of the China Gold Company, the chairman of the expert committee of CITIC Guoan Gold Company Limited, and independent non-executive director of the First session of the Board of the Company. Mr. Yan graduated from the Beijing Institute of Steel (currently known as University of Science and Technology Beijing). Mr. Yan has been the independent non-executive director of the Company since October 2004.

Mr. Ye Tianzhu, aged 68, an independent non-executive director of the Company, and a chief engineer of the Administrative Office for the Management of Projects Concerning the Replacing Resources for Mine in Risk in the PRC, a chief engineer of Potential Evaluation Projects of Mining Resources in the PRC, a director of the Chinese Association of Mining Rights Assessors, a committee member of the 38th Committee of the Geological Society of China and a deputy officer of the Third Committee for Land Layers. Mr. Ye has been an engineer and the chief engineer of the Second, the Fifth and the Sixth Geological Brigade of the Jilin Province, the chief engineer of the Department of Land and Resources of Jilin Province, the deputy chief engineer of the Ministry of Geology and Mineral Resources of the PRC, the deputy director of General Bureau and the China Geological Survey, the head of the Department of Reserves of the Ministry of Land and Resources of the PRC and the Director-General of the China Geological Survey and so on. He received National Awards for Technological Development for various achievements in scientific researches and was awarded the 9th Li Siguang Awards for Geosciences. Mr. Ye graduated from Beijing College of Geosciences majoring in geological survey and mine exploration. Mr. Ye has been the independent non-executive director of the Company since April 2007.

Ms. Chen Jinrong, aged 50, is an associate professor, an independent non-executive director of the Company, and working in the Training Centre of Senior Management of School of Economics and Management of Tsinghua University, a professor of Beijing Union University, and a part-time professor of University MOTOROLA etc. Ms. Chen is qualified as an accountant in China and an independent director. Ms. Chen mainly focuses on research into, teaching of and counseling on corporate financial management, analysis of financial report for listing companies and operations of corporate capital, corporate organization and risk control, comprehensive corporate budget management etc. Ms. Chen had served as the deputy head of the finance department of China Information Industry Research Institute (中國信息產業研究院) under the Ministry of Information Industry, the deputy general manager of Beijing Hua Tsing Cai Zhi Corporate Management Counseling Company etc. She has also served as an independent director of Synutra International Inc (Code: SUYT), a senior financial advisor of various companies including China National Textile Machinery (Group), China Merchants Newspaper Group, XianJu Pharmaceutical, Hebei Meihua Group. Ms. Chen has solid experience in aspects such as corporate restructuring, comprehensive corporate budget management, capital operations and corporate internal control. Ms. Chen has gained the reputation as the outstanding elementary personnel in Beijing City and an outstanding teacher of Economic Committee of Beijing municipal government. Ms. Chen graduated from the Renmin University of China. Ms. Chen has been the independent non-executive director of the Company since April 2007.

Directors, Supervisors and Senior Management Profile

Mr. Choy Sze Chung Jojo, aged 50, an independent non-executive director of the Company, and also the vice chairman of National Resources Securities Limited. Mr. Choy is also the vice chairman of the Institute of Securities Dealers Limited, an independent non-executive director of Chengdu PUTIAN Telecommunications Cable Limited, an independent non-executive directors of Mandarin Entertainment (Holdings) Ltd., an independent non-executive director of Sparkle Roll Group Limited, a committee member of Society of Registered Financial Planner Ltd., a fellow member of Institute of Financial Accountants, a fellow member of the Institute of Compliance Officer, a member of CPPCC Shantou, a honorary president of Shantou Overseas Friendship Association, a honorary president of Shantou Overseas Exchanges Association (汕頭市海外交流會), a honorary principal of the school of Chen Po Sum (陳葆心學校) and a council member of Rotary Club Kowloon West. Mr. Choy has extensive experience in the securities industry and business management. Mr. Choy obtained his Master of Business Administration Degree from University of Wales, Newport and his Master of Business Law Degree form Monash University, Australia. Mr. Choy has been the independent non-executive director of the Company since May 2007.

Supervisors

Mr. Wang Xiaojie, aged 36, the chairman of the Supervisory Committee of the Company, and also the secretary of Commission for Disciplinary Inspection of Zhaojin Group and the chairman of the Labour Union. He has served as the deputy manager of Zhaoyuan City Gold Software Science and Technology Co., Ltd., and then the deputy manager and manager of Information Centre of Zhaojin Group. Mr. Wang graduated with a degree in applied electronic technology from Institute of Information Engineering of Shandong, a degree in computer application from Qingdao Chemical & Engineer College and a degree in economics and management from the Party School of the Shandong Provincial Committee of the Communist Party of China. Mr. Wang has been a supervisor of the Supervisory Committee of the Company since April 2007.

Mr. Cheng Binghai, aged 60, a supervisor of the Company, and also an executive director of Shanghai Yuyuan, the vice president of China Gold Association, a member of the standing committee of China General Chamber of Commerce, president of Shanghai Gold & Jewellery Trade Association and vice president of Shanghai Commercial Association. He has served as a director, chairman, general manager of Shanghai Yuyuan and a Supervisor of the First Supervisory Committee of the Company. Mr. Cheng has been a supervisor of the Company since April 2004.

Mr. Chu Yushan, aged 43, a supervisor of the Company and a deputy general manager of Hebei Feningning Jinlong Minining Co., Ltd. (河北豐寧金龍黃金工業有限公司). Mr. Chu has served in the Xiadian Gold Mine and Dayingezhuang Gold Mine of the Company. He graduated from Shandong Textile Vocational College. Mr. Chu has been a supervisor of the Company since April 2004.

Directors, Supervisors and Senior Management Profile

Secretary to the Board/Company Secretary

Mr. Wang Ligang, aged 36, the Secretary to the Board. Mr. Wang has served as various managerial positions for Zhaoyuan Beijie Gold Mine and Zhaojin Group. Since 2004, he served as a director of the general manager's office and director of the Board office of the Company, assistant to Board secretary of the Company and general manager of Sparky International Trade Co., Ltd. Mr. Wang graduated from Shandong Economic University with majoring in labour economy management and held a MBA degree from University of Northern Virginia in US. He has the qualification of senior political officer and affiliated person of The Hong Kong Institute of Chartered Secretaries.

Mr. Ngai Wai Fung, aged 48, the Company Secretary of the Company since April 2007. Mr. Ngai is a director and head of listing services of KCS Hong Kong Limited, a corporate secretarial and accounting services provider in Hong Kong. Mr. Ngai is currently vice president of The Hong Kong Institute of Chartered Secretaries (HKICS) and the Chairman of its Membership Committee. He is also a fellow of HKICS and the Institute of Chartered Secretaries and Administrators in the United Kingdom, a member of the Hong Kong Institute of Certified Public Accountants, a member of the Association of Chartered Certified Accountants in the United Kingdom, a member of Hong Kong Institute of Directors and a member of Hong Kong Securities Institute. Mr. Ngai holds a Master of Corporate Finance from The Hong Kong Polytechnic University, a Master of Business Administration from Andrews University of the United States and a Bachelor of Laws (with Honours) degree from the University of Wolverhampton, the United Kingdom. He is also a PhD candidate (thesis stage) in Finance at Shanghai University of Finance and Economics.

Senior Management

Mr. Wang Peifu, aged 53, a president and Chief Executive Officer of the Company. For the details of his profiles, please refer to page 20 of this annual report.

Mr. Ma Yushan, aged 57, a chief marketing officer of the Company. For the details of his profiles, please refer to page 20 of this annual report.

Mr. Xu Yuanjun, aged 56, the Chief Development Officer of the Company. Mr. Xu has over 33 years of experience in the gold production industry. Mr. Xu has held various managerial positions in gold mining companies which included Zhaoyuan Gold Industrial Group Corporation and Zhaoyuan Luoshan Gold Mine. He was also a director and the deputy general manager of Zhaojin Group, and deputy general manager of the Company. Mr. Xu graduated from Shandong Economic University with qualifications of a senior economist. Mr. Xu joined the Company since April 2004 and has served as the deputy general manager.

Directors, Supervisors and Senior Management Profile

Mr. Zhang Banglong, aged 46, the Financial Director of the Company. Mr. Zhang has served as the deputy chief accountant (acting chief accountant) and chief accountant of the China Yangzi Group Co. Limited, the chief accountant and deputy general manager of the Macat Group Textile Co., Ltd and the financial director, financial manager and chief financial officer of the Company. Mr. Zhang obtained a master's degree from Anhui Institute of Business Administration with majoring in Business Administration, and has the qualification of accountant. Mr. Zhang joined the Company in March 2005 and has served as the chief financial officer since then.

Mr. Li Xiuchen, aged 45, the Vice President of the Company. Mr. Li has served as a technician of the production office of Luoshan Gold Mine, the deputy supervisor, co-ordination officer and first deputy mine manager of Daiqinjia Gold Mine, the deputy mine manager and deputy general manager at Beijie Gold Mine and Zhongkuang Gold Industry, the deputy general manager, director and general manager of Xinyuan Gold Technology Development Co., Ltd. and the deputy general manager of the Company. Mr. Li graduated from Shenyang Institute of Gold Technology with majoring in mine engineering with the qualification of a senior engineer. Mr. Li has been the deputy general manager of the Company since February 2007.

Mr. Shi Wenge, aged 43, the Vice President of the Company. Mr. Shi has served as the geology officer of the department of geological survey of Xiadian Gold Mine, deputy officer of the main shaft mine area and technical supervisor, the department head of the department of geological survey, the head of the technology centre and the head of the planning and development department of Xiadian Gold Mine of Zhaojin Group, the deputy manager of the audits department and the manager of the department of production technology of the Company, the assistant to the General Manager and the deputy general manager of the Company. Mr. Shi graduated from the China University of Geosciences with majoring in geology and exploration and he has the qualification of senior engineer. Mr. Shi has been the deputy general manager of the Company since February 2007.

Report of the Directors

The Board hereby presents its report, together with the audited consolidated financial statements for the year ended 31 December 2008 (the "Year").

Corporate Reorganization

The Company was incorporated as a joint stock limited liability company under the Company Law of the People's Republic of China (the "PRC") on 16 April 2004. The Company is mainly engaged in the mining, processing, smelting and sale of gold and silver products (the "Relevant Business"). Prior to the incorporation of the Company, the Relevant Business was operated by wholly-owned subsidiaries of Shandong Zhaojin Group Company Limited ("Zhaojin Group") (a PRC state-owned corporation). Upon the incorporation of the Company, the Relevant Business together with related assets and liabilities were transferred to the Company from Zhaojin Group.

The Group successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") in December 2006.

Principal Operations

The principal activities of the Company are investment holding and exploration, mining, ore processing, smelting and sale of gold and other metallic products. The Group is mainly engaged in exploration, mining, ore processing, smelting and sale of gold and other metallic products, being a large integrated mining enterprise specialising in the production of gold. The Group principally produces two kinds of gold products, which are Au9999 and Au9995 gold bullions under the brand of "Zhaojin". Currently, the sales of gold products represent approximately 85.25% (2007: 91%) of the income from the Group's principal operations. Details of the principal activities of the subsidiaries are set in note 14 to the financial statements on pages 127 to 129 in this annual report.

During the Year, there was no material change in the principal operations of the Group.

Results

The Group's results for the year ended 31 December 2008 are set out on pages 71 of the consolidated income statement in this annual report.

Report of the Directors

Profit Distribution

As of the date of this annual report, the final dividend for the financial year ended 31 December 2007 paid by the Company was approximately RMB182,179,000 (2006: RMB109,307,000).

The Board proposes the payment of a cash final dividend to all Shareholders for 2008 of RMB0.166 (before taxation), (2007: RMB0.25 and a bonus issue on the basis of 1 bonus share for every share) per share.

The cash dividend for domestic shares will be distributed and paid in Renminbi and the cash dividend for H shares will be declared in Renminbi and paid in Hong Kong dollars (at the average exchange rate of the medium rate of converting Renminbi into Hong Kong dollars as quoted by the People's Bank of China for the week immediately prior to 15 May 2009).

The proposed distributions are subject to the approval of the shareholders at the annual general meeting of the Company ("AGM") to be held on 15 May 2009.

Major Customers and Suppliers

The sales of the gold products of the Group are conducted through trading and settlement on the Shanghai Gold Exchange, with the number and identity of ultimate customers unknown.

During the Year, approximately 85.25% (2007: 91%) of the total sales was conducted on the Shanghai Gold Exchange. Similar to a stock exchange, the Shanghai Gold Exchange is a trading platform for gold transactions. Under the circumstances where purchasers and sellers are unknown to each other, all transactions are conducted under the coordination and supervision of the Shanghai Gold Exchange. Therefore, the Shanghai Gold Exchange is deemed to be the Group's sole major customer.

Transactions between the Group and its suppliers are conducted on normal commercial terms. The total amount of purchases from the five largest suppliers did not exceed 30% (2007: 30%) of the Group's total amount of purchases.

So far as the Directors are aware, none of the Directors and Supervisors or any of their associates or any Shareholders holding 5% or more of the Company's share capital and their associates (as defined in the Rules Governing the Listing of Securities on the Stock Exchange, the "Listing Rules") have had any direct or indirect interests in our sole major customer and the five largest suppliers for the Year.

Report of the Directors

Reserves

Details of changes in reserves of the Group as at 31 December 2008 are set out in note 32 to the financial statements on pages 150 to 152 of this annual report.

Distributable Reserves

According to the articles of association of the Company (the "Articles of Association"), distributable reserves are based on the profits of the Company prepared according to the PRC Accounting Standards and HKFRS, whichever is the lower.

According to the PRC Company Law, after transferring appropriate amounts into the statutory surplus reserve fund and statutory public welfare fund, profit after tax can be distributed as dividend.

As at 31 December 2008, in accordance with the PRC Accounting Standards, the relevant Laws of the PRC and the Articles of Association of the Company, the distributable reserves of the Company amounted to approximately RMB448,502,600 (2007: RMB367,368,000), of which approximately RMB241,933,000 are proposed to be the final cash dividend of the Year (2007: dividend of RMB182,179,000 and retained profits of RMB182,179,000 being capitalised as 182,179,000 shares of RMB1 each)

Property, Plant, Equipment and Property Investment

Details of changes in property, plant and equipment of the Group during the Year are set out in note 11 to the financial statements on pages 120 to 123 of this annual report.

The Group did not hold any investment property.

Share Capital

During the Year, details of share capital of the Company are set out in note 31 to the financial statements on page 149 of this annual report.

On 16 May 2008, the 2007 annual general meeting, domestic shares class meeting, H shares class meeting of the Company respectively considered and approved that based on 728,715,000 ordinary shares of RMB1.00 each issued by the Company at the end of 2007, the Company issued bonus shares to the Shareholders on the basis of one bonus share to be issued (0.25 made by way of capitalization of retained profits and 0.75 made by way of capitalization of the capital reserve) for every one share held by such Shareholders (i.e., one bonus H share and one bonus domestic share to be issued in respect of every one H share and one domestic share held by the Shareholders respectively), a total of 728,715,000 bonus shares were distributed.

The distribution of the bonus shares was completed on 30 May 2008 and the listing and trading of the bonus H shares commenced on the Stock Exchange on 3 June 2008. The registration of bonus domestic shares relating to the non-foreign listing shareholders at the China Securities Depository and Clearing Corporation Limited was completed.

Report of the Directors

Apart from the above disclosed, during the Year, there was no arrangement for issue of bonus shares, placing and issue of shares of the Company. In addition, the share capital structure of the Company had no changes during the Year and the period from 31 December 2008 to the date of this annual report.

Use of Proceeds from the IPO

The net proceeds raised from the Company's newly issued and listed H shares on the Stock Exchange in December 2006 (after deduction of related issuance expenses) amounted to approximately HKD2,360,000,000. As of 31 December 2008, approximately HKD1,591,000,000 of the proceeds so raised was used, and the unused proceeds of approximately HKD769,000,000 was deposited in bank, the security of which was adequately ensured.

Details of the used proceeds raised of approximately HKD1,591,000,000 are set out as follows:

- as to approximately HKD318,000,000 for expanding and improving Dayingezhuang Gold Mine and Xiadian Gold Mine, and enhancing the mines existing ore processing capacity, with a view to enhancing the ore processing capacity of each of these two mines by approximately 1,000 tons per day;

- as to approximately HKD176,000,000 for expanding the exploration activities, particularly in the Zhaoping fault-line area and other major gold deposits in China with a view to enhancing our gold reserves;

- as to approximately HKD648,000,000 for the acquisitions of operating gold mines with a view to expanding our scale and competitiveness and to enhancing our continuing development capacity;

- as to approximately HKD229,000,000 for the acquisition of advanced exploration projects with a view to expanding our exploration areas and to enhancing our future gold reserves; and

- as to approximately HKD220,000,000 for repayment of bank borrowings with a view to lowering the gearing ratio of the Group and improving the financial position of the Company.

The unused proceeds will be used by the Company for the purposes as set out in the section headed "Future plans and use of proceeds" in the prospectus of the Company dated 24 November 2006.

Charity Donation

During the Year, the Group made charitable donation totalling RMB4,660,000 (2007: RMB2,200,000).

Bank Borrowings

Details of bank borrowings of the Company and the Group are set out in note 26 to the consolidated financial statements on pages 141 to 144 of this annual report.

Report of the Directors

Taxation

During the Year, the Company and its subsidiaries were subject to the PRC enterprise income tax at a rate of 25% of taxable profits according to the requirements under the PRC Enterprise Income Tax Law which became effective on 1 January 2008. The relevant details are set out in note 8 to the financial statements on pages 117 to 118 of this annual report.

Pre-emptive Rights

There is no provision or regulation for pre-emptive rights under the Company's Articles of Association or the PRC Laws which requires the Company to issue new shares to the existing shareholders according to their respective proportions of shareholding.

Purchase, Sale or Redemption of the Company's Listed Securities

During the Year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

Directors and Supervisors

During the Year and as at the date of this annual report, the Company's Directors and Supervisors are listed as follows:

Executive Directors

Mr. Lu Dongshang *(Chairman)*
Mr. Wang Peifu *(President and CEO)*
Mr. Ma Yushan

Non-executive Directors

Mr. Liang Xinjun *(Vice Chairman)*
Mr. Wu Ping
Mr. Liu Gendong
Mr. Cong Jianmao

Independent non-executive Directors

Mr. Yan Hongbo
Mr. Ye Tianzhu
Ms. Chen Jinrong
Mr. Choy Sze Chung Jojo

Report of the Directors

Supervisors

Mr. Wang Xiaojie *(Chairman)*
Mr. Cheng Binghai
Mr. Chu Yushan

Profiles of the Directors, Supervisors and Senior Management Personnel

Details of the profiles of the Directors, Supervisors and Senior Management are set out on pages 20 to 25 of this annual report.

The Terms of Service of the Directors and the Supervisors

According to the requirements of the Articles of Association, the terms of service of the Directors and the Supervisors are for three years as from the respective dates of appointment or re-appointment, and the Directors and the Supervisors are subject to re-appointment and re-election upon the expiry of their term.

Remuneration of the Directors and Supervisors

The remuneration of each Director and Supervisor is approved at general meetings. Other emoluments will be determined by the Board with reference to the duties, responsibilities, performance of the Directors and Supervisors and the results of the Group.

Details of the remuneration of the Directors and Supervisors are set out in note 7 to the financial statements on pages 112 to 116 of this annual report.

The Service Contracts of the Directors and the Supervisors

Each of the executive Directors, non-executive Directors, Independent non-executive Directors and Supervisors has entered into a service contract with the Company, with a term of 3 years.

Neither the Directors nor the Supervisors have a service contract with the Company with a term specifying that if the Company terminates the contract within one year, the Company will make compensation apart from statutory compensation.

Material Contracts in which Directors and Supervisors have Substantial Interests

None of the Directors and Supervisors had a material interest, either directly or indirectly, in any other contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries and fellow subsidiaries was a party during the Year.

Report of the Directors

Directors' and Supervisors' interests and short positions in shares, underlying shares or debentures of the Company and its associated corporations

As at 31 December 2008, none of the Directors, Supervisors, chief executive of the Company and their respective associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in the Part XV of the Securities and Futures Ordinance of Hong Kong, Chapter 571 of the laws of Hong Kong ("SFO")) which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO or which they were required to notify the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") (for such purposes, the relevant regulations in the SFO were also interpreted as applicable to the Supervisors).

Rights to purchase shares or debentures of Directors and Supervisors

At no time during the Year did any of the Directors or Supervisors hold any shares of the Company. None of the Directors and Supervisors had any interests in the share capital or debt securities of the Company or any of its associated corporations (as defined in the SFO). None of the Directors, Supervisors and their spouses and children below eighteen years old was granted rights to subscribe for the share capital or debt securities of the Company or any of its associated corporations and there was no exercise of such rights by any of such persons.

At no time during the Year had the Company or any of its subsidiaries, holding companies or any fellow subsidiaries entered into any arrangement which enables the Directors and Supervisors to have the right to acquire benefits by means of acquisition of shares or debentures in the Company or any other legal entities.

Five Highest-Paid Personnel

The five highest-paid individuals in the Group during the Year include 2 Directors. Full details of the five highest-paid personnel's remuneration are set out in note 7 to the financial statements on pages 112 to 116 of this annual report.

Report of the Directors

Share Capital and Shareholders' Information

1. Number of Shareholders

Details of the number of shareholders of the Company recorded in the register of members at 31 December 2008 are as follows:

Classification	Number of Shareholders
Domestic shares	5
Overseas-listed foreign shares - H shares	2,562
Total number of Shareholders	2,567

2. Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Board confirms that its public float has reached the requirement of the Listing Rules as at the date of this annual report.

Substantial Shareholders

To the best knowledge of the Directors, Supervisors and chief executive of the Company, as at 31 December 2008, the interest and short positions of the substantial shareholders in the issued share capital of the Company which will be required, pursuant to Section 336 of the SFO, to be entered into the register referred to therein, or holding 5% or above in the issued share capital of the Company which will be required to be notified to the Company are as follows:

	Name of Shareholders	Class of shares	Capacity	The number of shares held	Approximate percentage of shareholding in registered capital of the Company	Approximate percentage of shareholding in the total number of issued domestic shares of the Company	Approximate percentage of shareholding in the total number of issued H shares of the Company	Long/Short/ Lending Pool
1	Zhaojin Group	Domestic	Beneficial owner	543,257,000 *(Note 1)*	37.27	53.25	–	Long
		H Shares	Beneficial owner	4,644,000 *(Note 1)*	0.32	–	1.06	Long

Report of the Directors

	Name of Shareholders	Class of shares	Capacity	The number of shares held	Approximate percentage of shareholding in registered capital of the Company	Approximate percentage of shareholding in the total number of issued domestic shares of the Company	Approximate percentage of shareholding in the total number of issued H shares of the Company	Long/Short/ Lending Pool
2	Shanghai Fosun	Domestic shares	Beneficial owner	212,000,000 *(Note 1&2)*	14.55	20.78	–	Long
		Domestic shares	Other	159,000,000 *(Note 1&2)*	10.91	15.58	–	Short
3	Shanghai Yuyuan	Domestic shares	Beneficial owner	212,000,000 *(Note 1&2)*	14.55	20.78	–	Long
		Domestic shares	Other	159,000,000 *(Note 1&2)*	10.91	15.58	–	Long
		Domestic shares	Interest of controlled corporation	10,600,000 *(Note 3)*	0.73	1.04	–	Long
4	NSSF Council	H shares	Beneficial owner	39,743,000 *(Note 1)*	2.73	–	9.09	Long
5	Atlantis Investment Management Ltd.	H shares	Investment manager	87,600,000 *(Note 1)*	6.01	–	20.04	Long
6	Mirae Asset Global Investments (Hong Kong) Limited	H shares	Investment manager	27,167,500 *(Note 1)*	1.86	–	6.21	Long
7	JP Morgan Chase & Co	H shares	Beneficial owner	10,500 *(Note 1&4)*	0	–	0	Long
		H shares	Beneficial owner	35,516,000 *(Note 1&4)*	2.44	–	8.12	Long
		H shares	Custodian-corporation/ approved lending agent	35,516,000 *(Note 1&4)*	2.44	–	8.12	Long and lending pool

Notes:

(1) Pursuant to Section 336 of the SFO, the shareholders of the Company are required to file interest disclosure forms when certain criteria is fulfilled and the full details of the requirements are available on SFO's official website. When a shareholder's shareholding in the Company changes, it is not necessary for the shareholder to notify the Company and the Stock Exchange unless certain criteria are fulfilled, therefore substantial shareholders' latest shareholding in the Company may be different to the information filed with the Company and the Stock Exchange.

(2) Pursuant to Rule 13.09 of the Listing Rules, the Company made an announcement on 10 November 2008 in relation to a conditional sale and purchase agreement entered into between Shanghai Fosun and Shanghai Yuyuan on 10 November 2008. According to the sale and purchase agreement, Shanghai Yuyuan agreed to acquire from Shanghai Fosun 159,000,000 domestic shares of the Company (the "Relevant Transactions"), representing approximately 10.91% of the total issued share capital of the Company, at a total consideration of RMB394,320,000. On 2 December 2008, the share transfer agreement in respect of Zhaojin Mining entered into between Shanghai Fosun and Shanghai Yuyuan was passed at the general meeting of Shanghai Yuyuan. The share transfer procedures are still in progress and the business re-registration and change of shareholder had not yet been completed as at 31 December 2008.

(3) Shanghai Yuyuan holds 95% equity interest in Laomiao Gold, therefore the 10,600,000 domestic shares held by Laomiao Gold in the Company is shown as long position of Shanghai Yuyuan.

(4) JP Morgan Chase & Co holds equity interests in shares of the Company through companies controlled or indirectly controlled by it.

As at 31 December 2008, apart from the above disclosed and to the best knowledge of the Directors, Supervisors and of the Company, no person had any interests or short positions in the shares or underlying shares of the Company which were required, pursuant to Section 336 of the SFO, to be entered into the register referred to therein, or holding 5% or above in the issued share capital of the Company which will be required to be notified to the Company.

Connected Transactions and Continuing Connected Transactions

During the Year, the Company and the Group had the following connected transactions and continuing connected transactions, details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

Continuing Connected Transactions which are non-exempt continuing connected transactions according to the Rule 14A.35 of the Listing Rules are as follows:

i. With reference to the Land Lease Agreements between the Company and Zhaojin Group, the Company has been leasing certain land parcels with an aggregate area of approximately 655,522 square meters from Zhaojin Group (one of the substantial shareholders and promoters of the Company) for ancillary, non-production purposes (Leased Land). Each Land Lease Agreement contains an option for renewal after expiry at the Company's request. The term of each lease is subject to the term of Zhaojin Group's land use rights with respect to the Leased Land. The Company also has a right to terminate any of the Land Lease Agreements with one month's written notice. In the event that any of the Land Lease Agreements is terminated by the Company before expiry, the aggregate rental payable by the Company would be reduced accordingly. The rental amounts stipulated in the Land Lease Agreement are subject to adjustment by reference to market rental every three years from its effective date.

Report of the Directors

Pursuant to the "Notice regarding the adjustment of the standards of the local land use tax" issued by the Shandong Government and after taking into account the increase in market rental, the land tax of the leased land and RMB Benchmark Lending Rate, Zhaojin Group has entered into a supplemental agreement with the Company on 3 December 2008, pursuant to which the total annual rental of the land use rights of the leased land with an aggregate area of 523,483.14 square meters has been adjusted from approximately RMB1,851,000 to approximately RMB3,365,000 for the year ended 31 December 2007 and from approximately RMB1,782,000 to approximately RMB3,270,000 for the year ending 31 December 2008. Zhaojin Group and the Company have also agreed that the annual rental of the land use rights leased for the year ending 31 December 2009 will be determined after the government policies in relation to, among others, lending rate have been ascertained at the beginning of 2009.

Further details were set out in the announcement of the Company dated 3 December 2008 published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.zhaojin.com.cn.

ii. PRC laws and regulations require gold refining to be carried out at a refinery which is licensed by the Shanghai Gold Exchange to produce standard gold bullion. As we are not a qualified gold refinery, we have engaged Shandong Zhaoyuan Gold and Silver Refinery Company Limited ("Zhaoyuan Refinery", a licensed gold refinery in the PRC and the subsidiary of Zhaojin Group) to refine the Group's gold since the Company's incorporation. Pursuant to a non-exclusive gold refining agreement between the Company and Zhaoyuan Refinery dated 26 October 2006 (the "Gold Refining Agreement"), Zhaoyuan Refinery agrees to provide gold refining services to the Company for a term of three years commencing from 26 October 2006, renewable for another three years after expiry of the term at the Company's request. The fees payable to Zhaoyuan Refinery are calculated on the basis of the unit price specified in the Gold Refining Agreement and the actual amount of work undertaken by Zhaoyuan Refinery. The refinery fees payable to Zhaoyuan Refinery were approximately RMB3,020,000 in 2008 (2007: RMB2,700,000).

Other Connected Transactions

i. The Company holds an option from Zhaojin Group to purchase certain businesses, if and when certain defects in legal titles are remedied. The Company exercised the option on 9 May 2008 and the Company entered into a transfer agreement with Zhaojin Group to acquire from Zhaojin Group four exploration rights in Zhaoyuan for an aggregate consideration of RMB158,940,700. The acquisition prices were determined based on the independent valuation reports and negotiations between the parties.

   Further details were set out in the announcement dated 9 May 2008 and circular dated 30 June 2008 of the Company published at the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.zhaojin.com.cn.

ii. The Company entered into a non-competition agreement with Zhaojin Group on 17 November 2006. Zhaojin Group has agreed not to engage in business activities that compete with us (excluding existing business), and has also granted us options and pre-emptive rights to acquire the gold resource exploration and mining business of Zhaojin Group in Zhaoyuan district which may compete with our business. During the Year, the Company has exercised the options to acquire four exploration rights from Zhaojin Group. (refer to (i) above)

Report of the Directors

iii. The Company entered into an indemnity agreement with Zhaojin Group on 17 November 2006, pursuant to which Zhaojin Group has agreed to indemnify the Company against certain tax liabilities, liability for uncollected gold mineral resources compensation levies, liability or expenses in connection with leased properties, liability in connection with the claims from China Gold Funds and liabilities in connection with certain legal proceedings.

Further details of the transactions (i) to (iii) above are included in notes 34 and 35 to the financial statements.

Our independent non-executive Directors have reviewed the continuing connected transactions set out in note 35 to financial statements on pages 155 to 157 in this annual report, and are of the view that the continuing connected transactions have been entered into under the following circumstances:

(a) in the ordinary and usual course of business;

(b) on normal commercial terms or on terms no less favorable to the Group than terms offered to/by independent third parties; and

(c) in accordance with the relevant agreements governing those transactions on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

Our auditor has also reviewed the above transactions (details of which are set out in note 35 to the financial statements) and confirmed to our Directors that the continuing connected transactions:

(i) have received the approval of the Board;

(ii) are in accordance with the pricing policies of the Company if the transactions involved provision of goods or services by the Group;

(iii) have been entered into and conducted in accordance with the relevant agreements governing the transactions; and

(iv) have not exceeded the caps disclosed in the Company's prospectus dated 24 November 2006 and the previous announcement, except for the adjustments of rental of the land and the annual caps set out in the paragraph headed "Connected Transactions and Continuing Connected Transactions" above, which are subject to reporting and announcement requirements but exempted from independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

Understandings and Statements under the Non-competition Agreement

The Company and Zhaojin Group entered into a non-competition agreement on 17 November 2006, pursuant to which the independent non-executive Directors of the Company are required to review, at least once a year, Zhaojin Group's compliance with their undertakings under the non-competition agreement. In addition, Zhaojin Group has also undertaken to the Company to provide an annual compliance statement for incorporation in the annual report of the Company.

Report of the Directors

The independent non-executive Directors have reviewed Zhaojin Group's compliance with their undertakings under the non-competition agreement in respect of its existing or future competing businesses. The independent non-executive Directors are of the view that Zhaojin Group has complied with those undertakings.

During the Year, the independent non-executive Directors have formed independent opinions in respect of the acquisition of four exploration rights from Zhaojin Group by the Company (for further details, please refer to "Other Connected Transactions" on page 36 and item 3 under "Acquisitions" on page 39 of this annual report).

The Company has also received a statement under the non-competition agreement from Zhaojin Group on 1 February 2009, which stated that Zhaojin Group, as the controlling shareholder of the Company, has complied with their undertakings under the non-competition agreement dated 17 November 2006 for the year ended 31 December 2008.

Acquisitions

1. On 2 January 2008, the Company entered into an equity transfer agreement with two vendors, being independent third parties to the Company. Pursuant to the equity transfer agreement, the Company acquired 52% equity interest in FNJL at a total cash consideration of approximately RMB347,000,000.

   For details of the acquisition, please refer to the financial statements of the Company for the year 2008.

2. During the Year, the Company acquired equity interests in three companies through a series of transactions with the same investors, as follows:

   On 31 January 2008, the Company completed its acquisition of a 51% equity interest in Xinjiang Tonghui Copper Mining Company Limited ("TCM"), a company established in the PRC, at a consideration of approximately RMB110,000,000. TCM is engaged in copper mining, and the sale of copper related products. The purchase consideration was fully settled in cash at the date of acquisition.

   On 31 January 2008, the Company completed its acquisition of a 51% equity interest in Kashi Xinxin Copper Mining Company Limited ("Xinxin"), a company established in the PRC, at a consideration of approximately RMB14,000,000 settled in cash. Xinxin is engaged in copper mining and the processing and the sale of copper related products.

   On 4 November 2008, the Company completed its acquisition of a 51% equity interest in Xinjiang Xinhui Copper Company Limited ("Xinhui") at a total consideration of approximately RMB141,000,000. Xinhui holds a 49% interest in Xinxin, and, accordingly this transaction resulted in the Company acquiring an additional approximately 25% indirect interest in Xinxin. Xinhui is engaged in copper smelting.

   For details of the acquisitions, please refer to the financial report of the Company for the year ended 2008.

Report of the Directors

3. On 9 May 2008, the Company entered into an exploration rights transfer agreement with Zhaojin Group which was beneficially interested in approximately 37.3% of the entire issued share capital of the Company as at 9 May 2008. Pursuant to the transfer agreement, the Company agreed to conditionally acquire four exploration rights from Zhaojin Group at a total consideration of RMB158,940,700. After considering the results of previous exploration work, the Company expects its gold resources to be increased by more than approximately 10,000 kg (approximately 321,507 ozs) as a result of the acquisitions.

   For details of the acquisitions, please refer to the announcements dated 9 May, 30 June and 15 August 2008 and circular dated 30 June 2008 of the Company published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.zhaojin.com.cn.

4. On 10 January 2008, the Company entered into an equity transfer agreement with Zhaoyuan City Gold Geological Team, being an independent third party to the Company, to acquire the gold mine exploration right of Loulitou at Zhaoyuan City ("Loulitou Exploration Right") at a consideration of approximately RMB8,326,000. The consideration has been determined based on the arm's length negotiation between the parties after taking into account the potential of Loulitou Exploration Right and the valuation of such exploration right made by the PRC valuers. The consideration was paid in cash.

   The acquisition does not constitute any connected transaction under Chapter 14A of the Listing Rules, nor any notifiable transaction under Chapter 14 of the Listing Rules.

Report of the Directors

Significant Events

1. As approved by the 2007 annual general meeting, the Company amended part of the articles of its Articles of Association on 16 May 2008. The scope of amendment includes the alteration of the Company's registered capital, share capital structure and the Company's registered address.

   Further details were set out in the announcement of the Company dated 16 May 2008 published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.zhaojin.com.cn.

2. On 16 May 2008, the annual general meeting, H shares class meeting and domestic shares class meeting of the Company passed the profit appropriation proposal for the year ended 31 December 2007 and decided to distribute a cash dividend of RMB0.25 (before taxation) per share to all shareholders and based on 728,715,000 ordinary shares of RMB1.00 each issued by the Company at the end of 2007. In addition, the Company issued bonus shares to the shareholders on the basis of one bonus share to be issued (0.25 of which was by way of capitalization of retained profits and 0.75 of which was by way of capitalization of the capital reserve fund) for every one share held by such shareholders (i.e. one bonus H share and one bonus domestic share to be issued in respect of every one H share and one domestic share held by such shareholders, respectively), a total of 728,715,000 bonus shares were distributed. On 30 May 2008, the Company had already distributed the 2007 cash dividend of RMB0.25 (before taxation) per share to all shareholders.

   The distribution of the bonus shares was completed on 30 May 2008 and the listing and trading of the bonus H shares commenced on the Stock Exchange on 3 June 2008. The registration of the bonus domestic shares relating to the non-foreign listing shareholders at the China Securities Depository and Clearing Corporation Limited was completed.

   Further details were set out in the announcement of the Company dated 16 May 2008 published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.zhaojin.com.cn.

3. The 2007 annual general meeting approved the continuous appointment of Beijing Tin Wha Certified Public Accountants ("Tin Wha") as the domestic auditor of the Company. The Company received from Beijing Certified Public Accountants Association a notice informing the Company that part of the staff and assets of Tin Wha merged with Shulun Pan Certified Public Accountants Co., Ltd. ("Shulun Pan"). Some of the clients from the original Tin Wha were transferred to Shulun Pan.

   In view of the above reasons and according to Article 16.4 of the Articles of Association, "If there is a vacancy of the office of the accounting firm, the Board may fill up the vacancy by appointing an accounting firm before convening any general meeting", the Board therefore agreed to appoint Shulun Pan as the domestic auditor of the Company with the appointment term starting from 15 August 2008 until the conclusion of the 2008 AGM.

Report of the Directors

Tin Wha confirmed that there are no circumstances relating to the change of auditors that need to be brought to the attention of the shareholders of the Company. The Board confirms that there are no circumstances in respect of the change of auditors which should be brought to the attention of the shareholders of the Company.

Further details were set out in the announcement of the Company dated 15 August 2008 published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.zhaojin.com.cn.

Extraordinary General Meetings

During the Year, the Company convened one extraordinary general meeting.

On 15 August 2008, the first extraordinary general meeting of the Company in 2008 was held at the conference room of the Queens Hotel, No. 89 North Minhang Road, Liuting International Airport, Qingdao, Shandong Province. The attending shareholders represented 571,584,152 shares of the Company comprising approximately 39.22% of the total issued shares of the Company. As the resolutions considered at the meeting involved connected transactions, Zhaojin Group, the connected shareholder of the Company, abstained from voting in respect of such resolutions in accordance with the Listing Rules. During the meeting, the agreement dated 9 May 2008 entered into between the Company and Zhaojin Group regarding the acquisition of the Four Exploration Rights (as defined in the circular of the Company dated 30 June 2008) at an aggregate consideration of RMB158,940,700, comprising the consideration for the exploration right of the interior and periphery of the Yingezhuang Gold Mine of RMB137,720,600, the consideration for the exploration right of Zhaojiaan District Gold Mine of RMB7,712,800, the consideration for the exploration right of Guojia River – Sunjiazhuang – Yanjiazhuang District Gold Mine of RMB5,215,900 and the consideration for the exploration right of Jiaogezhuang District Gold Mine of RMB8,291,400 and the transactions contemplated thereunder have been considered and approved.

Litigation and Arbitration

During the Year, the Company and the Group have not been involved in any material litigation or arbitration. As far as the Directors are aware, the Company does not have any material litigation or arbitration pending or threatened against the Company which may adversely affect the Company's operating results and financial conditions.

Compliance with the Code on Corporate Governance Practices

The Board is of the view that the Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules during the Year. No Director is aware of any information that reasonably reveals that there was any non-compliance with the code provisions of the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules by the Company at any time during the Year.

For details of the Corporate Governance Report, please refer to pages 44 to 46 of this annual report.

Report of the Directors

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors.

The Board is pleased to confirm, after making specific enquiries with all Directors, that all Directors have fully complied with standards required according to the Model Code set out in Appendix 10 to the Listing Rules during the Year.

Audit Committee

The audit committee of the Company comprises one non-executive Director, namely Mr. Liu Gendong, and three independent non-executive Directors, namely Mr. Yan Hongbo, Ms. Chen Jinrong and Mr. Choy Sze Chung Jojo.

The audit committee has reviewed the Group's audited consolidated annual results for the year ended 31 December 2008, and is of the view that the Group's audited consolidated annual results for the year ended 31 December 2008 are prepared in accordance with the applicable accounting standards, laws and regulations, and appropriate disclosures have already been made.

Confirmation of Independence of the independent non-executive Directors

The Company confirmed that it has received the annual confirmation of independence from each of the independent non-executive Directors in compliance with Rule 3.13 of the Listing Rules on 20 January 2009. The Company is of the view that the existing independent non-executive Directors remain independent in accordance with the relevant guidelines of Rule 3.13 of the Listing Rules.

Post Balance Sheet Events

On 21 November 2008, the Company successfully bidded for a 52% equity interest in Gansu Hezuo Zaozigou Gold Mine Co. Ltd. (甘肅省合作早子溝金礦有限公司) ("ZGM") for a price of RMB55,000,000 in a public tender in the PRC. On 19 January 2009, the Company entered into a share transfer agreement with three independent third parties to acquire a 52% equity interest in ZGM. To date, the acquisition has not been completed yet.

ZGM is based in Gannan Tibetan Autonomous Prefecture in Gansu Province, and engaged in exploration of gold mines and associated minerals, processing and sales of mineral products. ZGM currently owns the mining rights to one gold mine with an area of 2.53 km^2.

Report of the Directors

According to the on-site investigation carried out by the Company and the evaluation conducted by the Mineral Resources Reserves Assessment Center of the State Ministry of Land and Resources of Gansu Province (甘肅省國土資源廳礦山儲量評審中心), the owned resources comprise gold ore of 2,471,800 tons and gold metal of 9,789 kg (approximately 314,724 ozs) with an average grade of 3.96 g/t. The production scale is 20,000 tons/year and the mining method adopted is open cutting. A good prospect of finding mine reserves is expected at the depth of the Zaozigou Gold Mine and its periphery.

By acquiring 52% equity interest in ZGM, the Company has an opportunity to increase its investment in the gold mine resources in Gansu Province which is strategically important in terms of further consolidating the gold resources in the southern area of Gansu and the periphery of Qinghai and Ningxia and will help the Company to generate more returns from the investment in ZGM.

The acquisition does not constitute any connected transaction under Chapter 14A of the Listing Rules, not does it constitute any notifiable transaction under Chapter 14 of the Listing Rules.

Closure of the Register of Members

The register of members of the Company will be closed from 16 April 2009 to 15 May 2009, both days inclusive, during which period no transfer of shares will be registered.

In order to qualify for the final dividend and attend the 2008 AGM, all transfer instruments accompanied by the relevant share certificates must be lodged with the Company's H share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Rooms 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for H share shareholders, or the registered office of the Company at 299 Jinhui Road, Zhaoyuan City, Shandong Province, the PRC for domestic share shareholders for registration no later than 4:30 p.m. on 15 April 2009.

Auditor

The financial statements of the Group prepared in accordance with Hong Kong Financial Reporting Standards have been audited by Ernst & Young. The auditor is subject to re-election and is eligible for re-appointment at the forthcoming annual general meeting.

A resolution in relation to the reappointment of Ernst & Young as the international auditor of the Company will be proposed at the 2008 AGM.

By the order of the Board
Lu Dongshang
Chairman

6 March 2009

Corporate Governance Report

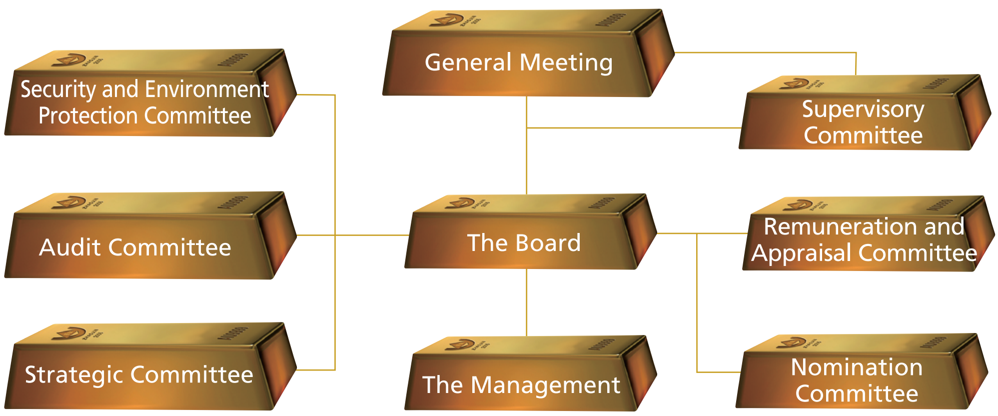
Report of Corporate Governance Practice

As one of the largest gold mining overseas-listed companies in the PRC, the Group is committed to protecting shareholders' and staff's interests and creating shareholder value. The Board and the management of the Company believe that high standards of corporate governance are essential to the success of the Company and always strive to maintain a high level of corporate governance standards and practices.

(A) Corporate Governance Practice

For the year ended 31 December 2008, the Company has complied with all the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange with no deviation, and has adopted certain recommended best practices in the Code when it is applicable.

The corporate governance structure of the Company is set out as follows:



(B) Securities Transaction of Directors

The Company had adopted all provisions of the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules.

None of the Directors had any interest in securities of the Company as at 31 December 2008. Specific enquiries regarding any non-compliance of the Model Code were made to all Directors, and they all confirmed that they had fully complied with the provisions contained in the Model Code during the Year.

Corporate Governance Report

(C) The Board

The Board is the executive body of the Company and is primarily responsible for formulating the operation plans, managing decisions, establishing the overall strategic direction of the Group. It is responsible for setting objectives and business development plan of the Group, monitoring the performance of senior management and assuming responsibility for corporate governance. The Board is also responsible for review and approval of annual and interim results, risk management, major acquisitions, as well as other material operation and financial matters. The Board acts according to the Rules and Procedures of Board Meetings formulated by the Board. Under the leadership of the Board, the management will be empowered to implement the Group's strategies and business objectives. The Board and management has expressly defined the responsibilities and authorities towards internal controls, policies and day-to-day operation of the Group's business.

Being the second session of Board since the establishment of the Company, the incumbent Board comprises eleven Directors, of which three are executive Directors, four are non-executive Directors and four are independent non-executive Directors.

In accordance with the Articles of Association of the Company, Directors are elected or replaced by general meetings. Shareholders, the Board or the Supervisory Committee are entitled to nominate a candidate for directorship by written notice. Directors have a term of three years and are eligible to offer themselves for re-appointment upon expiry of term.

The second session of Board was elected at the extraordinary general meeting convened on 16 April 2007. All members of the second session of Board have a term of three years from 16 April 2007 to 15 April 2010. However, Mr. Choy Sze Chung Jojo was elected as independent non-executive Director at 2006 annual general meeting held on 22 May 2007 with a term of office with effect from the date of election to the expiry of term of the second session of Board. The list and profiles of Directors (including their names) are set out on pages 20 and 25 of this annual report.

Members of the Board are from different industry backgrounds and have extensive experience in science and technology, securities and finance, mining and metallurgy, corporate management and accounting.

The Company has three executive Directors responsible for specific management duties, representing 27% of the Directorship. This helps the Board closely review and monitor the management procedure of the Company. Mr. Lu Dongshang, the Chairman of the Company, and two other executive Directors have years of extensive experience in the gold mining management industry and are responsible for the operating management, formulating and implementing important strategies, making daily operation decisions and coordinating overall business operations.

Corporate Governance Report

The Company has four independent non-executive Directors, representing 36% of the Directorship, which complies with the requirement of Rules 3.10 (1) of the Listing Rules. The Company is of the view that the four independent non-executive Directors have extensive experience in the industry or financial matters and qualifications to perform their responsibilities, which complies with the requirements of Rule 3.10(2) of the Listing Rules which requires that at least one of its independent non-executive Directors have appropriate professional qualifications, accounting or related financial management expertise. Independent non-executive directors were assumed by the persons who are independent of any Directors, Supervisors, chief executives and substantial shareholders (as defined in the Listing Rules) or such individuals without any connection thereto (the independent third party), which complies with the requirement of independence of Listing Rules. According to the Listing Rules, each independent non-executive Director shall confirm his independence to the Hong Kong Stock Exchange prior to his appointment. As at 20 January 2009, the Company has received the annual confirmation of independence from the four independent non-executive Directors in respect of confirming their independent status to the Company in accordance with Rules 3.13 of the Listing Rules. The Company has verified their independence and confirmed that all of the independent non-executive Directors are independent individuals.

The four independent non-executive Directors assumed duties in the Audit Committee, Nomination Committee, Remuneration and Appraisal Committee, Strategic Committee or Safety and Environmental Protection Committee under the Board.

The Board convenes meetings on a regular basis. A minimum of four meetings with Directors' personal attendance are held each year (2008: four meetings), and additional meetings will be convened if necessary. The secretary to the Board/Company Secretary is responsible for assisting the Chairman in compiling agendas. Each Director can request to have discussion topics included in the agenda. The Company convened six Board meetings during the Year and the attendance of each Director is set out as follows:

	Number of meetings convened	**Attendance**
Executive Directors		
Lu Dongshang	6	6
Wang Peifu	6	6
Ma Yushan	6	6
Non-executive Directors		
Liang Xinjun	6	5
Wu Ping	6	6
Liu Gendong	6	5
Cong Jianmao	6	6
Independent non-executive Directors		
Yan Hongbo	6	5
Ye Tianzhu	6	5
Chen Jinrong	6	5
Choy Sze Chung Jojo	6	6

Corporate Governance Report

The Board or special committee circulates the relevant information provided by the senior management, which sets out the matters that require decision by the Board and the report concerning the Group's operation and financial performance prior to each Board meeting. Notices of Board meetings or special committee meetings are delivered to the Directors or special committee at least 14 days before the meetings for the Directors to prepare to attend the relevant meetings and incorporate other matters into the agenda. The meeting documents and the agenda of the Board meeting or special committee meeting are distributed to Directors or special committee at least 3 days before the meetings to allow sufficient time for them to review the relevant documents and prepare for the meetings. Senior management shall be responsible for preparing the documents of the Board and special committee, submitting its reports upon request from time to time and addressing or answering potential questions or problems raised by the Board members regarding the reports during the meetings.

The Directors are free to express their views at the meetings. Important decisions will only be made after due and careful discussion at the Board meetings. The Directors confirm that they have responsibility to act in the interests of the public and the Company, particularly in the interests of minority shareholders. In the event of a conflict of interests between shareholders' interests and any other interests, shareholders' interests shall prevail.

Board meetings and special committee meetings are chaired by the Chairman of the Board and the chairman of the special committee, respectively, in order to ensure adequate time is allocated for discussing and considering each agenda item and provide equal opportunities for each Director to express his/her views and ideas.

Detailed minutes of meetings are compiled for the Board meetings or special committee meetings. Minutes of the meetings must record issues in details considered by the Directors during the meeting as well as the resolutions made, including any worries or objections put forward by the Directors.

The Directors can provide comments for the draft minutes within a week available for all Directors or special committee members. Draft minutes will then be approved with confirmation given by the Chairman of the Board or the chairman of the special committee.

Minutes of Board meetings or special committee meetings are kept by the secretary to the Board/ Company Secretary and are available for inspection by the Directors at all time.

All Directors are free to communicate with the secretary to the Board/Company Secretary who is responsible for ensuring and advising on compliance of all procedures in connection with the Board and all applicable rules and regulations.

The management shall on their own accord or upon enquiries provide appropriate and sufficient information to the Directors and special committee members and/or respond as soon as possible, so as to keep them informed of the latest development of the Company to facilitate their performance of duties.

Corporate Governance Report

Each Director has been provided with a Director's Handbook containing guidance on practice. Provisions of regulations or Listing Rules are quoted in the Director's Handbook to remind Directors of the need to discharge their responsibilities, including disclosure of their interest to the regulatory bodies, potential conflict of interests and details of changes of personal data.

The Board and special committees are provided with sufficient resources for performance of duties including but not limited to hiring external consultants when necessary at the expenses of the Company. Individual Directors can also hire consultants for advice on any specific issues at the expenses of the Company.

All Directors can obtain from the secretary to the Board/Company Secretary timely the information and latest development about rules and regulations and other continual responsibilities which Directors of listed companies must observe so as to ensure that each Director is informed of his own duties and that the Company implements the Board procedures consistently and complies with the legislations properly.

(D) Chairman and President

The roles of the Chairman of the Company and the President have been separated and their duties are stated in writing, and are assumed by different individuals who play their distinctive roles. Mr. Lu Dongshang, the Chairman of the Board, is responsible for setting the Group's overall corporate development directions and formulating business development strategies. Mr. Lu also serves to ensure the establishment, implementation and execution of a sound corporate governance practices and procedures. Mr. Wang Peifu, the President, is responsible for the Group's day-to-day management and execution of approved strategies.

The Chairman is elected by the Board. Being the legal representative of the Company, the Chairman is primarily responsible for convening and presiding over Board meetings, inspecting the implementation of Board resolutions, presiding over annual general meetings, signing documents securities issued by the Company and other important documents, and exercising other rights conferred on by the Board. The Chairman is responsible to and reports to the Board.

The President is nominated by the Chairman and appointed by the Board. The President is responsible for the day-to-day operations of the Company, including implementing strategies and policies, the Company's operation plans and investment schemes approved by the Board, formulating the Company's internal control structure and fundamental management policies, drawing up basic rules and regulations, submitting to the Board for appointment or removal of senior management and exercising other rights granted under the Articles of Association and by the Board. The President takes full responsibility to the Board in respect of the operations of the Company.

Corporate Governance Report

(E) Non-executive Directors

The second session of the Board consists of four non-executive Directors and four independent non-executive Directors, accounting for approximately 73% of the total number of the Board's members. Non-executive Directors include Mr. Liang Xinjun, Mr. Wu Ping, Mr. Liu Gendong, and Mr. Cong Jianmao, and independent non-executive Directors include Mr. Yan Hongbo, Mr. Ye Tianzhu, Ms. Chen Jinrong and Mr. Choy Sze Chung Jojo. Pursuant to the Articles of Association, non-executive Directors and independent non-executive Directors may be re-elected on the expiry of the three-year term commencing from the date of their appointment and expiring on 15 April 2010.

(F) Directors' Remuneration

The Remuneration and Appraisal Committee of the second session of the Board consists of three members, two of which are independent non-executive Directors. The chairman of the Remuneration and Appraisal Committee is Mr. Yan Hongbo, an independent non-executive Director. Other members are Ms. Chen Jinrong, an independent non-executive Director, and Mr. Liang Xinjun, an non-executive Director. Roles and duties of the Remuneration and Appraisal Committee include:

1. to advise the Board on remuneration policies and framework of the Directors and senior management of the Company and to formulate such remuneration policies in accordance with formal and transparent procedures;

2. to discharge the duties as delegated by the Board, including to determine specific remuneration of all executive Directors and senior management including non-monetary profits, rights to pension and quantum (including compensation for loss or termination of employment or appointment) as well as to advise the Board on remuneration of independent non-executive Directors;

3. to consider the remuneration by comparison of salaries paid by similar companies, time contributed by Directors and their duties, terms of employment of other positions within the Group and whether to adjust salaries according to performance;

4. to review and approve performance-based salary and the terms of Directors' service contracts in accordance with corporate targets and approach approved by the Board from time to time;

5. to review and approve payment of compensation in relation to loss or termination of employment or appointment of executive Directors and senior management so as to ensure that such compensation is determined according to the contractual terms;

Corporate Governance Report

6. to review and approve compensation arrangements in relation to dismissal or removal of Directors due to their misconducts so as to ensure that such compensation is determined according to the contractual terms;

7. to formulate remuneration policies and determine remuneration based on formal and transparent procedures, to ensure that the Company attracts, retains and motivates competent staff who are crucial to the continual development of the Company;

8. to ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration;

9. to formulate the standards or plans of the remuneration packages for Directors or senior management in accordance with the duties, responsibilities, importance and relevant positions in other relevant enterprises. The remuneration standards or plan principally include but not limited to salaries, bonuses, shares; performance assessment standards, procedures and major assessment system; major plans and systems for awards and punishments;

10. to formulate annual evaluation target and conduct annual performance assessment;

11. to review the duties performed by the Directors and senior management of the Company; and

12. to be responsible for monitoring the implementation of the Company's remuneration system.

Operation procedures of the Remuneration and Appraisal Committee include:

1. Chairman of the Remuneration and Appraisal Committee shall report the results of discussion to the Board after each meeting and provide recommendations;

2. The Remuneration and Appraisal Committee can seek professional advices when necessary;

3. Details about remuneration of Directors and Supervisors for the year ended 31 December 2008 are set out on pages 112 to 116 in this annual report in note 7 to the financial statements; and

4. Duties of the Remuneration and Appraisal Committee during the Year include implementations of Directors' remuneration policy, assessment of the performance of executive Directors and approval of contract terms of executive Directors.

Corporate Governance Report

In evaluating the performance of the Directors and senior management, the Company used budget targets and audited financial reports as benchmarks. At the same time, sales revenue and net profits as key performances indicators were used as business indices. It is the Company's remuneration policy that remuneration is linked with Company's performance. Directors' remuneration is determined upon appraisal by the Remuneration and Appraisal Committee. Total income of senior management during the Year comprises of a basic annual salary and a performance-based annual bonus. The remuneration of Directors and Supervisors are determined in general meetings according to related policies or stipulations of the PRC and the actual position of the Company. The remuneration of Directors and Supervisors of the Company are determined on the basis of their specific management duties undertaken in the Company.

During the Year, the Remuneration and Appraisal Committee convened two meetings. The attendance of each member of the committee is set out below:

	Number of meetings	Attendance
Liang Xinjun	2	1
Yan Hongbo	2	2
Chen Jinrong	2	2

The summary of the work performed by the Remuneration and Appraisal Committee during the year is as follows:

1. Reviewing the proposal on annual remuneration of the President and senior management in 2008;

2. Reviewing the decision to present the Special Contribution Award to the President Wang Peifu, the Chief Development Officer Xu Yuanjun and the Chief Financial Officer Zhang Banglong;

3. Reviewing the proposal of raising the allowance for independent non-executive Directors; and

4. Reviewing the proposal of internal resignation and policy of senior management of the Company.

The details of the terms of reference of the Remuneration and Appraisal Committee are available for inspection on the website of the Company.

The Company currently does not operate any long term incentive plan.

Corporate Governance Report

(G) Nomination of Directors

The Nomination Committee to the Board currently comprises two independent non-executive Directors, namely Mr. Ye Tianzhu and Ms. Chen Jinrong, and one non-executive Director, namely Mr. Wu Ping. Mr. Ye Tianzhu acts as the chairman of the committee. The role and main duties of the Nomination Committee include:

1. to advise the Board on structure, number of members and composition of the Board in light of the Company's production and business activities, size of assets and shareholding structure;

2. to review criteria and procedure for selection of Directors and general managers and make recommendation to the Board;

3. to extensively seek suitable candidates for Directors and general manager, to conduct examination and make recommendations on candidates of Directors and general managers;

4. to conduct examination and make recommendations on other senior management staff pending referral to the Board for the decision of their employment;

5. to assess independency of independent non-executive Directors; and

6. to advise the Board on issues regarding appointment or re-appointment of Directors and succession of Directors (in particular the Chairman and CEO).

The working process of the Nomination Committee includes:

1. to actively communicate with the relevant divisions of the Company to research on the demand of the Company for new Directors and managers and to come up with written materials;

2. to extensively look for the candidates of Directors and managers within the Company and its controlled companies as well as in the market of talents;

3. to obtain the information of the occupation, education background, job title, detailed working experience and all the concurrent positions of the initially proposed candidates and to come up with written materials;

4. to seek the nominees' opinions on nomination, otherwise he or she shall not be put on the list of candidates of Directors and managers;

5. to convene meetings of the Nomination Committee and to check the qualification of initially proposed candidates according to the job qualifications of Directors and managers;

6. to put forward the recommendation about the candidates of Directors and managers and relevant materials to the Board one to two months prior to the election of new Directors and the appointment of new managers; and

7. to conduct other follow-up work according to the decision and feedbacks of the Board.

The chairman of the committee shall report the results of discussion and recommendations of the committee to the Board after each meeting.

Currently, the executive Directors of the Company are nominated mainly through the selection and identification of its staff who are familiar with the gold industry with extensive management experiences, while the non-executive Directors are nominated from those persons who are eligible for being appointed as the Director of the Company based on their independence, their experiences in gold industry and business management and their technical expertise with reference to the requirements of the laws and regulations in the jurisdiction where the Company has been listed, the structure of the Board and the reasonability of corporate composition. The Nomination Committee will first discuss the nomination of candidates for Directors, and then propose them at the general meeting for selection.

All directors to be newly appointed and re-elected at the general meeting are first considered by the nomination committee. Its recommendations would then be put forward for the Board's decision to put forward to the general meeting. Subsequently, all those Directors are subject to the shareholders' approval for appointment or re-election at the general meeting pursuant to the Articles of Association of the Company. In considering the new appointment or re-election of Directors, the nomination committee makes their decisions based on the directors' attributes such as integrity, loyalty, industry exposure and professional and technical skills together with the contribution of time and effort to carry out their duties efficiently and responsibly.

During the Year, no Nomination Committee meeting was held as there is no election of new session of the Board and its composition remains unchanged.

The details of the terms of reference of the Nomination Committee are available for inspection on the website of the Company.

(H) Auditors Remuneration

The overseas auditors engaged by the Company is nominated by the Board and approved in the general meeting. Its remuneration was determined by the Board as authorised by the general meeting. During the Year, the remuneration paid to overseas auditors for their auditing services to the Group was approximately RMB2,300,000 (2007: RMB1,800,000).

Corporate Governance Report

(I) Audit Committee of the Board

To attain the goal of best corporate governance, the Company established the Audit Committee on 16 October 2004, and re-elected it at the 1st meeting of the second session of the Board on 16 April 2007. Mr. Choy Sze Chung Jojo was appointed as the member of the Audit Committee at the 4th meeting of the second session of the Board on 8 August 2007.

Jurisdiction of the committee is formulated in accordance with recommendations of "A Guide for Effective Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants. Its major duties include: to report to the Board, examine the quality and procedure of the Group's interim and annual reports, review connected transactions, supervise the financial reporting procedures, revise soundness and effectiveness of internal control system of the Company, approve appointment of independent auditors, coordinate and review its efficiency and work quality, review written reports of in-house auditing staff and review the feedback from the management to such reports.

Besides, the Audit Committee shall also undertake the following duties:

1. to advise the Board on appointment, re-appointment and removal of external auditors, approve remuneration and terms of appointment of external auditors and to handle any problems in relation to the auditors' resignation or dismissal of auditors;

2. to revise and supervise the work of the external auditors;

3. to formulate and implement policies on non-auditing services provided by auditors and to advise the Board on related issues;

4. to review the Company's financial information and other related information;

5. to monitor the Company's financial reporting system and internal control procedures as well as related issues;

6. to advise the Board as to whether or not the internal supervisory system is effective; and

7. In case of uncertain events or circumstances which may materially affect the Group's sustainable operation, such uncertain factors should be reported.

Pursuant to the requirements of the Listing Rules, the Audit Committee currently comprises three independent non-executive Directors, including Mr. Yan Hongbo, Ms. Chen Jinrong, Mr. Choy Sze Chung Jojo and one non-executive Director, Mr. Liu Gendong. The committee members are required to have necessary professional qualifications and experiences in financial matters and are well served and well exposed in the accounting and financial areas, which are crucial to their key roles and functions, in compliance with the requirement of the relevant Listing Rules. The members of the Audit Committee shall have a term of three years. The Committee is chaired by Ms. Chen Jinrong.

Corporate Governance Report

During the Year, the Audit Committee had convened two meetings both of which were chaired by the chairman of the committee. All of the Audit Committee members have attended the meetings. Major work performed by the Audit Committee during the Year included:

1. to review the Group's annual report and final results announcement for the year ended 31 December 2007;

2. to review the Group's interim report and interim results announcement for the six-month period ended 30 June 2008;

3. to review recommendations on management put forward by auditors and responses from the Company's management in respect of the recommendations on management;

4. to review the accounting principles and practices adopted by the Group and other reporting matters;

5. to ensure that the connected transactions of the Company comply with the principle of impartiality, fairness and openness and fully protect interests of minority shareholders;

6. to assist the Board in making independent assessment of effectiveness of the Group's financial reporting procedures and internal control system;

7. to supervise internal auditing of the Company; and

8. to advise on significant events of the Company or remind the management of related risks.

All matters considered during the Audit Committee meetings shall be duly recorded in accordance with related rules, and the records shall be filed upon review by all members of the Audit Committee with amendments. After each meeting, the chairman has submitted reports on the significant matters discussed to the Board.

The details of the terms of reference of the Audit Committee are available for inspection on the website of the Company.

(J) Directors' Responsibilities for the Financial Statements

The Directors acknowledge their responsibilities for the preparation of the financial statements for each financial year, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that year and in compliance with relevant laws and disclosure provisions of the Listing Rules.

In preparing the financial statements for the year ended 31 December 2008, the Directors have selected appropriate accounting policies and applied them consistently; made judgments and estimates that are prudent and reasonable; and have prepared the financial statements on a going concern basis. The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group.

Corporate Governance Report

(K) Strategic Committee

The Company has established the Strategic Committee of the Board which is mainly responsible for conducting research and proposing recommendations on the strategies of long-term development and material investment decisions of the Company. The Committee comprises five persons, with executive Director Mr. Lu Dongshang being the chairman. Other members are non-executive Directors Mr. Liang Xinjun and Mr. Liu Gendong, and independent non-executive Directors Mr. Yan Hongbo and Mr. Ye Tianzhu. The key duties and responsibilities of the Strategic Committee include:

(1) conducting research and proposing recommendations on the strategies of long-term development of the Company;

(2) conducting research and proposing recommendations on the material investment financing projects which are subject to approval of the Board as required by the Articles of Association of the Company;

(3) conducting research and proposing recommendations on the significant capital operations and asset operation projects which are subject to approval of the Board as required by the Articles of Association of the Company;

(4) conducting research and proposing recommendations on other material matters that affect the Company's development;

(5) examining the above matters; and

(6) other duties authorized by the Board.

During the Year, the Strategic Committee convened one meeting to discuss the directions of future development of the Company. Professional strategic advisers and strategic consultants were invited to the meeting. The attendance of each member of the Committee is set out below:

	Number of meeting	**Attendance**
Lu Dongshang	1	1
Liang Xinjun	1	1
Liu Gendong	1	1
Yan Hongbo	1	1
Ye Tianzhu	1	1

Details of the scope of responsibilities and authorities of the Strategic Committee are available on the website of the Company.

Corporate Governance Report

(L) The Safety and Environmental Protection Committee

The Safety and Environmental Protection Committee of the Board is mainly responsible for conducting research and proposing recommendations on material safety and environmental protection decisions of the Company. The Committee comprises four persons, with independent non-executive Director Mr. Yan Hongbo being the chairman. Other members are executive Director Mr. Wang Peifu, non-executive Director Mr. Cong Jianmao and independent non-executive Director Mr. Ye Tianzhu. The key responsibilities and authorities of the Safety and Environmental Protection Committee are:

(1) conducting research on significant safety and environmental protection investment projects during the year;

(2) setting safety and environmental protection objectives and goals of the year;

(3) formulating the long-term plan and annual plan of safety and environmental protection;

(4) proposing safety and environmental protection requirements in accordance with the convention of international safety and environmental protection;

(5) carrying out investigation and examination on the above matters; and

(6) other duties authorized by the Board.

During the Year, the Safety and Environmental Protection Committee convened one meeting to evaluate the safety and environmental protection matters of the Company during the Year and propose requirements and recommendations on safety and environmental protection for the coming year. The attendance of each member of the Committee is set out below:

	Number of meeting	**Attendance**
Wang Peifu	1	1
Cong Jianmao	1	1
Yan Hongbo	1	1
Ye Tianzhu	1	1

Details of the scope of responsibilities and authorities of the Safety and Environmental Protection Committee are available on the website of the Company.

Corporate Governance Report

Monitoring Mechanism

Supervisory Committee

The Supervisory Committee was established in accordance with the PRC law. The Supervisory Committee consists of three members, one of whom is the chairman. The Supervisor have a term of three years, who are subject to and eligible in re-election.

The Second Supervisory Committee was established through election at the first extraordinary general meeting in 2007 convened on 16 April 2007, comprising Mr. Wang Xiaojie, Mr. Cheng Binghai and Mr. Chu Yushan. Mr. Chu Yushan is a representative supervisor from the staff, and Mr. Wang Xiaojie is the chairman of the Supervisory Committee. The number of members and composition of the Supervisory Committee are in accordance with the laws and regulations.

The Supervisory Committee is granted with powers in accordance with the laws to perform the following duties independently: to examine the financial position of the Company, to monitor whether the Directors, President, Vice presidents and other senior management act in contravention to the laws, administrative regulations, the Articles of Association and the resolutions of the general meetings, to demand rectification from the above officers when their acts are detrimental to the interests of the Company, to review the financial information such as the financial report, results report and plans for distribution of profits to be submitted by the Board to the general meetings and to authorize a re-examination by the auditors of the Company for the time being in the name of the Company, to propose the convening of a shareholders' extraordinary general meeting and propose resolutions on shareholders' meetings, to represent the Company in negotiations with, or bringing an action against, a Director, and to perform other duties required by laws, regulations and rules imposed by national and overseas supervisory bodies.

The Supervisory Committee is accountable to the shareholders. Each year, the Supervisory Committee presents the Report of the Supervisory Committee and reports their work performed according to the laws at the annual general meetings. The Supervisory Committee also reviews the attendance rate and integrity of the Directors, President, Vice president and other senior management, and reviews the auditor's reports issued by the auditors in accordance with the generally acceptable auditing standards.

During the Year, the first Supervisory Committee has convened two meetings. The attendance rate of the meetings by the three Supervisors was 100%.

All Supervisors have attended all the Board meetings and performed their monitoring obligations on behalf of the shareholders to monitor the compliance of the financial activities of the Company, the performance of duties of Directors and senior management and the decision making procedures of the Board with the laws and regulations. The Supervisors had performed their statutory duties impartially.

Corporate Governance Report

Internal Control and Internal Review

The Board acknowledges its responsibilities for the Group's internal control system and has established and maintained the Company's internal control system for reviewing the effectiveness of relevant financial, operating and supervisory control procedures to ensure that all internal control measures are in place to safeguard the Group's assets and to comply with relevant regulations and best practices.

The Board authorizes the operating management to promote such internal control system mentioned above, and the effectiveness of which is reviewed by the Audit Committee.

The internal control system includes a management framework with clearly defined duties for the purposes of:

1. assisting the Company in accomplishing various business objectives and ensuring that corporate assets will not be defalcated or disposed of;

2. ensuring that the Company's accounting record provides reliable financial data for internal use or public disclosure; and

3. ensuring compliance with related legislations and requirements.

Aiming at more effective review on the effectiveness of the internal control system, the Company set up an internal audit department in April 2004 to review, monitor and assess the disclosure of financial information, operations and internal control activities of the Company and its associates on a regular basis and when necessary, based on potential risks and the importance of internal control systems for different businesses and workflows. This can ensure the transparency of information disclosure, operating efficiency and effectiveness of the corporate monitoring mechanism. The independent and objective evaluation and recommendation are provided in the form of an audit report. The internal auditors are entitled to have access to all information of the Company and to make enquiries to relevant persons in performing their duties. The manager of the audit department directly reports the relevant outcomes and his/her opinions to the Audit Committee for consideration. After reviewing their reports, the Audit Committee puts forward its recommendation to the management of the Company and regularly reports to the Board.

The Company concerns the importance of the internal control and had set up relevant internal management systems and procedures for corporate governance, operation, construction, finance, and administrative personnel. In December 2004, an internal control system was approved by the Board. The internal control system summarizes and clarifies the objectives, content, methods and obligations of the internal control system. This will facilitate the Company's continuing review and assessment on implementation of the existing systems and the effectiveness of internal controls.

During the Year, the Board made comprehensive review to the effectiveness of the internal control system of the Company, which include the Company's finance control, operation control, compliance control and risk management function, etc. To further promote effective internal control, the Board set up the following major procedures:

Corporate Governance Report

- The accountability of the Company's organization structure is definite and has distinguishable monitor level. All department heads participate in formulating strategic plan and determining the Company's corporate strategies so formulated to achieve annual operation plan and annual operational and financial targets in next three years. Both the strategic plan and annual operational plan are the basis of formulating annual budgets; the Company allocates resources depending on the definability and priority of business opportunities based on annual budgets. Other than the three-year plan which is approved by the Board and subject to annual review, the annual operational plan and annual budget should also be approved by the Board annually.

- The Company already has a comprehensive accounting system in place, such system provides and measures finance and operation performance indicators, as well as relevant financial data that can be used for reporting and disclosure. The budget gap, if any, shall be analyzed and explained, and appropriate actions shall be taken to remedy the problems found as necessary.

- The Company also has systems and procedures in place to identify, measure, deal with and control risks which include legal, credit, market, centralized, operational, environmental, behavior risks as well as others which may influence the development of the Company.

- The audit department will carry out independent review on confirmed risks and control so as to reasonably guarantee the management and Audit Committee that the risks are satisfactorily handled and the control is fully effected.

During the Year, the Company continued to appoint an internal control and assessment advisor who is an independent third party to conduct detailed assessment about our internal control system during the Year. The assessment method applied the COSO Internal Control Structure of American COSO Committee. The introduction of COSO Internal Control Structure can reveal the effectiveness of the Company's internal control system and we can take this chance to rationalize our management processes, regulate management and raise the overall management standard. According to the assessment report from internal control and assessment advisor, the Board has reviewed the in-house control system of the Company and its subsidiaries and vertified the effectiveness of this system, the audit committee has also found no material deficiencies on the internal control system.

Chief Financial Officer

Chief Financial Officer is in charge of the financial operation of the Company and reports to the President.

Chief Financial Officer is responsible for preparing financial statements in accordance with GAAP of the PRC and Hong Kong and to ensure compliance with disclosure requirements as stipulated by the Hong Kong Stock Exchange. The Board has the ultimate responsibility towards the financial statements prepared by him.

Chief Financial Officer is also responsible for preparing the Company's annual budget scheme and the budget implementation proposal, as well as monitoring the implementation of the Company's annual financial and operating plans. In addition, the chief financial officer shall work with and make recommendations to the Board on the establishment of relevant internal control systems.

Corporate Governance Report

Relations with shareholders, investors and other concerned parties

The Company is committed to ensuring that all shareholders, especially the minority shareholders, can enjoy equal status and fully exercise their own rights.

General Meeting

As the highest authority of the Company, the general meeting exercises its rights under the law to make decisions on significant events of the Company. The Company establishes and maintains various communication channels by way of publication of annual reports, interim reports and information announcements. To promote effective communication, shareholders can choose to receive information to shareholders from the Company viaelectronic means. The information is also published in the website of the Company.

The annual general meeting or extraordinary general meeting (if applicable) serves as a direct communication channel between the Board and the shareholders. All Directors understand that general meetings provide an effective platform for direct communication between Directors, Supervisors and other senior management and shareholders, where they shall report to shareholders with regard to the Group's operations, answer shareholders' queries and maintain effective communications with shareholders. Accordingly, the Company attaches much importance to general meetings. In addition to a 45-day notice before the holding of a general meeting, the Company requires that all Directors and senior management shall employ their best endeavors to attend the general meetings. Also, all shareholders are encouraged to attend general meetings. At the general meetings, the shareholders can make enquiries about the Company's operation status or financial information and the shareholders are welcome to express their views therein.

Details about the polling procedure and the shareholders' rights to request for decisions by way of a poll are included in notices or circulars issued to the shareholders together with the annual reports. Results of polls are not only announced at the meeting, but also available for inspection on the websites of the Company and the Hong Kong Stock Exchange.

In 2008, the Company had convened one annual general meeting, one domestic shares class meeting, one H shares class meeting and one extraordinary general meeting.

Controlling Shareholder

At the end of 2008, 543,257,000 domestic shares and 4,644,000 H shares are held by Zhaojin Group, the controlling shareholder of the Company, totally representing 37.59% of the total issued ordinary shares of the Company.

As the controlling shareholder of the Company, Zhaojin Group has never overridden the general meeting to directly or indirectly intervene in the Company's decision-making and operation. The Company has always kept independent from controlling shareholder in terms of assets, finance, organisation and business.

Corporate Governance Report

Independence from Zhaojin Group

The Directors are satisfied that the Company can be independent of Zhaojin Group's business:

- **Management independence:** Among the Board, only one Director will continue to hold the Chairman's position with the Board of Zhaojin Group. In the opinion of the Directors, as the management overlap only involves one Director therefore the participation of the independent non-executive Directors of the Company would be sufficient for managing the material conflicts of interests arising from the management overlap. Details of which were published on website of Hong Kong Stock Exchange (www.hkex.com.hk) and website of the Company (www.zhaojin.com.cn) on 10 July 2007 already.

  Apart from Mr. Lu Dongshang, none of the Directors or members of senior management of the Company (excluding the Supervisors of the Company) hold positions concurrently in Zhaojin Group.

- **Production and operational independence:** Since its incorporation, the Group has operated its business independently of Zhaojin Group, and has not shared its production teams, production facilities and equipment, or marketing, sales and general administration resources with Zhaojin Group or its associates, except as described in the section of "Connected Transactions" with respect to the provision of gold refinery and gold bullion trading services by Zhaojin Group, which are conducted on an arm's length basis and normal commercial terms. Zhaojin Group operates a gold bullion trading agency business through its Shanghai Gold Exchange membership and has more than 1,000 customers in addition to the Company as at 31 December 2008 (31 December 2007: approximately 800 customers).

  The refinery business owned by Zhaojin Group through its majority interest in Zhaojin Refinery provides gold refinery services to gold mines in the Zhaoyuan district and had approximately 130 customers in addition to the Company as at 31 December 2008 (31 December 2007: approximately 81 customers). Under the terms of the agreements with Zhaojin Group for these services, the Company may terminate the agreements at any time and the Company is not prohibited from engaging other service providers during the term of the agreements.

  In the Yantai region, there are three other qualified refineries and five other Shanghai Gold Exchange members that the Company can readily engage on comparable terms as those the Company has agreed with Zhaojin Group to provide it with refinery or trading agency services, if necessary.

- **Independence of access to supplies and raw materials:** The Group's principal supplies and raw materials for production, namely, electricity and water, gold and silver concentrates, and auxiliary materials, are sourced from independent suppliers not related to Zhaojin Group. Independence of access to customers: The Group's customers mainly comprise purchasers of its standard gold bullion on the Shanghai Gold Exchange. The anonymity and market-driven nature of Shanghai Gold Exchange trades ensure that there is no customer independence issue. As far as the Directors are aware, the Group's other customers, being metallurgical enterprises that purchase silver and concentrates of sulphur and other metals from it, are independent of Zhaojin Group.

Corporate Governance Report

- **Independence of access to customers:** The Group's customers mainly comprise purchasers of its standard gold bullion on the Shanghai Gold Exchange. The anonymity and market-driven nature of Shanghai Gold Exchange trades ensure that there is no customer independence issue. As far as the Directors are aware, the Group's other customers, being metallurgical enterprises that purchase silver and concentrates of sulphur and other metals from it, are independent of Zhaojin Group.

- **Financial independence:** The Group has an independent financial department that is independent from and does not share functions or resources with Zhaojin Group. The Group's financial auditing is undertaken separately from that of Zhaojin Group by its own staff. The Group has separate bank accounts and tax registration. While the Group has, in the past, enjoyed the benefit of shareholder loans from and/or bank loans guaranteed by Zhaojin Group, all the shareholder loans have been repaid and most of such guarantees have been released. In their place, the Group has obtained bank financing at market rates from independent financial institutions and did not experience any difficulties in doing so. Given the Group's financial and cash flow position, the Directors believe that, if required, the Group is able to obtain further loans and credit facilities from financial institutions at market rates without material difficulty.

Non-Competition Agreement and Excluded Businesses

On 17 November 2006 the Company and Zhaojin Group entered into a non-competition agreement which sets out arrangements to minimize the competitive impact on the Company of the investments of Zhaojin Group in gold related assets and businesses. The investments were as follows:

(1) various exploration and mining permits with respect to gold mineral resources in the Zhaoyuan district; and

(2) a 45.1% interest in Zhongkuang Gold Industry Company Limited ("Zhongkuang Gold"), a 45.22% interest in Shandong Guoda Gold Co., Ltd., ("Shandong Guoda Gold") a 51% interest in Xixia Zhaojin Mining Co., Ltd. ("Xixia Zhaojin"), a 90% interest in Tuoli Zhaojin Beijiang Mining Co., Ltd. ("Tuoli Zhaojin") and an 80% interest in Minxian Tianhao Gold Co., Ltd. ("Minxian Tianhao") (collectively referred to as the "Excluded Businesses".

Under the non-competition agreement, the Company also has an option and right of first refusal to acquire the interests in the Excluded Businesses. The option can be exercised at any time during the term of the non competition agreement, which only expires when the Company ceases to be a listed company, or Zhaojin Group ceases to be its controlling shareholder. Should the Company decide not to exercise such option, it has the right to require Zhaojin Group to dispose of its interests in the Excluded Businesses to independent third parties. In addition, under the terms of the non competition agreement, Zhaojin Group has undertaken not to engage in further competitive activities, apart from the Excluded Businesses.

In 2007, Zhaojin Group had transferred all of its 45.1% interest in Zhongkuang Gold to an independent third party. The non-competition agreement made between the Company and Zhaojin Group on 17 November 2006 for the option to acquire the 45.1% interest in Zhongkuang Gold was ceased accordingly.

Corporate Governance Report

In 2007, the Company exercised that option with respect to the 51% interest in Xixia Zhaojin, the 90% interest in Tuoli Zhaojin and the 80% interest in Minxian Tianhao (for further details, please refer to page 38 of the 2007 annual report).

In 2008, the Company exercised that option with respect to four exploration rights of Zhaojin Group (for further details, please refer to "Acquisitions" on page 38 to page 39 of the this annual report).

During the Year, the Company has not exercised its option to acquire the 45.22% interest in Shandong Guoda Gold for the reasons set out below:

For the Year, Zhaojin Group held indirectly 45.22% equity interest in Shandong Guoda Gold through its wholly-owned subsidiary Zhaoyuan Gold Smelting Co., Ltd..

Shandong Guoda Gold is principally engaged in the business of gold smelting. It is not authorised to engage in gold exploration or mining operations. Zhaojin Group has confirmed that it is only a passive investor in Shandong Guoda Gold with no board representation therein, no specific right to appoint its own board representatives (except for its general right as a PRC shareholder to vote for PRC director nominees), and no participation in the management of Shandong Guoda Gold, and that it will remain as a passive investor and does not participate in the daily management of Shandong Guoda Gold.

Directors of the Company believe that the extent of competition from the business of Shandong Guoda Gold, if any, would not have a material impact on our business as a whole, for the following reasons:

(A) Smelting is not the core business of the Company.

(B) Although it has traditionally concentrated on gold smelting, Shandong Guoda Gold is in the process of changing its principle business from gold smelting to copper smelting.

(C) The Company and Shandong Guoda Gold own and operate their respective gold smelting plants independent of each other, and the management of the Group is distinct from and remains independent from that of Shandong Guoda Gold. The Company's cyanidation and smelting plants have sufficient capacity to process all gold concentrates produced from its own mines, as well as the third party concentrates as an ancillary business. There is no sharing of services or resources, including production technique and patent, between the Company and Shandong Guoda Gold. Therefore, the Company conducts its business independently from the business of Shandong Guoda Gold.

Corporate Governance Report

Reasons for not transferring Zhaojin Group's interest in the Excluded Businesses to the Company:

Our Directors believe that there is limited conflict between Zhaojin Group's interest in Shandong Guoda Gold's smelting business and Zhaojin Group's interests in the business of the Company, on the basis that (i) smelting is not the principle business of the Company, and (ii) the Company's smelting operations at Jinchiling Gold Mine have sufficiently satisfied its purposes. In addition, Zhaojin Group is only a passive investor in Shandong Guoda Gold with no board representation or management participation. Accordingly, the Directors of the Company do not consider it necessary for the Company to acquire Zhaojin Group's interest in Shandong Guoda Gold.

The independent non-executive Directors have reviewed the controlling shareholder, Zhaojin Group's compliance with their undertakings under the non-competition agreement in respect of its existing or future competing businesses. The independent non-executive Directors are of the view that none of the controlling shareholders or directors of the Group held any interests in any business that, either directly or indirectly, competes or is likely to compete with the business of the Group.

The Company has also received a statement under the non-competition agreement from Zhaojin Group on 1 February 2009, which stated that Zhaojin Group, as the controlling shareholder of the Company, has complied with their undertakings under the non-competition agreement dated 17 November 2006 for the year ended 31 December 2008.

Investor Relations Management

Communication with shareholders of the Company is given the highest priority. To promote and enhance investor relations and communications, the Company has established and maintained intensive communication channels with the media, analysts and fund managers through one-on-one meetings, road shows and telephone conferences. Press conference is held subsequent to the final results and interim results announcement at which the executive Directors avail themselves to questions regarding the Group's operational and financial performances. Designated members of the Board and the senior management of the Group are given the specific responsibilities to maintain regular dialogues with institutional investors, potential institutional investors, fund managers, shareholders and analysts to keep them abreast of the Company's development.

The Company regards the annual general meeting as an important event as it provides an important opportunity for direct communications between the Board and the Company's shareholders in the presence of the Company's external auditors. All the Directors and senior management of the Group will make the special effort to attend the meetings. External auditors' presence at the meeting would also allow them to address shareholders' queries. All shareholders will be given at least 45 days' notice of the AGM and they are encouraged to attend the AGM and other shareholders' meetings.

The secretary to the Board/Company Secretary is responsible for information disclosure of the Company and reception of visits of its shareholders and investors. The Company had formulated Information Disclosure Management System and the system for the Investors Relations Management to ensure information disclosure on an open, fair and impartial basis and to improve the Company's transparency.

Corporate Governance Report

In 2008, the Company's management have received visiting investors and maintained close contact and good communication with investors. The Company provides detailed information to shareholders in the Investor Relations section on its website (www.zhaojin.com.cn).

Other Interested Parties

The Company is committed to providing satisfactory services to customers and room for development to employees. The Company is committed to improving its profitability while maintaining its honesty and faithfulness with a high sense of responsibility toward its shareholders, investors, employees, customers, suppliers and the society. Meanwhile, the Company oversees and develops its businesses in compliance with local rules and environmental protection regulations to improve its corporate governance, and actively participates in public welfare and environmental protection.

Continuous Enhancement of Corporate Governance

The Company will follow the model of corporate governance developed by the world's leading corporations as what it has done previously so as to comply with the requirements of the regulatory authorities. The Company will regularly review and enhance its corporate governance procedures and implementations to ensure the sustainable development of the Company.

Report of the Supervisory Committee

To the Shareholders,

During the Year, all members of the Supervisory Committee of the Company duly discharged their duties of supervision stipulated by various laws and regulations, which include the Companies Law, the Listing Rules and the Articles of Association. They fully discharged the Supervisory Committee's monitoring function and attended all the Board meetings, general meetings and the major meetings of the Company in which decisions were made with due care and diligence. They strengthened the supervision on the level of compliance of the work of the Board and the operational decision of the management of operations, as well as the implementation by the Board of the resolutions approved by the general meetings. The Supervisors formed their opinions and recommendations through their inspection of the operation of the Company and of the implementation of the internal systems, as well as their efficient supervision of the fulfillment of duties by the Directors and the senior management. In relation to the Company's financial position and the annual report, the Supervisors listened with due care to the report of the chief financial officer on the Company's financial position and results, which they have duly reviewed and analyzed.

Set out below are the independent opinions of the Supervisory Committee to the Shareholders:

1. Level of Compliance of the Company

During the Year, the Company operated in accordance with the requirements of the Companies Law, the Listing Rules, the Articles of Association and other applicable laws and regulations. It has established and continuously improved the internal control systems. Its decision-making procedures are in compliance with laws. The Company strictly implemented the resolutions of the general meetings.

2. Performance of Duties by the Directors, General Manager and Other Senior Management

The Directors, General Manager and other senior management performed their duties to the Company diligently, prudently and faithfully. It is not aware of any action of abusing powers, in breach of the laws and regulations of the PRC and the Companies Law or of prejudicial to or against the interests of the Shareholders, the Company and its staff.

3. Report of the Board

The Supervisory Committee reviewed the report of the Board intended to be submitted to the forthcoming Annual General Meeting for approval with due care. It is of the opinion that the report gives an objective and true picture of the works performed by the Company during the Year.

Report of the Supervisory Committee

4. Financial Reporting

The Supervisory Committee reviewed the Company's financial systems and the audited annual financial report with due care and diligence. In the opinion of the Supervisory Committee, the financial report gives a true and fair view of the financial position, assets and operational affairs of the Company. It is not aware of any breach of laws, regulations or the financial systems of the Company. The financial report audited by the auditor gives an objective and fair view of the Group's financial position.

5. Connected Transactions and Continuing Connected Transactions

The Supervisory Committee is of the view that the connected transactions and continuing connected transactions of the Company are normal and ordinary transactions, are fair and reasonable as far as the Shareholders are concerned, are in the interests of the Company and the Shareholders as a whole, and do not prejudice the interests of the medium and minority shareholders of the Company.

6. Litigations

During the Year, the Company has not been involved in any material litigation or arbitration. As far as the Supervisors are aware, the Company does not have any material litigation or arbitration which are pending or threatened against the Company so as to adversely affect the Company's operating results financial conditions.

In year 2009, the Supervisory Committee will fully perform its supervisory function on the decision-making, finance and the Directors and senior management of the Company. It will carry out its supervisory duties diligently and devote efforts to assist the Company to achieve its goals as well as to enhance the operational efficiency of the Company.

Wang Xiaojie
Chairman
The Supervisory Committee

6 March 2009

Independent Auditors' Report

ERNST & YOUNG
安永

To the shareholders of Zhaojin Mining Industry Company Limited
(A joint stock company established in the People's Republic of China with limited liability)

We have audited the financial statements of Zhaojin Mining Industry Company Limited set out on pages 80 to 167, which comprise the consolidated and Company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

Independent Auditors' Report

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 financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

18/F, Two International Finance Centre,
8 Finance Street, Central,
Hong Kong

6 March 2009

Consolidated Income Statement

Year ended 31 December 2008

	Notes	**2008** **RMB'000**	2007 RMB'000
REVENUE	*4, 5*	**2,152,731**	1,512,273
Cost of sales		**(1,072,814)**	(757,452)
Gross profit		**1,079,917**	754,821
Other revenue and gains	*5*	**58,875**	155,031
Selling and distribution costs		**(19,982)**	(9,581)
Administrative expenses		**(297,698)**	(216,039)
Other operating expenses		**(98,177)**	(105,471)
Finance costs		**(17,468)**	(20,745)
Share of profit of an associate		**2,672**	1,979
PROFIT BEFORE TAX		**708,139**	559,995
Income tax expense	*8*	**(170,017)**	(184,072)
PROFIT FOR THE YEAR		**538,122**	375,923
Attributable to:			
Equity holders of the Company		**533,905**	388,447
Minority interests		**4,217**	(12,524)
		538,122	375,923
Dividends	*9*	**241,933**	182,179
Basic earnings per share (RMB) attributable to ordinary equity holders of the Company	*10*	**0.37**	0.27

The accompanying notes on pages 80 to 167 form an integral part of the financial statements.

Consolidated Balance Sheet

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	**2,147,927**	1,436,135
Intangible assets	12	**1,846,860**	799,900
Interest in an associate	13	**36,649**	33,977
Long term deposits	16	**5,866**	4,637
Land lease prepayments	17	**76,340**	68,131
Other long term assets	18	**211,656**	409,864
Deferred tax assets	19	**79,257**	74,488
Total non-current assets		**4,404,555**	2,827,132
CURRENT ASSETS			
Cash and cash equivalents	20	**688,764**	1,625,689
Trade and notes receivables	21	**35,362**	33,216
Prepayments and other receivables	22	**218,233**	124,788
Inventories	23	**422,228**	333,440
Equity investments at fair value through profit or loss	24	**21,843**	30,926
Held-to-maturity investments	25	**140,000**	–
Derivative financial instruments		**–**	38,686
Total current assets		**1,526,430**	2,186,745
CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	26	**471,190**	352,800
Trade payables	27	**205,555**	235,292
Other payables and accruals	28	**327,182**	238,235
Provisions	29	**12,445**	10,447
Tax payable		**93,824**	176,810
Dividend payable		**–**	16,695
Total current liabilities		**1,110,196**	1,030,279
NET CURRENT ASSETS		**416,234**	1,156,466
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,820,789**	3,983,598

The accompanying notes on pages 80 to 167 form an integral part of the financial statements.

Consolidated Balance Sheet

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	26	**7,790**	22,790
Provisions	29	**56,219**	50,390
Deferred income	30	**49,280**	31,967
Deferred tax liabilities	19	**298,831**	125,237
Total non-current liabilities		**412,120**	230,384
NET ASSETS		**4,408,669**	3,753,214
EQUITY			
Equity attributable to equity holders of the Company			
Issued share capital	31	**1,457,430**	728,715
Reserves	32	**2,356,018**	2,772,591
Proposed final dividend	9	**241,933**	182,179
		4,055,381	3,683,485
Minority interests		**353,288**	69,729
Total equity		**4,408,669**	3,753,214

Lu Dongshang
(Director)

Wang Peifu
(Director)

The accompanying notes on pages 80 to 167 form an integral part of the financial statements.

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**708,139**	559,995
Adjustments for:			
Depreciation of property, plant and equipment	11	**157,839**	107,648
Amortisation of mining rights	12	**87,892**	18,205
Amortisation of land lease prepayments	17	**2,368**	2,026
Net loss on disposal of property, plant and equipment	6	**296**	10,282
Exploration assets written off	12	**29,107**	11,387
Reversal of impairment of other receivables	6	**(389)**	(879)
Deferred income recognised	30	**(6,757)**	(25,251)
Interest expenses	6	**17,309**	20,637
Foreign exchange loss	6	**6,577**	91,951
Interest income	4	**(18,608)**	(73,578)
Loss on disposal of a subsidiary	6	**15,553**	–
Share of profit of an associate	4	**(2,672)**	(1,979)
Fair value losses/(gains), net:			
Equity investments at fair value through profit or loss	6	**11,796**	(10,845)
Derivative instruments – transactions not qualifying as hedges	5	**38,686**	(38,686)
		1,047,136	670,913
Increase in trade and notes receivables		**(2,135)**	(27,744)
(Increase)/decrease in prepayments and other receivables		**(133,290)**	10,088
Increase in inventories		**(88,788)**	(39,444)
Decrease/(increase) in amounts due from a related party		**6,807**	(3,899)
(Decrease)/increase in trade payables		**(26,284)**	63,151
Decrease in other payables and accruals		**(18,986)**	(156,595)
Increase in provisions		**7,827**	2,400
CASH GENERATED FROM OPERATIONS		**792,287**	518,870

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
CASH GENERATED FROM OPERATIONS		**792,287**	518,870
Income taxes paid		**(273,228)**	(144,257)
NET CASH INFLOW FROM OPERATING ACTIVITIES		**519,059**	374,613
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(686,883)**	(217,923)
Purchase of intangible assets		**(290,941)**	(38,723)
Increase in land lease prepayments	17	**(10,577)**	(2,554)
Proceeds from disposal of property, plant and equipment		**17,842**	7,803
Acquisition of subsidiaries	36	**(189,738)**	(217,037)
Disposal of a subsidiary	37	**20,350**	–
Purchase of an additional equity interest in an associate		**–**	(1,750)
Additional capital contribution in an associate		**–**	(15,400)
Contribution of capital from minority shareholders upon establishment of subsidiaries		**90**	4,000
Receipt of government grants	30	**24,070**	18,111
Held-to-maturity investments	25	**(140,000)**	–
Interest received		**65,974**	24,515
Deposits paid for the purchase of subsidiaries	18	**(125,000)**	(399,981)
Purchase of equity investments at fair value through profit or loss		**(2,679)**	(20,081)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		**(1,317,492)**	(859,020)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bank borrowings		**1,016,300**	274,000
Repayment of bank borrowings		**(926,640)**	(656,500)
Dividend paid		**(198,874)**	(92,612)
Interest paid		**(20,476)**	(16,525)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES		**(129,690)**	(491,637)

Consolidated Cash Flow Statement

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(928,123)**	(976,044)
Cash and cash equivalents at beginning of year		**1,625,689**	2,695,397
Effect of foreign exchange rate changes, net		**(8,802)**	(93,664)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**688,764**	1,625,689
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS:			
Cash and bank balances	20	**622,033**	626,551
Non-pledged time deposits with original maturity from one day to three months when acquired but can be withdrawn at the discretion of the Group with seven days' notice	20	**66,731**	999,138
		688,764	1,625,689

Consolidated Statement of Changes in Equity

Year ended 31 December 2008

	Issued share capital RMB'000 (note 31)	Capital reserve RMB'000 (note 32)	Statutory and distributable reserves RMB'000 (note 32)	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total owners' equity RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2007	728,715	2,091,022	54,782	–	423,687	109,307	3,407,513	56,911	3,464,424
Total income and expense for the year recognised directly in equity – Exchange realignment	–	–	–	(3,168)	–	–	(3,168)	–	(3,168)
Profit/(loss) for the year	–	–	–	–	388,447	–	388,447	(12,524)	375,923
Total income and expense for the year	–	–	–	(3,168)	388,447	–	385,279	(12,524)	372,755
Acquisition of subsidiaries	–	–	–	–	–	–	–	21,342	21,342
Contribution of capital from minority shareholders upon establishment of subsidiaries	–	–	–	–	–	–	–	4,000	4,000
Transfer to reserves	–	–	41,573	–	(41,573)	–	–	–	–
Dividend									
– 2007 final proposed	–	–	–	–	(182,179)	182,179	–	–	–
– 2006 final paid	–	–	–	–	–	(109,307)	(109,307)	–	(109,307)
At 31 December 2007 and 1 January 2008	728,715	2,091,022	96,355	(3,168)	588,382	182,179	3,683,485	69,729	3,753,214
Total income and expense for the year recognised directly in equity – Exchange realignment	–	–	–	(2,228)	–	–	(2,228)	–	(2,228)
Profit for the year	–	–	–	–	533,905	–	533,905	4,217	538,122
Total income and expense for the year	–	–	–	(2,228)	533,905	–	531,677	4,217	535,894
Bonus issue	728,715	(546,536)	–	–	(182,179)	–	–	–	–
Acquisition of minority interest	–	22,398	–	–	–	–	22,398	(37,398)	(15,000)
Acquisition of subsidiaries	–	–	–	–	–	–	–	312,940	312,940
Contribution of capital from minority shareholders upon establishment of subsidiaries	–	–	–	–	–	–	–	3,800	3,800
Transfer to reserves	–	–	52,423	–	(52,423)	–	–	–	–
Dividend									
– 2008 final proposed	–	–	–	–	(241,933)	241,933	–	–	–
– 2007 final paid	–	–	–	–	–	(182,179)	(182,179)	–	(182,179)
At 31 December 2008	**1,457,430**	**1,566,884**	**148,778**	**(5,396)**	**645,752**	**241,933**	**4,055,381**	**353,288**	**4,408,669**

The accompanying notes on pages 80 to 167 form an integral part of the financial statements.

Company Balance Sheet

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	**1,205,497**	849,674
Intangible assets	12	**527,551**	367,176
Interest in an associate	13	**34,650**	34,650
Interests in subsidiaries	14	**1,340,179**	606,903
Long term loans receivable	15	**382,733**	350,500
Long term deposits	16	**5,866**	4,637
Land lease prepayments	17	**47,475**	38,536
Deferred tax assets	19	**5,058**	–
Other long term assets	18	**201,532**	409,864
Total non-current assets		**3,750,541**	2,661,940
CURRENT ASSETS			
Cash and cash equivalents	20	**611,437**	1,444,949
Trade and notes receivables	21	**10,611**	16,975
Prepayments and other receivables	22	**204,105**	122,274
Inventories	23	**215,303**	227,956
Short term loans receivable	15	**276,500**	195,982
Equity investments at fair value through profit or loss	24	**522**	–
Held-to-maturity investments	25	**140,000**	–
Derivative financial instruments	5	**–**	38,686
Total current assets		**1,458,478**	2,046,822
CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	26	**451,400**	201,400
Trade payables	27	**169,305**	210,990
Other payables and accruals	28	**137,910**	105,502
Provisions	29	**11,112**	9,287
Tax payable		**89,976**	177,144
Dividend payable		**–**	16,695
Total current liabilities		**859,703**	721,018
NET CURRENT ASSETS		**598,775**	1,325,804
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,349,316**	3,987,744

The accompanying notes on pages 80 to 167 form an integral part of the financial statements.

Company Balance Sheet

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	26	**7,790**	7,790
Provisions	29	**48,769**	41,361
Deferred income	30	**34,352**	24,191
Deferred tax liabilities	19	**–**	1,829
Total non-current liabilities		**90,911**	75,171
NET ASSETS		**4,258,405**	3,912,573
EQUITY			
Issued share capital	31	**1,457,430**	728,715
Reserves	32	**2,559,042**	3,001,679
Proposed final dividend	9	**241,933**	182,179
Total equity		**4,258,405**	3,912,573

Lu Dongshang
(Director)

Wang Peifu
(Director)

The accompanying notes on pages 80 to 167 form an integral part of the financial statements.

Notes to Financial Statements

31 December 2008

1. Corporate Reorganisation and Information

The Company was established as a joint stock limited liability company under the Company Law of the People's Republic of China (the "PRC") on 16 April 2004 to take over and operate certain businesses of mining, processing, smelting and selling gold and silver products.

In December 2006, the Company issued 198.7 million new H shares to the public at a price of HK$12.68 per share (equivalent to approximately RMB12.74 per share) and the H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "IPO"). In addition, 19.8 million H shares converted from certain domestic shares were transferred to the National Council for the Social Security Fund.

During the year, the Company and its subsidiaries were principally engaged in the exploration, mining, processing and smelting of gold and the sale of gold products in the PRC. In addition, the Company processed and sold silver in the PRC. During the year, the Company acquired entities which have copper mines and processing facilities. The registered office of the Company is located at 299 Jinhui Road, Zhaoyuan, Shandong, China.

Prior to the IPO, the parent and ultimate controlling party of the Company was Shandong Zhaojin Group Company Limited ("Zhaojin Group"), a state-owned enterprise established in the PRC. Subsequent to the IPO, the Company does not have a parent or ultimate controlling party. However, Zhaojin Group is in a position to exercise significant influence over the Company.

2.1 Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

These financial statements are presented in Renminbi ("RMB"), with values rounded to the nearest thousand, and have been prepared under the historical cost convention, except for derivative financial instruments and certain equity investments, which have been measured at fair value.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2008. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Notes to Financial Statements

31 December 2008

2.1 Basis of Preparation (Continued)

Basis of consolidation (Continued)

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as an equity transaction.

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year's financial statements. Except as outlined below, the adoption of these new interpretations and amendments has had no significant effect on these financial statements.

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurements* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*
HK(IFRIC)-Int11	HKFRS 2 – *Group and Treasury Share Transactions*
HK(IFRIC)-Int 12	*Service Concession Arrangements*
HK(IFRIC)-Int 14	HKAS 19 – *The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

Notes to Financial Statements

31 December 2008

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards (Continued)

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets*

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held-to-maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

Notes to Financial Statements

31 December 2008

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards (Continued)

(b) HK(IFRIC)-Int 11 HKFRS 2 – *Group and Treasury Share Transactions*

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group buys the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addressed the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

(c) HK(IFRIC)-Int 12 *Service Concession Arrangements*

HK(IFRIC)-Int 12 applies to service concession operators and explains how to account for obligations undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has had no impact on the Group.

(d) HK(IFRIC)-Int 14 HKAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

HK(IFRIC)-Int 14 addresses guidance on how to assess the limit under HKAS 19 *Employee Benefits*, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, including situations when a minimum funding requirement exists. As the Group has no defined benefit schemes, the interpretation has no impact on the Group.

Notes to Financial Statements

31 December 2008

2.3 Impact of Issued but not yet Effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*[1]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*[1]
HKFRS 1 (Revised)	*First-time Adoption of HKFRS*
HKFRS 3 (Revised)	*Business Combinations*[2]
HKFRS 8	*Operating Segments*[1]
HKAS 1 (Revised)	*Presentation of Financial Statements*[1]
HKAS 23 (Revised)	*Borrowing Costs*[1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Statements: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*[1]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instrument: Recognition and Measurement – Eligible Hedged Items*[2]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*[3]
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*[1]
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*[4]
HK(IFRIC)-Int 17	*Distribution of Non-cash Assets to Owners*[2]
HK(IFRIC)-Int 18	*Transfer of Assets from customers*[5]

Apart from the above, the HKICPA has issued Improvements to HKFRSs* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to HKFRS 5 which is effective for annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 October 2008
5 Effective for transfers of assets from customers received on or after 1 July 2009
* Improvements to HKFRSs contains amendments to HKFRS 5, HKAS 1, HKAS 7, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

Notes to Financial Statements

31 December 2008

2.3 Impact of Issued but not yet Effective Hong Kong Financial Reporting Standards (Continued)

The HKAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the separate financial statements. The amendment is applied prospectively only. The HKFRS 1 Amendment allows a first-time adopter of HKFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost of either fair value or the carrying amount under the previous accounting practice in the separate financial statement. The Group expects to adopt the HKAS 27 Amendment from 1 January 2009. The amendments have no impact on the consolidated financial statements. As the Group is not a first-time adopter of HKFRSs, the HKFRS 1 Amendment is not applicable to the Group.

The HKFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. The Group has not entered into any share-based payment schemes with non-vesting conditions attached and, therefore, the amendments are unlikely to have any significant implications on its accounting for share-based payments.

HKFRS 1 (Revised) was issued in December 2008 and shall be applied for financial years beginning on or after 1 July 2009. The purpose of the revision is to improve the structure of the standard and there are no changes to the substance of accounting by first-time adopters. The adoption of the revised standard will have no impact on the financial position or performance of the Group.

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rate*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The Group expects to adopt HKFRS 3 (Revised) and HKAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect future acquisitions, loss of control and transactions with minority interests.

HKFRS 8, which will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

Notes to Financial Statements

31 December 2008

2.3 Impact of Issued but not yet Effective Hong Kong Financial Reporting Standards (Continued)

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group expects to adopt HKAS 1 (Revised) from 1 January 2009.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional provisions in the revised standard, the Group shall apply the revised standard on a prospective basis to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.

The HKAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfill a number of specified features. HKAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the amendments are unlikely to have any financial impact on the Group.

The amendment to HKAS 39 addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. As the Group has not entered into any such hedges, the amendment is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty awards credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no customer loyalty award scheme, the interpretation is not applicable to the Group and therefore is unlikely to have any financial impact on the Group.

Notes to Financial Statements

31 December 2008

2.3 Impact of Issued but not yet Effective Hong Kong Financial Reporting Standards (Continued)

HK(IFRIC)-Int 15 will replace HK Interpretation 3 *Revenue – Pre-completion Contracts for the Sales of Development Properties*. It clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with HKAS 11 *Construction Contracts* or an agreement for the sale of goods or service in accordance with HKAS 18 Revenue. As the Group currently is not involved in any construction of real estate, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 17 standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The Group expects to apply the interpretation from 1 January 2010 prospectively. The interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to HKAS 10 *Events after the Balance Sheet Date* and HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation is unlikely to have any material financial impact on the Group.

HK(IFRIC)-Int 18 applies to the accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. Agreements within the scope of this Interpretation are agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both. This interpretation also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment and the entity must then use the item of property, plant and equipment either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both. As the Group currently has no assets transferred from customers, the interpretation is unlikely to have any financial impact on the Group.

Notes to Financial Statements

31 December 2008

2.3 Impact of Issued but not yet Effective Hong Kong Financial Reporting Standards (Continued)

In October 2008, the HKICPA issued its first *Improvements to HKFRSs* which sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2009. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group.

2.4 Summary of Significant Accounting Policies

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of an associate is included in the consolidated income statement and consolidated reserves, respectively. The Group's interest in an associate are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Unrealised gains and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in an associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

The results of associate are included in the Company's income statement to the extent of dividends received and receivable. The Company's interest in an associate are treated as a non-current asset and is stated at cost less any impairment losses.

Notes to Financial Statements

31 December 2008

2.4 Summary of Significant Accounting Policies (Continued)

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Notes to Financial Statements

31 December 2008

2.4 Summary of Significant Accounting Policies (Continued)

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depending on the nature of the item of property, plant and equipment, depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life, taking into account its estimated residual value or it is calculated using the Units of Production ("UOP") basis to write off the cost of the asset proportionate to the extraction of the proven and probable mineral reserves.

Notes to Financial Statements

31 December 2008

2.4 Summary of Significant Accounting Policies (Continued)

Property, plant and equipment and depreciation (Continued)

The estimated useful lives of property, plant and equipment are as follows:

Buildings	Mine life for mine specific, 15 to 30 years for non-mine specific
Plant and machinery	10 years
Office equipment	5 years
Motor vehicles	6 years

Included in property, plant and equipment is mining infrastructure located at the mining sites. Depreciation is provided to write off the cost of the mining infrastructure using the UOP method based on the proven and probable mineral reserves.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made in respect of these assets.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents property, plant and equipment under construction and pending installation including mining infrastructure, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Notes to Financial Statements

31 December 2008

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of non-financial assets

The Group assesses at each balance sheet date whether there is an indication that an asset may be impaired. Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, goodwill and financial assets (financial assets in this context do not include investments in subsidiaries and an associate)), the Group makes an estimate of the asset's or cash-generating unit's recoverable amount. An asset's recoverable amount is the higher of fair value less costs to sell and value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case it is determined for a cash-generating unit to which the asset belongs.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount, provided that the increased amount cannot exceed the carrying amount that would have been determined, net of depreciation/amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statement in the period in which it arises.

After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Notes to Financial Statements

31 December 2008

2.4 Summary of Significant Accounting Policies (Continued)

Leases

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases are charged to the consolidated income statement on the straight-line basis over the lease terms.

Land lease prepayments

Land lease prepayments represent the purchase cost of land use rights in the PRC. Land use rights are stated at cost less accumulated amortisation and any accumulated impairment losses and are amortised on the straight-line basis over the shorter of the unexpired period of the rights and the mine lives.

Intangible assets

Mining rights and reserves

Mining rights and reserves are stated at cost less accumulated amortisation and any impairment losses. Mining rights and reserves include the cost of acquiring mining licences and exploration and evaluation costs transferred from exploration rights and assets upon determination that an exploration property is capable of commercial production, and the cost of acquiring interests in the mining reserves of existing mining properties. The mining rights and reserves are amortised over the estimated useful lives of the mines, ranging from 2 to 32 years, in accordance with the production plans of the entities concerned and the proven and probable mineral reserves of the mines using the UOP method. Mining rights and reserves are written off to the consolidated income statement if the mining property is abandoned.

Exploration rights and assets

Exploration rights and assets are stated at cost less impairment losses. Exploration rights and assets include the cost of acquiring exploration rights, topographical and geological surveys, exploratory drilling, sampling and trenching and activities in relation to commercial and technical feasibility studies, and amortisation and depreciation charges in respect of assets consumed during the exploration activities.

Exploration rights are amortised over the term of the rights from two to three years. Equipment used in exploration is depreciated over its useful life of ten years, or, if dedicated to a particular exploration project, over the life of the project, whichever is shorter. Amortisation and depreciation is included, in the first instance, in exploration rights and assets.

Notes to Financial Statements

31 December 2008

2.4 Summary of Significant Accounting Policies (Continued)

Intangible assets (Continued)

Exploration rights and assets (Continued)

Exploration and evaluation costs include expenditure incurred to secure further mineralisation in existing ore bodies as well as in new areas of interest. Expenditure incurred prior to accruing legal rights to explore an area is written off as incurred.

When it can be reasonably ascertained that an exploration property is capable of commercial production, exploration and evaluation costs capitalised are transferred to either mining infrastructure or mining rights and reserves and depreciated/amortised by the UOP method based on the proven and probable mineral reserves. Costs incurred for exploration which can be directly attributable to the development of mining infrastructure are transferred to mining infrastructure when the exploration reaches the stage of commercial production. All other costs will be transferred to mining rights and reserves. Exploration rights and assets are written off to the consolidated income statement if the exploration property is abandoned.

Investments and other financial assets

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and held-to-maturity investments, as appropriate. 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.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Notes to Financial Statements

31 December 2008

2.4 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets (Continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on investments held for trading are recognised in the consolidated income statement. The net fair value gain or loss recognised in the consolidated income statement does not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models.

Notes to Financial Statements

31 December 2008

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost 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 flows (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 carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the consolidated income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a 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 by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Notes to Financial Statements

31 December 2008

2.4 Summary of Significant Accounting Policies (Continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

– the rights to receive cash flows from the asset have expired;

– the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

– the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, an amount due to a related party and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the consolidated income statement.

Gain and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the amortisation process.

Notes to Financial Statements

31 December 2008

2.4 Summary of Significant Accounting Policies (Continued)

Financial guarantee contracts

Financial guarantee contracts within the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value less transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the balance sheet date; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When 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 a recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts and gold forward contracts to hedge its risks associated with foreign currency and gold price fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the consolidated income statement.

None of the derivative financial instruments held by the Group qualifies for hedge accounting.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

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

Notes to Financial Statements

31 December 2008

2.4 Summary of Significant Accounting Policies (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, cost comprises direct materials, direct labour, and an appropriate proportion of overheads.

By-products arising during the course of production are allocated a share of production costs.

Net realisable value is based on estimated selling price less all further costs expected to be incurred to completion and disposal.

Trade and other payables

Liabilities for trade and other payables which are normally settled on credit terms ranging from 30 to 60 days are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

The Company provides tolling services to process concentrates for third parties. The Company recognises a liability for the value of gold or silver which it contracts to deliver to the customer, at the market value of the product, in recognition of its obligations under the tolling contracts. A corresponding asset is included in inventories. Upon delivery of the processed product, the asset is offset against the liability. As the Company has no ownership interest in the concentrates processed, these transactions are not brought to accounts as sales and purchases. Instead, the Company recognises the processing fees earned.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost in the consolidated income statement.

Notes to Financial Statements

31 December 2008

2.4 Summary of Significant Accounting Policies (Continued)

Provisions (Continued)

Provisions for the Group's obligations for land reclamation are based on estimates of required expenditure at the mines in accordance with PRC rules and regulations. The Group estimates its liabilities for final reclamation and mine closure based upon detailed calculations of the amount and timing of the future cash expenditure to perform the required work. Spending estimates are escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability such that the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation. The Group records a corresponding asset in the period in which the liability is incurred. The asset is depreciated using the UOP method over its expected life and the liability is accreted to the projected expenditure date. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation and asset are recognised at the appropriate discount rate.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) revenue from the sale of goods, when all conditions of sales have been met, the significant risks and rewards of ownership have been transferred to the buyer and title has passed, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) processing income, when the relevant services have been rendered;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(d) dividend income, when the shareholders' right to receive payment has been established.

Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred.

Notes to Financial Statements

31 December 2008

2.4 Summary of Significant Accounting Policies (Continued)

Government grants

Government grants are recognised at their fair values where there is reasonable assurance that the grant will be received and that all attaching conditions will be complied with. Where the grant relates to an expense item, it is recognised as income over the periods necessary to match it on a systematic basis to the costs which it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated income statement over the expected useful life of the relevant asset by equal annual instalments.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statement or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

PRC corporate income tax is provided at rates applicable to enterprises in the PRC on the Company's and its subsidiaries' income for financial reporting purposes, as adjusted for income and expense items which are not assessable or deductible for income tax purposes.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

(a) where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(b) in respect of taxable temporary differences associated with investments in subsidiaries and an associate, where the timing of the reversal of temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Notes to Financial Statements

31 December 2008

2.4 Summary of Significant Accounting Policies (Continued)

Income tax (Continued)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carryforward of unused tax assets and unused tax credits can be utilised, except:

(a) where the deferred tax asset relates to deductible temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(b) in respect of deductible temporary differences associated with investments in subsidiaries and an associate, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Dividends

Final cash dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Notes to Financial Statements

31 December 2008

2.4 Summary of Significant Accounting Policies (Continued)

Employee benefits

Pension obligations

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

Early retirement benefits

Termination benefits are payable whenever an employee's employment is terminated involuntarily before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for the benefits. The Group recognises the liability for termination benefits when it is demonstrably committed to terminating the employment of current employees or to providing termination benefits as a result of an offer made to encourage voluntary redundancy according to a detailed formal plan without the possibility of withdrawal.

Medical benefit costs

The Group participates in government-organised defined contribution medical benefit plans, under which it pays contributions to the plans at a fixed percentage of wages and salaries of the existing full time employees in the PRC and has no further legal or constructive obligations to pay additional contributions. The contributions are charged as an expense to the consolidated income statement as incurred.

Housing fund

The Group contributes on a monthly basis to defined contribution housing fund plans organised by the PRC government. Contributions to these plans by the Group are expensed as incurred.

Notes to Financial Statements

31 December 2008

2.4 Summary of Significant Accounting Policies (Continued)

Foreign currencies

These financial statements are presented in Renminbi, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of non-PRC incorporated subsidiaries are currencies other than the Renminbi. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and their income statements are translated into Renminbi at the weighted average rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Renminbi at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Renminbi at the weighted average exchange rates for the year.

Notes to Financial Statements

31 December 2008

3. Significant Accounting Judgements and Estimates

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expense, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are disclosed below.

(a) Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. Where the actual or expected tax positions of the relevant companies of the Group in future are different from the original estimate, such differences will impact the recognition of deferred tax assets and income tax charge in the period in which such estimate has been changed. The carrying value of deferred tax assets at 31 December 2008 was approximately RMB79,257,000 (2007: RMB74,488,000). Further details are contained in note 19 to the financial statements.

(b) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2008 was RMB262,725,000 (2007: RMB131,825,000).

(c) Impairment of mining and exploration assets and property, plant and equipment

The carrying value of mining and exploration assets and property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed in note 2.4 to the financial statements. The recoverable amount of these assets, or, where appropriate, the cash generating unit to which they belong, is the higher of its fair value less costs to sell and value in use. Estimating the value in use requires the Group to estimate the expected future cash flows from the cash-generating units and to choose a suitable discount rate in order to calculate the present value of those cash flows. The aggregate carrying value of mining and exploration assets and property, plant and equipment was RMB3,732,062,000 (2007: RMB2,104,210,000).

Notes to Financial Statements

31 December 2008

3. Significant Accounting Judgements and Estimates (Continued)

Estimation uncertainty (Continued)

(d) Provisions

Provisions are based on estimates of future payments made by management and are discounted at rates in the range of 5.4% to 5.9% (2007: 7.5% to 7.8%). Changes in assumptions could significantly affect these estimates. The aggregate carrying value of provisions was RMB68,664,000 (2007: RMB60,837,000).

(e) Mine reserves

Engineering estimates of the Group's mine reserves are inherently imprecise and represent only approximate amounts because of the significant judgments involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated mine reserves can be designated as "proved" and "probable". Proved and probable mine reserve estimates are updated on regular intervals taking into account recent production and technical information about each mine. In addition, as prices and cost levels change from year to year, the estimate of proved and probable mine reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis at related depreciation rates.

4. Segment Information

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. As more than 95% of the revenue and profit from operating activities of the Group for the current year were generated from its gold and copper mining and smelting operations in the PRC, and over 98% of the assets and all the customers of the Group are located in the PRC, no further geographical segment information has been presented.

The mining business segment consists of the operations of eleven (2007: eleven) gold mines and two (2007: Nil) copper mines. Mining segment revenues are measured at the value at which gold and copper are sold into the market. Mining cost of sales includes a processing fee from the smelting business segment.

Notes to Financial Statements

31 December 2008

4. Segment Information (Continued)

The smelting business segment consists of the operations of a concentrator and smelter complex. Smelting revenues include: sales of gold, silver, sulphur and by-products from concentrates purchased from third parties; processing fees earned from the mining business segment; and tolling fees earned from third parties on whose behalf the business segment processes concentrates. The sources of gold produced in the current year were as follows:

	2008	2007
	kg	*kg*
Own mines	**7,753**	6,296
Purchase and others	**2,072**	2,082
Tolling	**7,794**	10,986
Total	**17,619**	19,364

Unallocated includes corporate activities, as well as assets, liabilities, revenue and expenses related to financing, investments (other than the interests in an associate) and taxation.

Intersegment sales are transacted under negotiated terms.

Notes to Financial Statements

31 December 2008

4. Segment Information (Continued)

The Group's operation by business segment is as follows:

Group

Year ended 31 December 2008

	Mining *RMB'000*	Smelting *RMB'000*	Inter-segment elimination *RMB'000*	Unallocated *RMB'000*	Consolidated *RMB'000*
Revenue					
Revenues from external customers	1,523,108	629,623	–	–	2,152,731
Intersegment revenue	49,312	9,089	(58,401)	–	–
Other revenue	40,232	2,072	(2,037)	18,608	58,875
Total	1,612,652	640,784	(60,438)	18,608	2,211,606
Segment results	608,404	174,375	–	(60,079)	722,700
Share of profit of an associate	2,672	–	–	–	2,672
Interest income					18,608
Fair value loss on equity interest at fair value through profit or loss					(11,796)
Finance costs					(17,468)
Foreign exchange loss					(6,577)
Income tax expense					(170,017)
Profit for the year					538,122
Assets and liabilities					
Segment assets	4,383,629	580,843	–	929,864	5,894,336
Interest in an associate	36,649	–	–	–	36,649
Total assets					5,930,985
Segment liabilities	479,253	171,428	–	871,635	1,522,316
Other segment information					
Capital expenditure	932,803	32,151	–	–	964,954
Long term assets through acquisition of subsidiaries	1,132,080	–	–	–	1,132,080
Deposit paid for acquisition of subsidiaries and property, plant and equipment	211,656	–	–	–	211,656
Impairment losses reversed in the consolidated income statement	389	–	–	–	389
Depreciation and amortisation	233,300	18,727	–	–	252,027
Exploration assets written off	29,107	–	–	–	29,107

Notes to Financial Statements

31 December 2008

4. Segment Information (Continued)

Group

Year ended 31 December 2007

	Mining RMB'000	Smelting RMB'000	Inter-segment elimination RMB'000	Unallocated RMB'000	Consolidated RMB'000
Revenue					
Revenues from external customers	1,018,892	493,381	–	–	1,512,273
Intersegment revenue	–	6,304	(6,304)	–	–
Other revenue	31,922	–	–	123,109	155,031
Total	1,050,814	499,685	(6,304)	123,109	1,667,304
Segment results	522,487	75,710	–	(50,594)	547,603
Share of profit of an associate	1,979	–	–	–	1,979
Interest income					73,578
Fair value gain on derivative financial instruments					38,686
Fair value gain on equity investments at fair value through profit or loss					10,845
Finance costs					(20,745)
Foreign exchange loss					(91,951)
Income tax expense					(184,072)
Profit for the year					375,923
Assets and liabilities					
Segment assets	2,735,546	474,565	–	1,769,789	4,979,900
Interest in an associate	33,977	–	–	–	33,977
Total assets					5,013,877
Segment liabilities	311,393	254,938	–	694,332	1,260,663
Other segment information					
Capital expenditure	187,840	69,269	–	–	257,109
Long term assets through acquisition of subsidiaries	359,474	62,092	–	–	421,566
Deposit paid for acquisition of subsidiaries and property, plant and equipment	409,864	–	–	–	409,864
Impairment losses reversed in the consolidated income statement	879	–	–	–	879
Depreciation and amortisation	112,936	14,943	–	–	127,879
Exploration assets written off	11,387	–	–	–	11,387

Notes to Financial Statements

31 December 2008

5. Revenue, Other Revenue and Gains

Revenue represents the net invoiced value of goods sold, net of trade discounts and returns and various types of government surcharges where applicable, and the value of services rendered:

	2008	2007
	RMB'000	*RMB'000*
Revenue		
Sale of goods:		
Gold	**1,835,295**	1,373,262
Silver	**44,866**	61,253
Sulphur	**112,514**	29,918
Copper	**137,897**	–
Other by-products	**14,089**	30,753
Rendering of service:		
Processing of gold and silver	**27,153**	31,479
	2,171,814	1,526,665
Less:		
Government surcharges	**(19,083)**	(14,392)
Revenue	**2,152,731**	1,512,273
Other revenue and gains		
Bank interest income	**18,608**	73,578
Sale of raw materials	**17,027**	5,197
Government grants	**6,757**	25,251
Gain on disposal of items of property, plant and equipment	**878**	631
Fair value gains, net:		
Equity investments at fair value through profit or loss	**–**	10,845
Derivative instruments – transactions not qualifying as hedges	**–**	38,686
Gains on held-to-maturity investments	**673**	–
Hotel service fees	**12,847**	–
Other gains	**2,085**	843
Other revenue and gains	**58,875**	155,031

Notes to Financial Statements

31 December 2008

6. Profit Before Tax

The Group's profit before tax is arrived at after charging/(crediting) the following:

	2008	2007
	RMB'000	*RMB'000*
Cost of inventories sold	**1,019,511**	712,618
Interest on bank and other borrowings	**14,049**	16,525
Total interest expense on financial liabilities not at fair value through profit or loss	**14,049**	16,525
Incremental interest on provisions	**3,260**	4,112
Bank charges and other finance costs	**159**	108
Financial costs	**17,468**	20,745
Staff costs (including directors' emoluments as set out in note 7):		
Wages and salaries (including directors' remuneration)	**195,878**	184,173
Early retirement benefits	**18,129**	14,280
Defined contribution fund:		
– Retirement costs	**32,850**	24,834
Other staff benefits	**29,120**	16,238
Total staff costs	**275,977**	239,525
Foreign exchange loss	**6,577**	91,951
Auditors' remuneration	**2,300**	1,800
Amortisation of land lease prepayments*	**2,368**	2,026
Amortisation of mining rights*	**87,892**	18,205
Depreciation	**157,839**	107,648
Loss on disposal of property, plant and equipment	**1,174**	10,913
Operating lease rentals in respect of:		
– Land	**4,992**	2,411
– Office	**996**	1,748
Reversal of impairment of other receivables	**(389)**	(879)
Fair value loss:		
Derivative instruments - transactions not qualified as hedges	**38,686**	(38,686)
Exploration assets written off	**29,107**	11,387
Fair value loss, net:		
– Equity investments at fair value through profit or loss	**11,796**	–
Loss on disposal of a subsidiary (see note 37)	**15,553**	–

* *The amortisation of land lease prepayments and mining rights for the year is included in "Cost of sales" on the face of the consolidated income statement.*

Notes to Financial Statements

31 December 2008

7. Directors' and Supervisors' Emoluments

Details of the remuneration of directors and supervisors of the Company during the year are as follows:

	Note	2008 RMB'000	2007 RMB'000
Fees:			
– Non-executive directors		–	–
– Independent non-executive directors	7(b)	520	384
– Supervisors		–	–
		520	384
Salaries, allowances and benefits in kind		1,425	934
Performance related bonuses*		453	658
Pension scheme contributions		72	40
		1,950	1,632
		2,470	2,016

* *Certain directors' bonus payments are determined as a percentage of the profit after tax of the Group.*

Notes to Financial Statements

31 December 2008

7. Directors' and Supervisors' Emoluments (Continued)

(a) Executive directors, non-executive directors (excluding independent non-executive directors) and supervisors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
For the year ended 31 December 2008					
Executive directors:					
– Lu Dong Shang	–	596	180	22	798
– Wang Pei Fu	–	561	199	21	781
– Ma Yu Shan	–	200	74	21	295
	–	1,357	453	64	1,874
Non-executive directors:					
– Liang Xin Jun	–	–	–	–	–
– Wu Ping	–	–	–	–	–
– Liu Gen Dong	–	–	–	–	–
– Cong Jian Mao	–	–	–	–	–
	–	–	–	–	–
Supervisors:					
– Cheng Bing Hai	–	–	–	–	–
– Wang Xiao Jie	–	–	–	–	–
– Chu Yu Shan	–	68	–	8	76
	–	68	–	8	76
	–	1,425	453	72	1,950

Notes to Financial Statements

31 December 2008

7. Directors' and Supervisors' Emoluments (Continued)

(a) Executive directors, non-executive directors (excluding independent non-executive directors) and supervisors (Continued)

	Fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Performance related bonuses *RMB'000*	Pension scheme contributions *RMB'000*	Total *RMB'000*
For the year ended 31 December 2007					
Executive directors:					
– Lu Dong Shang	–	351	282	–	633
– Wang Pei Fu	–	302	213	20	535
– Ma Yu Shan	–	213	163	20	396
	–	866	658	40	1,564
Non-executive directors:					
– Guo Guang Chang (resigned on 16 April 2007)	–	–	–	–	–
– Liang Xin Jun (appointed on 16 April 2007)	–	–	–	–	–
– Wu Ping	–	–	–	–	–
– Liu Gen Dong	–	–	–	–	–
– Cong Jian Mao	–	–	–	–	–
	–	–	–	–	–
Supervisors:					
– Hou Wen Shan (resigned on 16 April 2007)	–	–	–	–	–
– Cheng Bing Hai	–	–	–	–	–
– Wang Xiao Jie (appointed on 16 April 2007)	–	–	–	–	–
– Chu Yu Shan	–	68	–	–	68
	–	68	–	–	68
	–	934	658	40	1,632

There was no arrangement under which a director or supervisor waived any remuneration during the year or in the previous year.

Notes to Financial Statements

31 December 2008

7. Directors' and Supervisors' Emoluments (Continued)

(b) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2008	2007
	RMB'000	*RMB'000*
Yan Hong Bo	**130**	96
Choy Sze Chung, Jojo (appointed on 22 May 2007)	**130**	67
Chen Jin Rong (appointed on 16 April 2007)	**130**	67
Ye Tian Zhu (appointed on 16 April 2007)	**130**	67
Ng Ming Wah, Charles (resigned on 16 April 2007)	**–**	29
Zhai Yu Sheng (resigned on 16 April 2007)	**–**	29
Li Ding An (resigned on 16 April 2007)	**–**	29
	520	384

There were no other emoluments payable to the independent non-executive directors during the year (2007: Nil).

(c) Five highest paid employees

The five highest paid employees during the year fall into the following categories:

	2008	2007
Directors	**2**	2
Non-director and non-supervisory employees	**3**	3
	5	5

Details of directors' remuneration are set out in notes 7(a) and 7(b) to the financial statements.

Notes to Financial Statements

31 December 2008

7. Directors' and Supervisors' Emoluments (Continued)

(c) Five highest paid employees (Continued)

Details of the remuneration of the non-director and non-supervisory, highest paid employees during the year are as follows:

	2008	2007
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**337**	803
Performance related bonuses	**947**	393
Pension scheme contribution	**41**	29
	1,325	1,225

The number of the non-director and non-supervisory, highest paid employees whose remuneration fell within the following band is as follows:

	2008	2007
Nil to HK$1,000,000 (Equivalent to RMB935,600)	**3**	3

During the year, no emoluments were paid by the Group to any of the persons who are directors of the Company, or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the persons who are directors of the Company waived or agreed to waive any emoluments during the year.

Notes to Financial Statements

31 December 2008

8. Income Tax Expense

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

PRC corporate income tax ("CIT") has been provided at a rate of 25% (2007: 33%) on the taxable income as reported in the statutory accounts of the companies comprising the Group, which are prepared in accordance with PRC GAAP, as adjusted for income and expense items which are not assessable or deductible for income tax purposes. Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. During the year, the Group has not incurred any Hong Kong profits tax.

The major components of income tax expense for the year are as follows:

	2008 *RMB'000*	2007 *RMB'000*
Group:		
PRC corporate income tax		
– Charge for the year	**190,244**	190,609
Deferred tax *(note 19)*	**(20,227)**	(6,537)
	170,017	184,072

A reconciliation of income tax expense applicable to profit before tax at the statutory income tax rate in the PRC to the income tax expense at the Group's effective income tax rate for the year is as follows:

		2008		2007	
	Note	**%**	***RMB'000***	%	*RMB'000*
Profit before tax			**708,139**		559,995
Statutory tax rate applied to profit before tax		**25.0**	**177,035**	33.0	184,798
Reconciling items:					
Expenses not deductible for tax		**1.1**	**7,591**	0.2	1,021
Tax losses not recognised	*(i)*	**1.5**	**11,027**	1.4	7,924
Income not subject to tax		**(3.2)**	**(22,828)**	(1.3)	(7,322)
Credit for capital expenditure		**–**	**–**	(0.5)	(3,000)
Effect on deferred taxes of reduction in tax rate		**–**	**–**	(0.1)	(262)
Others		**(0.4)**	**(2,808)**	0.2	913
Total tax charge for the year		**24.0**	**170,017**	32.9	184,072

Notes to Financial Statements

31 December 2008

8. Income Tax Expense (Continued)

(i) Accumulated unused tax losses of approximately RMB66 million arising from subsidiaries of the Group has not been recognised as deferred tax assets in the financial statements as it is not probable that the subsidiaries will generate future taxable income to utilise the tax benefits. The unused tax losses will expire within five years.

9. Dividends

	2008	2007
	RMB'000	*RMB'000*
Ordinary:		
Proposed final – RMB0.166 per share (2007: RMB0.25 per share)	**241,933**	182,179

Board recommends a cash dividend to all shareholders on the basis of RMB0.166 per share. (2007: RMB0.25 per share).

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Notes to Financial Statements

31 December 2008

10. Earnings Per Share

The calculation of basic earnings per share ("EPS") amounts is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year as adjusted to reflect the bonus issue during the year as adjusted to reflect the bonus issue during the year.

Diluted earnings per share for the years ended 31 December 2008 and 2007 have not been disclosed as no diluting events existed during these years.

The calculation of basic earnings per share is based on:

	2008 ***RMB'000***	2007 *RMB'000*
Earnings:		
Profit attributable to equity holders of the Company	**533,905**	388,447

	2008 ***'000***	2007 *'000*
Shares:		
Weighted average number of ordinary shares in issue during the year	**1,457,430**	1,457,430

	2008 ***RMB***	2007 *RMB*
Basic earnings per share attributable to ordinary equity holders of the Company	**0.37**	0.27

The above EPS calculation for 2007 has been restated to take into account the bonus issue of shares during the year ended 31 December 2008 (see note 32).

Notes to Financial Statements

31 December 2008

11. Property, Plant and Equipment

Group

31 December 2008

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Mining infrastructure RMB'000	Construction in progress (CIP) RMB'000	Total RMB'000
Cost:							
At 1 January 2008	482,571	340,370	33,806	63,574	880,867	166,553	1,967,741
Additions	63,240	37,434	5,376	10,201	88,704	458,481	663,436
Transferred from CIP	66,474	84,837	2,877	2,171	93,138	(249,497)	–
Transferred from exploration assets	–	–	–	–	12,152	–	12,152
Acquisition of subsidiaries	44,520	25,257	128	3,061	142,672	9,448	225,086
Disposal of a subsidiary	(9,606)	(3,330)	(109)	(1,174)	(756)	(35)	(15,010)
Disposals/written off	(697)	(3,305)	(429)	(4,137)	(2,261)	(13,237)	(24,066)
At 31 December 2008	**646,502**	**481,263**	**41,649**	**73,696**	**1,214,516**	**371,713**	**2,829,339**
Accumulated depreciation:							
At 1 January 2008	154,077	119,925	15,485	34,762	207,357	–	531,606
Charge for the year	25,596	41,097	6,528	9,436	75,182	–	157,839
Acquisition of subsidiaries	129	18	3	6	–	–	156
Disposals of a subsidiary	(473)	(1,355)	(33)	(327)	(73)	–	(2,261)
Disposals/written off	(377)	(2,193)	(390)	(1,751)	(1,217)	–	(5,928)
At 31 December 2008	**178,952**	**157,492**	**21,593**	**42,126**	**281,249**	**–**	**681,412**
Net book value:							
At 31 December 2008	**467,550**	**323,771**	**20,056**	**31,570**	**933,267**	**371,713**	**2,147,927**

Notes to Financial Statements

31 December 2008

11. Property, Plant and Equipment (Continued)

Group

31 December 2007

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Mining infrastructure RMB'000	Construction in progress (CIP) RMB'000	Total RMB'000
Cost:							
At 1 January 2007	412,540	293,048	23,883	52,214	757,731	56,145	1,595,561
Additions	17,919	11,329	7,421	8,760	10,776	159,627	215,832
Transferred from CIP	35,030	19,742	1,480	734	62,517	(119,503)	–
Transferred from exploration assets	–	–	–	–	22,287	–	22,287
Acquisition of subsidiaries	23,722	28,832	2,161	6,669	32,131	74,827	168,342
Disposals/written off	(6,640)	(12,581)	(1,139)	(4,803)	(4,575)	(4,543)	(34,281)
At 31 December 2007	482,571	340,370	33,806	63,574	880,867	166,553	1,967,741
Accumulated depreciation:							
At 1 January 2007	126,360	91,294	10,141	29,061	160,717	–	417,573
Charge for the year	24,016	29,768	5,707	7,298	40,859	–	107,648
Acquisition of subsidiaries	5,429	6,115	572	1,765	8,700	–	22,581
Disposals/written off	(1,728)	(7,252)	(935)	(3,362)	(2,919)	–	(16,196)
At 31 December 2007	154,077	119,925	15,485	34,762	207,357	–	531,606
Net book value:							
At 31 December 2007	328,494	220,445	18,321	28,812	673,510	166,553	1,436,135

Notes to Financial Statements

31 December 2008

11. Property, Plant and Equipment (Continued)

Company

31 December 2008

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Office equipment *RMB'000*	Motor vehicles *RMB'000*	Mining infrastructure *RMB'000*	Construction in progress (CIP) *RMB'000*	Total *RMB'000*
Cost:							
At 1 January 2008	347,158	273,377	26,260	47,037	496,603	80,781	1,271,216
Additions	43,758	17,876	3,393	2,634	31,413	345,332	444,406
Transferred from CIP	30,900	47,574	2,847	2,080	36,441	(119,842)	–
Transferred from exploration assets	–	–	–	–	12,152	–	12,152
Disposals/written off	(591)	(1,557)	(385)	(1,219)	(1,403)	(13,123)	(18,278)
At 31 December 2008	**421,225**	**337,270**	**32,115**	**50,532**	**575,206**	**293,148**	**1,709,496**
Accumulated depreciation:							
At 1 January 2008	118,848	101,016	12,387	29,485	159,806	–	421,542
Charge for the year	16,833	25,438	5,159	5,135	34,121	–	86,686
Disposals/written off	(371)	(1,481)	(355)	(851)	(1,171)	–	(4,229)
At 31 December 2008	**135,310**	**124,973**	**17,191**	**33,769**	**192,756**	**–**	**503,999**
Net book value:							
At 31 December 2008	**285,915**	**212,297**	**14,924**	**16,763**	**382,450**	**293,148**	**1,205,497**

Notes to Financial Statements

31 December 2008

11. Property, Plant and Equipment (Continued)

Company

31 December 2007

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Mining infrastructure RMB'000	Construction in progress (CIP) RMB'000	Total RMB'000
Cost:							
At 1 January 2007	316,963	260,405	19,178	46,433	456,058	51,603	1,150,640
Additions	3,935	3,043	6,759	2,467	10,300	99,234	125,738
Transferred from CIP	29,305	18,466	1,348	734	20,203	(70,056)	–
Transferred from exploration assets	–	–	–	–	14,577	–	14,577
Disposals/written off	(3,045)	(8,537)	(1,025)	(2,597)	(4,535)	–	(19,739)
At 31 December 2007	347,158	273,377	26,260	47,037	496,603	80,781	1,271,216
Accumulated depreciation:							
At 1 January 2007	105,579	85,493	8,472	27,156	137,984	–	364,684
Charge for the year	14,972	22,298	4,809	4,848	24,741	–	71,668
Disposals/written off	(1,703)	(6,775)	(894)	(2,519)	(2,919)	–	(14,810)
At 31 December 2007	118,848	101,016	12,387	29,485	159,806	–	421,542
Net book value:							
At 31 December 2007	228,310	172,361	13,873	17,552	336,797	80,781	849,674

Notes to Financial Statements

31 December 2008

12. Intangible Assets

Group

31 December 2008

	Exploration rights and assets RMB'000	Mining rights and reserves RMB'000	Goodwill RMB'000	Total RMB'000
Cost:				
At 1 January 2008	**125,681**	**620,196**	**131,825**	**877,702**
Additions	**259,386**	**31,555**	**–**	**290,941**
Capitalisation of amortisation	**3,928**	**–**	**–**	**3,928**
Acquisition of subsidiaries	**361,238**	**415,012**	**130,900**	**907,150**
Write-off	**(29,107)**	**–**	**–**	**(29,107)**
Transferred to property, plant and equipment	**(12,152)**	**–**	**–**	**(12,152)**
Disposals of a subsidiary	**–**	**(22,343)**	**–**	**(22,343)**
At 31 December 2008	**708,974**	**1,044,420**	**262,725**	**2,016,119**
Accumulated amortisation:				
At 1 January 2008	**19,183**	**58,619**	**–**	**77,802**
Provided during the year	**3,928**	**87,892**	**–**	**91,820**
Disposals of a subsidiary	**–**	**(363)**	**–**	**(363)**
At 31 December 2008	**23,111**	**146,148**	**–**	**169,259**
Net book value:				
At 31 December 2008	**685,863**	**898,272**	**262,725**	**1,846,860**

31 December 2007

	Exploration rights and assets RMB'000	Mining rights and reserves RMB'000	Goodwill RMB'000	Total RMB'000
Cost:				
At 1 January 2007	44,582	491,356	70,086	606,024
Additions	38,723	–	–	38,723
Capitalisation of amortisation	3,274	–	–	3,274
Acquisition of subsidiaries	72,776	128,840	61,739	263,355
Write-off	(11,387)	–	–	(11,387)
Transferred to property, plant and equipment	(22,287)	–	–	(22,287)
At 31 December 2007	125,681	620,196	131,825	877,702
Accumulated amortisation:				
At 1 January 2007	15,909	39,436	–	55,345
Acquisition of subsidiaries	–	978	–	978
Provided during the year	3,274	18,205	–	21,479
At 31 December 2007	19,183	58,619	–	77,802
Net book value:				
At 31 December 2007	106,498	561,577	131,825	799,900

Notes to Financial Statements

31 December 2008

12. Intangible Assets (Continued)

Company

31 December 2008

	Exploration rights and assets *RMB'000*	Mining rights and reserves *RMB'000*	Total *RMB'000*
Cost:			
At 1 January 2008	**52,739**	**414,919**	**467,658**
Additions	**194,056**	**26,143**	**220,199**
Write-off	**(27,507)**	**–**	**(27,507)**
Transferred to property, plant and equipment	**(12,152)**	**–**	**(12,152)**
At 31 December 2008	**207,136**	**441,062**	**648,198**
Accumulated amortisation:			
At 1 January 2008	**15,909**	**84,573**	**100,482**
Provided during the year	**–**	**20,165**	**20,165**
At 31 December 2008	**15,909**	**104,738**	**120,647**
Net book value:			
At 31 December 2008	**191,227**	**336,324**	**527,551**
31 December 2007			
Cost:			
At 1 January 2007	34,841	414,919	449,760
Additions	37,977	–	37,977
Write-off	(5,502)	–	(5,502)
Transferred to property, plant and equipment	(14,577)	–	(14,577)
At 31 December 2007	52,739	414,919	467,658
Accumulated amortisation:			
At 1 January 2007	15,909	62,989	78,898
Provided during the year	–	21,584	21,584
At 31 December 2007	15,909	84,573	100,482
Net book value:			
At 31 December 2007	36,830	330,346	367,176

Notes to Financial Statements

31 December 2008

12. Intangible Assets (Continued)

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the cash-generating units of the respective subsidiaries.

For the purpose of impairment testing, the recoverable amounts of the cash-generating units has been determined based on a value in use calculation using cash flow projections based on financial budgets covering the estimated mine lives, and approved by senior management. At 31 December 2008, the discount rate applied to cash flow projections is a real rate of 8.75% (2007: 10%).

Key assumptions used in the value in use calculation for 31 December 2008 and 31 December 2007 are as follows:

Revenues

The basis used to determine the values assigned to the future revenues is the estimated annual mine output based on mine designed capacity at expected future commodity prices.

Mining costs

The basis used to determine the values assigned to the mining costs is the input requirements in the long term mine plan at real unit costs.

Commodity price

Future commodity prices in the valuation model are estimated by management based on their industry experience, historic price trends and independent expert reports and commentaries.

Discount rates

The discount rates used are based on a weighted average cost of capital, and are real rates, before tax reflecting specific risks relating to the relevant cash generating units.

13. Interest in an Associate

Group

	2008	2007
	RMB'000	*RMB'000*
Share of net assets	**36,649**	33,977

Company

	2008	2007
	RMB'000	*RMB'000*
Unlisted shares, at cost	**34,650**	34,650

Notes to Financial Statements

31 December 2008

13. Interest in an Associate (Continued)

Particulars of the associate are as follows:

Company name	**Place and date of establishment**	**Paid-up/ registered capital** *RMB'000*	**Percentage of equity interest directly attributable to the Group 2008**	**Principal activities**
Aletai Zhengyuan International Mining Company Limited (阿勒泰正元國際礦業有限公司)	PRC 20 May 2005	90,000	38.5%	Mining and processing of gold products

The percentages of the Company's voting power held and profit sharing are both 38.5% (2007: 38.5%).

The following table illustrates the summarised financial information of the Group's associate extracted from its management accounts:

	2008 *RMB'000*	2007 *RMB'000*
Assets	**98,923**	90,630
Liabilities	**3,731**	2,378
Revenue	**44,393**	15,064
Profit	**6,940**	5,141

14. Interests in Subsidiaries

Company

	2008 *RMB'000*	2007 *RMB'000*
Unlisted shares, at cost	**1,340,179**	606,903

Notes to Financial Statements

31 December 2008

14. Interests in Subsidiaries (Continued)

Particulars of the subsidiaries are as follows:

Company name	Place and date of incorporation/ registration and operations	Nominal value of paid-up/ registered capital *RMB'000*	Percentage of equity interest attributable to the Company Direct %	Indirect %	Principal activities
Zhaoyuan Jintingling Mining Industry Company Limited (招遠市金亭嶺礦業有限公司)	PRC/Mainland China 10 October 2002	45,000	100	–	Mining and processing of gold products
Hainan Dongfang Zhaojin Mining Industry Company Limited (海南東方招金礦業有限公司)	PRC/Mainland China 13 May 2004	5,800	95	–	Mining and processing of gold products
Minxian Tianhao Gold Company Limited (岷縣天昊黃金有限責任公司)	PRC/Mainland China 16 May 2001	46,670	100	–	Mining and processing of gold products
Tuoli Zhaojin Beijiang Mining Company Limited ("TZB") (托里縣招金北疆礦業有限公司)	PRC/Mainland China 16 April 2004	10,000	100	–	Mining and processing of gold products
Subsidiary of TZB:					
Kunhe Zhaojin Mining Company Limited (阿勒泰市招金混合礦業有限公司)	PRC/Mainland China 27 August 2007	10,000	–	70	Mining and processing of gold products
Xinjiang Xingta Mining Company Limited (新疆星塔礦業有限公司)	PRC/Mainland China 24 November 2005	160,000	100	–	Smelting of gold products
Fukang Mining Industry Company Limited (富康礦業有限公司)	PRC/Mainland China 16 August 2002	6,680	100	–	Mining and processing of gold products
Huabei Zhaojin Mining Investment Company Limited ("HZMI") (華北招金礦業投資有限公司)	PRC/Mainland China 20 June 2007	50,000	100	–	Investment holdings
Subsidiaries of HZMI:					
Heilongjiang Zhaojin Mining Company Limited (黑龍江招金礦業開發有限公司)	PRC/Mainland China 10 September 2007	10,000	–	70	Investment holdings
Beijing Zhongse Mining Technology Company Limited (北京中色鴻鑫礦業科技有限責任公司)	PRC/Mainland China 26 September 2007	10,000	–	90	Investment holdings

Notes to Financial Statements

31 December 2008

14. Interests in Subsidiaries (Continued)

Company name	Place and date of incorporation/ registration and operations	Nominal value of paid-up/ registered capital RMB'000	Percentage of equity interest attributable to the Company Direct %	Indirect %	Principal activities
Gansu Zhaojin Mining Company Limited ("GSZJ") (甘肅招金礦業有限公司)	PRC/Mainland China 14 August 2007	10,000	100	–	Investment holdings
Subsidiaries of GSZJ:					
Liangdang Zhaojin Mining Industry Company Limited (兩當縣招金礦業有限公司)**	PRC/Mainland China 28 March 2008	6,000	–	55	Mining and processing of gold products
Sparky International Trade Company Limited ("SIT") (斯派柯國際貿易有限公司)	Hong Kong 31 May 2007	68,598	100	–	Purchase gold concentrates from outside China
Subsidiaries of SIT:					
Yunnan Sparton Company Limited (雲南斯帕頓礦業有限公司)	PRC/Mainland China 5 April 2004	19,354	–	51	Exploration of minerals
Starry Company Limited (滿天星股份有限公司)	British Virgin Islands 19 July 2006	1	–	100	Investment holding
Fengningjinlong Mining Company Limited ("FNJL") (豐寧金龍黃金工業有限公司)*	PRC/Mainland China 14 September 2000	94,519	52	–	Mining, smelting and processing of gold products
Jiashi Tonghui Mining Company Limited (伽師縣銅輝礦業有限責任公司)*	PRC/Mainland China 5 January 2004	5,000	51	–	Mining and selling of copper products
Kashi Area Xinxin Mining Industry Company Limited (喀什地區新鑫礦業有限公司)*	PRC/Mainland China 26 June 2000	4,000	51	25	Mining and processing of copper products
Xinjiang Xinhui Copper Company Limited (新疆鑫慧銅業有限公司)*	PRC/Mainland China 16 November 2006	30,000	51	–	Smelting of copper products

The above subsidiaries incorporated/established in the PRC are registered as companies with limited liability under PRC law.

* *Details of the acquisition of subsidiaries are included in note 36 to the financial statements.*

** *During the year, the Company's subsidiary subscribed for equity investments at a total consideration of RMB3,300,000 on the formation of the respective company.*

Notes to Financial Statements

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15. Loans Receivable

Company

	2008 RMB'000	2007 RMB'000
Entrustment loans receivable	**659,233**	546,482
Less: Due within 12 months	**(276,500)**	(195,982)
Due after 12 months	**382,733**	350,500

The Company entered into entrustment loan agreements with its subsidiaries and a bank. Pursuant to the entrustment loan agreements, the Company extended loans to subsidiaries through the bank. The loans are unsecured, bear fixed interest rates ranging from 4.86% to 8.69% per annum and have fixed repayment dates in 2009 and 2010.

The fair value of loans receivable with a carrying value of RMB659,233,000 (2007: RMB546,482,000) was RMB677,139,000 (2007: RMB553,414,000) at the balance sheet date and has been calculated by discounting the expected future cash flows at prevailing interest rates.

16. Long Term Deposits

Long term deposits represent utilities and environmental rehabilitation deposits paid to service providers and the government respectively. The amounts are not expected to be refunded within the next twelve months.

17. Land Lease Prepayments

Group

	2008 RMB'000	2007 RMB'000
At cost:		
At beginning of year	**78,040**	62,033
Additions during the year	**10,577**	2,554
Acquisition of subsidiaries	**–**	13,453
At end of year	**88,617**	78,040
Accumulated amortisation:		
At beginning of year	**9,909**	7,858
Acquisition of subsidiaries	**–**	25
Amortisation for the year	**2,368**	2,026
At end of year	**12,277**	9,909
Net book value:		
At end of year	**76,340**	68,131

Notes to Financial Statements

31 December 2008

17. Land Lease Prepayments (Continued)

Company

	2008	2007
	RMB'000	*RMB'000*
At cost:		
At beginning of year	**44,747**	42,775
Additions during the year	**10,478**	1,972
At end of year	**55,225**	44,747
Accumulated amortisation:		
At beginning of year	**6,211**	4,962
Amortisation for the year	**1,539**	1,249
At end of year	**7,750**	6,211
Net book value:		
At end of year	**47,475**	38,536

The Group's and the Company's leasehold lands are located in the PRC. In 2004 and 2005, the Group and the Company were formally granted by the relevant PRC authorities certain rights to use the land on which the Group's factories and gold mines are erected, for periods generally ranging between 44 and 64 years from the grant date.

Group

	2008	2007
	RMB'000	*RMB'000*
Medium term	**69,325**	60,999
Long term	**7,015**	7,132
Total	**76,340**	68,131

Company

	2008	2007
	RMB'000	*RMB'000*
Medium term	**40,460**	31,404
Long term	**7,015**	7,132
Total	**47,475**	38,536

Notes to Financial Statements

31 December 2008

18. Other Long Term Assets

Group

	2008	2007
	RMB'000	*RMB'000*
Deposits paid for the purchase of subsidiaries	**125,000**	399,981
Advance payment for the purchase of property, plant and equipment	**86,656**	9,883
Prepayment for long term assets	**211,656**	409,864

Company

	2008	2007
	RMB'000	*RMB'000*
Deposits paid for the purchase of subsidiaries	**125,000**	399,981
Advance payment for the purchase of property, plant and equipment	**76,532**	9,883
Prepayment for long term assets	**201,532**	409,864

During the year, the Company placed deposits amounting to RMB125 million to acquire a number of subsidiaries. As at 31 December 2008, the acquisitions have not been completed, pending completion of due diligence.

Notes to Financial Statements

31 December 2008

19. Deferred Tax

The movements in deferred tax assets and liabilities are as follows:

Group

31 December 2008

	At 1 January RMB'000	(note 8) (Charged)/ credited to consolidated income statement RMB'000	Arising on acquisition RMB'000	Disposal of a subsidiary RMB'000	Others RMB'000	At 31 December RMB'000
Deferred tax assets:						
Income received on share application funds	(12,032)	4,408	–	–	–	(7,624)
Excess tax depreciation over book value						
– Intangible assets	49,051	(8,045)	–	–	–	41,006
– Property, plant and equipment	(3,776)	(3,659)	–	–	–	(7,435)
Provision for early retirement and rehabilitation	13,839	2,415	–	–	–	19,610
Other temporary differences	27,406	9,650	–	–	–	33,700
Deferred tax assets	74,488	4,769	–	–	–	79,257
Deferred tax liabilities:						
Non-deductible premium paid on acquisition						
– Intangible assets	(106,528)	5,148	(194,259)	6,026	(819)	(290,432)
– Property, plant and equipment	(9,038)	639	–	–	–	(8,399)
Excess book value of derivative over tax cost	(9,671)	9,671	–	–	–	–
Deferred tax liabilities	(125,237)	15,458	(194,259)	6,026	(819)	(298,831)
Total	(50,749)	20,227	(194,259)	6,026	(819)	(219,574)

Notes to Financial Statements

31 December 2008

19. Deferred Tax (Continued)

Group

31 December 2007

	At 1 January RMB'000	*(note 8)* (Charged)/ credited to consolidated income statement RMB'000	Arising on acquisition RMB'000	At 31 December RMB'000
Deferred tax assets:				
Income received on share application funds	(21,700)	9,668	–	(12,032)
Excess tax depreciation over book value				
– Intangible assets	73,503	(24,452)	–	49,051
– Property, plant and equipment	(7,939)	4,163	–	(3,776)
Provision for early retirement and rehabilitation	16,102	(2,263)	–	13,839
Other temporary differences	22,870	4,536	–	27,406
Deferred tax assets	82,836	(8,348)	–	74,488
Deferred tax liabilities:				
Non-deductible premium paid on acquisition				
– Intangible assets	(90,192)	24,267	(40,603)	(106,528)
– Property, plant and equipment	–	289	(9,327)	(9,038)
Excess book value of derivative over tax cost	–	(9,671)	–	(9,671)
Deferred tax liabilities	(90,192)	14,885	(49,930)	(125,237)
Total	(7,356)	6,537	(49,930)	(50,749)

Notes to Financial Statements

31 December 2008

19. Deferred Tax (Continued)

Company

31 December 2008

	At 1 January RMB'000	(Charged)/ credited to income statement RMB'000	At 31 December RMB'000
Deferred tax assets/(liabilities):			
Income received on share application funds	(12,032)	4,408	(7,624)
Excess tax depreciation over book value			
– Intangible assets	(2,505)	(2,795)	(5,300)
– Property, plant and equipment	(6,400)	(1,807)	(8,207)
Provision for early retirement and rehabilitation	11,418	2,562	16,086
Excess book value of derivative over tax cost	(9,671)	9,671	–
Other temporary differences	17,361	(5,152)	10,103
Deferred tax assets/(liabilities)	(1,829)	6,887	5,058

31 December 2007

	At 1 January RMB'000	(Charged)/ credited to income statement RMB'000	At 31 December RMB'000
Deferred tax assets/(liabilities):			
Income received on share application funds	(21,700)	9,668	(12,032)
Excess tax depreciation over book value			
– Intangible assets	(1,119)	(1,386)	(2,505)
– Property, plant and equipment	(5,583)	(817)	(6,400)
Provision for early retirement and rehabilitation	14,034	(2,616)	11,418
Excess book value of derivative over tax cost	–	(9,671)	(9,671)
Other temporary differences	15,766	1,595	17,361
Deferred tax assets/(liabilities)	1,398	(3,227)	(1,829)

Notes to Financial Statements

31 December 2008

20. Cash and Cash Equivalents

Group

	2008 *RMB'000*	2007 *RMB'000*
Cash on hand	**1,628**	875
Cash in banks, unrestricted	**620,405**	625,676
Time deposits	**66,731**	999,138
	688,764	1,625,689

Company

	2008 *RMB'000*	2007 *RMB'000*
Cash on hand	**48**	13
Cash in banks, unrestricted	**566,389**	463,099
Time deposit	**45,000**	981,837
	611,437	1,444,949

At the balance sheet date, the cash and cash equivalents of the Group denominated in Hong Kong dollars ("HK$") amounted to RMB23,737 (2007: RMB2,936,190) and those denominated in United States dollars ("US$") amounted to RMB5,751,501 (2007: RMB981,836,667). All other cash and cash equivalents held by the Group are denominated in Renminbi. The RMB is not freely convertible into other currencies; however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulation, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash in banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the time deposit rates. Time deposits can be withdrawn at the discretion of the Group with seven days' notice. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

Notes to Financial Statements

31 December 2008

21. Trade and Notes Receivables

Group

	2008 RMB'000	2007 RMB'000
Trade receivables	**29,112**	15,061
Notes receivable	**6,250**	18,155
	35,362	33,216

An ageing analysis of trade and notes receivables, based on the invoice date, is as follows:

	2008 RMB'000	2007 RMB'000
Outstanding balances due within 90 days	**35,362**	33,216

Company

	2008 RMB'000	2007 RMB'000
Trade receivables	**10,611**	220
Notes receivable	**–**	16,755
	10,611	16,975

An ageing analysis of trade and notes receivables, based on the invoice date, is as follows:

	2008 RMB'000	2007 RMB'000
Outstanding balances due within 90 days	**10,611**	16,975

Trade and notes receivables are non-interest-bearing. There were no receivables that were overdue or impaired. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of the receivables as they have no history of default. In addition, substantially all gold sales are made through the Shanghai Gold Exchange, or through physical delivery of gold and silver in settlement of liabilities to suppliers of gold and silver concentrates, or in the form of cash. The credit term given to other customers is 30 days.

Notes to Financial Statements

31 December 2008

22. Prepayments and Other Receivables

Group

	2008	2007
	RMB'000	*RMB'000*
Prepayments	**106,622**	54,243
Other receivables	**107,761**	63,486
Amount due from a related party:		
– which can exercise significant influence over the Group	**3,850**	7,059
	218,233	124,788

Company

	2008	2007
	RMB'000	*RMB'000*
Prepayments	**85,503**	44,333
Other receivables	**72,682**	56,274
Amounts due from related parties:		
– A party which can exercise significant influence over the Group	**10**	3,701
– Subsidiaries of the Company	**45,910**	17,966
	204,105	122,274

The amounts due from related parties are unsecured, interest-free and have no fixed terms of repayment.

None of the above assets is either past due or impaired. Prepayments and other receivables relate to receivables from individuals and entities that have no recent history of default.

Notes to Financial Statements

31 December 2008

23. Inventories

Group

	2008	2007
	RMB'000	*RMB'000*
Raw materials	**43,186**	23,494
Work in progress	**249,763**	258,535
Finished goods	**129,279**	51,411
	422,228	333,440
Included in the above balances are:		
Inventories processed for third parties *(note 27)*	**127,525**	173,660

Company

	2008	2007
	RMB'000	*RMB'000*
Raw materials	**26,720**	15,728
Work in progress	**156,573**	192,251
Finished goods	**32,010**	19,977
	215,303	227,956
Included in the above balances are:		
Inventories processed for third parties *(note 27)*	**127,525**	173,660

Notes to Financial Statements

31 December 2008

24. Equity Investments at Fair Value through Profit or Loss

Group

	2008	2007
	RMB'000	*RMB'000*
Hong Kong listed equity investments at fair value	**21,321**	30,926
A share listed equity investments at fair value	**522**	–
	21,843	30,926

Company

	2008	2007
	RMB'000	*RMB'000*
A share listed equity investments at fair value	**522**	–

The above equity investments at 31 December 2007 and 2008 were classified as held for trading.

25. Held-to-Maturity Investments

Group and Company

	2008	2007
	RMB'000	*RMB'000*
Held-to-maturity investments	**140,000**	–

During the year, the Group entered into agreements with creditworthy banks to hold certain investments with fixed periods of repayment ranging from 7 days to 6 months. The investment principals are guaranteed, while the rate of return is floating.

Notes to Financial Statements

31 December 2008

26. Interest-bearing Bank and Other Borrowings

Group

	2008 *RMB'000*	2007 *RMB'000*
Unsecured:		
– Bank loans	**463,700**	365,000
– Other borrowings	**15,280**	10,590
	478,980	375,590
Repayable:		
– Within one year	**471,190**	352,800
– In the second year	**–**	15,000
– In the third to fifth years	**–**	–
– Over five years	**7,790**	7,790
	478,980	375,590
Portion classified as:		
– Current	**(471,190)**	(352,800)
– Non-current	**7,790**	22,790

Notes:

(a) Effective interest rates and maturity dates

An analysis of the effective interest rates per annum and maturity dates is as follows:

	2008	2007
(i) Bank loans – fixed rate		
– Effective interest (%)	**4.74**	6.03
– Maturity (Year)	**2009**	2008 – 2009
(ii) Other borrowings – fixed rate		
– Effective interest (%)	**2.95**	2.89
– Maturity (Year)	**2009 – 2021**	2008 – 2021

Notes to Financial Statements

31 December 2008

26. Interest-bearing Bank and Other Borrowings (Continued)

Notes: (Continued)

(b) Unutilised limit of bank loans

	2008 **RMB'000**	2007 *RMB'000*
Banking facilities:		
– Available	**5,410,000**	2,105,200
– Utilised	**(463,700)**	(365,000)
Unutilised	**4,946,300**	1,740,200

(c) Corporate guarantees

The following loans of the Group are guaranteed by Zhaojin Group (see note 35(b)):

	2008 **RMB'000**	2007 *RMB'000*
Bank loans	**6,600**	15,000

Company

	2008 **RMB'000**	2007 *RMB'000*
Unsecured:		
– Bank loans	**450,000**	200,000
– Other borrowings	**9,190**	9,190
	459,190	209,190
Repayable:		
– Within one year	**451,400**	201,400
– In the second year	**–**	–
– In the third to fifth years	**–**	–
– Over five years	**7,790**	7,790
	459,190	209,190
Portion classified as:		
– Current	**(451,400)**	(201,400)
– Non-current	**7,790**	7,790

Notes to Financial Statements

31 December 2008

26. Interest-bearing Bank and Other Borrowings (Continued)

Notes:

(a) Effective interest rates and maturity dates

An analysis of the effective interest rates per annum and the maturity dates is as follows:

	2008	2007
(i) Bank loans – fixed rate		
– Effective interest (%)	**4.74**	5.79
– Maturity (Year)	**2009**	2008
(ii) Other borrowings – fixed rate		
– Effective interest (%)	**2.16**	2.16
– Maturity (Year)	**2009 – 2021**	2008 – 2021

(b) Unutilised limit of bank loans

	2008 *RMB'000*	2007 *RMB'000*
Banking facilities:		
– Available	**5,290,000**	1,680,000
– Utilised	**(450,000)**	(200,000)
Unutilised	**4,840,000**	1,480,000

All borrowings of the Group and of the Company are denominated in RMB.

Notes to Financial Statements

31 December 2008

26. Interest-bearing Bank and Other Borrowings (Continued)

The carrying amounts of the Group's and the Company's current borrowings approximate to their fair values due to the short term to maturity. The carrying amounts and fair values of the Group's non-current borrowings are as follows:

Group

	Carrying amounts		Fair values	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Fixed rate bank loans	**–**	15,000	**–**	16,371
Other borrowings	**7,790**	7,790	**5,397**	4,625
	7,790	22,790	**5,397**	20,996

Company

	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Fixed rate bank loans	**–**	–	**–**	–
Other borrowings	**7,790**	7,790	**5,397**	4,625
	7,790	7,790	**5,397**	4,625

The fair values of the above were calculated by discounting the expected future cash flows at prevailing interest rates.

Notes to Financial Statements

31 December 2008

27. Trade Payables

Group

	2008 *RMB'000*	2007 *RMB'000*
Trade payables	**78,030**	61,632
Payable under tolling arrangements *(note 23)*	**127,525**	173,660
	205,555	235,292

An ageing analysis of trade payables, based on the invoice date, is as follows:

	2008 *RMB'000*	2007 *RMB'000*
Outstanding balances with ages:		
Within one year	**201,599**	229,826
Over one year but within two years	**2,754**	1,719
Over two years but within three years	**134**	1,260
Over three years	**1,068**	2,487
	205,555	235,292

Company

	2008 *RMB'000*	2007 *RMB'000*
Trade payables	**41,780**	37,330
Payable under tolling arrangements *(note 23)*	**127,525**	173,660
	169,305	210,990

An ageing analysis of trade payables, based on the invoice date, is as follows:

	2008 *RMB'000*	2007 *RMB'000*
Outstanding balances with ages:		
Within one year	**169,305**	209,033
Over one year but within two years	**–**	188
Over two years but within three years	**–**	459
Over three years	**–**	1,310
	169,305	210,990

Notes to Financial Statements

31 December 2008

27. Trade Payables (Continued)

The trade payables of the Group and of the Company are non-interest-bearing and have an average term of 30 to 60 days.

28. Other Payables and Accruals

Group

	2008	2007
	RMB'000	*RMB'000*
Accrued taxes other than income tax	**12,600**	26,135
Accrued expenses and other payables	**146,421**	124,932
Capital expenditure payables	**165,088**	86,916
Amount due to a related party:		
– which can exercise significant influence over the Group	**3,073**	252
	327,182	238,235

Company

	2008	2007
	RMB'000	*RMB'000*
Accrued taxes other than income tax	**5,155**	19,215
Accrued expenses and other payables	**66,146**	65,488
Capital expenditure payables	**66,609**	20,799
	137,910	105,502

The amounts due to related parties are unsecured, interest-free and have no fixed terms of repayment.

Other payables are non-interest-bearing and have an average term of 30 to 60 days.

Notes to Financial Statements

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29. Provisions

Group

	2008 *RMB'000*	2007 *RMB'000*
Provision for rehabilitation		
At beginning of year	**6,512**	6,388
Interest increment	**325**	489
Change in discount rate	**229**	(1,410)
(Decrease)/increase	**(51)**	1,045
At end of year	**7,015**	6,512
Provision for early retirement		
At beginning of year	**54,325**	47,937
Additional early retirees	**13,809**	18,992
Change in discount rate	**4,320**	(4,713)
Interest increment	**2,935**	3,623
Utilised during the year	**(13,740)**	(11,514)
At end of year	**61,649**	54,325
Total	**68,664**	60,837
Analysis of total provisions		
Current	**12,445**	10,447
Non-current	**56,219**	50,390
	68,664	60,837

Notes to Financial Statements

31 December 2008

29. Provisions (Continued)

Company

	2008	2007
	RMB'000	*RMB'000*
Provision for rehabilitation		
At beginning of year	**5,838**	5,224
Interest increment	**292**	431
Change in discount rate	**186**	(862)
(Decrease)/increase	**(714)**	1,045
At end of year	**5,602**	5,838
Provision for early retirement		
At beginning of year	**44,810**	41,844
Additional early retirees	**15,851**	12,586
Change in discount rate	**3,780**	(2,515)
Interest increment	**2,420**	3,162
Utilised during the year	**(12,582)**	(10,267)
At end of year	**54,279**	44,810
Total	**59,881**	50,648
Analysis of total provisions		
Current	**11,112**	9,287
Non-current	**48,769**	41,361
	59,881	50,648

The provisions are based on estimates of future payments made by management and are discounted at rates in the range of 5.4% to 5.9% (2007: 7.5% to 7.8%). Changes in assumptions could significantly affect these estimates.

The provision for rehabilitation is in relation to the estimated costs of complying with the Group's obligations for land reclamation. These costs are expected to be incurred on mine closure, which, based on current mineral reserve estimates, ranges from 2 to 32 years.

The provision for early retirement is in respect of future payments to be made by the Group to former employees who have accepted early retirement terms. These payments are made monthly based on the employees' pre-retirement salary level and age, and are due to be made until the former employees reach normal statutory retirement age, which extends up to 2026.

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30. Deferred Income

Deferred income represents unconditional government grants received in respect of property, plant and equipment, geological exploration activities and the mining of low grade ore. The movements of deferred income during the year are as follows:

Group

	2008 **RMB'000**	2007 RMB'000
At beginning of year	**31,967**	34,107
Received during the year	**24,070**	18,111
Acquisition of subsidiaries	**–**	5,000
Recognised as income during the year	**(6,757)**	(25,251)
At end of year	**49,280**	31,967

Company

	2008 **RMB'000**	2007 RMB'000
At beginning of year	**24,191**	30,984
Received during the year	**16,570**	12,312
Recognised as income during the year	**(6,409)**	(19,105)
At end of year	**34,352**	24,191

31. Share Capital

	2008 **RMB'000**	2007 RMB'000
Registered, issued and fully paid:		
Domestic shares of RMB1.00 each	**1,020,256**	510,128
H shares of RMB1.00 each	**437,174**	218,587
	1,457,430	728,715

On 16 May 2008, the shareholders approved a bonus issue of share to all shareholders on the basis of 0.25 shares for every share held by capitalising retained profits of RMB182,179,000 to share capital of 182,179,000 shares of RMB1 each. In addition, on 16 May 2008, the shareholders approved a bonus issue of 546,536,000 shares of RMB1 each on the basis of 0.75 share for every share held by capitalising capital reserve of RMB546,536,000 to share capital of 546,536,000 shares of RMB1 each.

Notes to Financial Statements

31 December 2008

32. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 77.

(b) Company

	Capital reserve *RMB'000*	Statutory reserves *RMB'000*	Retained profits *RMB'000*	Proposed final dividend *RMB'000*	Total *RMB'000*
At 1 January 2007	2,442,125	54,782	283,775	109,307	2,889,989
Profit for the year	–	–	403,176	–	403,176
Total income and expense for the year	–	–	403,176	–	403,176
Transfer to reserves	–	41,573	(41,573)	–	–
Dividends					
– 2007 final proposed	–	–	(182,179)	182,179	–
– 2006 final paid	–	–	–	(109,307)	(109,307)
At 31 December 2007 and 1 January 2008	2,442,125	96,355	463,199	182,179	3,183,858
Profit for the year	–	–	528,011	–	528,011
Total income and expense for the year	–	–	528,011	–	528,011
Bonus issue	(546,536)	–	(182,179)	–	(728,715)
Transfer to reserves	–	51,396	(51,396)	–	–
Dividends					
– 2008 final proposed	–	–	(241,933)	241,933	–
– 2007 final paid	–	–	–	(182,179)	(182,179)
At 31 December 2008	**1,895,589**	**147,751**	**515,702**	**241,933**	**2,800,975**

Notes to Financial Statements

31 December 2008

32. Reserves (Continued)

Capital reserve

In a prior year, share premium, which represented the difference between the nominal value and the issue price of the new H Shares issued to the public upon listing of the Company's H Shares on the Main Board of the Stock Exchange of Hong Kong Limited, amounting to RMB2,332,417,547 was recognised in the capital reserve. In addition, share issue expenses of RMB163,665,082 was set off against the share premium.

On 16 May 2008, the shareholders approved a bonus issue of 546,536,000 shares of RMB1 each on the basis of 0.75 share for every share held by capitalising capital reserve of RMB546,536,000 to share capital.

Statutory reserves

In accordance with the Articles of Association of the Company approved by the relevant government authorities on 16 April 2004, the net profit after tax of the Company for the purpose of profit distribution will be deemed to be the lesser of (i) the net profit determined in accordance with PRC GAAP and (ii) the net profit determined in accordance with HKFRSs. Under the PRC Company Law and the Company's Articles of Association, net profit after tax can only be distributed as dividends after allowance has been made for the following:

(i) Making up prior years' cumulative losses, if any.

(ii) Allocations to the statutory common reserve fund of at least 10% of after tax profit, until the fund aggregates 50% of the Company's share capital. For the purpose of calculating the transfer to the reserve, the profit after tax shall be the amount determined under PRC GAAP. The transfer to this reserve must be made before any distribution of dividends to shareholders.

The statutory common reserve fund can be used to offset previous years' losses, if any, and part of the statutory common reserve fund can be capitalised as the Company's share capital provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the share capital of the Company.

(iii) Allocations to the discretionary common reserve if approved by the shareholders.

Notes to Financial Statements

31 December 2008

32. Reserves (Continued)

The above reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

For dividend purposes, the amount which the Company and its subsidiaries can legally distribute by way of a dividend is determined with reference to their profits available for distribution as reflected in the respective PRC statutory financial statements which are prepared in accordance with PRC GAAP. These profits differ from those reflected in this report which is prepared in accordance with HKFRS.

At 31 December 2008, the Group's reserves available for distribution were approximately RMB448,502,605 (2007: RMB367,368,296).

33. Commitments

(a) Capital commitments

Group

	2008 **RMB'000**	2007 RMB'000
Contracted, but not provided for:		
– Land and buildings	**5,887**	79,185
– Plant and machinery	**9,354**	18,127
– Sulphuric acid plant	**–**	80,000
– Unlisted equity investment in subsidiaries	**15,000**	211,000
	30,241	388,312
Authorised, but not contracted for:		
– Land and buildings	**107,300**	200,710
– Plant and machinery	**126,900**	639,940
– Exploration and evaluation assets	**250,970**	136,250
	485,170	976,900

Notes to Financial Statements

31 December 2008

33. Commitments (Continued)

(a) Capital commitments (Continued)

Company

	2008 RMB'000	2007 RMB'000
Contracted, but not provided for:		
In respect of:		
– Land and buildings	**5,887**	79,185
– Plant and machinery	**9,354**	18,127
– Sulphuric acid plant	**–**	80,000
– Unlisted equity investment in subsidiaries	**15,000**	211,000
	30,241	388,312
Authorised, but not contracted for:		
In respect of:		
– Land and buildings	**61,060**	137,910
– Plant and machinery	**57,110**	585,340
– Exploration and evaluation assets	**146,770**	59,460
	264,940	782,710

(b) Operating lease commitments

The Group leases certain of its land and offices under operating lease arrangements. Leases for properties are negotiated for terms ranging between one and three years.

Future minimum lease payments of the Group and of the Company under non-cancellable operating leases are as follows:

Group

	2008 RMB'000	2007 RMB'000
Within one year	**3,950**	2,865
In the second to fifth years, inclusive	**–**	2,459
	3,950	5,324

Notes to Financial Statements

31 December 2008

33. Commitments (Continued)

(b) Operating lease commitments (Continued)

Company

	2008 *RMB'000*	2007 *RMB'000*
Within one year	**3,330**	2,042
In the second to fifth years, inclusive	**–**	1,761
	3,330	3,803

34. Contingent Liabilities

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

(a) Guarantees

Company

	2008 *RMB'000*	2007 *RMB'000*
Guarantees provided to bank for loan facilities granted to:		
– Zhaoyuan Jintingling Mining Industry Company Limited	**–**	145,000
– Tuoli Zhaojin Beijiang Mining Company Limited	**5,000**	–
	5,000	145,000

(b) Indemnities from Zhaojin Group

The Group and the Company have received indemnities from Zhaojin Group in respect of certain State levies totalling RMB45.6 million and RMB33.4 million respectively for the period from 24 December 1999 to 8 December 2006 (listing date) and certain government funding arrangements amounting to RMB49.3 million, which predated the Company's formation on 16 April 2004. The directors are of the opinion that the Group and the Company do not have any financial liability in respect of these arrangements.

Notes to Financial Statements

31 December 2008

35. Related Party Transactions

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	2008	2007
	RMB'000	*RMB'000*
Nature of relationships/transactions		
(i) Zhaojin Group, a party which can exercise significant influence over the Group		
Recurring transactions		
Expenses:		
– Payment of rental	**–**	52
– Payment of ground rent	**3,270**	2,300
– Gold exchange commission fee	**604**	421
– Commission fee for purchase of property, plant and equipment	**538**	456
Non-recurring transactions		
Capital transactions:		
– Purchase of subsidiaries	**–**	129,149
(ii) Subsidiaries of Zhaojin Group		
Recurring transactions		
Expenses:		
– Fees for refining services	**3,020**	2,700
– Fees for mining construction activities	**–**	235
– Fees for hotel accommodation	**–**	764
– Office rental	**–**	1,215
Non-recurring transactions		
Capital transactions:		
– Purchase of property, plant and equipment	**2,578**	369
– Purchase of software	**522**	274

Notes to Financial Statements

31 December 2008

35. Related Party Transactions (Continued)

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year: (Continued)

	2008 RMB'000	2007 RMB'000
Nature of relationships/transactions		
(iii) Substantial shareholders of the Company, which can exercise significant influence over the Group: Shanghai Fosun Industrial Technology Development Co., Ltd. ("Shanghai Fosun Technology") and Shanghai Fosun Industrial Investment Co., Ltd. ("Shanghai Fosun")		
Non-recurring transaction		
Capital transaction:		
– Purchase of a subsidiary	–	21,000

The above were conducted at commercial prices based on market rates, including:

i. In August 2007, the Group acquired interests in entities from Zhaojin Group at a total consideration of RMB129 million. The acquisition prices were based on independent valuation reports and negotiations between the parties.

ii. In August 2007, the Group acquired an interest in an entity from substantial shareholders of the Company, Shanghai Fosun Technology and Shanghai Fosun, at a total consideration of RMB21 million. The acquisition prices were based on independent valuation reports and negotiations between the parties.

iii. The Company entered into an indemnity agreement with Zhaojin Group on 17 November 2006, as disclosed in note 34 to the consolidated financial statements. These indemnities are provided free of charge.

Notes to Financial Statements

31 December 2008

35. Related Party Transactions (Continued)

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year: (Continued)

iv. On 28 February 2008, the Group acquired a property from a wholly-owned subsidiary of Zhaojin Group at a purchase consideration of RMB56,840,000 based on an independent valuation report and negotiation between the parties.

v. On 9 May 2008, the Company entered into a transfer agreement with Zhaojin Group to conditionally acquire four exploration rights from Zhaojin Group at total purchase consideration of RMB158,940,700. The transaction has been completed on 15 August 2008. The purchase price was determined based on an independent valuation report and negotiation between the parties.

(b) Guarantees granted by Zhaojin Group as security for the Group's bank loans are disclosed in note 26(c) to the financial statements. These guarantees were provided free of charge.

(c) Outstanding balances with related parties

As disclosed in notes 22 and 28 to the financial statements, the Group had outstanding advances receivable/payable from/to related parties at the end of the year. The advances are unsecured, interest-free and have no fixed terms of repayment.

(d) Compensation of key management personnel of the Group:

	2008	2007
	RMB'000	*RMB'000*
Short term employee benefits	**4,083**	3,998
Post-employment benefits	**–**	–
Total compensation paid to key management personnel	**4,083**	3,998

Further details of directors' emoluments are included in note 7 to the financial statements.

(e) During the year, no fees were paid to non-executive directors and supervisors.

(f) Connected transactions

The transactions disclosed in items (a) to (e) above also constitute connected transactions and/or continuing connected transactions as referred to in Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

Notes to Financial Statements

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36. Business Combinations

Acquisitions of subsidiaries during the year were as follows:

(a) On 31 January 2008, the Company completed its acquisition of a 52% equity interest in Fengningjinlong Mining Company Limited ("FNJL"), a company established in the PRC, at a consideration of RMB347 million. FNJL is engaged in gold exploration and prospecting, mining, gold refining and processing as well as the sale of gold related products. The purchase consideration was fully settled in the form of cash at the date of acquisition.

(b) During the year, the Company acquired equity interests in three companies through a series of transactions with the same vendors as follows:

- On 31 January 2008, the Company completed its acquisition of a 51% equity interest in Xinjiang Tonghui Copper Mining Company Limited ("TCM"), a company established in the PRC, at a consideration of RMB110 million. TCM is engaged in copper mining and the sale of copper related products. The purchase consideration was fully settled in the form of cash at the date of acquisition.

- On 31 January 2008, the Company completed its acquisition of a 51% equity interest in Xinjiang Xinxin Copper Mining Company Limited ("Xinxin"), a company established in the PRC, at a consideration of RMB14 million satisfied with cash. Xinxin is engaged in copper mining and the processing and sale of copper related products.

- On 4 November 2008, the Company completed its acquisition of a 51% interest in Xinjiang Xinhui Copper Company Limited ("Xinhui") at a total consideration of RMB141 million. Xinhui holds a 49% interest in Xinxin, and, accordingly this transaction resulted in the Company acquiring an additional 25% indirect interest in Xinxin. Xinhui is engaged in copper smelting.

Notes to Financial Statements

31 December 2008

36. Business Combinations (Continued)

The fair values of the identifiable assets and liabilities of the above acquisitions as at the dates of acquisition and the corresponding carrying amounts immediately before the acquisitions were as follows:

	2008		2007	
	Previous carrying amounts	**Fair values on acquisition**	Previous carrying amounts	Fair values on acquisition
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Property, plant and equipment	**224,930**	**224,930**	108,454	145,761
Intangible assets	**6,363**	**776,250**	65,931	200,638
Land lease prepayments	**–**	**–**	6,798	13,428
Cash and bank balances	**23,097**	**23,097**	21,229	21,229
Trade receivables	**–**	**–**	4,279	4,279
Prepayments and other receivables	**15,213**	**15,213**	31,916	31,916
Inventories	**–**	**–**	18,513	18,513
Deferred income	**–**	**–**	(5,000)	(5,000)
Interest-bearing bank and other borrowings	**(13,730)**	**(13,730)**	(24,900)	(24,900)
Trade payables	**–**	**–**	(8,545)	(8,545)
Other payables and accruals	**(36,645)**	**(36,645)**	(149,520)	(149,520)
Deferred tax liabilities	**–**	**(194,259)**	–	(49,930)
Minority interests	**–**	**(312,940)**	–	(21,342)
	219,228	**481,916**	69,155	176,527
Goodwill	**–**	**130,900**	–	61,739
Satisfied by:				
Cash		**612,816**		238,266

An analysis of the net outflow of cash and cash equivalents in respect of the above acquisitions is as follows:

	2008	2007
	RMB'000	*RMB'000*
Cash consideration	**612,816**	238,266
Cash and bank balances acquired	**(23,097)**	(21,229)
Deposit paid in 2007	**(399,981)**	–
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**189,738**	217,037

Notes to Financial Statements

31 December 2008

36. Business Combinations (Continued)

Since acquisition, the above subsidiaries contributed RMB147,294,924 to the Group's revenue and RMB47,159,916 to the Group's profit for the year ended 31 December 2008. Had the combinations taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit for the year of the Group would have been RMB2,169,270,000 and RMB528,790,000 respectively.

37. Disposal of a Subsidiary

	Note	2008 RMB'000	2007 RMB'000
Net assets disposed of:			
Property, plant and equipment		**12,749**	–
Intangible assets		**21,980**	–
Long term deposit		**7,200**	–
Deferred tax liability		**(6,026)**	–
Subtotal		**35,903**	–
Loss on disposal of subsidiary	6	**(15,553)**	–
		20,350	–
Satisfied by:			
Cash		**20,350**	–

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2008 RMB'000	2007 RMB'000
Cash consideration	**20,350**	–
Cash and bank balances disposed of	**–**	–
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	**20,350**	–

Notes to Financial Statements

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38. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

Group

Financial assets

	2008				2007		
	FA	**Loans and receivables**	**Held to maturity investment**	**Total**	FA	Loans and receivables	Total
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Long term deposits	**–**	**5,866**	**–**	**5,866**	–	4,637	4,637
Trade and notes receivables	**–**	**35,362**	**–**	**35,362**	–	33,216	33,216
Financial assets included in prepayments and other receivables	**–**	**218,233**	**–**	**218,233**	–	70,545	70,545
Equity investments at fair value through profit or loss	**21,843**	**–**	**–**	**21,843**	30,926	–	30,926
Derivative financial instruments	**–**	**–**	**–**	**–**	38,686	–	38,686
Held-to-maturity investments	**–**	**–**	**140,000**	**140,000**	–	–	–
	21,843	**259,461**	**140,000**	**421,304**	69,612	108,398	178,010

FA – Represents financial assets at fair value through profit or loss upon recognition.

Financial liabilities

	2008 Financial liabilities at amortised cost	2007 Financial liabilities at amortised cost
	RMB'000	*RMB'000*
Trade payables	**205,555**	235,292
Financial liabilities included in other payables and accruals	**327,182**	238,235
Interest-bearing bank and other borrowings	**478,980**	375,590
	1,011,717	849,117

Notes to Financial Statements

31 December 2008

38. Financial Instruments by Category (Continued)

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: (Continued)

Company

Financial assets

	2008				2007		
	FA RMB'000	Loans and receivables RMB'000	Held to maturity instruments RMB'000	Total RMB'000	FA RMB'000	Loans and receivables RMB'000	Total RMB'000
Loan receivables	–	–	–	–	–	546,482	546,482
Long term deposits	–	5,866	–	5,866	–	4,637	4,637
Trade and notes receivables	–	10,611	–	10,611	–	16,975	16,975
Financial assets included in prepayments and other receivables	–	204,105	–	204,105	–	77,941	77,941
Equity investment at fair value through profit or loss	522	–	–	522	–	–	–
Derivative financial instruments	–	–	–	–	38,686	–	38,686
Held to maturity investments	–	–	140,000	14,000	–	–	–
	522	220,582	140,000	361,104	38,686	646,035	684,721

FA – Represents financial assets at fair value through profit or loss upon recognition.

Financial liabilities

	2008 Financial liabilities at amortised cost RMB'000	2007 Financial liabilities at amortised cost RMB'000
Trade payables	169,305	210,990
Financial liabilities included in other payables and accruals	137,910	105,502
Interest-bearing bank and other borrowings	459,190	209,190
	766,405	525,682

Notes to Financial Statements

31 December 2008

39. Financial Risk Management Objectives and Policies

Financial assets of the Group mainly include cash and cash equivalents, trade and notes receivables, deposits and other receivables, equity investments at fair value through profit or loss, held-to-maturity investments and derivative financial instruments. Financial liabilities of the Group include bank and other borrowings, trade payables and other payables.

The main risks arising from the Group's financial instruments are liquidity risk, interest rate risk, commodity price risk, credit risk, foreign exchange risk and equity price risk. The directors review and agree policies for managing each of these risks and they are summarised below.

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed facilities from banks to meet its commitments over the foreseeable future in accordance with its strategic plan.

Subsequent to the IPO of the Company in December 2006, the Group's cash and cash equivalents are more than total debts. Accordingly, management is of the view that the liquidity risk of the Group is minimal.

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

Group

	Less than 3 months *RMB'000*	3 to less than 12 months *RMB'000*	1 to 5 years *RMB'000*	Over 5 years *RMB'000*	Total *RMB'000*
2008					
Interest-bearing bank and other borrowings	**50,000**	**421,190**	**–**	**7,790**	**478,980**
Trade payables	**205,555**	**–**	**–**	**–**	**205,555**
Other payables and accruals	**327,182**	**–**	**–**	**–**	**327,182**
	582,737	**421,190**	**–**	**7,790**	**1,011,717**
2007					
Interest-bearing bank and other borrowings	–	352,800	15,000	7,790	375,590
Trade payables	235,292	–	–	–	235,292
Other payables and accruals	238,235	–	–	–	238,235
	473,527	352,800	15,000	7,790	849,117

Notes to Financial Statements

31 December 2008

39. Financial Risk Management Objectives and Policies (Continued)

Company

	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2008					
Interest-bearing bank and other borrowings	**50,000**	**401,400**	**–**	**7,790**	**459,190**
Trade payables	**169,305**	**–**	**–**	**–**	**169,305**
Other payables and accruals	**137,910**	**–**	**–**	**–**	**137,910**
	357,215	**401,400**	**–**	**7,790**	**766,405**
2007					
Interest-bearing bank and other borrowings	–	201,400	–	7,790	209,190
Trade payables	210,990	–	–	–	210,990
Other payables and accruals	105,502	–	–	–	105,502
	316,492	201,400	–	7,790	525,682

Interest rate risk

The Group's exposure to interest rate risk relates primarily to the Group's cash holdings and interest-bearing bank loans. The Group manages its interest rate exposure from certain cash holdings through placing them into appropriate short term deposits with a mixture of variable and fixed rates and manages the exposure from all of its interest-bearing loans through the use of fixed rates.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

A reasonably possible change of 100 basis points in interest rate would have no material impact on the Group's profit and equity for the year.

Notes to Financial Statements

31 December 2008

39. Financial Risk Management Objectives and Policies (Continued)

Price risk

The Group's exposure to price risk relates principally to the market price fluctuation on gold, silver and copper which can affect the Group's results of operations. In addition, the Group enters into contracts for the processing of gold and silver concentrates with the liabilities settled through physical delivery of predetermined quantities of gold and silver. Price fluctuations affect the RMB denominated amounts of these liabilities. The Group's policy is to manage price risk exposure in relation to the tolling liabilities by holding physical inventories of gold and silver with which to settle them.

During the year, the Group entered into AU(T+D) agreements, which substantially are forward commodity contracts, on the Shanghai Gold Exchange ("SGE") to hedge potential price fluctuations of gold for trading purpose. Under those agreements, the Company could forward buy or sell gold at current day's price by depositing 10% of total transaction amount. Subsequently, it can close the deal by either physically delivering the gold or entering into an offsetting agreement. There is no restriction imposed on the settlement period.

The price range of the forward commodity contracts is closely monitored by management. At 31 December 2008, substantially all of the forward commodity contracts of the Group were settled and accordingly, a reasonably possible change of 10% in commodity price would have no material impact on the Group's and Company's profit and equity for the year.

Credit risk

The Group has no significant credit risk with customers since all gold and silver sales are made through the Shanghai Gold Exchange ("SGE"), or through physical delivery of gold and silver in settlement of liabilities to concentrate suppliers, and substantially all copper sales are made for cash.

The Group's notes receivable are guaranteed by banks and the risk for default in payment is minimal. The carrying amount of cash, cash equivalents, trade and notes receivables, and other receivables represent the Group's maximum exposure to credit risk attributable to its financial assets.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, prepayments and other receivables, equity investments at fair value through profit or loss, investment held-to-maturity investments and derivative financial instruments, arises from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments. The Company is also exposed to credit risk through granting of financial guarantees to a subsidiary, further details of which are disclosed in note 34 to the financial statements.

Substantial amounts of the Group's cash and cash equivalents are held in major financial institutions located in the PRC and Hong Kong, which management believes are of high credit quality.

The Group has no significant concentration of credit risk with any single counterparty.

Notes to Financial Statements

31 December 2008

39. Financial Risk Management Objectives and Policies (Continued)

Foreign exchange risk

As 31 December 2008, the Group held limited HK$ and US$ denominated cash and cash equivalents. Accordingly, the Group's exposure to exchange rate fluctuations between RMB and HK$ and US$ was minimal.

Equity price risk

Equity price risk is the risk that the fair values of equity securities change as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as equity investments at fair value through profit or loss (note 24) as at 31 December 2008. The Group's listed investments are listed on the Hong Kong Stock Exchange ("HKSE") and Shanghai Stock Exchange ("SSE") and are valued at quoted market prices at the balance sheet date.

The market equity index for the HKSE and SSE, at the close of business of the nearest trading day in the year to the balance sheet date, and its respective highest and lowest points during the year were as follows:

	31 December 2008	**High/low 2008**	31 December 2007
Hong Kong – Hang Seng Index	**14,387.48**	**27,853.60/10,676.29**	27,812.65
Shanghai – Composite index of Shanghai	**1,911.79**	**5,499.60/1,664.93**	5,261.56

A reasonably possible change of 10% change in the fair value of the equity investments would have no material impact on the Group's profits and equity for the year.

Fair values

Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The fair values of the Group's long term borrowings are disclosed in note 26 to the financial statements. The carrying amounts of all other financial instruments approximated to their fair values due to the short term to maturity at each of the balance sheet dates.

Notes to Financial Statements

31 December 2008

39. Financial Risk Management Objectives and Policies (Continued)

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. The Group makes no changes to its capital structure between 2007 and 2008.

The Group is currently funding its capital expenditure through the proceeds from its IPO in December 2006 and new bank borrowings. The proceeds from the IPO are being utilised in accordance with the plan stated in the Company's prospectus dated 24 November 2006. Under normal circumstances, the Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. The Group's policy is to maintain the gearing ratio between 20% and 35%. Net debt is defined as liability funding of the Group's long term operating assets, net of cash balances. It excludes liabilities incurred for working capital purposes. Capital includes equity attributable to the owners of the Company. As at 31 December 2007 and 2008 respectively, the Group's cash and cash equivalent exceeds the total bank loans, no gearing ratio for 2007 or 2008 is presented thereof.

The excess of cash and cash equivalents over net debt was as follows:

Group

	2008 *RMB'000*	2007 *RMB'000*
Interest-bearing bank and other borrowings	**478,980**	375,590
Less: Cash and cash equivalents	**(688,764)**	(1,625,689)
Excess of cash and cash equivalents over debt	**(209,784)**	(1,250,099)

40. Events Subsequent to Balance Sheet Date

On 19 January 2009, the Company entered into an equity transfer agreements with third parties for the acquisition of 52% equity interests in Gansu Hezuo Zaozigou Co., Ltd., at a consideration of RMB55,000,000 satisfied in cash, of which RMB40 million had been paid as a deposit at 31 December 2008. To date, the acquisition has not been completed.

41. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 6 March 2009.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements is set out below:

	Year ended 31 December				
	2008	2007	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
RESULTS					
REVENUE	**2,152,731**	1,512,273	1,164,415	867,687	428,084
Cost of sales	**(1,072,814)**	(757,452)	(541,240)	(428,300)	(237,215)
Gross profit	**1,079,917**	754,821	623,175	439,387	190,869
Other revenue and gains	**58,875**	155,031	16,411	8,891	7,640
Selling and distribution costs	**(19,982)**	(9,581)	(5,669)	(4,795)	(2,244)
Administrative expenses	**(297,698)**	(216,039)	(143,488)	(139,736)	(83,322)
Other operating expenses	**(98,177)**	(105,471)	(5,801)	(16,947)	(6,876)
Finance costs	**(17,468)**	(20,745)	(54,346)	(46,107)	(6,040)
Share of profit/(loss) of an associate	**2,672**	1,979	(1,935)	(717)	–
PROFIT BEFORE INTEREST INCOME ARISING FROM SHARE APPLICATION FUNDS AND TAX	**708,139**	559,995	428,347	239,976	100,027
Interest income arising from share application funds	**–**	–	89,403	–	–
PROFIT BEFORE TAX	**708,139**	559,995	517,750	239,976	100,027
Income tax expense:					
– On profit before interest income arising from share application funds	**(170,017)**	(184,072)	(139,216)	(80,283)	(33,301)
– On interest income arising from share application funds	**–**	–	(28,883)	–	–
Total income tax expense	**(170,017)**	(184,072)	(168,099)	(80,283)	(33,301)
PROFIT BEFORE DEFERRED TAX ARISING FROM REORGANISATION	**538,122**	375,923	349,651	159,693	66,726
Deferred tax on Reorganisation	**–**	–	–	–	98,825
PROFIT FOR THE YEAR	**538,122**	375,923	349,651	159,693	165,551
Attributable to:					
Equity holders of the Company	**533,905**	388,447	351,190	162,891	165,565
Minority interests	**4,217**	(12,524)	(1,539)	(3,198)	(14)
	538,122	375,923	349,651	159,693	165,551
ASSETS, LIABILITIES AND MINORITY INTERESTS					
TOTAL ASSETS	**5,930,985**	5,013,877	4,907,558	2,133,045	1,025,012
TOTAL LIABILITIES	**(1,522,316)**	(1,260,663)	(1,443,134)	(1,328,005)	(412,532)
MINORITY INTERESTS	**(353,288)**	(69,729)	(56,911)	(58,450)	(276)
	4,055,381	3,683,485	3,407,513	746,590	612,204