Xinjiang Xinxin Mining Industry Co., Ltd.*

新疆新鑫礦業股份有限公司

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

Stock Code : 3833

Annual Report 2009

We See The Future

* *For identification purpose only*

CONTENTS

2	Corporate Information
4	Summary of Financial Information
6	Chairman's Statement
14	Management Discussion and Analysis
20	Biographical Details of Directors, Supervisors and Senior Management
26	Report of the Directors
39	Report of the Supervisory Committee
44	Corporate Governance Report
53	Independent Auditor's Report
55	Consolidated Balance Sheet
57	Balance Sheet
59	Consolidated Statement of Comprehensive Income
60	Consolidated Statement of Changes in Equity
61	Consolidated Cash Flow Statement
62	Notes to the Consolidated Financial Statements

Corporate Information

Summary

Xinjiang Xinxin Mining Industry Co., Ltd. (the “Company”) was incorporated on 1 September 2005 with the approval of the People’s Government of Xinjiang Uygur Autonomous Region as a joint stock limited company in the People’s Republic of China (the “PRC”) by way of promotion with Xinjiang Non-ferrous Metal Industry (Group) Ltd.* (新疆有色金屬工業（集團）有限責任公司) (“Xinjiang Non-Ferrous”), Shanghai Yilian Kuangneng Co. Ltd.* (上海怡聯礦能實業有限公司) (“Shanghai Yilian”), Zhongjin Investment (Group) Ltd.* (中金投資（集團）有限公司) (“Zhongjin Investment”), Xiamen Zijin High-tech Co., Ltd.* (廈門紫金科技有限公司) (“Xiamen Zijin”) (now known as Zijin Mining Group (Xiamen) Investment Co., Ltd.* (紫金礦業集團（廈門）投資有限公司), Xinjiang Xinying New Material Co. Ltd.* (新疆信盈新型材料有限公司) (“Xinjiang Xinying”) and Shaanxi Honghao Industry Co., Ltd.* (陝西鴻浩實業有限公司) (“Shaanxi Honghao”) acting as the promoters (collectively referred to as the “Promoters”).

The Promoters hold in aggregate 1,451,000,000 domestic shares in the Company. In October 2007, 759,000,000 H shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Company was the first Chinese nickel cathode production enterprise listed outside the mainland China. As of 31 December 2009, the Company had a total number of 2,210,000,000 shares with par value of RMB0.25 each in issue, of which 759,000,000 shares are H shares, accounting for approximately 34.34% of the Company’s total issued share capital.

The Company and its subsidiaries (the “Group”) are the PRC second largest nickel cathode producer utilizing nickel sulfide resources and are principally engaged in the mining, ore processing, smelting and refining operations and sales of nickel, copper and other non-ferrous metals. The major product of the Group is nickel cathode. Other major products include copper cathode. Cobalt products, gold, silver, platinum and palladium are also produced and derived from the Group’s main production process.

In 2009, the Company acquired three nickel-copper mines in Hami, Xinjiang, namely: Huangshandong (黃山東), Huangshan (黃山) and Xiangshan (香山). In the same year, the Company also acquired Zhongxin Mining which in turn is expected to increase the Group’s annual smelting production capacity by approximately 5,000 tonnes of nickel metal content in the coming years.

In June 2009, the Company entered into an investment agreement with Xinjiang Ashele Copper Industry Company Ltd* (新疆阿舍勒銅業股份有限公司) to establish Xinjiang Wuxin Copper Company Limited (“Xinjiang Wuxin”)* (新疆五鑫銅業有限責任公司) for the purposes of engaging in the smelting, processing and sale of copper and other non-ferrous metals. The Company holds 66% equity interest in Xinjiang Wuxin.

* The English name is a translation of the original Chinese name and provided for reference only.

Corporate Information

Executive Directors

Yuan Ze (袁澤) *(Chairman)*
Shi Wenfeng (史文峰)
Zhang Guohua (張國華)
Liu Jun (劉俊)

Non-executive Directors

Zhou Chuanyou (周傳有)
Niu Xuetao (牛學濤)

Independent non-executive Directors

Chen Jianguo (陳建國)
Sun Baosheng (孫寶生)
Ng Yuk Keung (吳育強)

Supervisors

Jiang Mingshun (姜明順)
Sun Baohui (孫寶輝)
Liu Daoying (劉道英)
Hu Zhijiang (胡志江)
Chen Yuping (陳玉萍)

Company secretaries

Lam Cheuk Fai (林灼輝) *FCCA, FCPA*
Zhang Junjie (張俊杰)

Audit committee

Chen Jianguo (陳建國)
Zhou Chuanyou (周傳有)
Ng Yuk Keung (吳育強)

Authorised representatives

Zhang Guohua (張國華)
Lam Cheuk Fai (林灼輝) *FCCA, FCPA*
Ng Yuk Keung (吳育強) *(Alternate)*

Registered office in Hong Kong

Unit 3102-3105, 31/F, Office Tower, Convention Plaza
1 Harbour Road
Wanchai, Hong Kong

Statutory address and principal place of business in the PRC

7/F Youse Building
No. 4 You Hao North Road
Urumqi
Xinjiang

Legal advisers to the Company

Stephen Mok & Co in association with Eversheds LLP (Hong Kong law)
Beijing Grandfield Law Firm (PRC law)

Auditors

International auditors
PricewaterhouseCoopers

PRC auditors
PricewaterhouseCoopers Zhong Tian CPAs Limited Company

H Share Registrar in Hong Kong

Computershare Hong Kong Investor Services Limited
17M Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Company website

www.xjxxky.com.cn or kunlun.wsfg.hk

Stock Code

3833

Summary of Financial Information

Results of operations

	Year ended 31 December				
	2005	2006	2007	2008	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Revenue	544,741	869,068	1,581,163	1,176,663	**705,938**
Cost of sales	(270,664)	(348,419)	(721,705)	(856,580)	**(419,050)**
Gross profit	274,077	520,649	859,458	320,083	**286,888**
Distribution costs	(3,368)	(7,494)	(7,981)	(7,100)	**(8,720)**
Administrative expenses	(71,653)	(65,496)	(94,439)	(115,462)	**(93,788)**
Other income	3,037	5,208	161	–	**–**
Other (losses)/gains – net	(2,387)	51	4,150	(29,386)	**(5,505)**
Operating profit	199,706	452,918	761,349	168,135	**178,875**
Finance (cost)/income – net	(5,644)	(10,122)	64,995	124,838	**50,489**
Share of loss of a joint-venture	–	–	–	(658)	**(992)**
Share of loss of an associate	–	–	–	–	**(1,080)**
Profit before income tax	194,062	442,796	826,344	292,315	**227,292**
Income tax expense/(credit)	(366)	(119)	(238)	5,336	**(747)**
Profit for the year	193,696	442,677	826,106	297,651	**226,545**
Total Comprehensive income for the year	193,698	442,677	826,106	297,651	**226,545**
Attributable to:					
Equity holders of the Company	193,696	444,004	827,269	297,648	**226,745**
Minority interests	–	(1,327)	(1,163)	3	**(200)**
Total Comprehensive income	193,696	442,677	826,106	297,651	**226,545**
Earnings per share – basic and diluted *(Note 1) (RMB/share)*	0.220	0.318	0.498	0.135	**0.103**

The results for each of the years ended 31 December 2005 and 2006, respectively, which were extracted from the prospectus of the Company dated 27 September 2007, have been prepared on a combined basis as if the Company and its subsidiaries had been in existence throughout those years.

Note 1: The basic earnings per share for each of the five years ended 31 December 2009 were computed by dividing the profits attributable to the equity holders of the Company by the weighted average numbers of shares in issue during the respective years and had been adjusted for the share split effective on 27 September 2007.

Financial position

	As at 31 December				
	2005	2006	2007	2008	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Total non-current assets	554,241	830,234	927,608	1,651,271	**2,955,017**
Total current assets	474,576	733,751	4,383,618	3,744,032	**2,680,432**
Total assets	1,028,817	1,563,985	5,311,226	5,395,303	**5,635,449**
Total non-current liabilities	136,913	189,454	26,707	22,268	**136,259**
Total current liabilities	283,265	202,230	193,559	151,424	**213,434**
Total liabilities	420,178	391,684	220,266	173,692	**349,693**
Equity attributable to equity holders of the Company	608,639	1,148,688	5,090,960	5,211,808	**5,239,653**
Minority interests	–	23,613	–	9,803	**46,103**
Total equity	608,639	1,172,301	5,090,960	5,221,611	**5,285,756**
Cash flows					
Net cash generated from operating activities	190,862	459,046	719,959	182,305	**6,977**

Chairman's Statement

Dear Shareholders,

I would like to extend my gratitude for your confidence and support to Xinjiang Xinxin Mining Industry Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group"). I am pleased to report the operating results of the Group for the year ended 31 December 2009 (the "Reporting Year" or "Year"):

Market Overview

It is well-known that international and domestic prices of nickel and copper decreased significantly in 2009 as compared to 2008 as a result of the impact of the international financial crisis and the recession in the global real economy. London Metal Exchange ("LME") three-month future price of nickel cathode was US$14,725 per tonne on average in 2009, representing a decrease of 30.9% as compared to the year 2008. LME three-month future price of copper cathode was US$5,185 per tonne on average in 2009, representing a decrease of 24.8% as compared to 2008. The average spot price (tax included) of nickel cathode in Yangtze River Non-ferrous Metals Spot Market (長江有色金屬現貨市場) for 2009 was RMB115,309 per tonne in the year 2009, representing a decrease of 34.9% as compared to the year 2008. The average spot price (tax included) of copper cathode was RMB42,001 per tonne in the year 2009, representing a decrease of 24.2% as compared to the year 2008. The domestic price trends for nickel cathode and copper cathode during 2009 were basically in line with the international price trends.

During the Reporting Year, the Group recorded an average selling price of nickel cathode of RMB98,867 (tax excluded) per tonne, representing a decrease of 30.0% as compared to 2008, and an average selling price of copper cathode of RMB36,227 (tax excluded) per tonne, representing a decrease of 22.4% as compared to 2008.

During the Reporting Year, although the international and domestic nickel and copper prices experienced a substantial decrease as compared to 2008, as benefited from the momentum brought by the PRC's continuous economic growth and the relative shortage in nickel and copper resources supply, the volume of nickel cathode and copper cathode products provided by domestic producers still could not satisfy the growth in the consumption volume. The shortage of supply of nickel cathode and copper cathode in the domestic market therefore needed to be covered by substantial import, which in turn caused active transactions in the domestic nickel cathode and copper cathode markets.

Industry Position

The Group is principally engaged in the mining, ore processing, smelting and refining of nickel products and other non-ferrous metals, namely: copper, cobalt, gold, silver, platinum and palladium. According to the statistics collected by the China Non-ferrous Metals Industry Association, the total domestic production volume of nickel cathode for 2009 was 164,800 tonnes, representing an increase of 28.0% as compared to 2008. In 2009, the Group produced 5,078 tonnes of nickel cathode, and ranked as the PRC second largest nickel cathode producer ultilizing nickel sulfide resources.

Business Review

Production and Operations

During the Year, as domestic small and medium-sized producers of raw material nickel sulfide generally suffered from low utilization rates as a result of the significant decline in the international and domestic nickel prices, raw materials from nickel sulfide ore concentrates purchased by the Group from the domestic market decreased sharply as compared to 2008. The Group adjusted its operational strategies in a timely manner, with key measures such as lifting the technical and economic indicators, lowering production costs, increasing the production volume of nickel cathode products using self-produced raw materials, in bid to enhance the Group's overall economic benefits. For the Year, the Group recorded a total production volume of nickel cathode of 5,078 tonnes, of which 4,279 tonnes were produced using self-produced raw materials and 799 tonnes were produced using externally purchased raw materials, representing an increase of 28.0% and a decrease of 70.8% as compared to 3,343 tonnes and 2,740 tonnes in 2008 respectively. For the Year, the Group recorded a production volume of copper cathode of 5,032 tonnes, representing an increase of 11.8% as compared to 4,502 tonnes in 2008. The Group's total sales of nickel cathode for the Year amounted to 4,752 tonnes, representing a decrease of 21.3% as compared to 6,036 tonnes in 2008, while total sales of copper cathode for 2009 amounted to 4,931 tonnes, representing an increase of 4.0% as compared to 4,743 tonnes in 2008.

In light of the significant decrease in product prices and the resulting decrease in sales of nickel cathode due to lower production volume of nickel cathode using externally purchased raw materials, the Group realized lower sales revenue and net profit after tax during the Reporting Year as compared to 2008. In 2009, the Group achieved sales revenue of RMB705.9 million, representing a decrease of 40.0% as compared to 2008, net profit after tax (net profit after tax attributable to shareholders) of RMB226.7 million, representing a decrease of 23.8% as compared to 2008, and earnings per share (basic and diluted earnings per share) of RMB0.103 (basic and diluted earnings per share were calculated basing on the profit attributable to equity holders of the Company and the weighted average of issued ordinary shares of the Company of 2,210,000,000 shares for the year), representing a decrease of 23.7% as compared to 2008.

In respect of mining operations, Kalatongke Mine accomplished an aggregate of 347,015 tonnes of mine output and produced nickel-copper mixed concentrates of 52,197 tonnes in 2009. Xinjiang Yakesi Resources Co., Ltd. ("Xinjiang Yakesi") and Hami Jubao Resources Co., Ltd. ("Hami Jubao") accomplished 432,361 tonnes of mine output in aggregate and produced 25,207 tonnes of nickel concentrates in 2009.

As for smelting and refining processing operations, Kalatongke Mine produced water hardening and nickel matte ("水淬高冰鎳") of 11,622 tonnes in 2009. Xinjiang Zhongxin Mining Company Limited ("Zhongxin Mining") produced water hardening and nickel matte of 1,699 tonnes in 2009. Fukang Refinery (阜康冶煉廠) manufactured nickel cathode of 5,078 tonnes and copper cathode of 5,032 tonnes in total in 2009.

Chairman's Statement

In respect of sales of products in the Year, the Group achieved total revenue from operations of RMB705.9 million, of which revenue from nickel cathode is RMB469.8 million, accounting for 66.6% of the Group's total revenue. Copper cathode recorded revenue of RMB178.6 million, accounting for 25.3% of the Group's total revenue. Other products from the Group's principal businesses including copper concentrate, cobalt cathode, gold, silver, platinum and palladium, achieved revenue of RMB57.5 million, representing 8.1% of the Group's total revenue.

During the Reporting Year, with significant decrease in nickel prices and small and medium-sized manufacturer of nickel sulphide as raw materials running under their production capacity, the Group's procurement of nickel concentrate as raw materials from the domestic market declined significantly as compared to 2008, resulting in a sharp decrease in the Group's nickel cathode produced using externally procured raw materials during the Reporting Year. Apart from that, the Group's business operations in 2009 were stable and robust, and were not subject to any material problems or predicaments in terms of its operations. To mitigate market risks, the Group will continue to pursue opportunities of merging and acquiring mines in search of raw materials, so as to further enrich its quantity of resources, expand its production capacity and thus uplift its economic efficiency.

Progress of Technical Improvement and Expansion Projects

During the Reporting Year, the Group continued its three technical improvement and expansion projects in relation to the enhancement in mining, ore processing and smelting capacity of Kalatongke Mine, the refining capacity of nickel and copper of Fukang Refinery (阜康冶煉廠) and Xinjiang Yakesi's new mining and ore processing capacity. The technical improvement and expansion projects of the Group proceeded smoothly in 2009 and the required construction progress during the Reporting Year was completed on schedule. Investments in these projects amounted to RMB603.1 million. Among which:

Kalatongke Mine

Regarding the technical improvement and expansion project in relation to the enhancement in mining, ore processing and smelting capacity of the Kalatongke Mine as at the end of 2009, 85% of the construction work of the mining segment, 90% of that of the ore processing segment and 25% of the smelting segment were completed. The entire project commenced operation in 2010 and has since developed a production capacity of mining 3,400 tonnes of ore per day, processing 3,000 tonnes of ore per day and making 30,698 tonnes of water hardening and nickel matte (with nickel contents of 8,000 tonnes) per year. Investments in this project recorded RMB368.7 million during the Reporting Year.

Fukang Refinery

In respect of the technical improvement and expansion project of 13,000 tonnes of nickel cathode and 12,000 tonnes of copper cathode of Fukang Refinery as at the end of 2009, the technical improvement and expansion project of 13,000 tonnes of nickel cathode has nearly been completed and partially commenced production. The construction of the technical improvement and expansion of 12,000 tonnes of copper cathode is 90% completed and the entire project will commence operation in 2010. Investments in this project during the Reporting Year amounted to RMB98.5 million.

Xinjiang Yakesi

As for the new technical improvement and expansion projects of Xinjiang Yakesi in relation to the mining and processing of 4,000 tonnes of ore per day, investments in the project during the Reporting Year amounted to RMB135.9 million. The entire project will commence operation in 2012.

Equity Investments

In February 2009, the Company completed its acquisition of 100% equity interest in two mining companies – Xinjiang Yakesi and Hami Jubao and in October 2009, the Company completed its capital injection of RMB257.0 million into Xinjiang Yakesi. In the above acquisition and capital increase, the Company invested a total of RMB799.8 million, of which RMB528.7 million was recorded during the Reporting Year. Through this acquisition, the Group now owns three nickel-copper mines in Huangshandong (黃山東), Huangshan (黃山) and Xiangshan (香山) which lead to a surge in the Group's copper and nickel reserves (see the Group's 2008 Annual Report). The Group has also developed a production capacity of mining and processing 1,600 tonnes of ore per day in its self-owned raw material mines.

In June 2009, the Company completed the acquisition of the equity interest in Zhongxin Mining and in July 2009, the Company finished the capital increase of RMB62.0 million in Zhongxin Mining. During the Reporting Year, the Company's investments in this acquisition and capital increase were RMB118.7 million. Upon the completion of the acquisition and capital increase, the Company owns 97.6% equity interest in Zhongxin Mining and has developed an annual smelting capacity of 7,600 tonnes of water hardening and metallic nickel matte (Nickel: 5,000 tonnes), further optimizing the Group's industry chain.

In August 2009, the Company and Xinjiang Ashele Copper Industry Company Limited jointly established Xinjiang Wuxin. The Company has invested RMB66.0 million and owns 66.0% equity interest in Xinjiang Wuxin. Xinjiang Wuxin capitalizes on Xinjiang's advantage of copper resources and holds a leading position in Xinjiang's copper industry. It proposes to build the first large-scale copper smelting enterprise with a construction scale of 100,000 tonnes of copper cathode per year. Upon completion, the project will become the Group's new economic growth points, which will further enhance the Group's economic benefits and overall operational efficiency.

Environmental Protection and Safety

The Group applies and implements scientific development concepts and the policies of "Safety First, Precaution Foremost" and "Equal Emphasis on both Development Works and Protection" to ensure its production safety and enforce environmental governance. In 2009, the Group achieved its target of production safety with zero death or severe injury in mines and factories. The environmental governance is stringently observed in compliance with the relevant national laws and regulations. The Group achieved remarkable results in developing a green factory and harmonious work environment in its mines.

Chairman's Statement

Outlook

Operating Environment

In 2010, although the global economy is gradually recovering and the real economies worldwide are also poised to rebound from a low point, the effects of the global financial crisis still linger. Also, the market environment is not thriving enough to accelerate economic growth around the globe. It is expected that metal prices will fluctuate and remain at low level. Nevertheless, since China is expected to keep growing fast (the PRC government expects China's GDP growth in the year 2010 will stand at around 8%), the Group expects the consumption volume of nickel and copper in the domestic non-ferrous metal market will continue to grow. Due to the relative shortage in the supply of nickel and copper resources, nickel cathode and copper cathode products provided by domestic manufacturers are still unable to satisfy the growth in the demand for consumption volume. The shortage in supply in the domestic market therefore needs to be covered by import. It is expected that the domestic market for nickel cathode and copper cathode will continue to sustain with active transactions.

The market prices for nickel cathode and copper cathode in the PRC in 2010 are expected to fluctuate between the average spot price of the fourth quarter of 2009 and that of the first quarter of 2010 in Shanghai Yangtze River Non-ferrous Metals Market.

Operational Objectives

In 2010, the Group plans to increase the production volume of nickel cathode and copper cathode. Please note that due to a number of uncertainties in metal prices and the domestic raw materials market, the above plan was made on the basis of the current market situation and the existing conditions of the Group. The Board of Directors may, as situation warrants, vary the production plans.

Business Strategies

Production and Operations

In 2010, notwithstanding the international and domestic metal markets have shown signs of recovery, a solid foundation for empowering the rapid growth of global economy has not yet been formed, and hence, the Group will maintain a prudent approach when conducting business in these markets and leverage on its own potential and strive to increase production volume and income, so as to generate greater economic benefits. As the major mine of the Group, Kalatongke Mine shall attain new heights in respect of production and operations, regulatory measures and management, safety and environmental protection, nurturing talents, exploration of resources, etc. As the Group's newly acquired producing enterprises, Xinjiang Yakesi, Hami Jubao and Zhongxin Mining shall strengthen its management and achieve breakthroughs with regard to stabilising production techniques, lifting technical and economic indicators, lowering production costs, etc. Fukang Refinery, as the principal place for the production of the Group's end products, will put more efforts in refining management, boosting products quality and recycling rates for metals, and further enhancing the levels of skills and technologies and comprehensive recycling abilities. Furthermore, the Group is also active in exploring pioneering ideas on sales and raw materials procuring models, with an effort to achieve breakthroughs in raw materials procurement and processing.

The Group will endeavour to accomplish the production and operational objectives for 2010, whilst strive to increase production volume and further enhance the economic efficiency.

Projects Construction Work

In 2010, investment sum for the technical improvement and expansion project regarding the mining, ore processing and smelting of Kalatongke Mine (continued construction work) is estimated to be RMB496.3 million. Such project is expected to be fully completed and commence production in 2010, contributing a daily mining and ore processing capacity of 3,400 tonnes and 3,000 tonnes, respectively, as well as an annual production capability of 30,698 tonnes of water hardening and nickel matte (with nickel content of 8,000 tonnes).

In 2010, investment sum for the technical improvement and expansion project of 13,000 tonnes of nickel cathode and 12,000 tonnes of copper cathode of Fukang Refinery (continuing construction work) is estimated to be RMB127.5 million. Such project is expected to be fully completed and commence production in 2010.

In 2010, investment sum for the technical improvement and expansion project regarding the enhancement of the mining and ore processing capability of Xinjiang Yakesi by 4,000 tonnes (continuing construction work) is estimated to be RMB336.6 million. The construction of such project is expected to be fully completed by the end of 2012, of which the mining and ore processing capacity will be increased by 1,000 tonnes per day by the end of 2010, while the mining and ore processing capacity will be increased by 3,000 tonnes per day by the end of 2012.

In 2010, investment sum for the construction project of 100,000 tonnes of copper cathode of Xinjiang Wuxin (new construction work) is estimated to be RMB571.2 million. Such project is expected to be fully completed and commence production in 2012.

Mineral Resources Control and Geological Exploration

Mineral resources are the fundamental support for the continuing development of a mining company. The control of mineral resources and the search for geological mines are the core components of the business development of the Group. The Group continues to place high emphasis on searching for potential preliminary exploration projects for acquisition. The Group also expands the exploration work in depth and in width in the surrounding areas of its existing major mines, and applies effective mine searching methods so that the mineral resources of the Group can achieve a significant growth. In 2010, the Group plans to invest exploration fund of RMB20.7 million to explore resources and search for geological mines at depth and the surrounding areas of existing major mines, as well as to conduct resources survey on the Copper-nickel Mine in Tuerkuban, Burqin, Xinjiang (新疆布爾津縣吐爾庫班套銅鎳礦). Among which, the planned investment in Kalatongke Mine amounted to RMB9.5 million, while the planned investment in Xinjiang Yakesi and Hami Jubao amounted to RMB9.3 million and that in the resources survey on the Copper-nickel Mine in Tuerkuban, Burqin, Xinjiang amounted to RMB1.9 million.

Consolidation and Acquisition of Enterprises

The Company has valued the consolidation and acquisition of enterprises highly since its listing. Following the successful acquisition of various mining companies including Xinjiang Yakesi, Hami Jubao, Zhongxin Mining and Hami Hexin Mining Company Limited (哈密和鑫礦業有限公司) (in which the Company holds 50% equity interest), a growth of approximately 100% was recorded in the Group's nickel and copper reserves as well as its subsequent development and production capacity. The acquisitions have also enhanced the Group's core competitiveness and overall operational efficiency of assets by optimizing the Group's industry chain. In 2010, the Group will fully utilize its strength to enforce mergers and acquisition of enterprises, initiate economic cooperation and capture consolidation and acquisition opportunities in international and domestic metal markets. Meanwhile, the Group will strive for new achievements in terms of consolidation and acquisition of enterprises and cash flow by improving scientific analysis on the selected targets of mergers and acquisition as well as optimizing their business operation, thus marking the Group's next milestone.

2010 is a year full of opportunities and challenges for the Group. The Group will take proactive strategic plans to respond to the favorable opportunities brought by the stabilizing and rebounding international real economy so that the Group can achieve rocketing growth under an efficient and low-cost basis operation condition. We have an experienced management team which enable us to operate effectively in varying market conditions. The Group's strong balance sheet, abundant reserves, technical improvement and expansion projects (which will commence operation in 2010, with production capacity being gradually released since that year), leading market position in nickel product and attractive growth opportunities in an industry where production capacity growth has been constrained by shortage in resources will enable us to benefit as the world's economies further improve. The Group believes that with its diligent staff and tremendous support from the society, the Group will continue to grow rapidly in 2010.

By Order of the Board
Yuan Ze
Chairman

Xinjiang, the PRC
29 March 2010

Management Discussion and Analysis

OPERATING RESULTS

In 2009, the turnover of the Group amounted to RMB705.9 million, representing a decrease of 40% as compared to RMB1,176.7 million in 2008. The profit attributable to the equity holders of the Company in 2009 amounted to RMB226.7 million, representing a decrease of 23.8% from 2008.

The decrease in profit was primarily due to the impact of international financial crisis. The prices of copper and nickel decreased significantly in 2009 as compared to the year of 2008 ("Last Year"). In addition, the Company's acquisition of equity interests in Xinjiang Yakesi, Hami Jubao and Hami Zhongxin and the increased investment in relation to the technology renovation works of Fukang Refinery, Kalatongke Mine and Xinjiang Yakesi in 2009 caused the bank balance of the Company dropped dramatically. In addition, the interest rate for bank deposit in Renminbi decreased. Due to the reasons mentioned above, the bank interest income in 2009 decreased 59.9% as compared to that in 2008.

Due to the impact of lackluster domestic and international nickel prices, in 2009, some domestic small and medium-sized nickel mines reduced production output or suspended production, resulting in the Group's outside purchase of nickel raw materials decreased significantly as compared to 2008, and thus the Group's production volume of nickel cathode dropped by approximately 16.5% as compared to that for Last Year. Nevertheless, the Group adjusted the operational strategies in a timely manner, enhanced the technology parameters, reduced the production cost and administration expenses, and increased the production of nickel cathode by using self-produced raw materials to 4,279 tonnes in 2009, representing an increase of 28% from Last Year. These measures substantially offset the negative impact on the operating profit as caused by the decreases in price and production in 2009.

TURNOVER AND GROSS PROFIT

The following table illustrates the details of sales by products of the Group for the two years ended 31 December 2008 and 2009:

	2009			2008		
Product Name	**Sales Volume** ***Tonnes***	**Amount** ***RMB'000***	**% to** ***Turnover***	Sales Volume *Tonnes*	Amount *RMB'000*	% to *Turnover*
Nickel cathode	**4,751.6**	**469,779**	**66.6%**	6,035.6	852,658	72.5%
Copper cathode	**4,931.2**	**178,644**	**25.3%**	4,742.6	221,335	18.8%
Copper concentrate	**2,623.5**	**23,579**	**3.3%**	4,858.6	62,286	5.3%
Other products		**33,936**	**4.8%**		40,384	3.4%
Total turnover		**705,938**	**100.0%**		1,176,663	100.0%
Cost of sales		**(419,050)**	**59.4%**		(856,580)	72.8%
Gross profit		**286,888**	**40.6%**		320,083	27.20%

In 2009, the turnover of nickel cathode amounted to RMB469.8 million, representing a decrease of 44.9% as compared to RMB852.7 million in 2008. The decrease in the turnover of nickel cathode was primarily due to the significant decline in the price of nickel cathode in international and domestic markets as compared to that for Last Year. The average selling price of the Group's nickel cathode in 2009 amounted to RMB98,867 per tonne, representing a decrease of 30.0% as compared to the average selling price of RMB141,272 per tonne in 2008. Furthermore, due to the decrease in external purchase of nickel raw materials, the Group's production volume of the nickel cathode in 2009 decreased as compared to 2008. The Group's sales volume of nickel cathode in 2009 was 4,751.6 tonnes, representing a decrease of 1,284 tonnes (or 21.3%) as compared to 6,035.6 tonnes in 2008.

In 2009, the turnover of copper cathode amounted to RMB178.6 million, representing a decrease of 19.3% as compared to RMB221.3 million in 2008. The decrease in the turnover of copper cathode was primarily due to the significant decline in the price of copper cathode in international and domestic markets as compared to that for Last Year. The average selling price of the Group's copper cathode in 2009 amounted to RMB36,227 per tonne, representing a decrease of 22.4% as compared to the average selling price of RMB46,670 in 2008. The decrease in the turnover of copper cathode was partly offset by a growth of 4% in the sales volume of copper cathode to 4,931.2 tonnes in 2009 from 4,742.6 tonnes in 2008. The increase in sales volume was due to the change in the production process at Kalatongke Mine of, suspending the production of copper concentrate and thus increasing the copper contains in the nickel matte under the production flow.

In 2009, the turnover of copper concentrate amounted to RMB23.6 million, representing a decrease of 62.1% as compared to RMB62.3 million in 2008. The decrease in the turnover of copper concentrate was primarily due to the decrease of 46% in the sales volume of copper concentrate in 2009 as compared to that in 2008, from 4,858.6 tonnes to 2,623.5 tonnes. This was the result of the change in the production process at Kalatongke Mine of suspending the production of copper concentrate. The copper concentrate sold by the Group in 2009 was produced by Xinjiang Yakesi. The average selling price of the Group's copper concentrate in 2009 amounted to RMB8,987.6 per tonne, representing a decrease of 29.9% as compared to RMB12,820 per tonne in 2008.

In 2009, the turnover of other products amounted to RMB33.9 million, representing a decrease of 16.1% as compared to RMB40.4 million in 2008. The decrease in turnover of other products was primarily due to the decline in sales volume of products, such as cobalt products.

Gross profit of the Group decreased by 10.4% from RMB320.1 million in 2008 to RMB286.9 million in 2009, and the gross profit margin for the two years ended 31 December 2008 and 2009 were 27.2% and 40.6%, respectively. The growth in gross profit margin was mainly due to the adjustment of operational strategies, the enhancement of technology parameters, the reduction of production cost and the increase in self-produced raw material when there was a significant decrease in the volume of external purchase of nickel raw materials in 2008. As the result of these factors, the self-sufficiency rate of the Group increased significantly. The cost of self-produced raw material was much lower than the cost of raw material from external suppliers, making the gross profit margin for the year 2009 higher than that of 2008. Moreover, in 2009, the Group reversed the provision for inventory write-downs of 2008 and this contributed to the growth of gross profit margin.

SELLING AND MARKETING EXPENSES

Selling and marketing expenses increased by 22.8%, as compared to Last Year, to RMB8.7 million, primarily because after completing the acquisition of the equity of Xinjiang Yakesi and Hami Jubao in February 2009, the transportation fees related to the products sold by Xinjiang Yakesi and Hami Jubao were consolidated during the reporting year.

ADMINISTRATIVE EXPENSES

Administrative expenses decreased by 18.8% to RMB93.8 million, primarily due to the reduction of the mineral resource compensation fee which was led by the decline in price of mineral products, and the decrease in employees' salaries.

OTHER NET LOSSES

Other net losses decreased significantly from a loss of RMB29.4 million in 2008 to a loss of RMB5.5 million in 2009, primarily due to the significant decrease in donations made for the local social welfare in 2009.

FINANCE INCOME AND FINANCE COST

Finance income decreased 59.9% from RMB126.5 million in 2008 to RMB50.7 million in 2009, primarily due to the decline in interest income as a result of the decrease in average cash and bank balance as compared to those in Last Year, as well as the decrease in bank deposit rates.

Finance cost decreased 85.5% from RMB1.7 million in 2008 to RMB0.2 million in 2009, primarily due to the discontinuation of net exchange losses in 2009 as the Company had converted the balance of the IPO proceeds into Renminbi in the beginning of 2008.

FINANCIAL POSITION

The Group's consolidated balance sheet remained strong and free from bank debts or borrowings. In 2009, total assets increased by 4.5% to RMB5,635.5 million as at 31 December 2009. Shareholders' equity of the Company increased by 0.5% to RMB5,239.7 million as at 31 December 2009.

LIQUIDITY AND FINANCIAL RESOURCES

In 2009, the Group's net cash inflow generated from operating activities amounted to RMB7.0 million, representing a decrease of RMB175.3 million from RMB182.3 million in 2008, primarily due to the decrease in operating profit as caused by the decreases in nickel and copper prices in 2009, and the increase in the inventory of the Group.

In 2009, the Group's net cash outflow used in investing activities amounted to RMB626.5 million, mainly consisting of payments made for the acquisition of Xinjiang Yakesi, Hami Jubao and Hami Zhongxin and the project expenses in relation to the technology renovation work conducted in Fukang Refinery, Kalatongke Mine and Xinjiang Yakesi. Net cash outflow used in financing activities amounted to RMB255.9 million, which mainly represented the dividend paid in 2009 and the repayment of the bank loan from the Hami Zhongxin.

As at 31 December 2009, the Group had total cash and cash equivalents amounting to RMB2,301.4 million, and those as at 31 December 2008 were RMB3,176.9 million.

As at 31 December 2009, the Group did not have any bank debts or borrowings:

	As at 31 December 2009	As at 31 December 2008
Current ratio (times)	**12.6**	24.7
Gearing ratio	**not applicable**	not applicable

COMMODITY PRICE RISK

The prices of the Group's products are impacted by international and domestic market prices and changes in global supply and demand for such products. Price volatility of non-ferrous metals is also affected by the global and PRC economical cycles as well as the fluctuations of the global currency markets. Both the international and domestic market prices of non-ferrous metals as well as the volatility of their supply and demand are beyond the control of the Company. Therefore, the volatility of commodity prices may materially affect the turnover and the profit of the Company. The Group did not engage in nor enter into any trading contracts and pricing arrangements to hedge the risk of volatility of non-ferrous metals prices.

RISK OF FLUCTUATIONS IN EXCHANGE RATE

The transactions of the Group are all denominated in Renminbi. Fluctuations in exchange rates may affect the international and domestic non-ferrous metal commodity prices, which may impact the Group's results of operation. Renminbi is not a freely convertible currency, and the conversion of Renminbi into a basket of currencies may involve fluctuations. In light of further actions and measures adopted for free transactions of Renminbi by the PRC government, fluctuations in exchange rates may adversely affect the value, translated or converted into Hong Kong dollars, of the Group's net assets, earnings and any dividends declares.

INTEREST RATE RISK

Although the Company has no exposure to risks resulting from fluctuations in interest rates, to the extent that the Company may need to raise debt financing in the future, any upward fluctuations in interest rates will increase the cost of new debt financing.

BORROWINGS AND CHARGE ON ASSETS

The Group repaid the bank loan of RMB55 million to Hami Zhongxin in July 2009. As at 31 December 2009, the Group did not have any outstanding bank loans or other borrowings nor any charges or pledges of assets.

MAJOR LITIGATION AND ARBITRATION

The Group has no major litigation or arbitration during the reporting year.

CONTINGENT LIABILITIES

Save as disclosed in note 38 to the consolidated financial statements of the Group, the Group had no other significant contingent liabilities as at 31 December 2009.

POST BALANCE SHEET EVENTS

Post balance sheet events of the Group were disclosed in note 41 to the consolidated financial statement.

HISTORICAL CAPITAL EXPENDITURE

Capital expenditure was primarily used to expand the production capacities of the Group and to improve the mining, ore processing, smelting and refining technology of the Group. The following table sets out the conditions of the Group's capital expenditure as well as the ratio of the capital of each operation over total capital expenditure in 2009 based on various categories of operations:

	Year ended 31 December 2009	
	RMB'000	**Percentage %**
Mining, ore processing, smelting and complementary operations in Kalatongke Mine	**397,567**	**59.2%**
Refining and complementary operations in Fukang Refinery	**109,730**	**16.3%**
Exploration cost in Mengxi Mining	**3,000**	**0.4%**
Mining and ore processing operations in Xinjiang Yakesi	**133,795**	**19.9%**
Mining operation in Hami Jubao	**5,101**	**0.8%**
Smelting and complementary operations in Hami Zhongxin	**9,503**	**1.4%**
100,000 tonnes of copper smelting operation in Wuxin Copper	**13,443**	**2.0%**
Total	**672,139**	**100%**

EMPLOYEES

As at 31 December 2009, the Group had a total of 2,910 full-time employees. Breakdowns by function and division are as follows:

Division	Employees	Total (in percentage)
Management and administration	162	5.6%
Engineering technician	400	13.7%
Production staff	1,770	60.8%
Repair and maintenance	398	13.7%
Inspection	165	5.7%
Sales	15	0.5%
Total	2,910	100.0%

The remuneration package of the Group's employees includes salary, bonuses and allowances. The Group has participated in the social insurance contribution plans organised by local governments in the PRC. In accordance with the relevant national and local labour and social welfare laws and regulations, the Group is required to pay on behalf of its employees a monthly social insurance premium covering pension insurance, medical insurance, employment insurance and housing provident funds. According to the currently applicable local regulations, the respective percentages of the pension insurance, medical insurance, employment insurance and housing provident funds which the Group must contribute are 20%, 6%-7.5%, 2% and 10%, respectively, of its employees' total monthly basic salary. The Group also contributes 0.5%-2% of its employees' total monthly basic salary for occupational injury insurance and 0.6%-1% of their total monthly basic salary for maternity cover.

Biographical Details of Directors, Supervisors and Senior Management

EXECUTIVE DIRECTORS

Mr. Yuan Ze (袁澤), aged 60, has been the Chairman of the Company since September 2005. Mr. Yuan completed a postgraduate course in natural geography at Nanjing University (南京大學) in December 1997. From October 1998 to January 2002, he served as the secretary of the communist party committee of Xinjiang Non-ferrous Industry Co. (新疆有色金屬工業公司). Since January 2002 and up to present, he has served as the secretary of the communist party committee and chairman of Xinjiang Non-ferrous Metal Industry (Group) Ltd. (新疆有色金屬工業（集團）有限責任公司) ("Xinjiang Non-ferrous"). Mr. Yuan received the Xinjiang Uygur Autonomous Region Model Labour Award (新疆維吾爾自治區勞動模範殊榮) in 2005 and 2007. He was elected a representative of the National People's Congress in March 2008.

Mr. Shi Wenfeng (史文峰), aged 42, has been a Director and the general manager of the Company since September 2005. Mr. Shi graduated from the Department of Chemical Engineering of Chengdu University of Science and Technology (成都科技大學) with a Bachelor's degree in engineering, majoring in the metallurgy of non-ferrous metals from September 1985 to July 1989 and is a senior engineer in Metallurgy. Mr. Shi has accumulated more than 19 years of experience in the smelting industry. From September 1993 to January 1994, he served as the deputy head of the central refinery workshop of the Fukang Refinery (阜康冶煉廠). From November 1994 to January 1995, he served as the head of the production division of Fukang Refinery (阜康冶煉廠). From February 1995 to March 1998, he served as the assistant head of Fukang Refinery (阜康冶煉廠). From March 1998 to January 2002, he served as the deputy head of Fukang Refinery (阜康冶煉廠). From January 2002 to August 2005, he served as the head of Fukang Refinery (阜康冶煉廠). Mr. Shi received the National Model Labour Award (全國勞動模範殊榮) awarded by the State Council in 2005, and he received the Scientific and Technological Progress First Prize (科學技術進步一等獎) 1995 and 2002 awarded by the National Committee of Science and Technology of the PRC (國家科學技術委員會) and the People's Government of Xinjiang, respectively, for his contribution to the development of the wet process in the refining of nickel and the development of technology and production application in extracting copper and precious metals from smelting tailing of nickel ore.

Mr. Zhang Guohua (張國華), aged 45, has been a Director and the Executive Deputy General Manager of the Company since September 2005. He completed a postgraduate course in management science and engineering at Dalian University of Technology in November 2003. From October 1988 to December 1993, he served as a deputy section leader and section leader of the environmental safety section of Kalatongke Mine. From January 1994 to June 1996, he served as a mining workshop supervisor of Kalatongke Mine. From June 1996 to March 1997, he served as an assistant to the head of Kalatongke Mine. From March 1997 to March 1998, he served as the chairman of the labour union of Kalatongke Mine. From March 1998 to March 1999, he served as the secretary of the communist party committee of the Kalatongke Mine. He served as the deputy general manager and general manager of the sales branch of Xinjiang Non-ferrous Metals Industry Co. from April 1999 to February 2002. Mr. Zhang has accumulated more than 24 years of experience in the mining industry. From March 2002 to August 2005, he served as the head of Kalatongke Mine. He has also served as the secretary of the Communist Party committee of the Company since September 2005. Mr. Zhang was recognised by Xinjiang Non-ferrous as the Model Labour (勞動模範) for the years of 2003 and 2004.

Mr. Liu Jun (劉俊), aged 44, has been a Director and duty general manager of the Company since September 2005. Mr. Liu graduated from Kunming University of Science and Technology with a Bachelor's degree in engineering, majoring in mining engineering from September 1983 to July 1987. He served as the deputy supervisor (production technology) of the mining workshop of Kalatongke Mine from May 1991 to December 1993. From January 1994 to December 1994 he served as the head of production technology division of Kalatongke Mine. He served as the chief engineer of Kalatongke Mine from March 1997 to April 2000. From April 2000 to August 2005 he served as the deputy general manager of Kalatongke Mine. From September 2005 to August 2008, he became the head of Kalatongke Mine and has also served as a Director and deputy general manager of the Company. Mr. Liu has accumulated more than 21 years of experience in the mining industry. Mr. Liu's contribution to nickel matte blowing and recovery processing and industrialised production received a scientific and technological progress second prize from the People's Government of Xinjiang for the year of 2004.

NON-EXECUTIVE DIRECTORS

Mr. Zhou Chuanyou (周傳有), aged 45, has been a non-executive Director and the vice-chairman of the Company since September 2005. He completed a postgraduate course in law at Fudan University (復旦大學) in July 1987. Mr. Zhou taught in Huadong Politics and Law Institute from July 1987 to January 1990. From September 1995 he served as the Chairman of Shanghai Jinying Investment Company Ltd. (上海金鷹投資有限公司), which is the predecessor of Zhongjin Investment (Group) Ltd. (中金投資(集團)有限公司) ("Zhongjin Investment"), and he is currently the beneficial owner of 100% shareholding in Zhongjin Investment. Mr. Zhou has served as a director of Shanghai Yilian Kuangneng Co. Ltd. (上海怡聯礦能實業有限公司) ("Shanghai Yilian") since May 2005 and is currently the beneficial owner of the entire shareholding of Shanghai Yilian. Shanghai Yilian held 12.80% shareholding of the Company and Zhongjin Investment held 8.96% shareholding of the Company. The interest attributable to Mr. Zhou represents his indirect deemed interest in the Company's issued share capital via his equity interests in Shanghai Yilian and Zhongjin Investment. Mr. Zhou has served as a director of Shanghai Zhongjin Real Estate (Group) Co., Ltd. (上海中金房產(集團)有限公司) since February 1998 and a vice chairman and director of Dazhong Insurance Co., Ltd. of China (大眾保險股份有限公司) since September 1998.

Mr. Niu Xuetao (牛學濤), aged 45, has been a non-executive Director of the Company since September 2005. He completed an undergraduate course in law at Northwest Institute of Political Science and Law in July 1990. From February 2003 to February 2008, he served as the deputy chief executive officer of Zhongjin Investment. From June 2004 to July 2005, Mr. Niu served as the vice-president of Xinjiang Fanhua Mine and Energy Industrial Company Ltd. (新疆泛華礦能實業有限公司), a company principally engaged in real estate development business, which is not related to Xinjiang Non-ferrous. From May 2005 to December 2009, he was the general manager of Shanghai Yilian. Mr. Niu is currently the Head Supervisor of Zhongjin Investment since October 1999.

Biographical Details of Directors, Supervisors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chen Jianguo (陳建國), aged 46, has been an independent non-executive Director of the Company since June 2006, graduated from the Xinjiang University of Finance and Economics (新疆財經大學) (previously known as Xinjiang Institute of Finance and Economics (新疆財經學院)) and obtained a Bachelor's degree in economics in July 1985. In 1988, he obtained a Master's degree in economics from Dongbei University of Finance and Economics (東北財經大學). Since September 1988, he has been teaching at the Faculty of Finance of Xinjiang Institute of Finance and Economics. He was promoted to an associate professor in July 1996 and has become the Head of Faculty of Finance of Xinjiang Institute of Finance and Economics since 1997. From January 1999 to August 1999, he studied in Nyenrode Business Universiteit (奈爾洛德商業大學) in Netherlands pursuant to the Chinese Management Development Program. In 2001, he obtained a Master's degree in Business Administration from Haagse Hogeschool, University of Professional Education in Netherlands. Since April 2002, he has served as a standing council member of Xinjiang International Taxation Research Institute (新疆國際稅收研究會常務理事). He has also been the head of research and development department and a professor of Faculty of Accounting of Xinjiang University of Finance and Economics (新疆財經大學) since October 2007. Mr. Chen has acted as an independent director of Markor International Furniture Co. (美克國際傢俱股份有限公司) and Xinjiang Guannong Fruit & Antler Co., Ltd. (新疆冠農果茸股份有限公司), both of which are PRC companies listed on the Shanghai Stock Exchange, and has also acted as an independent director of Zhundong Petroleum Technology Co., Ltd. (準東石油技術股份有限公司), a PRC company listed on the Shenzhen Stock Exchange, and Great Western Region Tourism Co., Ltd. (大西部旅遊股份有限公司). On 8 September 2008, Mr. Chen was appointed as an independent director of Xinjiang International Enterprise Co., Ltd (新疆國際實業股份有限公司). Mr. Chen was appointed as an independent director of Xinjiang Kangdi Planting Technology Company Limited* (新疆康地種業科技股份有限公司) since January 2010.

Mr. Sun Baosheng (孫寶生), aged 62, has been an independent non-executive Director of the Company since 2006, studied and obtained a postgraduate qualification in engineering in 1982. From August 1975 to September 1978, Mr. Sun served as the team leader and technician of the Bureau of Geominerals Exploration and Development of Xinjiang (新疆地礦局). From October 1975 to April 1976, he studied remote sensing geology in Peking University (北京大學). From September 1978 to April 1982, he studied minerogenetic rule and minerogenetic prognostic (成礦規律及成礦預測) at Xinjiang University (新疆大學) and obtained a Master's degree. He has served as the Head of the Teaching and Research Section of Deposits Geochemical (礦物地球化學教研室主任) since October 1981. From February 1993 to February 1994, he worked together with Professor R.W. Hachinson, the Chairman of the Society of Economic Geology (美國經濟地質學會) on deposit geological research in Colorado School of Mines (科羅拉多礦業學院) in the U.S.A. and was granted fund by the National Science Foundation of the U.S.A. (美國國家自然科學基金). He was the professor and the vice department head of the School of Resource and Environmental Science of the Xinjiang University between 2002 and 2004. He was qualified as a professor in June 1994. He is currently a tutor of PhD students in Xinjiang University, and also serving as deputy director of the Geological Society of Xinjiang Uygur Autonomous Region (新疆地質協會副理事長), member of Council of China Resource Industry (中國資源產業理事會理事), member of the group of experts of Xinjiang Resource and Environment Center (新疆資環中心專家組成員) and visiting fellow of Xinjiang Institute of Ecology and Geography Chinese Academy of Sciences (中國科學院新疆生態與地理研究所客座研究員).

* *English name is a translation of the original Chinese name and provided for reference only.*

Mr. Ng Yuk Keung (吳育強), aged 45, has been an independent non-executive Director of the Company since January 2007, graduated from the University of Hong Kong with a Bachelor's degree in economics and management, and a Master's degree in global business management and E-commerce. He has been qualified as a Chartered Accountant with Institute of Chartered Accountants in England and Wales and is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. During the period from 1988 to 2001, he worked in PricewaterhouseCoopers and took part in various initial public offerings. From 2004 to 2006, he served as deputy chief financial officer, joint company secretary and qualified accountant in an H-share company listed in Hong Kong. From 2006 to 2010, he served as vice president, chief financial officer, company secretary and qualified accountant in China Huiyuan Juice Group (中國匯源果汁集團) (a company listed on the Stock Exchange). Mr Ng is currently the honorary adviser to China Huiyuan Juice Group and an independent non-executive director of Beijing Capital Land Ltd. (首創置業股份有限公司) (stock code: 02868), Sany Heavy Equipment International Holdings Company Limited (三一重裝國際控股有限公司) (stock code: 00631) and Zhongsheng Group Holdings Limited (中升集團控股有限公司) (stock code: 00881).

EMPLOYEES' REPRESENTATIVE SUPERVISOR

Mr. Jiang Mingshun (姜明順), aged 54, has been the chairman of the Supervisory Committee since April 2006. He is a Supervisor elected by the employees as employees' representative in the Supervisory Committee. He graduated from Central Xinjiang Communist Party School (新疆自治區黨校) in 1988, majoring in political theory. Mr. Jiang had worked in Keketuohai Mining Bureau (可可托海礦務局) since 1973. From August 1983 to August 1986, he worked in the Labour Union of Keketuohai Mining Bureau. He served as the Party branch secretary of Keketuohai Mining Bureau No. 1 Mine and Transportation Section from August 1988 to January 1992. From 1 November 1991 he served as the assistant chief director (the deputy for the chief director) of the Keketuohai Mining Bureau (可可托海礦務局行政辦公室). He served as deputy head of Fukang Refinery (阜康冶煉廠) from January 2002 to August 2005.

Mr. Sun Baohui (孫寶輝), aged 40, has been a Supervisor of the Company since June 2006. He was elected by the employees as employees' representative in the Supervisory Committee. He majored in the metallurgy of non-ferrous metals and graduated from Kunming University of Science and Technology with a Bachelor's degree in engineering in July 1992. Mr. Sun served as a technician, the deputy head and the head of the smelting workshop at Kalatongke Mine successively from July 1992 to September 2000. From April 2003 to September 2005, he served as the head of the ore processing workshop at Kalatongke Mine. From September 2005 to May 2009, he served as the deputy head of and the president of the labour union at Kalatongke Mine. Mr. Sun is currently the general manager of Xinjiang Wuxin Copper Company Limited since May 2009.

SUPERVISOR

Mr. Liu Daoying (劉道英), aged 47, has been the chairman of the supervisory committee and the head of the supervising and auditing office of Zijin Mining Group Northwest Co., Ltd. (紫金礦業集團西北有限公司). He graduated from Nanping District Liangshi School (南平地區糧食學校) majoring in accounting in July 1981 and obtained professional auditor qualification in the PRC in December 1995. In December 2004, Mr. Liu obtained a diploma in business administration from Sichuan University (四川大學). He was acting as the deputy director and the chief accountant of the Food Bureau of Shanghang County (上杭縣糧食部門) in Fujian Province, and deputy section head and section head of the Auditing Bureau of Shanghang County (上杭縣審計局). Mr. Liu joined the Zijin Mining Group (紫金礦業集團) in December 2005 and served as the assistant to the head and the head of the supervising and auditing office. He is currently the chairman of the supervisory committee and the director of the supervising and auditing office of Zijin Mining Group Northwest Co., Ltd. (紫金礦業集團西北有限公司).

Biographical Details of Directors, Supervisors and Senior Management

INDEPENDENT SUPERVISOR

Ms. Chen Yuping (陳玉萍), aged 45, is an independent Supervisor of the Company since 12 June 2006. Ms. Chen majored in industry economics and obtained a Bachelor's degree in economics from Xinjiang University of Finance and Economics (新疆財經大學) (previously known as Xinjiang Institute of Finance and Economics (新疆財經學院)) in July 1985 and a Master's degree in business administration from Oklahoma City University (奧克拉荷馬城大學) in the U.S.A. in June 1989. Since July 1985, Ms. Chen has been teaching in the Faculty of Business Administration of Xinjiang Institute of Finance and Economics. Ms. Chen is now a professor and has been the deputy head of the Faculty of Business Administration of Xinjiang University of Finance and Economics since July 2001 and was appointed as the associate professor in July 1996. From January 2000 to September 2000, she studied in Nyenrode Business Universiteit in Netherlands pursuant to the Chinese Management Development Project. She was appointed as the professor in 2006 and the deputy head of the Student Registry of Xinjiang University of Finance and Economics (新疆財經大學) in October 2007.

Mr. Hu Zhijiang (胡志江), aged 64, is an independent Supervisor of the Company since 12 June 2006. He is a qualified senior accountant and a practising accountant. Mr. Hu was a deputy head in the Agricultural Planning and Finance Section of the Finance Department of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區財政廳農財處) from 1992 to 1994. From 1994 to 1997, he served as the head of the Legal and Taxation Section of the Finance Department of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區財政廳法制稅政處). From 1997 to 2001, he served as the head of the Accounting Section of the Finance Department of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區財政廳會計處). From 1998 to 2000, he served as a member of the Senior Assessment Committee for Professional Qualification in Accounting of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區會計專業技術資格高級評審委員會). From 2001 to 2005, he served as the inspector at the deputy department level of the Finance Department of Xinjiang Uygur Autonomous Region (副廳級巡視員). Mr. Hu has been the vice chairman of the eighth committee of the Accounting Association of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區會計學會第八屆理事會) since 2002.

OTHER SENIOR MANAGEMENT

Mr. Zhang Junjie (張俊杰), aged 47, is one of the joint company secretaries of the Company. He graduated from Zhongnan Mining and Smelting Institute (中南礦冶學院) with a Bachelor's degree in engineering, majoring in mining engineering from September 1979 to July 1983. Mr. Zhang has more than 24 years of experience in the mining industry. From July 1983 to September 1988, he was employed as the deputy head of the comprehensive planning department of Xinjiang Keketuohai Mining Bureau. From October 1988 to March 1991, he was the head of the production technology division and the head of the mining workshop of Kalatongke Mine. From April 1991 to March 1993, he was the deputy head and acting head of the production technology division of Xinjiang Keketuohai Mining Bureau. From March 1993 to August 1997, he was the deputy chief economist of Xinjiang Non-ferrous Industry Co. Copper and Nickel Branch (新疆有色金屬工業公司銅鎳分公司). From August 1997 to March 1998, he was a deputy general manager of Xinjiang Non-ferrous Industry Co. Copper and Nickel Branch (新疆有色金屬工業公司銅鎳分公司). From April 1998 to July 2002, he was the head of the finance department of Xinjiang Non-ferrous Metal Industry Co.. From July 2002 to August 2005, he was the head of the assets management department of Xinjiang Non-ferrous. Since September 2005, he has been the secretary to the Board of Directors.

Mr. Lam Cheuk Fai (林灼輝), aged 56, is the qualified accountant and one of the joint company secretaries of the Company. He joined the Company in June 2006. Mr. Lam was awarded a Higher Certificate in Accountancy from the Hong Kong Polytechnic University (formerly known as the Hong Kong Polytechnic) in 1979, and a Master's degree of Business Administration from the University of East Asia, Macau in 1988. Mr. Lam is a fellow member of both the Association of Chartered Certified Accountants of the United Kingdom and the Hong Kong Institute of Certified Public Accountants. From 1979 to 1985, Mr. Lam worked for Touche Ross & Co. (now known as Deloitte & Touche) in Hong Kong and the U.S.A. and Arthur Young & Co. (now known as Ernst & Young) in Hong Kong. Mr. Lam has approximately 30 years of working experience in auditing, accounting, internal control, taxation, company secretarial work and financial management in multinational organisations in the U.S.A., Hong Kong and the PRC. He was previously employed as the chief financial officer and the company secretary by a listed company in Hong Kong.

Mr. Wu Tao (吳濤), aged 43, is the chief engineer of the Company. Mr. Wu studied in the Department of Chemical Engineering at Chengdu University of Science and Technology from September 1985 to July 1989 specialising in the metallurgy of non-ferrous metals and graduated with a Bachelor's degree in engineering. He started working at Kalatongke Mine upon graduation. Since October 1991, he has been working at Fukang Refinery (阜康冶煉廠) and has been the chief engineer since September 2005. He was awarded two Scientific and Technological Progress First Prizes (科學技術進步一等獎), one by the National Committee of Science and Technology in 1995 for his contribution to the wet process adopted in refining and one by the People's Government of Xinjiang for the year of 2002 for his contribution to the development of production methods in smelting, extraction from tailings and the production of copper and precious metals.

Mr. He Hongfeng (何洪峰), aged 40, is the chief financial officer of the Company since September 2005. Mr. He graduated from Xinjiang College of Finance and Economics in 1992 with a Bachelor's degree in economics. Prior to joining the Company in September 2005, he was working in Zhongjin Investment as an accountant. Mr. He is a certified accountant, certified valuer and certified tax consultant in the PRC.

Report of the Directors

The Directors are pleased to present their 2009 report and the audited financial statements of Xinjiang Xinxin Mining Industry Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2009.

PRINCIPAL ACTIVITIES

The principal activities of the Company are the mining, ore processing, smelting, refining and sales of nickel, copper and other non-ferrous metal products. There were no significant changes in the nature of the Group's principal activities during the year.

The principal activities of the Company's subsidiaries, jointly-controlled entity and associated company are detailed in notes 10,11 and 12 to the consolidated financial statements, respectively.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2009 and the state of financial affairs of the Company and the Group at that date are set out in the consolidated financial statements on pages 55 to 144.

The board of Directors of the Company (the "Board of Directors" or the "Board") proposed payment of a final dividend of RMB0.05 per share, amounting to a total dividend of approximately RMB110,500,000 for the year ended 31 December 2009, which is subject to the approval of the Company's shareholders in the annual general meeting of the Company. Dividend for shareholders of H shares will be distributed to the shareholders whose names appear on the Company's register of members at the opening of business on 28 May 2010 and is expected to be paid on or before 31 August 2010.

MAJOR INVESTMENTS

Acquisition of Xinjiang Yakesi and Hami Jubao

On 23 November 2008, the Company entered into equity transfer agreements with Alexis Investments Limited ("Alexis"), Xinjiang Kangshun Mineral Project Development Co., Ltd., Hami Yatian Trading Co., Ltd., Hami Jin Hai Xin Mining Development Co., Ltd., Shanghai Lei Shi Investments Management Co., Ltd. and Beijing Jing Shi Li Mai Biology Technology Co., Ltd. respectively, to acquire 100% equity interest in Xinjiang Yakesi held by the above companies for a total consideration of RMB467.25 million. At the same time, the Company entered into an equity transfer agreement with Alexis to acquire 25% of equity interest of in Hami Jubao held by Alexis for a total consideration of RMB75 million. Xinjiang Yakesi holds 75% equity interest in Hami Jubao.

The total consideration for the above equity transfer is RMB542.25 million. In November 2008, the Company paid RMB271.125 million as deposit and prepayment for the equity transfer pursuant to the above-mentioned equity transfer agreements.

On 5 February 2009, the Company entered into an equity transfer agreement with Hami Jubao to transfer 1% of equity interest of Xinjiang Yakesi to Hami Jubao with consideration of RMB4,672,000. On the same day, the Company entered into an equity transfer agreement with Xinjiang Yakesi to acquire 50% equity interest of Hami Jubao from Xinjiang Yakesi with consideration of RMB16,100,000.

The procedures for changes of registration at the relevant Administration for Industrial and Commerce Department in relation to the above-mentioned equity interest transfer have already been completed in February 2009. According to the above-mentioned equity transfer agreements, the Company has paid all the remaining consideration. Thereafter, the Company beneficially holds 100% equity interests in Xinjiang Yakesi and Hami Jubao.

In October 2009, the Company completed a further capital injection of RMB257 million to Xinjiang Yakesi. The registered capital of Xinjiang Yakesi increased to RMB500 million from RMB243 million after the capital injection.

Acquisition of Zhongxin Mining

On 8 April 2009, the Company entered into equity transfer agreements with Xinjiang Investment and Development (Group) Company Limited, No.13 Agriculture Construction Division of Xinjiang Production and Construction Military Unit State-owned Assets Operation Co., Ltd., Shaanxi Honghao Industry Co., Ltd., Hami City Huilong Mining Industry Co., Ltd. and Hami City Jinhua Mining Co., Ltd. respectively, to acquire 95% equity interest in Zhongxin Mining held by the above-mentioned companies at a consideration of RMB55.1 million. In June 2009, the Company has completed all the procedures of the above-mentioned acquisitions and paid all the consideration for the equity interest transfers according to the equity transfer agreements. At the same time, the Company contributed RMB62 million for the increase of capital of Zhongxin Mining. The registered capital of Zhongxin Mining increased to RMB120 million from RMB58 million after the increase of capital, and the Company holds 97.58% equity interest in Zhongxin Mining.

Establishment of Xinjiang Wuxin

On 11 June 2009, the Company entered into the investment agreement with Xinjiang Ashele to establish Xinjiang Wuxin for the purposes of engaging in the smelting, processing and sale of copper, gold, silver and other non-ferrous metals. Pursuant to the investment agreement, the Company and Xinjiang Ashele agreed to contribute by way of cash to the establishment of Xinjiang Wuxin in the proportion of 66% and 34%, respectively

Save as disclosed in the above, the Company had no other acquisitions, sale or merger of assets during the Year.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

During the Year, the Company applied the proceeds from its initial public offering totaling RMB1,121.6 million as follows:

- RMB7.0 million was used in relation to the further exploration of areas in Kalatongke Mine;
- RMB163.6 million was used in relation to the further expansion of the mining and ore processing of Kalatongke Mine;

- RMB205.1 million was used in relation to the expansion of the smelting operation in Kalatongke Mine;
- RMB4.5 million was used in relation to the expansion of the refining capacity of Fukang Refinery in respect of 13,000 tonnes of nickel cathode per year;
- RMB94.0 million was used in relation to the expansion of the refining capacity of Fukang Refinery in respect of 12,000 tonnes of copper cathode per year;
- RMB528.7 million was used in relation to the payments of balance of the acquisition of Xinjiang Yakesi and Hami Jubao and related expenses and further capital injection of Xinjiang Yakesi, and
- RMB118.7 million was used in relation to the acquisition of Hami Zhongxin and further capital injection thereto.

SUMMARY OF FINANCIAL INFORMATION

A summary of the operating results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the Company's audited financial statements for the year ended 31 December 2009 (if appropriate), is set out on pages 4 to 5 of this annual report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the Year are set out in note 6 to the consolidated financial statements.

The Group did not hold any investment property.

SHARE CAPITAL

Details of movements in the Company's share capital during the Year are set out in note 18 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the People's Republic of China which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the Reporting Year.

RESERVES

Details of movements in the reserves of the Group and the Company during the Year are set out in the consolidated statement of changes in equity and notes 18 and 19 to the consolidated financial statements.

BANK LOANS AND BORROWINGS

As at 31 December 2009, the Group did not have any outstanding bank loans or other borrowings.

DISTRIBUTABLE RESERVES

According to the Articles of Association of the Company, the reserves available for distribution are based on the lower of the Company's profits determined under PRC generally accepted accounting standards and regulations or under Hong Kong Financial Reporting Standards.

In accordance with the Company Law of the PRC, profit after tax can be distributed as dividends shall be deducted after the transfer to the statutory surplus reserve. As at 31 December 2009, the Company's distributable reserve under PRC generally accepted accounting standards and Hong Kong Financial Reporting Standards amounted to RMB265,796,000 and RMB429,977,000, respectively, out of the former amount, the payment final dividend for 2009 of RMB110,500,000 was proposed.

CHARITABLE CONTRIBUTIONS

During the Year, the Group made charitable contributions totalling RMB11,000,000 (2008: RMB29,000,000).

MAJOR CUSTOMERS AND SUPPLIERS

As at 31 December 2009, the proportion of purchases and sales from major suppliers and major customers of the Company to the total purchases and sales, respectively, are as follows:

Purchases

The total purchases from the largest supplier of the Company represent 13.4% of the total purchase value.

The total purchases from the five largest suppliers of the Company represent 37.8% of the total purchase value.

Sales

The total sales to the largest customer of the Company represent 24.3% of the total sales value.

The total sales to the five largest customers of the Company represent 56.4% of the total sales value.

During the Year, to the best of the Directors' knowledge, none of the Directors, Supervisors or their respective associates or any shareholders of the Company who holds more than 5% of the issued share capital of the Company had any interest in the five largest customers or the five largest suppliers of the Company.

DIRECTORS AND SUPERVISORS

The Directors and Supervisors of the Company during the Year were:

Executive Directors:

Mr. Yuan Ze	袁澤先生	*(Chairman)*
Mr. Shi Wenfeng	史文峰先生	
Mr. Zhang Guohua	張國華先生	
Mr. Liu Jun	劉俊先生	

Non-executive Directors:

Mr. Zhou Chuanyou	周傳有先生
Mr. Niu Xuetao	牛學濤先生

Independent non-executive Directors:

Mr. Chen Jianguo	陳建國先生
Mr. Sun Baosheng	孫寶生先生
Mr. Ng Yuk Keung	吳育強先生

Supervisors:

Mr. Jiang Mingshun	姜明順先生
Mr. Sun Baohui	孫寶輝先生
Mr. Liu Daoying	劉道英先生

Independent Supervisors:

Ms. Chen Yuping	陳玉萍女士
Mr. Hu Zhijiang	胡志江先生

Biographical details of the Directors and Supervisors are set out on pages 20 to 25.

Service contracts of Directors and Supervisors

Each of the Directors and Supervisors has entered into a three years service contract with the Company from 14 October 2008 to 13 October 2011.

Pursuant to articles 106 and 145 of the Articles of Association, the term for Directors and Supervisors will be for three years commencing from the date of their respective appointment or re-appointment, subject to re-appointment at a general meeting.

Save as disclosed above, there are no service contracts between the Company or its subsidiaries and any of the Directors or Supervisors which is not determinable by the Company within one year without payment of compensation apart from statutory compensation.

Confirmation of independence

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and considers all the independent non-executive Directors to be independent.

Directors', Supervisors' and senior management's remunerations

The Directors' and Supervisors' remunerations including discretionary bonus are subject to Shareholders' approval at general meetings, while senior management's remunerations including discretionary bonus are subject to approval of the Board of Directors. In compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules, the Company has a remuneration and review committee to formulate compensation policies and to determine and manage the compensation of the Directors and senior management of the Company. Details of the Directors', Supervisors' and senior management's remuneration are disclosed in note 32 to the consolidated financial statements.

Directors' and Supervisors' interests in contracts

No contract of significance, to which the Company or its subsidiaries or any of its holding companies or fellow subsidiaries was a party and in which a Director or Supervisor of the Company had a material interest, subsisted as at the end of the Year or at any time during the Year.

Directors' and Supervisors' interests and short positions in shares

Share Appreciation Rights Incentive Scheme

At the annual general meeting held on 29 May 2008, the Company adopted and approved a share appreciation rights incentive scheme (the "Share Appreciation Rights Incentive Scheme" or "SARIS") to acknowledge the contributions of its senior management and key personnel. The SARIS is an arrangement providing for incentive for the management of the Company such that it attaches importance to the performance of the shares of the Company and its long-term development without the characteristics of shares. It is intended to align the senior management's interests to those of the Company and its shareholders. It is intended that the operation of the SARIS will not involve any issue of new H shares of the Company, and the exercise of any share appreciation rights will not create a dilution effect on the Company's shareholding structure.

The SARIS entitles persons who are granted such rights to receive cash payments when the Company's share price rises above the exercise price granted in the share appreciation rights in a certain pre-determined period, subject to certain terms and conditions of the SARIS.

The share appreciation rights are not transferable, nor are there any voting rights attached to the share appreciation rights. The SARIS is not a scheme involving the grant of options over new securities of the Company, and therefore will not fall within the ambit of, and will not be subject to, Chapter 17 of the Listing Rules.

The recipients of the SARIS and their allocated number of SARIS as at 31 December 2009 are listed below:

Name	Position	Number of SARIS	Percentage of total issued shares
Yuan Ze	Chairman of the Board and executive director	3,000,000	0.136
Shi Wenfeng	General manager and executive director	2,000,000	0.090
Zhang Guohua	Executive deputy general manager and executive director	2,000,000	0.090
Liu Jun	Deputy general manager and executive director	1,000,000	0.045
Niu Xuetao	Non-executive director	500,000	0.023
He Hongfeng	Financial controller	1,000,000	0.045
Zhang Junjie	Company secretary	1,000,000	0.045
Wu Tao	Chief engineer	1,000,000	0.045
Twelve key personnel		3,120,000	0.141
Total		14,620,000	0.662

As at 31 December 2009, the interests or short positions, if any, of the Directors and Supervisors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

Long Positions in Shares and Underlying Shares of the Company

	Number of Shares held					
Director/Supervisor	Personal interest	Corporate interests	Total interests	Classes of share	Percentage of aggregate interests to relevant class of share	Percentage of aggregate interests to the total share capital
Zhou Chuanyou		480,924,000 *(Note 1)*	480,924,000	Domestic share	33.14	21.76

Note 1: The domestic shares are held by Shanghai Yilian and Zhongjin Investment. The entire shareholding or equity interest of Shanghai Yilian and Zhongjin Investment are beneficially owned by Zhou Chuanyou.

Save as disclosed above, none of Directors and Supervisors and their respective associates had, as at 31 December 2009, any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which would be required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or which would be required, pursuant to section 352 of the SFO, to be and are recorded in the register required to be kept by the Company or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") set out in Appendix 10 of the Listing Rules.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the Year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company were granted to any Director and Supervisors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, its subsidiaries or any of fellow subsidiaries a party to any arrangement to enable the Directors or Supervisors to acquire such rights in any other body corporate.

DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESSES

During the Year and up to the date of this report, the following Director is considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Company, as defined in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"):

Mr. Yuan Ze chairs the board meetings at Xinjiang Non-ferrous and also acts as the legal representative of Xinjiang Non-ferrous to sign any deeds, material contracts and other material documents of Xinjiang Non-ferrous. Mr. Yuan has not given any confidential or sensitive commercial information of the Company to Xinjiang Non-ferrous or any other third party and has physically abstained from the meetings to consider connected transactions with Xinjiang Non-ferrous.

As the Board of Directors of the Company is independent from the board of directors of Xinjiang Non-ferrous and the above Director does not control the Board of the Company, the Group is capable of carrying on its businesses independently of, and at arm's length from, the business of Xinjiang Non-ferrous.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

So far as was known to any Director or Supervisor, as at 31 December 2009, the persons or companies (other than a Director or Supervisor of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company were as follows:

Name	**Number of shares held**	**Class of share**	**Approximate percentage of shareholding on relevant class of shares** (%)	**Approximate percentage of the total share capital** (%)
Xinjiang Non-ferrous	885,204,000(L)	Domestic share	61.01	40.06
Shanghai Yilian *(Note)*	282,896,000(L)	Domestic share	19.50	12.80
Zhongjin Investment *(Note)*	198,028,000(L)	Domestic share	13.65	8.96
The National Council for Social Security Fund of the PRC (中國全國社會保障基金理事會)	69,000,000(L)	H share	9.09	3.12
The Hamon Investment Group Pte Limited	38,204,000(L)	H share	5.03	1.73

(L) = Long positions

Note: The entire shareholding or equity interests of Shanghai Yilian and Zhongjin Investment are beneficially owned by Mr. Zhou Chuanyou.

Save as disclosed above, the Directors were not aware of any other person (other than a Director or Supervisor of the Company) who had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 40(b) to the financial statements also constituted connected transactions under the Listing Rules and are required to be disclosed in accordance with Chapter 14A of the Listing Rules.

Continuing connected transactions not exempt under the Listing Rules

1. Xinjiang Non-ferrous (the controlling shareholder of the Company) and the Company entered into a mutual supply agreement on 17 September 2007 (the "Mutual Supply Agreement") whereby both parties agreed that (a) the Xinjiang Non-ferrous Group will provide construction services, certain production supplies, storage, transportation and loading services and other supporting and ancillary services to the Company; and (b) the Company will provide nickel cathode, copper cathode and sulphuric acid to the Xinjiang Non-ferrous Group from 12 October 2007 to 31 December 2009.

   For each of the three years ended 31 December 2007, 2008 and 2009, the annual cap of the aggregate fees payable by the Company to the Xinjiang Non-ferrous Group amounted to approximately RMB120.4 million, RMB248.5 million and RMB355.5 million[Note], respectively. For the year ended 31 December 2009, the actual fees payable to the Xinjiang Non-ferrous Group by the Company were approximately RMB135.3 million.

   For each of the three years ended 31 December 2007, 2008 and 2009, the annual cap of the aggregate fees payable by the Xinjiang Non-ferrous Group to the Company amounted to approximately RMB18.6 million, RMB18.5 million and RMB26.0 million[Note], respectively. For the year ended 31 December 2009, the actual fees payable to the Company by the Xinjiang Non-ferrous Group were approximately RMB21.0 million.

   Note: These amounts included the revised annual cap for the year ended 31 December 2009 as approved by the shareholders' meeting held on 21 August 2009

2. The Company entered into a comprehensive services agreement with Xinjiang Non-ferrous Metal Industry (Group) Fuyun Xingtong Service Company Limited* (新疆有色金屬工業(集團)富蘊興銅服務有限公司) ("Fuyun Xingtong"), a wholly-owned subsidiary of Xinjiang Non-ferrous, on 17 September 2007 whereby Fuyun Xingtong agreed to provide certain supporting services including educational, nursery, medical and healthcare services to the employees of the Company from 12 October 2007 to 31 December 2009 (the "Comprehensive Services Agreement"). For each of the three years ended 31 December 2007, 2008 and 2009, the annual cap of the services fees payable to Fuyun Xingtong by the Company is approximately RMB3.3 million. For the year ended 31 December 2009, the actual fees payable by the Company to Fuyun Xingtong were approximately RMB3.2 million.

* *The English name is a translation of the original Chinese name and provided for reference only.*

3. On 22 June 2007, the Company entered into a property lease agreement with Xinjiang Non-ferrous pursuant to which Xinjiang Non-ferrous agreed to lease to the Company office premises on the 7th and 8th floors, Youse Building, No. 4 You Hao North Road, Urumqi, Xinjiang, the PRC with a total gross floor area of approximately 1,992 square metres for office use with a term commencing from 1 July 2007 and ending 31 December 2009. For each of the three years ended 31 December 2007, 2008 and 2009, the annual cap of the rental payable to Xinjiang Non-ferrous by the Company is approximately RMB1.6 million. For the year ended 31 December 2009, the actual rental payable by the Company to Xinjiang Non-ferrous was approximately RMB1.6 million.

The independent non-executive Directors of the Company have reviewed the connected transactions and confirmed the said transactions in the annual report and the accounts of the Company and are of the view that the continuing connected transactions:

(i) were in the ordinary and usual course of business of the Company;

(ii) have been entered into by the Company on normal commercial terms or on terms no less favorable to the Company than terms to or by independent third parties; and

(iii) have been entered in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

PricewaterhouseCoopers, the international auditors of the Company, have performed certain procedures on the connected transactions and confirmed in writing to the Board of Directors that the above-mentioned continuing connected transactions:

1. have been approved by the Board of Directors;

2. are in accordance with the pricing policies of the Company if the transactions involved provision of goods or services by the Company;

3. have been entered into and conducted in accordance with the relevant agreements governing the transactions; and

4. have not exceeded the annual cap amounts as disclosed in the Prospectus or the revised annual cap amounts as approved either by the Board of Directors on 11 June 2009 or by the shareholders' meeting of the Company held on 21 August 2009.

Non-competition Agreement

As disclosed in the Prospectus, the independent non-executive Directors will review, on an annual basis, on the exercise or non-exercise of the right of first refusal to purchase the 34% shareholding or any part thereof in Ashele Copper (as defined in the Prospectus) as held by Xinjiang Non-ferrous under the Non-competition Agreement (as defined in the Prospectus). The non-competition restrictions took effect on 12 October 2007. Xinjiang Non-ferrous has confirmed that it has not breached any of the terms of the Non-competition Agreement and has provided all information necessary for annual review by the independent non-executive Directors of the Company. An annual review has been conducted by the independent non-executive Directors of the Company on such decisions whether to exercise or not to exercise the right of first refusal.

Related party transactions

The Group is also involved in a number of related party transactions, details of which have been disclosed in note 40 to the consolidated financial statements.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

LITIGATION AND ARBITRATION

The Group has no major litigation or arbitration as at the date of this report.

CLOSURE OF REGISTER FOR ANNUAL GENERAL MEETING AND PAYMENT OF DIVIDENDS

The register of members of the Company will be closed from 29 April 2010 to 28 May 2010 (both days inclusive), during which time no share transfers will be registered. In order to qualify for the final dividends and be eligible to attend the 2009 annual general meeting of the Company, instruments of transfer accompanied by share certificates and other appropriate documents must be lodged with the Company's H share registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, no later than 4:30 p.m. on 28 April 2010.

AUDIT COMMITTEE

Written terms of reference of the audit committee based primarily on "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants have been adopted by the Board of Directors.

The audit committee provides an important link between the Board of Directors and the Company's auditors in matters falling within the scope of the audit of the Company and the Group. It will review the effectiveness of the external audit and internal controls and risk evaluation and will provide comments and advice to the Board of Directors. The audit committee comprises one non-executive Director namely, Mr. Zhou Chuanyou and two independent non-executive Directors, namely, Mr. Chen Jianguo and Mr. Ng Yuk Keung, with Mr. Chen Jianguo serving as the Chairman. The audit committee and management have reviewed the audited results for the year ended 31 December 2009.

AUDITORS

The consolidated financial statements have been audited by PricewaterhouseCoopers, who retire and being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as international auditors of the Company and PricewaterhouseCoopers Zhong Tian CPAs Limited Company as PRC auditors of the Company are to be proposed at the forthcoming annual general meeting of the Company.

By order of the Board
Yuan Ze
Chairman

Xinjiang, the PRC
29 March 2010

As at the date of this report, the Board of Directors of the Company comprises four executive Directors, namely Mr. Yuan Ze, Mr. Shi Wenfeng, Mr. Zhang Guohua and Mr. Liu Jun, two non-executive Directors, namely Mr. Zhou Chuanyou and Mr. Niu Xuetao and three independent non-executive Directors, namely Mr. Chen Jianguo, Mr. Sun Baosheng and Mr. Ng Yuk Keung.

To all supervisors:

For the year 2009, Xinjiang Xinxin Mining Industry Co., Ltd. faithfully fulfilled the supervisory duties to safeguard the interests of the shareholders of the Company effectively in accordance with the regulations of the Company Law of the PRC and the Articles of Association of Xinjiang Xinxin Mining Industry Co., Ltd. This independent report on the work progress and the due performance of duties by the Supervisory Committee is set out as below:

1. Routine Duties of the Supervisory Committee

(1) The Supervisory Committee held two meetings during the Reporting Year, which meant the second meeting of the second session and the third session of the Supervisory Committee. During the three meetings, the supervisors of the Company individually reviewed or approved the *Working Report of the Supervisory Committee for 2008, the Annual Report of the Company for 2008, the Consolidated Financial Statement for 2008, the Accrued Profit Distribution Plan for 2008, the Resolution regarding Approval of Granting the Performance-based Remuneration to the Chairman of the Supervisory Committee for 2008, the Financial Statements of the Company prepared in accordance with Hong Kong Financial Report Standards and the PRC Generally Accepted Accounting Principles for the first half of 2009 and the Interim Report of the Company for 2009.* All Supervisors attended the meetings and expressed their opinions on the issues in compliance with the laws and the Articles of Association of the Company. The supervisors also performed their duties diligently and acted in the best interests of the Company's shareholders as a whole.

(2) Through attending each and every meeting of the Board of Directors in 2009, all supervisors have effectively overseen the issues including the legitimacy of the Board meetings, the lawfulness of the resolutions, the compliance with the laws and regulations and the Articles of Association of the Company, the conformity with the resolutions of the general meetings as well as the practical needs to facilitate the operations and development of the Company.

(3) Through various activities including the attendance at the general manager's meetings, the Supervisory Committee has effectively monitored significant economic activities of the Company such as resources integration, connected transactions and tenders for major purchasing. The Supervisory Committee members have conducted site visits, investigation and research studies to provide relevant opinions and recommendations regarding the issues concerned.

(4) The Supervisory Committee has monitored the financial operations of the Company by examining its financial plans and reviewing various financial statements of the Company.

(5) The Supervisory Committee has monitored the performance of the senior management of the Company and the management of the Company's subsidiaries. The Supervisory Committee has also maintained frequent communications with the management of the Company and offered its opinions and suggestions.

Report of the Supervisory Committee

The year 2009 was the first year for the running of the new session of Supervisory Committee. All supervisors have been actively learning in business-related knowledge and the laws and regulations, as well as carrying out their obligations and duties diligently in accordance with the annual work plan of the Supervisory Committee. The two independent Supervisors, who are financial specialists, duly performed their supervisory duties by enhancing the capability of the Supervisory Committee and improving the independence of the Supervisory Committee when carrying out its functions.

2. Independent Opinion of the Supervisory Committee of the Company

(1) Legitimate Operation by the Company

In 2009, the Company carried out its operations in strict compliance with the relevant laws and regulations including the Company Law, the Articles of Association of the Company, the Code on Corporate Governance Practices as set out in the Rules Governing the Listing of Securities on the Stock Exchange and the Guidelines for the Internal Control System of Listed Companies. Each of the shareholders' meeting, the Board of Directors, the Supervisory Committee and the senior management has clear roles and has complied with operating procedures, complied with codes, laws and regulations, attained efficiency, and ensured the implementation of various major works of the Company.

(2) Assets of the Company

A major asset transaction was conducted during the Reporting Year. Upon approval in the third meeting of the second session of the Board of Directors and the annual general meeting 2008, the Company invested RMB55.10 million to successfully acquire 95% of shareholding of Xinjiang Zhongxin Mining Company Limited (新疆眾鑫礦業有限責任公司). Xinjiang Zhongxin Mining Limited, which is one of the main suppliers of the Company in raw material refining, has the 5000 tonnes of nickel which results in annual production capacity of water hardening, metallic and nickel matte (水淬金屬化高冰鎳). The successful acquisition means that the Company has further controlled the nickel resources in the eastern Xinjiang region as well as carrying significant meaning in forming a more completed production chain, strengthening the market competitively and guaranteeing the continuity for rapid development.

Besides, upon approval in the 4th meeting of the second session of the Board of Directors, the Company has jointly invested with Xinjiang Ashele Copper Company Limited in establishing Xinjiang Wuxin Copper Company Limited (新疆五鑫銅業有限責任公司), in which the Company has invested RMB66.0 million in return for 66.0% shareholding of Wuxin Copper. Wuxin Copper will utilize the abundant copper resources in Xinjiang and adopting advanced technologies to form annual production of 100,000 tonnes of copper smelting and become the first large-scale copper smelting enterprise. This must bring substantial economic benefits to the Company.

Detailed disclosures of other assets have been made in the financial reports of the Company.

(3) Financial Management of the Company

PricewaterhouseCoopers have audited the 2009 annual financial statements of the Company and issued the auditors' report with unqualified opinion. The Company has further improved its internal auditing system and the financial accounting management system, made tax payment in compliance with the laws and regulations, and accepted auditing supervision by internal and external entities. The financial statements prepared by the Company truly stated its financial condition. Revenue in 2009 was RMB705.9 million and the net profit attributable to equity holders of the Company was RMB226.7 million.

(4) Connected Transactions

During the Reporting Year, the Company was involved in connected transactions with Xinjiang Non-ferrous Metal Industry (Group) Ltd. (新疆有色金屬工業(集團)有限責任公司) and its subsidiaries, with regard to construction service, supply of raw material and transportation which amounted to RMB135.3 million, labour service payment to Fuyun Xingtong which amounted to RMB3.2 million, product sales which amounted to RMB21.0 million and lease payment which amounted to RMB1.6 million. All connected transactions were conducted within the scope of the relevant documents approved in the 4th meeting of the second session of the Board of Directors as well as the requirement of Mutual Supply Master Agreement between Xinjiang Non-ferrous Metal Industry (Group) Ltd. and Xinjiang Xinxin Mining Industry Co., Ltd. which was approved upon the first extraordinary general meeting of the Company in 2009. The total transaction amount also have not exceed the Company's 2009 annual cap of continuing connected transaction, which was approved in the 4th meeting of the second session of the Board of Directors as well as upon the first extraordinary general meeting of the Company in 2009. All transactions are pursuant to normal commercial terms, being fair and reasonable. No deterioration of the Company's interests was found upon reviews. The Company also engaged the international auditors, PricewaterhouseCoopers, to perform certain procedures on the connected transactions, for details please refer to page 35 of this annual report.

During the Reporting Year, the Company did not assume any form of guarantee in relation to external loans.

(5) Internal Control of the Company

During the Reporting Year, the Company has further established an internal operation control mechanism and implemented efficiently and effectively.

The Company complied laws and regulations on financial management as well as implementing first class auditing, strengthening costs control, increasing revenue and reducing expenses in order to implement good the control procedures in financial operation of the Company.

The Company implemented a series evaluation mechanism on the remuneration management, being fair and transparent, to enhance the motivation of staff.

The Company explored internal potentials and realized increase production on production management, as well as simplifying management, enhancing technology levels further and continuously uplift the recycle rate of metal and the ability of comprehensive multi-metal recycling. The annual safe production target has been realized with no heavy injuries and no deaths in mining mountains.

The procurement of the Company underwent with qualitative products, competitive price, open tender, reduce storage and production guarantee.

The sales of products of the Company kept a close eye on any updated news on international market, analyzed the trend of price in-depth, adjusted the marketing strategies in time and realized the sales in high price and maximized its benefits.

The projects of the Company were undergoing on schedule. The main works were all under control of the Company and the quality of works got full guarantees, in which the mining, choosing and smelting facilities expansion projects in Kalatongke and nickel cathode and copper cathode technique improvement projects in Fukang Refinery would start production soon respectively.

After successfully acquiring Xinjiang Yakesi Resources Co. Ltd., the management were taken charge rapidly, as well as consoling main talents in technology management, stabilizing staff crew, injection fund into mining in time, coordinating and arranging the mining choosing projects, keeping relationship with various parties, realizing stable transition and completing full integration.

Due to the great efforts and practical operation of the Company on internal control, the Company has overcome the influence of global financial crisis and still recorded a good results of operation in 2009.

(6) Performance of Duties by the Directors and Senior Management

All Directors and senior management of the Company were diligent and responsible in their work during 2009. They conformed with the laws and regulations and demonstrated cooperation. Their duties were properly segregated. They were responsible and ensured effective implementation of all resolutions approved at the shareholders' meetings and Board meetings. In carrying out their duties, there was no breach of the laws and regulations, the Articles of Association of the Company or any other action against the interests of the Company. As a result of the decisions made by the Board and the senior management, the Company had made tremendous achievements in various aspects including production, safety, operation, technical improvement and resources integration.

3. Focus of the Supervisory Committee in 2010

(i) Exploration of new solutions and approaches in carrying out the supervisory works will be continued within the boundary of the laws and regulations. It will focus on various areas to optimize the system for performing duties so as to ensure effective implementation of the resolutions of shareholders' meetings and Board meetings.

(ii) The focus of supervisory duties will be in business operations, cash flow, connected transactions and financial management of the Company. The Supervisory Committee will ensure all-round development of the Company and safeguard the interests of the shareholders of the Company.

(iii) The Supervisory Committee will conduct site visits and research studies in relation to work improvement, enhance its communication with the senior management and build up better working atmosphere within the Supervisory Committee, in order to facilitate the carrying out of the supervisory works. The members of the Supervisory Committee will endeavor to identify problems by carrying out their duties diligently, so as to assist the Company to operate in a systematic and organised manner.

(iv) The members of the Supervisory Committee will endeavor to identify new situations and cope with new problems, and will strive to maintain its independent supervisory role and continue to improve its quality of work.

(v) During the Year, all members of the Supervisory Committee conducted a site visit at Kalatongke Mine and Fukang Refinery to familiarize themselves with the production sites so as to improve their ability in carrying out their duties.

Jiang Mingshun
Chairman of the Supervisory Committee
29 March 2010

Corporate Governance Report

The Company strives to maintain a high standard of corporate governance and to comply with the relevant regulations of China Securities Regulatory Commission and the Stock Exchange as well as the regulations of other relevant regulatory authorities. The Articles of Association, the terms of reference of the Audit Committee, the terms of reference of the Supervisory Committee and the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules are the bases of reference for formulation of the Company's corporate governance practice code. Save as disclosed herein, the Company has applied all the code provisions under the Code on Corporate Governance Practices (the "Practice Code") set out in Appendix 14 of the Listing Rules and has complied with the relevant code provisions and most of the recommended best practices for the financial year ended 31 December 2009. The Company will continue to improve its corporate governance and enhance the transparency of its operations to its shareholders.

THE BOARD OF DIRECTORS

The Board of Directors is responsible for the overall leadership and governance of the Company, and is collectively responsible for directing and supervising the affairs of the Company.

Each Director on the Board will act in the interests of the shareholders, and use his best endeavors to perform the duties and obligations as a Director in accordance with all the applicable laws and regulations. Duties of the Board include deciding on the Company's business plan and investment scheme, formulating the Company's profit distribution and loss recovery plan, formulating the Company's capital expenditure budget, and implementing resolutions as approved by general meetings.

The Board comprises nine Directors, four of whom are executive Directors, two of whom are non-executive Directors and three of whom are independent non-executive Directors. There is no financial, business, family or any other relevant relationships between the members of the Board.

The three independent non-executive Directors of the Company are equipped with suitable professional qualifications, one specialising in geology and mining, and the other two with accounting and financial management backgrounds.

The Company received from each of its independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all independent non-executive Directors to be in compliance with the independence guidelines as set out in Rule 3.13 of the Listing Rules and considers them to be independent Directors according to the provisions of the guidelines.

Pursuant to the Articles of Association, the Directors are appointed for a term of three years and their re-appointment are to be approved in a shareholders' meeting.

Mr. Yuan Ze remains to be the Chairman of the Company and Mr. Shi Wenfeng remains to be the general manager as well as the executive Director of the Company, exercising the authorities and duties granted by the Company. The responsibilities of the Chairman and the general manager are clearly segregated.

The Board is responsible for the approval and monitoring of overall developmental strategies of the Company, annual budgets, business plans and material investment plans relating to the Company's business, evaluating the performance of the Company, supervising the management, ensuring the Board acts in the best interest of the Company and operates effectively to perform its duties, and discussing significant and appropriate activities carried out by the Company. All Directors are entitled to propose matters for the Board's consideration and to be included in the Board's agenda. The Chairman has already appointed the secretary to the Board for drafting agenda for each meeting. With the assistance of the executive Directors and the joint company secretaries, the Chairman will ensure all Directors have sufficient and reliable information in order to perform necessary analysis based on their professional expertise.

The Secretariat Office and the Corporate Finance and Securities Department of the Board offer comprehensive services to the shareholders and answer their enquiries on a timely basis in order to enhance their understanding of the Company. They also maintain effective communications with the shareholders to ensure that the views of the shareholders will be communicated to the Board.

For the year ended 31 December 2009, four Board meetings were held, including the third meeting of the second session of the Board, the fourth meeting of the second session of the Board, the fifth meeting of the second session of the Board and the first extraordinary meeting of the second session of the Board. Below is an attendance record of the meetings:

Name of Directors	**Number of Meetings Attended**
Chairman (Executive Director)	
Yuan Ze (袁澤)	4/4
Executive Directors	
Shi Wenfeng (史文峰) *(General Manager)*	4/4
Zhang Guohua (張國華) *(Executive Deputy General Manager)*	4/4
Liu Jun (劉俊) *(Deputy General Manager)*	4/4
Non-executive Directors	
Zhou Chuanyou (周傳有) *(Vice-Chairman)*	4/4
Niu Xuetao (牛學濤)	3/4
Independent non-executive Directors	
Chen Jianguo (陳建國)	4/4
Sun Baosheng (孫寶生)	4/4
Ng Yuk Keung (吳育強)	3/4

The Company has adopted the Practice Code and issued a notice fourteen days prior to the regular meeting leaving the Directors plenty of time for the preparation of the meeting. All agenda will be sent to the Directors no less than three days prior to the meeting. All matter discussed and resolved during the meeting will be recorded and documented in minutes by the joint company secretaries.

RESPONSIBILITIES OF THE DIRECTORS

The Company shall inform all of the Directors of their rights and responsibilities on a regular basis. All of the Directors can obtain a thorough understanding of the business operations, business activities and development of the Company at the Board meetings.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries of all Directors, all Directors and Supervisors have complied with the required standards as set out in the Model Code for the year ended 31 December 2009.

AVAILABILITY AND USE OF INFORMATION

All Directors can obtain information about the Company on a comprehensive and regular basis, such that the Directors can exercise their rights and responsibilities as directors. The Company has in place procedures for all Directors to follow when they wish to obtain independent professional advice. All related professional fees shall be borne by the Company. In addition, all Directors shall have free access to contact the senior management of the Company.

THE COMMITTEES UNDER THE BOARD OF DIRECTORS

Remuneration and Review Committee

The first session of the Board of the Company established the Remuneration and Review Committee, which comprises one executive Director, Mr. Shi Wenfeng, one non-executive Director, Mr. Niu Xuetao, and three independent non-executive Directors, Mr. Chen Jianguo, Mr. Sun Baosheng and Mr. Ng Yuk Keung. Mr. Shi Wenfeng serves as the chairman of the Remuneration and Review Committee. The Remuneration and Review Committee under the second session of the Board of the Company still comprises one executive Director, Mr. Shi Wenfeng, one non-executive Director, Mr. Niu Xuetao, and three independent non-executive Directors, Mr. Chen Jianguo, Mr. Sun Baosheng and Mr. Ng Yuk Keung. Mr. Shi Wenfeng remains to serve as the chairman of the Remuneration and Review Committee. The articles of the Remuneration and Review Committee are drafted in accordance with the Practice Code and are set out in the Company's website.

The Remuneration and Review Committee is mainly responsible for:

- reviewing the structure, number of members and composition (including skills, knowledge and experiences) of the Board on a regular basis; and proposing any changes to the Board;
- finding qualifying directors, selecting and nominating such persons or reflecting such opinions to the Board;
- reviewing and determining the independence of independent non-executive Directors;
- making recommendations on appointment and re-appointment issues, succession of Directors (in particular the Chairman) and relevant issues;
- formulating remuneration and incentive policies for the Directors and senior management;
- examining and evaluating the Directors and senior management in terms of fulfilling their responsibilities; and
- ensuring no Directors or their connected persons determine their own remuneration.

One meeting of the Remuneration and Review Committee was held during the Year with an attendance rate of 100%.

Auditors Remuneration

For the year ended 31 December 2009, audit fees charged by the auditors of the Company amounted to approximately RMB2.3 million and no non-audit service assignment was made.

Audit Committee

The first session of the Board of the Company established the Audit Committee and formulated the articles for the Audit Committee. The articles of the Audit Committee are set out in the Company's website.

The Audit Committee under the first session of the Board of the Company comprises two independent non-executive Directors, Mr. Chen Jianguo and Mr. Ng Yuk Keung, and one non-executive Director, Mr. Zhou Chuanyou. Mr. Chen Jianguo serves as the chairman of the Audit Committee. The Audit Committee under the second session of the Board of the Company still comprises two independent non-executive Directors, Mr. Chen Jianguo and Mr. Ng Yuk Keung, and one non-executive Director, Mr. Zhou Chuanyou. Mr. Chen Jianguo remains to serve as the chairman of the Audit Committee. The Board believes that members of the Audit Committee have sufficient knowledge and expertise in accounting and financial management to enable them to perform their duties.

Major responsibilities of the Audit Committee are:

– to make recommendation on the appointment or replacement of external audit firms;

– to oversee the Company's internal audit system and its implementation;

– to review the Company's financial information and its disclosure (including annual reports, interim reports and any other applicable financial review); and

– to review the Company's financial reporting and internal control system and perform auditing works for material connected transactions.

The Audit Committee has held meetings on a regular basis since its establishment and convened two meetings during the Reporting Year. Attendance rates for the first and second meetings are 100% and 66.7%, respectively.

The annual report of the Company for the year ended 31 December 2009 has been reviewed by the Audit Committee.

As at 31 December 2009, Mr. Zhou Chuanyou, the Director of the Company, beneficially owns 100% of equity interests in Zhongjin Investment (Group) and in Shanghai Yilian, which in turn holds 480,924,000 issued domestic shares of the Company accumulatively. Save as disclosed above, neither of the Directors, Supervisors and senior management of the Company hold any other interests in the Company.

Strategic Development Committee

The first session of the Board of the Company established the Strategic Development Committee and formulated the articles for the Strategic Development Committee. The articles of the Strategic Development Committee are set out in the Company's website.

The Strategic Development Committee under the first session of the Board of the Company comprises executive Directors, Mr. Yuan Ze, Mr. Shi Wenfeng and Mr. Zhang Guohua, a non-executive Director, Mr. Zhou Chuanyou and an independent non-executive Director, Mr. Sun Baosheng. One of the executive Directors, Mr. Yuan Ze serves as the chairman. The Strategic Development Committee under the second session of the Board of the Company still comprises executive Directors, Mr. Yuan Ze, Mr. Shi Wenfeng and Mr. Zhang Guohua, a non-executive Director, Mr. Zhou Chuanyou and an independent non-executive Director, Mr. Sun Baosheng. One of the executive Directors, Mr. Yuan Ze remains to serve as the chairman.

The duties of the Strategic Development Committee are to review and evaluate the development, budget, investment, business operation, strategic plan and annual return of the Company. The Strategic Development Committee's members perform their duties in accordance with the committee's article.

Supervisory Committee

The second session of the Company's Supervisory Committee consists of five Supervisors. Mr. Jiang Mingshun is the Chairman of the Supervisory Committee. One of the Supervisors was elected by the shareholders as shareholders' representative, two Supervisors represented the employees of the Company were elected by the employees and two other independent Supervisors were appointed. Supervisors serve for a term of three years and are subject to re-election.

The Supervisory Committee is responsible for exercising supervision over the Board, its members and the senior management; and preventing them from abusing their authorities and jeopardizing the interests of the shareholders, the Company and its employees. Two meetings were held by the Supervisory Committee in 2009. Attendance rates for the first and second meetings are 80% and 60%, respectively. During the meetings, the Supervisory Committee reviewed the financial conditions and operation of the Company and the due diligence of the senior management. The Supervisory Committee's members perform their duties in accordance with the committee's articles.

SHAREHOLDERS' MEETING AND INVESTOR RELATIONS

The shareholders' meeting provides a good opportunity for direct communications and the establishment of a sound relationship between the Board and the shareholders of the Company. Therefore, the Company attaches great importance to such meeting. In 2009, the Company convened two shareholders' meetings. All resolutions were approved with a rate of over 98% voting for the resolutions. The meetings were chaired by the Chairman of the Board, who explained matters concerning the procedures for voting for shareholders' consideration and the shareholders voted on each resolution. Each of the Directors and Supervisors were notified of and attended the shareholders' meetings.

The rights and responsibilities of all shareholders are set out in the Company's Article of Associations.

Shareholders holding more than 10% of the issued shares with voting right may call for an extraordinary general meeting in writing.

The Company will issue a notice in writing 45 days prior to the general meeting informing all shareholders on the shareholders' register, setting out proposed issues to be discussed, dates and time of the general meeting. Shareholders wishing to attend the general meeting should send the reply letter to the Company 20 days prior to the general meeting.

For annual general meeting of the Company, shareholders holding more than 3% of shares with voting rights may propose to the Company any resolutions in writing; the Company will include, if the Company considers fit, the proposed resolutions into the agenda of the general meeting.

Proposed resolutions not included in the agenda shall be explained and clarified in the meeting; contents of the resolutions and the Board's explanation shall be set forth in an announcement after the general meeting.

The Company communicates with shareholders by issuing annual reports, interim reports, results announcements and other announcements. All relevant information is also listed in the Company's website at www.xjxxky.com.cn. or kunlun.wsfg.hk.

The Board understands that effective communication with investors is the key to gain confidence from the investors and to attract new investors.

The Company has established a designated investor relations department for investor relations. The Company's management maintains close communications with investors, analysts and the media by various means including individual interviews, meetings and investors' visits to the Company, thereby further increases investors' understanding of the Company. In addition, relevant department of the Company is responsible for answering investors' enquiries and mail on a timely basis.

As at 31 December 2009, total market capitalisation of the Company was approximately HK$9.40 billion, of which the market capitalization of public floatation of H shares was approximately HK$3.23 billion.

INTERNAL CONTROL AND CORPORATE MANAGEMENT

The Board has overall responsibility for the Group's internal control system, including defining management structure and relevant authorities, confirming the adoption of appropriate Accounting Standards, providing reliable financial information for internal use and announcements and confirming the compliance of relevant laws and regulations. The above supervising system reasonably (not absolutely) confirms that the operational system has no material misstatement or damage and controls (not eliminate) errors or risks of not achieving certain standards.

Executive Directors and senior management of the Company are authorised to manage and supervise respective operational systems and relevant issues.

The Company has established internal accounting system. Proposed budget has to be approved by the Board before its implementation. The budget management system and investment management system contain relevant formulations for evaluating and reviewing principal operation expenses and capital expenses. Operational results are reported to the Board with financial analysis on a regular basis.

The Company has established specific internal audit group and procedures to ensure comprehensive, accurate and timely record of accounting and management information. Regular reviews are conducted to ensure financial statements are prepared in accordance with the relevant accounting standards, accounting policies and applicable laws and regulations; and to be extended to all branches of the Company. Annual work plan of audit department is approved by the Supervisory Committee and Audit Committee of the Company.

The Company has developed the Information Disclosure Management System, which contains relevant procedures for managing price sensitive information. The Board carries out internal audit review through annual and interim reports at least twice a year to evaluate the effectiveness of the internal audit system.

The Board believes that the present corporate internal audit basically covers the current operations of the corporate. Yet, the Company's internal audit system has to be upgraded from time to time to cope with new development.

The Company will conduct an effective review on the control of financial, operational and risk management activities. In 2009, the Company has followed through the internal control system and the Board has conducted a review of the effectiveness of the internal control system of the Group. The internal audit of the Company plays an important role in the internal control system of the Company. It is responsible for monitoring the effectiveness of the internal control procedures and ensuring the compliance of policies and principals established by each business and operational units. The internal audit function will also make recommendations on operation effectiveness and other risk management issues to the management.

The Board of the Company has appointed Stephen Mok & Co. in association with Eversheds LLP to arrange training for Directors, Supervisors and senior management on Directors' responsibilities and offer seminars on the Listing Rules and the Securities and Futures Ordinance ("SFO") for Directors, Supervisors and senior management in order to ensure strict compliance with the relevant laws and regulations in their work.

The Company regularly held managerial meetings chaired by the General Manager. These meetings were attended by the Directors, the senior management, and the responsible members of all departments at the Company's headquarter. Discussions and decisions on the Company's operations and the implementation of investment projects and financial matters are conducted at the meetings. The management of the Company and the department heads at the branch level and headquarter will host regular managerial meetings to assist in the cooperation, communication and supervision of the commencement and execution of all joint projects.

Pursuant to the statutory regulation and in compliance to the Hong Kong Code on Takeovers and Mergers and the Listing Rules the Company has engaged Hercules Capital Limited as the independent financial advisor of the Company to advise the Company, the independent board committee and the independent shareholders with respect to the agreements and contracts related to the connected transactions under the mutual supply master agreement entered into by the Company and Xinjiang Non-ferrous Metals Industry (Group) Ltd. and the continuing connected transactions contemplated thereunder, together with the annual caps for 2009 and the three years thereafter, and to prepare the independent report of the financial advisor.

DELEGATION OF AUTHORITY

The Board makes decisions on specific issues whereas the management is authorised to implement and manage the existing contractual arrangements as well as manage the day-to-day affairs of the Company. The Board reviews from time to time the extent of the authority in order to ensure that related staff has sufficient power to carry out related duties and achieve efficiency and effectiveness of operations.

FINANCIAL REPORTING

The Board was in strict compliance with the stipulations as set out in the Listing Rules in relation to financial reporting and disclosure to carry out comprehensive evaluation and disclose the Company's performance, financial position and prospect for the year based on detailed and accurate financial information and other data submitted by the management for the Board's approval. It also undertook the responsibility of preparing the Company's financial statements of the interim and annual reports of the year on a true and accurate basis.

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To the shareholders of Xinjiang Xinxin Mining Industry Co., Ltd.
(A joint stock company incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Xinjiang Xinxin Mining Industry Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 55 to 144, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated statement of comprehensive income, 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 consolidated 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion 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.

Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, 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 auditor considers 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.

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

Opinion

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2010

Consolidated Balance Sheet

(All amounts in RMB thousands unless otherwise stated)

	Note	As at 31 December 2009	2008
ASSETS			
Non-current assets			
Property, plant and equipment	*6*	**1,919,017**	870,377
Mining rights	*7*	**658,645**	282,996
Land use rights	*8*	**124,366**	76,267
Intangible assets	*9*	**28,545**	458
Investment in a joint-venture	*11*	**143,677**	144,669
Investment in an associate	*12*	**5,821**	–
Other non-current asset	*13*	**53,000**	271,125
Deferred tax assets	*26*	**21,946**	5,379
Total non-current assets		**2,955,017**	1,651,271
Current assets			
Inventories	*14*	**261,180**	160,293
Trade and bills receivables	*15*	**13,583**	4,299
Other receivables and prepayments	*16*	**92,552**	114,667
Interest receivable		**11,699**	16,755
Cash and bank balances	*17*	**2,301,418**	3,448,018
Total current assets		**2,680,432**	3,744,032
Total assets		**5,635,449**	5,395,303
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	*18*	**552,500**	552,500
Capital reserve	*18*	**4,055,489**	4,055,489
Other reserves	*19*	**201,687**	182,168
Retained earnings			
– Proposed final dividend	*20/35*	**110,500**	198,900
– Others	*20*	**319,477**	222,751
		5,239,653	5,211,808
Minority interests in equity		**46,103**	9,803
Total equity		**5,285,756**	5,221,611

Consolidated Balance Sheet

(All amounts in RMB thousands unless otherwise stated)

	Note	As at 31 December 2009	2008
LIABILITIES			
Non-current liabilities			
Long-term payables	*21*	**939**	1,361
Provision for close down, restoration and environmental costs	*22*	**5,310**	4,524
Deferred income	*23*	**26,328**	16,383
Deferred tax liability	*26*	**103,682**	–
Total non-current liabilities		**136,259**	22,268
Current liabilities			
Current portion of long-term payables	*21*	**116**	978
Trade payables	*24*	**97,133**	69,713
Other payables and accruals	*25*	**115,121**	80,731
Income tax payable		**1,064**	2
Total current liabilities		**213,434**	151,424
Total liabilities		**349,693**	173,692
Total equity and liabilities		**5,635,449**	5,395,303
Net current assets		**2,466,998**	3,592,608
Total assets less current liabilities		**5,422,015**	5,243,879

The notes on pages 62 to 144 are an integral part of these consolidated financial statements.

The financial statements on pages 55 to 144 were approved by the Board of Directors on 29 March 2010 and were signed on its behalf.

Yuan Ze
Director

Shi Wenfeng
Director

Balance Sheet

(All amounts in RMB thousands unless otherwise stated)

	Note	As at 31 December 2009	2008
ASSETS			
Non-current assets			
Property, plant and equipment	6	**1,337,638**	862,377
Mining rights	7	**274,437**	282,996
Land use rights	8	**74,621**	76,267
Intangible assets	9	**364**	458
Investments in subsidiaries	10	**1,006,131**	10,200
Investment in a joint-venture	11	**145,327**	145,327
Other non-current asset	13	**–**	271,125
Deferred tax assets	26	**5,379**	5,379
Total non-current assets		**2,843,897**	1,654,129
Current assets			
Inventories	14	**220,811**	160,293
Trade and bills receivables	15	**13,583**	4,299
Other receivables and prepayments	16	**162,095**	114,667
Interest receivable		**11,159**	16,755
Cash and bank balances	17	**2,178,090**	3,435,999
Total current assets		**2,585,738**	3,732,013
Total assets		**5,429,635**	5,386,142
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	18	**552,500**	552,500
Capital reserve	18	**4,055,489**	4,055,489
Other reserves	19	**201,687**	182,168
Retained earnings			
– Proposed final dividend	20/35	**110,500**	198,900
– Others	20	**294,633**	223,406
Total equity		**5,214,809**	5,212,463

Balance Sheet

(All amounts in RMB thousands unless otherwise stated)

		As at 31 December	
	Note	**2009**	2008
LIABILITIES			
Non-current liabilities			
Long-term payables	*21*	**939**	1,361
Provision for close down, restoration and environmental costs	*22*	**4,524**	4,524
Deferred income	*23*	**16,361**	16,383
Total non-current liabilities		**21,824**	22,268
Current liabilities			
Current portion of long-term payables	*21*	**116**	978
Trade payables	*24*	**105,704**	69,713
Other payables and accruals	*25*	**87,182**	80,720
Total current liabilities		**193,002**	151,411
Total liabilities		**214,826**	173,679
Total equity and liabilities		**5,429,635**	5,386,142
Net current assets		**2,392,736**	3,580,602
Total assets less current liabilities		**5,236,633**	5,234,731

The notes on pages 62 to 144 are an integral part of these consolidated financial statements.

The financial statements on pages 55 to 144 were approved by the Board of Directors on 29 March 2010 and were signed on its behalf.

Yuan Ze
Director

Shi Wenfeng
Director

Consolidated Statement of Comprehensive Income

(All amounts in RMB thousands unless otherwise stated)

	Note	Year ended 31 December 2009	2008
Revenue	*5*	**705,938**	1,176,663
Cost of sales	*27*	**(419,050)**	(856,580)
Gross profit		**286,888**	320,083
Distribution costs	*27*	**(8,720)**	(7,100)
Administrative expenses	*27*	**(93,788)**	(115,462)
Other losses - net	*29*	**(5,505)**	(29,386)
Operating profit		**178,875**	168,135
Finance income	*30*	**50,730**	126,501
Finance costs	*30*	**(241)**	(1,663)
Finance income - net	*30*	**50,489**	124,838
Share of loss of a joint-venture	*11*	**(992)**	(658)
Share of loss of an associate	*12*	**(1,080)**	–
Profit before income tax		**227,292**	292,315
Income tax (expense)/credit	*31*	**(747)**	5,336
Profit for the year		**226,545**	297,651
Other comprehensive income		**–**	–
Total comprehensive income		**226,545**	297,651
Attributable to:			
Equity holders of the Company		**226,745**	297,648
Minority interests		**(200)**	3
Total comprehensive income		**226,545**	297,651
Earnings per share for profit attributable to the equity holders of the Company during the year *(expressed in Renminbi per share)*			
– Basic and diluted	*34*	**0.103**	0.135
Dividends	*35*	**110,500**	198,900

The notes on pages 62 to 144 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

(All amounts in RMB thousands unless otherwise stated)

		Attributable to equity holders of the Company						
	Note	Share capital	Capital reserve	Other reserves	Retained earnings	Total	Minority interests	Total equity
At 1 January 2008		552,500	4,055,489	153,076	329,895	5,090,960	–	5,090,960
Total comprehensive income		–	–	–	297,648	297,648	3	297,651
Transaction with owners								
Dividends relating to 2007	*35*	–	–	–	(176,800)	(176,800)	–	(176,800)
Appropriation to statutory reserve	*19*	–	–	29,092	(29,092)	–	–	–
Capital contribution from minority interests		–	–	–	–	–	9,800	9,800
Total transaction with owners		–	–	29,092	(205,892)	(176,800)	9,803	(167,000)
Appropriation to safety fund reserve	*19*	–	–	2,655	(2,655)	–	–	–
Utilisation of safety fund reserve	*19*	–	–	(2,655)	2,655	–	–	–
At 31 December 2008		552,500	4,055,489	182,168	421,651	5,211,808	9,803	5,221,611
At 1 January 2009		**552,500**	**4,055,489**	**182,168**	**421,651**	**5,211,808**	**9,803**	**5,221,611**
Total comprehensive income					**226,745**	**226,745**	**(200)**	**226,545**
Transaction with owners								
Dividends relating to 2008		**–**	**–**	**–**	**(198,900)**	**(198,900)**	**–**	**(198,900)**
Appropriation to statutory reserve	*19*	**–**	**–**	**19,519**	**(19,519)**	**–**	**–**	**–**
Capital contribution from minority interests	*10(b)*	**–**	**–**	**–**	**–**	**–**	**34,000**	**34,000**
Total contributions by and distributions to owners		**–**	**–**	**19,519**	**(218,419)**	**(198,900)**	**34,000**	**(164,900)**
Minority interests arsing on a business combination	*36*	**–**	**–**	**–**	**–**	**–**	**2,500**	**2,500**
Total transaction with owners		**–**	**–**	**19,519**	**(218,419)**	**(198,900)**	**36,500**	**(162,400)**
Appropriation to safety fund reserve	*19*	**–**	**–**	**5,797**	**(5,797)**	**–**	**–**	**–**
Utilisation of safety fund reserve	*19*	**–**	**–**	**(5,797)**	**5,797**	**–**	**–**	**–**
At 31 December 2009		**552,500**	**4,055,489**	**201,687**	**429,977**	**5,239,653**	**46,103**	**5,285,756**

The notes on pages 62 to 144 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

(All amounts in RMB thousands unless otherwise stated)

	Note	Year ended 31 December 2009	2008
Cash flows from operating activities			
Cash generated from operations	*37(a)*	**13,588**	182,346
Interest paid		**(70)**	–
Income tax paid		**(6,541)**	(41)
Net cash generated from operating activities		**6,977**	182,305
Cash flows from investing activities			
Investment in a joint-venture		**–**	(145,327)
Acquisition of subsidiaries	*36*	**(280,867)**	–
Prepayments of investments	*13*	**–**	(271,125)
Decrease/(increase) in cash pledged for acquisition of subsidiaries	*17*	**271,125**	(271,125)
Purchase of property, plant and equipment		**(671,058)**	(356,178)
Purchase of mining rights		**(1,472)**	(445)
Purchase of other intangible assets		**(76)**	–
Purchase of financial assets at fair value through profit or loss		**–**	(3,820)
Proceeds from disposal of property, plant and equipment	*37(b)*	**91**	55
Proceeds from disposal of financial assets at fair value through profit or loss		**–**	4,792
Interest received		**55,786**	109,746
Net cash used in investing activities		**(626,471)**	(933,427)
Cash flows from financing activities			
Dividends paid to the equity holders of the Company	*35*	**(198,900)**	(176,800)
Dividends paid to previous shareholders of subsidiaries acquired in 2009	*36(a)*	**(36,020)**	–
Capital contribution from a minority equity holder in a subsidiary	*10(b)*	**34,000**	9,800
Repayment of bank borrowings of a subsidiary acquired in 2009		**(55,000)**	–
Net cash used in financing activities		**(255,920)**	(167,000)
Net decrease in cash and cash equivalents		**(875,414)**	(918,122)
Cash and cash equivalents at beginning of the year		**3,176,893**	4,096,103
Exchange losses on cash and cash equivalents		**(61)**	(1,088)
Cash and cash equivalents at end of the year	*37(c)*	**2,301,418**	3,176,893

The notes on pages 62 to 144 are an integral part of these consolidated financial statements.

1 General information

Xinjiang Xinxin Mining Industry Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") is principally engaged in the mining, ore processing, smelting, refining and sales of nickel, copper and other non-ferrous metal products. The Company was incorporated in the People's Republic of China (the "PRC") on 1 September 2005 as a joint stock company with limited liability. The address of the Company's office is 7/F Youse Building, No.4 You Hao North Road, Urumqi, Xinjiang Uygur Autonomous Region of the PRC.

In October 2007, the Company completed its initial public offering ("IPO") and the H shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company acquired 100% equity interests in Xinjiang Yakesi Resources Development Co., Ltd. ("Yakesi") and Hami Jubao Resource Development Co., Ltd. ("Jubao") on 12 February 2009, and 95% equity interests in Xinjiang Zhongxin Mining Company Limited ("Zhongxin Mining") on 18 June 2009. The details of the subsidiaries acquired and business combinations are set out in Notes 10 and 36 respectively.

These consolidated financial statements are presented in thousands of units of Renminbi ("RMB'000"), unless otherwise stated.

These consolidated financial statements have been approved for issue by the Board of Directors on 29 March 2010.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

The consolidated financial statements have been prepared under the historical cost convention, except that certain financial assets and financial liabilities at fair value as appropriate.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the group

- HKFRS 7 'Financial instruments – disclosures' (amendment) – effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

- Hong Kong Accounting Standard ("HKAS") 1 (revised). 'Presentation of financial statements' – effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

- HKFRS 2 (amendment), 'Share-based payment' (effective 1 January 2009) deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation there of subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group has adopted HKFRS 2 (amendment) from 1 January 2009. The amendment does not have a material impact on the Group's financial statements.

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

(a) New and amended standards adopted by the group (continued)

- HKFRS 8, 'Operating segments' (effective 1 January 2009). HKFRS 8 replaces HKAS 14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. Based on the internal reporting provided to the chief operating decision-maker, the Group has only one operating segment and the change in accounting policy has no impact on presentation aspects.

(b) Standards, amendments and interpretations to existing standards that are not yet effective but have been early adopted by the Group

- HKAS 24 (Revised) "Related party disclosures". The amendment introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government-related entities and the government. Those disclosures are replaced with a requirement to disclose:

  – the name of the government and the nature of their relationship;

  – the nature and amount of any individually-significant transactions; and

  – the extent of any collectively-significant transactions qualitatively or quantitatively.

  It also clarifies and simplifies the definition of a related party. However, management considers the impact on the existing related-party transaction disclosures are not significant.

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

(c) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group*

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not early adopted them:

- HK(IFRIC) 17 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). The interpretation is part of the HKICPA's annual improvements project published in April/May 2009. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. HKFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The Group will apply HK(IFRIC) 17 from 1 January 2010. It is not expected to have a material impact on the Group's financial statements.

- HKAS 27 (revised), 'Consolidated and separate financial statements', (effective from 1 July 2009). The revised standard requires the effects of all transactions with minority interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interests in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (revised) prospectively to transactions with minority interests from 1 January 2010.

- HKFRS 3 (revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interests in the acquiree either at fair vale or at the non-controlling interests' proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

(c) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)*

- HKAS 38 (amendment), 'Intangible assets' (effective from 1 July 2009). The amendment is part of the HKICPA's annual improvements project published in April/ May 2009 and the Group will apply HKAS 38 (amendment) from the date HKFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in a material impact on the Group's financial statements. The Group will prospectively apply this amendment for all business combinations from 1 January 2010 onwards.

- HKFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held for sale'. The amendment is part of the HKICPA's annual improvements project published in April/May 2009. The amendment provides clarification that HKFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of HKAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of HKAS 1. The Group will apply HKFRS 5 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group's financial statements.

- HKAS 1 (amendment), 'Presentation of financial statements'. The amendment is part of the HKICPA's annual improvements project published in April/May 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Group will apply HKAS 1 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group's financial statements.

- HKFRS 2 (amendments), 'Group cash-settled share-based payment transactions' (effective from 1 January 2010). In addition to incorporating HK(IFRIC)-Int 8, 'Scope of HKFRS 2', and HK(IFRIC)-Int 11, 'HKFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by the interpretation. The new guidance is not expected to have a material impact on the Group's financial statements.

2 Summary of significant accounting policies *(continued)*

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at 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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement (note 2.8).

Inter-company transactions, balances and unrealised gains on transactions between group companies, if any, are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary in the consolidated financial statements to ensure consistency with the policies adopted by the Group.

The gain or loss on disposal of a subsidiary represents the difference between the proceeds from the disposal and the carrying amount as of the date of disposal, including the cumulative amount of any exchange differences that relate to the subsidiary and recognised in equity, is recognised in the consolidated income statement as the gain or loss on the disposal of the subsidiary.

In the Company's balance sheet the investment in a subsidiary is stated at cost less provision for impairment losses (Note 2.9). The result of subsidiary is accounted by the Company on the basis of dividend received and receivable.

2 Summary of significant accounting policies *(continued)*

2.2 Consolidation *(continued)*

(b) *Transactions with minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group and are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) *Joint ventures*

The Group's interests in jointly controlled entities are accounted for using the equity method for accounting and are initially recognised at cost. The Group's investment in joint ventures includes goodwill identified on acquisition, if any, net of any accumulated impairment loss.

The Group's share of its joint ventures' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interests in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investment in a joint-venture is stated at cost less provision for impairment losses (Note 2.9). The results of the joint venture are accounted for by the Company on the basis of dividends received and receivable.

2 Summary of significant accounting policies *(continued)*

2.2 Consolidation *(continued)*

(d) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, if any, net of any accumulated impairment loss. See note 2.9 for the impairment of non-financial assets including goodwill.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the consolidated income statement.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Company's Board of Directors that makes strategic decisions.

2 Summary of significant accounting policies *(continued)*

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the consolidated income statement within 'other (losses)/gains' net.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in the available for sale reserve in equity.

2.5 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of asset comprises of its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use.

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

2 Summary of significant accounting policies *(continued)*

2.5 Property, plant and equipment *(continued)*

Depreciation of buildings, machinery and equipment, electronic equipment and others, and motor vehicles is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings	10 to 50 years
Machinery and equipment	5 to 18 years
Electronic equipment and others	3 to 12 years
Motor vehicles	4 to 12 years

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

Mining structures comprise the main and auxiliary mine shafts and underground tunnels. Depreciation of mining structures is provided to write off the cost of the mining structure using the unit-of-production method. Unit-of-production rate is based on reserves estimated to be recovered from existing facilities using current operating methods.

Construction in progress represents buildings, mining structure or machinery and equipment on which construction work has not been completed. It is carried at cost which includes construction expenditures and other direct costs less any impairment losses. On completion, construction in progress is transferred to the appropriate categories of property, plant and equipment at cost. No depreciation is provided for construction in progress until they are completed and available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other (losses)/gains – net' in the consolidated income statement.

2.6 Land use rights

Land use rights are stated at cost less accumulated amortisation and impairment losses. Cost represents consideration paid for the rights to use the land and expenditure that is directly attributable to the acquisition. Amortisation of land use rights is calculated on a straight-line basis over the period of the land use rights varying from 5 to 50 years.

2 Summary of significant accounting policies *(continued)*

2.7 Mining rights and exploration rights

Mining rights are stated at cost less accumulated amortisation and impairment losses. Amortisation of mining rights is calculated to write off the cost less accumulated impairment of losses over the shorter of the period of the rights on a straight-line basis or of the useful lives of the mines in accordance with the production plans and proved reserves of the mines on the unit-of-production method.

Exploration rights are stated at cost of acquiring exploration rights less accumulated amortisation and impairment losses. Exploration rights are amortised over the term of the rights.

2.8 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

2.9 Impairment of investments in subsidiaries, joint-ventures and associates, and non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investments in subsidiaries, associates or joint-ventures is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiaries, associates or joint-ventures in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2 Summary of significant accounting policies *(continued)*

2.10 Financial assets

2.10.1 Classification

The Group's financial assets are classified as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables comprise "trade and bills receivables", "other receivables and prepayments", "interest receivable" and "cash and bank balances" in the balance sheets (Note 2.12 and Note 2.13).

2.10.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

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

2 Summary of significant accounting policies *(continued)*

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.12 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.13 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax from the proceeds.

2 Summary of significant accounting policies *(continued)*

2.15 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

2.16 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2 Summary of significant accounting policies *(continued)*

2.16 Current and deferred income tax *(continued)*

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, joint-ventures and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.17 Employee benefits

(i) Pension obligations

The full-time employees of the Group are covered by various government-sponsored defined-contribution pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these retired employees. The Group contributes on a monthly basis to these pension plans. Under these plans, the Group has no obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

(ii) Housing benefits

The full-time employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

(iii) Early retirement benefits

Employee early retirement benefits are recognised in the period in which the Group enters into an agreement with the employee specifying the terms of early retirement or after the individual employee has been advised of the specific terms. The specific terms vary among the early retired employees depending on various factors including position and length of services. Early retirement benefits falling due more than 12 months after the balance sheet date are discounted to present value.

2 Summary of significant accounting policies *(continued)*

2.17 Employee benefits *(continued)*

(iv) Cash-settled share-based compensation scheme

The Group operates a cash-settled share appreciation rights plan. The related cost of services received from the employees and the liability to pay for such services are measured at fair value and recognised over the vesting period as the employees render services. Fair value is established at the grant date, re-measured at each reporting date with any changes in fair value recognised in profit or loss for the period and derecognised until the liability is settled.

The total amount to be expensed over the vesting period is determined by reference to the fair value of the rights granted, excluding the impact of any non-market vesting conditions. Non-market conditions are included in the assumptions about the number of rights that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of rights that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to liability.

2.18 Provisions

Provisions for environmental restoration, reorganisation costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax interest rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2 Summary of significant accounting policies *(continued)*

2.19 Revenue recognition

Revenue comprises the fair value of consideration received or receivable for the sales of goods in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

Sales of goods are recognised when the Group entity has delivered products and transferred the significant risks and rewards of ownership of the product to the customer; the customer has accepted the products and collectability of the related receivables is reasonably assured.

(b) Interest income

Interest income from deposits placed with banks and other financial institutions is recognised on a time-proportion basis using the effective interest method.

2.20 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all related conditions.

Grants related costs are deferred and are recognised in the consolidated income statement on a systematic basis to match with the related costs which they are intended to compensate, otherwise grants with no future related costs are recognised on receipt basis.

2 Summary of significant accounting policies *(continued)*

2.20 Government grants *(continued)*

Grants relating to the exploration and construction of mineral projects and land use rights are included in non-current liabilities as deferred income and are credited to the consolidated income statement on a straight line basis over the expected lives of the related assets.

2.21 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.22 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating leases payments are charged to the consolidated income statement on a straight-line basis over the period of respective leases.

2.23 Exploration and evaluation expenditure

Exploration and evaluation expenditure comprises costs which are directly attributable to: researching and analysing existing exploration data; conducting geological studies, exploratory drilling and sampling; examining and testing extraction and treatment methods; and compiling pre-feasibility and feasibility studies. Exploration and evaluation expenditure also includes the costs incurred in the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

During the initial stage of a project, exploration and evaluation costs are expensed as incurred. Expenditure on a project after it has reached a stage at which there is a high degree of confidence in its viability is capitalised and transferred to property, plant and equipment if the project proceeds. If a project does not prove viable, all irrecoverable costs associated with the project are expensed in the consolidated income statement.

2 Summary of significant accounting policies *(continued)*

2.24 Contingent liability

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

3 Financial risk management

(i) Financial risk factors

The Group's activities expose it to a variety of financial risks: cash flow interest rate risk, credit risk, liquidity risk and concentration risk. The Group historically has not used derivative instruments for hedging or trading purposes.

(a) Cash flow interest rate risk

The Group's interest rate risk arises form bank deposits. Bank deposited at variable rate expose the Group to cash flow interest rate risk. The Group's policy to manage the cash flow interest rate is to arrange deposits with fixed interest rates which can partially reduce the risk of interest fluctuation.

As at 31 December 2009, if interest rates on bank deposits had been 10% lower with all other variables held constant, post-tax profit for the year would have been RMB5,073,000 lower.

(b) Credit risk

The carrying amounts of deposits and receivables included in the consolidated balance sheets represent the Group's maximum exposure to credit risk in relation to its financial assets. Most of bank balances are deposited with state-owned banks which are considered of remote default risk. The directors are also of the opinion that adequate provision for uncollectible trade receivable and other receivables were made as at 31 December 2008 and 2009 after considering the Group's historical experience in collection of trade receivable and other receivables.

(All amounts in RMB thousands unless otherwise stated)

3 Financial risk management *(continued)*

(i) Financial risk factors *(continued)*

(c) Liquidity risk

The Group has funded its future cash flow needs through initial public offering of the Company's H shares, internally generated cash flows from operations and, where necessary, borrowings from financial institutions.

The table below analyses the Group's and the Company's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

The Group

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2008				
Long-term payables	1,117	267	495	1,128
Trade payables *(Note 24)*	69,713	–	–	–
Other payables and accruals	69,154	–	–	–
At 31 December 2009				
Long-term payables	**193**	**171**	**472**	**980**
Trade payables *(Note 24)*	**97,133**	**–**	**–**	**–**
Other payables and accruals	**109,948**	**–**	**–**	**–**

The Company

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2008				
Long-term payables	1,117	267	495	1,128
Trade payables *(Note 24)*	69,713	–	–	–
Other payables and accruals	69,154	–	–	–
At 31 December 2009				
Long-term payables	**193**	**171**	**472**	**980**
Trade payables *(Note 24)*	**105,704**	**–**	**–**	**–**
Other payables and accruals	**83,531**	**–**	**–**	**–**

3 Financial risk management *(continued)*

(i) Financial risk factors *(continued)*

(d) Concentration risk

Revenues are principally derived from sales of nickel cathode and copper cathode. Approximately 48% of the total sales for the year ended 31 December 2009 (2008: 54%) were contributed by top three customers for which the Group has not entered into any long-term sales contracts with them. In the event that these major customers terminate the business relationship with the Group and the Group fails to find new customers, it may have a material adverse impact on the Group's financial position and results of operations.

(ii) Capital risk management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may issue new shares or sell assets to reduce debts.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity', as shown in the consolidated balance sheet, plus net debt. The gearing ratios at 31 December 2008 and 2009 were zero as the Group had no borrowings.

3 Financial risk management *(continued)*

(iii) Fair value estimate

Effective 1 January 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Inputs other than quoted prices that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

4 Critical accounting estimates and assumptions

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

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

(a) Carrying value of non-current assets

The Group tests whether property, plant and equipment, land use rights and mining rights have been impaired due to events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount, in accordance with accounting policies stated in Note 2.9 to the financial statements.

As at 31 December 2009, there was no impairment indication noted for property, plant and equipment, land use rights and mining rights. Had impairment test been performed, the recoverable amounts of different cash generating units to which the property, plant and equipment, land use rights and mining rights belong, would have been determined based on value-in-use calculations using cash flow projections, which would have been compiled based on financial budgets approved by senior management covering a five-year period and management's assumptions and estimates including forecast of selling price of nickel and copper, discount rates and inflation rate.

(b) Goodwill impairment assessment

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2.9. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

As at 31 December 2009, there was no impairment for goodwill. The recoverable amounts of different cash generating units to which the goodwill, have been determined based on value-in-use calculations using cash flow projections, based on financial budgets approved by senior management covering a five-year period and management's assumptions and estimates including forecast of selling price of nickel and copper, discount rates and inflation rate. Cash flows beyond the five-year period are assumed to be equal to that of 2014. The discount rates used in cash flow projections varied with different cash generating units.

4 Critical accounting estimates and assumptions *(continued)*

(c) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charges where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(d) Mineral reserves

Engineering estimates of the Group's mineral reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information.

There are authoritative guidelines regarding the engineering criteria that have to be met before estimated mineral reserves can be designated as "proved" and "probable". Proved and probable mineral reserve estimates are updated at regular basis and have taken 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 mineral reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation rates.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation expenses and impairment losses. Depreciation rates are determined based on estimated proved mineral reserve quantity (the denominator) and capitalised costs of mining structures (the numerator). The capitalised cost of mining structures is amortised based on the units of non-ferrous metals produced.

(e) PRC corporate income tax

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

4 Critical accounting estimates and assumptions *(continued)*

(f) Estimate of inventory write-downs

The Group writes down inventories to net realisable value based on an assessment of the realisability of inventories. The assessment of write-downs requires the management's judgement and estimate. Where the outcome is different from the original estimate, such difference will impact the carrying values of inventories and write-downs of inventories in the period in which such estimates have been changed.

(g) Estimate of share appreciation rights

In relation to the cash-settled share appreciation rights granted to the employees, the Group's liability to settle is re-measured at fair value at each balance sheet date with reference to the historical market price trend of the Company's H shares and the forecast of the Group's profitability up to 2011. Where the outcome is different from the original estimate, such differences will impact the Group's profit or loss and liability to settle in the period in which such differences have been occurred.

5 Segment information

In prior years, segment information is analysed on the basis of business segments and geographical segments according to the requirement of HKAS14.

Effective from 1 January 2009, as stipulated by HKFRS 8 management determines the operating segments based on the information reported to the Group's chief operating decision maker. As all of the Group's activities are engaged in the mining, ore processing, smelting, refining and sales of nickel, copper and other non-ferrous metal products, and resources are allocated based on what is beneficial to the Group in enhancing the value as a whole rather than any specific unit, the Group's chief operating decision maker considers the performance assessment of the Group should be based on the results of the Group as a whole. Therefore, management considers there to be only one operating segment under the requirements of HKFRS 8.

(All amounts in RMB thousands unless otherwise stated)

5 Segment information *(continued)*

Revenues form major products

The Group's revenues form its major products are set out as follows.

	Year ended 31 December	
	2009	2008
Nickel cathode	**469,779**	852,658
Copper cathode	**178,644**	221,335
Copper concentrate	**23,579**	62,286
Others	**33,936**	40,384
	705,938	1,176,663

As all of the turnover and operating results of the Group for each of the years ended 31 December 2008 and 2009 were derived in the PRC and all the Group's assets and liabilities are located in the PRC, no geographical segment information is shown.

For the year ended 31 December 2009, the top two customers contributed 24% and 14% of revenue (2008: 38% and 8%) respectively.

(All amounts in RMB thousands unless otherwise stated)

6 Property, plant and equipment

	The Group						
	Buildings	Machinery and equipment	Electronic equipment and others	Motor vehicles	Mining structures	Construction in progress	Total
At 1 January 2008							
Cost	297,729	227,109	7,814	19,719	20,427	226,939	799,737
Accumulated depreciation	(125,455)	(100,837)	(2,136)	(9,756)	(4,851)	–	(243,035)
Net book amount	172,274	126,272	5,678	9,963	15,576	226,939	556,702
Year ended 31 December 2008							
Opening net book amount	172,274	126,272	5,678	9,963	15,576	226,939	556,702
Additions	30	7,989	1,135	8,325	–	347,494	364,973
Transfer from construction in progress	11,260	17,677	650	–	–	(29,587)	–
Other transfer out	–	–	–	–	–	(14,696)	(14,696)
Disposals *(Note 37(b))*	(1,606)	(2,390)	(31)	(63)	–	–	(4,090)
Depreciation	(12,081)	(15,826)	(1,165)	(2,120)	(1,320)	–	(32,512)
Closing net book amount	169,877	133,722	6,267	16,105	14,256	530,150	870,377
At 31 December 2008							
Cost	303,378	238,689	9,152	26,947	20,427	530,150	1,128,743
Accumulated depreciation	(133,501)	(104,967)	(2,885)	(10,842)	(6,171)	–	(258,366)
Net book amount	169,877	133,722	6,267	16,105	14,256	530,150	870,377
Year ended 31 December 2009							
Opening net book amount	**169,877**	**133,722**	**6,267**	**16,105**	**14,256**	**530,150**	**870,377**
Acquisition of subsidiaries	**91,445**	**42,983**	**2,722**	**7,961**	**36,373**	**234,255**	**415,739**
Additions	**469**	**3,675**	**2,021**	**4,017**	**–**	**661,957**	**672,139**
Transfer from construction in progress	**1,923**	**6,605**	**5**	**–**	**32,077**	**(40,610)**	**–**
Other transfer in	**–**	**–**	**–**	**–**	**9,072**	**–**	**9,072**
Disposals *(Note 37(b))*	**–**	**–**	**–**	**(82)**	**–**	**–**	**(82)**
Depreciation	**(15,030)**	**(18,995)**	**(1,580)**	**(3,234)**	**(9,389)**	**–**	**(48,228)**
Closing net book amount	**248,684**	**167,990**	**9,435**	**24,767**	**82,389**	**1,385,752**	**1,919,017**
At 31 December 2009							
Cost	**397,215**	**291,952**	**13,900**	**38,203**	**97,949**	**1,385,752**	**2,224,971**
Accumulated depreciation	**(148,531)**	**(123,962)**	**(4,465)**	**(13,436)**	**(15,560)**	**–**	**(305,954)**
Net book amount	**248,684**	**167,990**	**9,435**	**24,767**	**82,389**	**1,385,752**	**1,919,017**

(All amounts in RMB thousands unless otherwise stated)

6 Property, plant and equipment *(continued)*

Notes:

(a) Operating lease rentals amounting to RMB1,636,000 (2008: RMB1,636,000) relating to the lease of property are included in the consolidated income statement.

(b) Depreciation of property, plant and equipment has been charged to cost of sales, distribution costs and administrative expenses and capitalised in construction in progress as follows:

	Year ended 31 December	
	2009	2008
Cost of sales	**41,391**	28,756
Distribution costs	**201**	184
Administrative expenses	**6,332**	3,572
	47,924	32,512
Capitalised in construction in progress	**304**	–
	48,228	32,512

(All amounts in RMB thousands unless otherwise stated)

6 Property, plant and equipment *(continued)*

	The Company						
	Buildings	Machinery and equipment	Electronic equipment and others	Motor vehicles	Mining structures	Construction in progress	Total
At 1 January 2008							
Cost	297,729	227,109	7,814	19,719	20,427	226,939	799,737
Accumulated depreciation	(125,455)	(100,837)	(2,136)	(9,756)	(4,851)	–	(243,035)
Net book amount	172,274	126,272	5,678	9,963	15,576	226,939	556,702
Year ended 31 December 2008							
Opening net book amount	172,274	126,272	5,678	9,963	15,576	226,939	556,702
Additions	30	7,989	1,135	8,325	–	339,494	356,973
Transfer from construction in progress	11,260	17,677	650	–	–	(29,587)	–
Other transfer out	–	–	–	–	–	(14,696)	(14,696)
Disposals	(1,606)	(2,390)	(31)	(63)	–	–	(4,090)
Depreciation	(12,081)	(15,826)	(1,165)	(2,210)	(1,320)	–	(32,512)
Closing net book amount	169,877	133,722	6,267	16,105	14,256	522,150	862,377
At 31 December 2008							
Cost	303,378	238,689	9,152	26,947	20,427	522,150	1,120,743
Accumulated depreciation	(133,501)	(104,967)	(2,885)	(10,842)	(6,171)	–	(258,366)
Net book amount	169,877	133,722	6,267	16,105	14,256	522,150	862,377
Year ended 31 December 2009							
Opening net book amount	**169,877**	**133,722**	**6,267**	**16,105**	**14,256**	**522,150**	**862,377**
Additions	**–**	**2,250**	**1,261**	**2,520**	**–**	**501,268**	**507,299**
Transfer from construction in progress	**232**	**2,518**	**5**	**–**	**–**	**(2,755)**	**–**
Disposals	**–**	**–**	**–**	**(82)**	**–**	**–**	**(82)**
Depreciation	**(11,779)**	**(15,483)**	**(1,171)**	**(2,166)**	**(1,357)**	**–**	**(31,956)**
Closing net book amount	**158,330**	**123,007**	**6,362**	**16,377**	**12,899**	**1,020,663**	**1,337,638**
At 31 December 2009							
Cost	**303,610**	**243,457**	**10,418**	**28,744**	**20,427**	**1,020,663**	**1,627,319**
Accumulated depreciation	**(145,280)**	**(120,450)**	**(4,056)**	**(12,367)**	**(7,528)**	**–**	**(289,681)**
Net book amount	**158,330**	**123,007**	**6,362**	**16,377**	**12,899**	**1,020,663**	**1,337,638**

(All amounts in RMB thousands unless otherwise stated)

7 Mining rights

The Group

At 1 January 2008	
Cost	297,021
Accumulated amortisation	(4,125)
Net book amount	292,896
Year ended 31 December 2008	
Opening net book amount	292,896
Amortisation charge	(9,900)
Closing net book amount	282,996
At 31 December 2008	
Cost	297,021
Accumulated amortisation	(14,025)
Net book amount	282,996
Year ended 31 December 2009	
Opening net book amount	**282,996**
Acquisition of subsidiaries	**387,300**
Addition	**1,472**
Amortisation charge	**(13,123)**
Closing net book amount	**658,645**
At 31 December 2009	
Cost	**685,793**
Accumulated amortisation	**(27,148)**
Net book amount	**658,645**

(All amounts in RMB thousands unless otherwise stated)

7 Mining rights *(continued)*

The Company

At 1 January 2008	
Cost	297,021
Accumulated amortisation	(4,125)
Net book amount	292,896
Year ended 31 December 2008	
Opening net book amount	292,896
Amortisation charge	(9,900)
Closing net book amount	282,996
At 31 December 2008	
Cost	297,021
Accumulated amortisation	(14,025)
Net book amount	282,996
Year ended 31 December 2009	
Opening net book amount	**282,996**
Addition	**1,472**
Amortisation charge	**(10,031)**
Closing net book amount	**274,437**
At 31 December 2009	
Cost	**298,493**
Accumulated amortisation	**(24,056)**
Net book amount	**274,437**

7 Mining rights *(continued)*

The mining rights mainly comprised mines in Kalatongke ("Kalatongke Mine") Xinjiang Uygur Autonomous Region, the PRC, and in Hami City ("Hami Mine"), Xinjiang Uygur Autonomous Region, the PRC.

The mining rights of Kalatongke Mine were transferred from Xinjiang Non-ferrous Metal Industry (Group) Ltd. ("Xinjiang Non-ferrous" or "Holding Company") at a cash consideration of RMB297,332,000 pursuant to the mining rights transfer agreement on 3 September 2005 (the "Mining Rights Transfer Agreement"). The consideration was to be paid by the Company in annual instalments of approximately RMB9,911,000 each year over the course of 30 years ending 2035. The difference between the value of the mining rights and the discounted net present value of the long-term payable of RMB175,633,000 is recorded as contribution from Holding Company in equity.

On 25 October 2006, the Ministry of Finance of the PRC (the "MOF") and the Ministry of Land and Resource of the PRC (the "MLR") jointly promulgated a new circular on Strengthening Reform of the System for Obtaining Mineral Exploration Rights and Mining Rights for Value (the "Circular"). Pursuant to the Circular, a holder of state-invested mining rights which have been allocated to such holder without any payment of consideration to the State in the past should pay a consideration determined by the MLR. This Circular does not have any grandfather exemption. Since the mining right held by the Company was originally obtained by Xinjiang Non-ferrous from MLR via capital injection, the Circular applies to the mining rights held by the Company.

On 25 July 2007, the Company entered into a new agreement with Xinjiang Non-ferrous (the "New Agreement") to terminate the Mining Rights Transfer Agreement pursuant to which the Company acquired the mining rights at Kalatongke Mine from Xinjiang Non-ferrous. Pursuant to the New Agreement, it was agreed that Xinjiang Non-ferrous will refund the money that the Company paid in the past two years pursuant to the Mining Rights Transfer Agreement. As a result of execution of the New Agreement, the contribution from Holding Company recorded in equity (Note 19(a)) was then reduced by RMB140,270,000 to RMB35,393,000.

On 25 July 2007, the Company entered into an agreement with the Land and Resources Department of Xinjiang Uygur Autonomous Region (the "New Mining Rights Transfer Agreement") to acquire for the mining rights at Kalatongke Mine at a consideration of approximately RMB297,021,000. The consideration was settled by a down-payment of approximately RMB59,466,000 on 27 July 2007 and the residual payment of approximately RMB237,555,000 on 10 December 2007 with interest charged at market rate.

In 2009, as the result of acquisition of Yakesi and Jubao, the mining rights in relation to four nickel and cooper mines in Hami City, Xinjiang Uygur Autonomous Region, the PRC were obtained. The acquisition considerations allocated to such mining rights were amounting to RMB387,300,000 (Note 36(a)).

For the year ended 31 December 2009, all the Group's mining rights were amortised on a straight-line basis calculating based on the period of the rights ranging from 19 years to 33 years (2008: 30 years).

(All amounts in RMB thousands unless otherwise stated)

8 Land use rights

The Group

At 1 January 2008	
Cost	80,636
Accumulated amortisation	(2,723)
Net book amount	77,913
Year ended 31 December 2008	
Opening net book amount	77,913
Amortisation charge	(1,646)
Closing net book amount	76,267
At 31 December 2008	
Cost	80,636
Accumulated amortisation	(4,369)
Net book amount	76,267
Year ended 31 December 2009	
Opening net book amount	**76,267**
Acquisition of subsidiaries	**50,549**
Amortisation charge	**(2,450)**
Closing net book amount	**124,366**
At 31 December 2009	
Cost	**131,185**
Accumulated amortisation	**(6,819)**
Net book amount	**124,366**

(All amounts in RMB thousands unless otherwise stated)

8 Land use rights *(continued)*

The Company

At 1 January 2008	
Cost	80,636
Accumulated amortisation	(2,723)
Net book amount	77,913
Year ended 31 December 2008	
Opening net book amount	77,913
Amortisation charge	(1,646)
Closing net book amount	76,267
At 31 December 2008	
Cost	80,636
Accumulated amortisation	(4,369)
Net book amount	76,267
Year ended 31 December 2009	
Opening net book amount	**76,267**
Amortisation charge	**(1,646)**
Closing net book amount	**74,621**
At 31 December 2009	
Cost	**80,636**
Accumulated amortisation	**(6,015)**
Net book amount	**74,621**

(All amounts in RMB thousands unless otherwise stated)

9 Intangible assets

The Group

	Goodwill	Software	Total
At 1 January 2008			
Cost	–	98	98
Accumulated amortisation	–	(1)	(1)
Net book amount	–	97	97
Year ended 31 December 2008	–		
Opening net book amount	–	97	97
Additions	–	444	444
Amortisation charge	–	(83)	(83)
Closing net book amount	–	458	458
At 31 December 2008			
Cost	–	542	542
Accumulated amortisation	–	(84)	(84)
Net book amount	–	458	458
Year ended 31 December 2009			
Opening net book amount	**–**	**458**	**458**
Acquisition of subsidiaries *(Note 36)*	**27,398**	**350**	**27,748**
Deemed acquisition as a result of additional capital contribution into a subsidiary *(Note 36(b))*	**435**	**–**	**435**
Additions		**76**	**76**
Amortisation charge	**–**	**(172)**	**(172)**
Closing net book amount	**27,833**	**712**	**28,545**
At 31 December 2009			
Cost	**27,833**	**968**	**28,801**
Accumulated amortisation	**–**	**(256)**	**(256)**
Net book amount	**27,833**	**712**	**28,545**

(All amounts in RMB thousands unless otherwise stated)

9 Intangible assets *(continued)*

The Company

	Software
At 1 January 2008	
Cost	98
Accumulated amortisation	(1)
Net book amount	97
Year ended 31 December 2008	
Opening net book amount	97
Additions	444
Amortisation charge	(83)
Closing net book amount	458
At 31 December 2008	
Cost	542
Accumulated amortisation	(84)
Net book amount	458
Year ended 31 December 2009	
Opening net book amount	**458**
Amortisation charge	**(94)**
Closing net book amount	**364**
At 31 December 2009	
Cost	**542**
Accumulated amortisation	**(178)**
Net book amount	**364**

(All amounts in RMB thousands unless otherwise stated)

9 Intangible assets *(continued)*

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified, which is presented below as at 31 December 2009.

Yakesi and Jubao	9,988
Zhongxin Mining	17,845
Total	**27,833**

The goodwill arising on the acquisitions of Yakesi, Jubao and Zhongxin Mning in 2009 was tested for impairment at the end of the year. The impairment tests were carried out using fair value less cost to sell and there was no impairment. Management believes that the fair values of the subsidiaries have not fallen since the acquisition dates.

10 Investments in subsidiaries

The Company

	As at 31 December	
	2009	2008
Unlisted investment, at cost	**1,006,131**	10,200

(All amounts in RMB thousands unless otherwise stated)

10 Investments in subsidiaries *(continued)*

The Company *(continued)*

The particulars of subsidiaries as at 31 December 2009 are as follows:

Company name	Place of establishment and kind of legal entity	Registered and fully paid-up capital	Principal activities and place of operation	% interests held 2009	2008
Directly					
Xinjiang Mengxi Mining Company Limited ("Mengxi Mining") *(Note (a))*	the PRC, limited liability company	RMB15,918,400	Production and sales of nickel concentrate in the PRC	**51%**	51%
Xinjiang Wuxin Copper Company Limited ("Wuxin Mining") *(Note (b))*	the PRC, limited liability company	RMB100,000,000	Production and sales of copper cathode in the PRC	**66%**	–
Xinjiang Yakesi Resources Development Co., Ltd. ("Yakesi") *(Note (c))*	the PRC, limited liability company	RMB500,000,000	Production and sales of nickel concentrate and copper concentrate in the PRC	**100%**	–
Hami Jubao Resources Development Co., Ltd. ("Jubao") *(Note (c))*	the PRC, limited liability company	RMB5,000,000	Production and sales of nickel concentrate and copper concentrate in the PRC	**100%**	–
Xinjiang Zhongxin Mining Company Limited ("Zhongxin Mining") *(Note (d))*	the PRC, limited liability company	RMB120,000,000	Production and sales of nickel matte in the PRC	**97.58%**	–

10 Investments in subsidiaries *(continued)*

Note:

(a) Mengxi Mining was established on 12 June 2008 and has not commenced operations as at 31 December 2009. Mengxi Mining was set up with paid-in capital of RMB15,918,400. The Company subscribed for 51% of the paid-in capital of Mengxi Mining at a consideration of RMB10,200,000.

(b) Wuxin Mining was established on 7 August 2009 and has not commenced operations as at 31 December 2009. Wuxin Mining was set up with paid-in capital of RMB100,000,000. The Company subscribed for 66% of the paid-in capital of Wuxin Mining at a consideration of RMB66,000,000.

(c) On 23 November 2008, the Company entered into equity transfer agreements with Alexis Investments Limited ("Alexis"), Xinjiang Kangshun Mineral Project Development Co., Ltd., Hami Yatian Trading Co., Ltd., Hami Jin Hai Xin Mining Development Co., Ltd., Shanghai Lei Shi Investments Management Co., Ltd. and Beijing Jing Shi Li Mai Biology Technology Co., Ltd. ("other minority shareholders of Yakesi"), to acquire 100% equity interests of Yakesi for a cash consideration of RMB467,250,000.

On 23 November 2008, the Company entered into an equity transfer agreement with Alexis to acquire 25% of equity interests of Jubao for a cash consideration of RMB75,000,000. Before the acquisition, Yakesi held 75% equity interests of Jubao.

The total consideration for the above equity interests acquisitions was RMB542,250,000.

On 5 February 2009, the Company entered into equity transfer agreement with Jubao to transfer 1% of equity interests of Yakesi to Jubao with a cash consideration of RMB4,672,000. On the same day, the Company entered into an equity transfer agreement with Yakesi to acquire 50% equity interests of Jubao from Yakesi with a cash consideration of RMB16,100,000. As a result, the Company and Yakesi hold 75% and 25% equity interests in Jubao respectively; and the Company and Jubao hold 99% and 1% equity interests in Yakesi respectively.

On 27 October 2009, the Company contributed cash of RMB257,000,000 to increase the registered capital of Yakesi from RMB243,000,000 to RMB500,000,000.

Yakesi is the holder of certain mining rights of the Huangshandong nickel-copper mine, the Huangshan nickel-copper mine and the Xiangshan nickel-copper mine. Jubao is the holder of certain mining rights of the Huangshandong nickel-copper mine.

(d) On 8 April 2009, the Company entered into equity transfer agreements with Xinjiang Investment and Development (Group) Company Limited, No. 13 Agriculture Construction Division of Xinjiang Production and Construction Military Unit State-owned Assets Operation Co., Ltd., Shaanxi Honghao Industry Co., Ltd., Hami City Huilong Mining Industry Co., Ltd. and Hami City Jinhua Mining Co. Ltd. to acquire 95% of equity interests of Zhongxin Mining for a cash consideration of RMB55,100,000.

On 24 June 2009, the Company contributed cash of RMB62,000,000 to increase the registered capital of Zhongxin Mining from RMB58,000,000 to RMB120,000,000. As a result of such capital contribution, the Company's equity holding in Zhongxin Mining increased from 95% to 97.58%.

(All amounts in RMB thousands unless otherwise stated)

11 Investment in a joint-venture

The Group

	2009	2008
At 1 January	**144,669**	–
Investment in a joint-venture	**–**	145,327
Share of loss	**(992)**	(658)
At 31 December	**143,677**	144,669

The Group acquired 50% equity interests in a joint-venture, Hami Hexin Mining Company Limited ("Hexin Mining") from Xinjiang Non-ferrous in 2008. Hexin Mining is engaged in the development of mining resources, production, purchase and sales of mineral products. As at 31 December 2009, Hexin Mining was in pre-operating stage.

The Group's share of the results, assets (including goodwill) and liabilities of the joint-venture is as follows:

Company name	**Place of establishment and kind of legal entity**	**Assets**	**Liabilities**	**Revenue**	**Loss**	**% interests held 2009**	**% interests held 2008**
Hexin Mining	the PRC, limited liability company	RMB190,236,000	RMB46,559,000	–	RMB992,000	**50%**	50%

The Company

As at 31 December 2009 and 2008, the investment in Hexin Mining was stated at cost of RMB145,327,000 on the Company's balance sheet.

(All amounts in RMB thousands unless otherwise stated)

12 Investment in an associate

The Group

	2009	2008
At 1 January	**–**	–
Acquisition of a subsidiary	**6,901**	–
Share of loss	**(1,080)**	–
At 31 December	**5,821**	–

Investment in an associate represented 30% equity interests in Tibet Puxiong Mining Company Limited ("Puxiong Mining"), which is held by Yakesi, a subsidiary acquired in 2009 (Note 36(a)). Puxiong Mining is engaged in exploration, mining and milling of copper and zinc resources in Tibet, the PRC.

The Group's share of the results, assets (including goodwill) and liabilities of the associate is as follows:

Company name	Place of establishment and kind of legal entity	Assets	Liabilities	Revenue	Loss	% interests held 2009	% interests held 2008
Puxiong Mining	the PRC, limited liability company	RMB17,105,000	RMB11,284,000	–	RMB1,080,000	**30%**	–

(All amounts in RMB thousands unless otherwise stated)

13 Other non-current asset

The Group

	As at 31 December	
	2009	2008
Prepayment for acquisition of subsidiaries *(Note (a))*	**–**	271,125
Prepaid utilities *(Note (b))*	**52,336**	–
Others	**664**	–
	53,000	271,125

The Company

	As at 31 December	
	2009	2008
Prepayment for acquisition of subsidiaries *(Note)*	**–**	271,125

Note

(a) According to the equity transfer agreements signed by the Company with Alexis and other minority interest shareholders of Yakesi and Jubao (Note 10), the Company prepaid 50% of consideration amounting to RMB271,125,000 to Alexis and other minority shareholders of Yakesi in November 2008, and the remaining 50% of consideration amounting to RMB271,125,000 was deposited at a bank account under co-management of Company and Alexis (Note 17(a)). The remaining 50% consideration was fully paid in 2009 (Note 36(a)).

(b) The balances represented the prepayment for utilities of a subsidiary, which will offset the utilities to be incurred after 1 January 2011.

14 Inventories

The Group

	As at 31 December	
	2009	2008
Cost:		
Raw materials	**57,798**	52,663
Work-in-progress	**31,916**	45,589
Semi-finished goods	**111,704**	87,354
Finished goods	**60,410**	28,423
	261,828	214,029
Provision:		
Raw materials	**(648)**	(543)
Work-in-progress	**–**	(20,194)
Semi-finished goods	**–**	(27,129)
Finished goods	**–**	(5,870)
	(648)	(53,736)
Inventory, net	**261,180**	160,293

(All amounts in RMB thousands unless otherwise stated)

14 Inventories *(continued)*

The Company

	As at 31 December	
	2009	2008
Cost:		
Raw materials	**36,194**	52,663
Work-in-progress	**29,448**	45,589
Semi-finished goods	**97,963**	87,354
Finished goods	**57,749**	28,423
	221,354	214,029
Provision:		
Raw materials	**(543)**	(543)
Work-in-progress	**–**	(20,194)
Semi-finished goods	**–**	(27,129)
Finished goods	**–**	(5,870)
	(543)	(53,736)
Inventory, net	**220,811**	160,293

The cost of inventories recognised as expense and included in "cost of sales" amounting to approximately RMB419,050,000 and RMB856,580,000 for each of the years ended 31 December 2009 and 2008 respectively.

Semi-finished goods are nickel matte, mixed ore concentrate, copper residue and rich and super rich grade ore.

For the year ended 31 December 2009, inventory provisions of RMB53,193,000 (2008: Nil) were realised as the underlying inventories were sold at net realisable value.

(All amounts in RMB thousands unless otherwise stated)

15 Trade and bills receivables

The Group and the Company

	As at 31 December	
	2009	2008
Trade receivables *(Note (a))*	**7,676**	4,810
Bills receivable *(Note (d))*	**8,561**	2,000
Less: provision for impairment of receivables *(Note (e))*	**(2,654)**	(2,511)
	13,583	4,299

Notes:

(a) Trade receivables are analysed as follows:

	As at 31 December	
	2009	2008
Trade receivables		
– Fellow subsidiaries	**1,108**	575
– Third parties	**6,568**	4,235
Trade receivables, gross	**7,676**	4,810

Ageing analysis of the gross trade receivables at the respective balance sheet date is as follows:

	As at 31 December	
	2009	2008
0 – 90 days	**4,226**	1,941
91 – 180 days	**283**	–
181 – 365 days	**–**	440
Over 365 days	**3,167**	2,429
	7,676	4,810

(b) The credit periods of trade receivables are generally ranging from one to three months. As at 31 December 2009 and 2008, management of the Group assessed the recoverability of trade receivables on a customer by customer basis and made impairment provision of RMB2,654,000 and RMB2,511,000 respectively; and there were no significant past due but not impaired trade receivable balances.

(All amounts in RMB thousands unless otherwise stated)

15 Trade and bills receivables *(continued)*

The Group and the Company *(continued)*

Notes: (continued)

(c) Trade receivables from related parties are unsecured, non-interest bearing and repayable in accordance with the relevant contracts entered into between the Group and these related parties.

(d) The ageing of bills receivables are all within 180 days.

(e) The movements of provision for impairment of receivables are as follows:

	2009	2008
At 1 January	**2,511**	2,397
Provision for impairment of receivables	**143**	158
Reversal of provision for impairment of receivables	**–**	(44)
At 31 December	**2,654**	2,511

(f) The carrying amounts of trade and bills receivables approximate their fair values.

16 Other receivables and prepayments

The Group

	As at 31 December	
	2009	2008
Other receivables		
– Amount due from Yakesi *(Note (a))*	**–**	50,000
– Amount due from a joint-venture *(Note (b))*	**50,000**	–
– Amount due from an associate *(Note (c))*	**7,048**	–
– Third parties	**9,981**	22,741
Less: impairment provision	**(2,152)**	(1,155)
	64,877	71,586
Advances to suppliers *(Note (d))*	**27,675**	43,081
	92,552	114,667

(All amounts in RMB thousands unless otherwise stated)

16 Other receivables and prepayments *(continued)*

The Company

	As at 31 December	
	2009	2008
Other receivables		
– Amount due from Yakesi *(Note (a))*	**–**	50,000
– Amount due from a joint-venture *(Note (b))*	**50,000**	–
– Third parties	**9,236**	22,741
Less: impairment provision	**(1,447)**	(1,155)
	57,789	71,586
Advances to suppliers *(Note (d))*	**104,306**	43,081
	162,095	114,667

Notes:

(a) Amount due from Yakesi

According to the contract signed by the Company and Yakesi on 12 November 2008, the Company provided a loan of RMB50,000,000 to Yakesi. The loan was secured by the mining rights of Ore Body No. 30, Huangshan nickel-copper mine owned by Yakesi and non-interest bearing. The amount due from Yakesi was repaid in 2009.

(b) Amount due from a joint-venture

According to the contract signed by the Company and Hexin Mining on 29 June 2009, the Company provided a loan of RMB50,000,000 to Hexin Mining. The loan was unsecured, bearing interest at a rate of 4.86% per annum, and repayable within one year.

(All amounts in RMB thousands unless otherwise stated)

16 Other receivables and prepayments *(continued)*

The Company *(continued)*

Notes: (continued)

(c) Amount due from an associate

According to the contract signed by Yakesi and Puxiong Mining on 27 June 2006, Yakesi provided a loan of RMB7,000,000 to Puxiong Mining. The loan is guaranteed by the holding company of Puxiong Mining, bearing interest at a rate of 5.31%, per annum and repayable on demand.

(d) Advances to suppliers are analysed as follows:

The Group

	As at 31 December	
	2009	2008
Advances to suppliers		
– Fellow subsidiaries	**66**	58
– Third parties	**27,609**	43,023
	27,675	43,081

The Company

	As at 31 December	
	2009	2008
Advances to suppliers		
– Zhongxin Mining	**101,138**	–
– Fellow subsidiaries	**66**	58
– Third parties	**3,102**	43,023
	104,306	43,081

(e) The carrying amounts of other receivables and prepayments approximate their fair values.

(f) Impairment provision for other receivables is charged to administrative expenses.

(All amounts in RMB thousands unless otherwise stated)

17 Cash and bank balances

The Group

	As at 31 December	
	2009	2008
Cash on hand	**6**	7
Current deposits with banks	**2,301,412**	3,176,886
Restricted cash at bank *(Note (a))*	**–**	271,125
	2,301,418	3,448,018

The Company

	As at 31 December	
	2009	2008
Cash on hand	**1**	7
Current deposits with banks	**2,178,089**	3,164,867
Restricted cash at bank *(Note (a))*	**–**	271,125
	2,178,090	3,435,999

Notes:

(a) Restricted cash at bank represented the cash at bank account under co-management of the Company and Alexis, which was set up for the purpose of acquiring 100% equity interests in Yakesi and 25% of equity interests in Jubao. Deposits with this restricted bank account represented unpaid consideration for the acquisition of Yakesi and Jubao. Neither of the Company nor Alexis was allowed to withdraw the deposits from the restricted bank account individually during the period from 24 November 2008 to 28 February 2009 (Note 10 and Note 13).

(b) The bank deposits were bearing interest at rates agreed with banks for each of the years ended 31 December 2008 and 2009. For each of the years ended 31 December 2008 and year ended 31 December 2009, the weighted average effective interest rates ranged from 0.36% to 3.71% and from 0.36% to 2.25% per annum respectively.

(c) The balances as at 31 December 2008 and 2009 were mainly deposited with banks in the PRC and denominated in Renminbi. Renminbi is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

18 Share capital and capital reserve

The Group

	Number of shares '000 (Note (a))	Share capital (Note (b))	Capital reserve (Note (c))	Total
At 1 January and 31 December 2008 and 31 December 2009	2,210,000	552,500	4,055,489	4,607,989

Notes:

(a) Pursuant to a resolution of the shareholders of the Company dated 11 May 2007 and the approval from China Securities Regulatory Commission dated 29 August 2007, each share of RMB1 was subdivided into four shares of RMB0.25 each with effect from 27 September 2007. The total number of shares immediately after the share split was 1,520,000,000.

In October 2007, the Company completed the issue of 690,000,000 H shares of RMB0.25 each at HK$6.5 (equivalent to approximately RMB6.3) per share pursuant to the IPO and listing of the Company's H shares on the Main Board of The Stock Exchange of Hong Kong Limited. Net proceeds from such issue amounted to approximately RMB4,137,239,000, out of which approximately RMB172,500,000 was recorded in share capital and approximately RMB3,964,739,000 was recorded in capital reserve.

In addition, pursuant to the relevant approval from the State-owned Assets Supervision and Administration Commission of the State Council (the "SASAC"), upon the completion of the H share listing, the 69,000,000 Domestic shares held by Xinjiang Non-ferrous was converted into an equal number of H shares and transferred to the National Council for Social Security Fund of the PRC.

(b) The Company's share capital as at 1 January and 31 December 2008 and 2009 is as follows:

	As at 1 January and 31 December 2008 and 31 December 2009		
	Number of shares *'000*	**% of issued capital**	**Nominal value** *RMB*
Registered, issued and fully paid			
– Domestic shares of RMB0.25 each	1,451,000	65.66%	362,750
– H shares of RMB0.25 each	759,000	34.34%	189,750
	2,210,000	100.00%	552,500

The Domestic shares rank pari passu, in all material respects, with the H shares. However, the transfer of Domestic shares is subject to certain restrictions imposed by the PRC law from time to time.

(c) Capital reserve represents the difference between nominal value of share issued and the fair value of net assets/considerations received by the Company.

(All amounts in RMB thousands unless otherwise stated)

19 Other reserves

The Group

	Contribution from Holding Company *(Note (a))*	Statutory reserve *(Note (b))*	Safety fund reserve *(Note (c))*	Total
At 1 January 2008	35,393	117,683	–	153,076
Transferred from retained earnings	–	29,092	–	29,092
Appropriation to safety fund reserve	–	–	2,655	2,655
Utilisation of safety fund reserve	–	–	(2,655)	(2,655)
At 31 December 2008	35,393	146,775	–	182,168
At 1 January 2009	**35,393**	**146,775**	**–**	**182,168**
Transferred from retained earnings	**–**	**19,519**	**–**	**19,519**
Appropriation to safety fund reserve	**–**	**–**	**5,797**	**5,797**
Utilisation of safety fund reserve	**–**	**–**	**(5,797)**	**(5,797)**
At 31 December 2009	**35,393**	**166,294**	**–**	**201,687**

The Company

	Contribution from Holding Company *(Note (a))*	Statutory reserve *(Note (b))*	Safety fund reserve *(Note (c))*	Total
At 1 January 2008	35,393	117,683	–	153,076
Transferred from retained earnings	–	29,092	–	29,092
Appropriation to safety fund reserve	–	–	2,655	2,655
Utilisation of safety fund reserve	–	–	(2,655)	(2,655)
At 31 December 2008	35,393	146,775	–	182,168
At 1 January 2009	**35,393**	**146,775**	**–**	**182,168**
Transferred from retained earnings	**–**	**19,519**	**–**	**19,519**
Appropriation to safety fund reserve	**–**	**–**	**2,339**	**2,339**
Utilisation of safety fund reserve	**–**	**–**	**(2,339)**	**(2,339)**
At 31 December 2009	**35,393**	**166,294**	**–**	**201,687**

(All amounts in RMB thousands unless otherwise stated)

19 Other reserves *(continued)*

Notes:

(a) It represents the difference between the fair value of mining rights acquired from Xinjiang Non-ferrous and the discounted net present value of long-term payable for the mining rights acquired.

(b) In accordance with the PRC Company Law and the Company's and subsidiaries' Articles of Association, every year the Company and its subsidiaries are required to transfer 10% of the profit after taxation determined in accordance with PRC GAAP to the statutory reserve until the balance reaches 50% of the paid-up capital. Such reserve can be used to reduce any losses incurred or to increase share capital. Except for the reduction of losses incurred, any other usage should not result in this reserve balance falling below 25% of the registered capital.

(c) Pursuant to certain regulations issued by the State Administration of Work Safety, the Company is required to set aside an amount to a safety fund at RMB8 per ton of raw ore mined and at 4% of sales of vitriol. The fund can be used for improvements of safety at the mines, and is not available for distribution to shareholders. Upon incurring qualifying safety expenditure, an equivalent amount is transferred from safety fund to retained earnings.

20 Retained earnings

The Group

	2009	2008
At 1 January	**421,651**	329,895
Profit for the year	**226,745**	297,648
Dividends	**(198,900)**	(176,800)
Appropriation to statutory reserve *(Note 19)*	**(19,519)**	(29,092)
At 31 December	**429,977**	421,651
Representing:		
Proposed final dividend	**110,500**	198,900
Retained earnings – Others	**319,477**	222,751
At 31 December	**429,977**	421,651

(All amounts in RMB thousands unless otherwise stated)

20 Retained earnings *(continued)*

The Company

	2009	2008
At 1 January	**422,306**	329,895
Profit for the year	**201,246**	298,303
Dividends	**(198,900)**	(176,800)
Appropriation to statutory reserve *(Note 19)*	**(19,519)**	(29,092)
At 31 December	**405,133**	422,306
Representing:		
Proposed final dividend	**110,500**	198,900
Retained earnings – Others	**294,633**	223,406
At 31 December	**405,133**	422,306

21 Long-term payables

The Group and the Company

	As at 31 December	
	2009	2008
Early retirement benefit obligation	**1,055**	2,339
Less: Amounts due within one year	**(116)**	(978)
	939	1,361

The movements of long-term payable are as follows:

	2009	2008
At 1 January	**2,339**	3,791
Unwinding of discount *(Note 30)*	**71**	405
Payment during the year	**(1,355)**	(1,857)
At 31 December	**1,055**	2,339

The provision for early retirement benefit is made for 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. The early retirement policy ceased since the incorporation of the Company.

(All amounts in RMB thousands unless otherwise stated)

22 Provision for close down, restoration and environmental costs

The Group

	2009	2008
At 1 January	**4,524**	4,354
Acquisition of subsidiaries	**747**	–
Unwinding of discount *(Note 30)*	**39**	170
At 31 December	**5,310**	4,524

The Company

	2009	2008
At 1 January	**4,524**	4,354
Unwinding of discount *(Note 30)*	**–**	170
At 31 December	**4,524**	4,524

A provision is recognised for the present value of costs to be incurred for the restoration of the tailings dam which has been determined by management based on their past experience and best estimate of future expenditure by discounting the expected expenditures to their net present value. However, in so far as the effect of the land and the environment from current mining activities becomes apparent in future periods, the estimate of the associated costs may be subject to revision in the future. The amounts provided in relation to close down, restoration and environmental clean up costs are reviewed at least annually based upon the facts and circumstances available at the time and the provisions are updated accordingly.

(All amounts in RMB thousands unless otherwise stated)

23 Deferred income

The movements of deferred income during the year ended 31 December 2008 and 2009 are as follows:

The Group

	2009	2008
At 1 January	**16,383**	20,386
Acquisition of a subsidiary *(Note (b))*	**10,069**	–
Additions	**3**	3,500
Credited to consolidated statement of comprehensive income	**(127)**	(23)
Other transfer out	**–**	(7,480)
At 31 December	**26,328**	16,383

The Company

	2009	2008
At 1 January	**16,383**	20,386
Additions	**–**	3,500
Credited to consolidated statement of comprehensive income	**(22)**	(23)
Other transfer out	**–**	(7,480)
At 31 December	**16,361**	16,383

Notes:

(a) Deferred income as at 31 December 2008 and 2009 represented government grants received in respect of mining and exploration construction projects and land use rights which would be recognised as income after the completion of the projects on a straight-line basis over the expected lives of the related assets. The Group has fulfilled all the conditions for the entitlement of such grants.

(b) The acquired deferred income mainly represented government grants in respect of land use rights of Zhongxin Mining granted at a below market price by Land Resources Bureau of Hami City in 2007. It is credited to consolidated statement of comprehensive income on a straight line basis over 50 years. The Group's management considers such land use rights are not allowed to transfer and change the use without formal permission from local government.

(All amounts in RMB thousands unless otherwise stated)

24 Trade payables

The Group

	As at 31 December	
	2009	2008
Trade payables		
– Fellow subsidiaries	**20,791**	6,958
– Third parties	**76,342**	62,755
	97,133	69,713

Aging analysis of trade payables at the respective balance sheet date is a follows:

	As at 31 December	
	2009	2008
0 – 90 days	**77,737**	51,815
91 – 180 days	**5,650**	8,775
181 – 365 days	**6,071**	5,281
Over 365 days	**7,675**	3,842
	97,133	69,713

(All amounts in RMB thousands unless otherwise stated)

24 Trade payables *(continued)*

The Company

	As at 31 December	
	2009	2008
Trade payables		
– Subsidiaries	**39,241**	–
– Fellow subsidiaries	**10,091**	6,958
– Third parties	**56,372**	62,755
	105,704	69,713

Aging analysis of trade payables at the respective balance sheet date is as follows:

	As at 31 December	
	2009	2008
0 – 90 days	**90,828**	51,815
91 – 180 days	**5,069**	8,775
181 – 365 days	**2,987**	5,281
Over 365 days	**6,820**	3,842
	105,704	69,713

(All amounts in RMB thousands unless otherwise stated)

25 Other payables and accruals

The Group

	As at 31 December	
	2009	2008
Other payables *(Note (a))*	**32,769**	12,735
Receipts in advance from customers	**31,047**	5,429
Welfare benefit payable	**46,132**	50,990
Other levies	**–**	519
Taxes payable other than income tax *(Note (b))*	**5,173**	11,058
	115,121	80,731

The Company

	As at 31 December	
	2009	2008
Other payables *(Note (a))*	**13,854**	12,735
Receipts in advance from customers	**30,570**	5,429
Welfare benefit payable	**39,107**	50,990
Other levies	**–**	519
Taxes payable other than income tax *(Note (b))*	**3,651**	11,047
	87,182	80,720

The carrying amounts of other payables approximate their fair values

(All amounts in RMB thousands unless otherwise stated)

25 Other payables and accruals *(continued)*

Notes:

(a) Other payables are analysed as follows:

The Group

	As at 31 December	
	2009	2008
Other payables		
– Fellow subsidiaries	**480**	–
– Third parties	**32,289**	12,735
	32,769	12,735

The Company

	As at 31 December	
	2009	2008
Other payables		
– Fellow subsidiaries	**7**	–
– Third parties	**13,847**	12,735
	13,854	12,735

(b) Taxes payable other than income tax are analysed as follows:

The Group

	As at 31 December	
	2009	2008
Value added tax (recoverable)/payable	**(13,148)**	527
City construction tax	**–**	865
Individual income tax	**746**	2,297
Stamp duty	**447**	680
Resource compensation fee	**15,190**	4,641
Others	**1,938**	2,048
	5,173	11,058

The Company

	As at 31 December	
	2009	2008
Value added tax (recoverable)/payable	**(10,411)**	527
City construction tax	**–**	865
Individual income tax	**658**	2,297
Stamp duty	**281**	670
Resource compensation fee	**11,521**	4,641
Others	**1,602**	2,047
	3,651	11,047

(All amounts in RMB thousands unless otherwise stated)

26 Deferred income tax

The Group

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	As at 31 December	
	2009	2008
Deferred tax assets		
– Deferred tax assets to be recovered after more than 12 months	**(21,946)**	(5,379)
– Deferred tax assets to be recovered within 12 months	**–**	–
	(21,946)	(5,379)
Deferred tax liabilities		
– Deferred tax liabilities to be recovered after more than 12 months	**102,957**	–
– Deferred tax liabilities to be recovered within 12 months	**725**	–
	103,682	–
Deferred tax liabilities – net	**81,736**	(5,379)

The gross movements in the deferred income tax account are as follows:

	2009	2008
At 1 January	**(5,379)**	–
Acquisition of subsidiaries	**90,863**	–
Credit to consolidated statement of comprehensive income	**(3,748)**	(5,379)
At 31 December	**81,736**	(5,379)

(All amounts in RMB thousands unless otherwise stated)

26 Deferred income tax *(continued)*

The Group *(continued)*

The movements in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred tax liabilities

	Fair value gains	Others	Total
At 1 January 2008 and 2009	–	–	–
Acquisition of subsidiaries	104,548	–	104,548
(Credited)/debited to consolidated statement of comprehensive income	(1,001)	135	(866)
At 31 December 2009	103,547	135	103,682

Deferred tax assets

	Deferred income	Provision	Depreciation	Tax losses	Pre-operating expense	Others	Total
At 1 January 2008	–	–	–	–	–	–	–
– Credit to consolidated statement of comprehensive income	(4,085)	(557)	(737)	–	–	–	(5,379)
At 31 December 2008	(4,085)	(557)	(737)	–	–	–	(5,379)
Acquisition of subsidiaries	–	(74)	(227)	(12,839)	(545)	–	(13,685)
– Credit to consolidated statement of comprehensive income	–	(57)	–	(2,799)	–	(26)	(2,882)
At 31 December 2009	(4,085)	(688)	(964)	(15,638)	(545)	(26)	(21,946)

(All amounts in RMB thousands unless otherwise stated)

26 Deferred income tax *(continued)*

The Company

Deferred tax assets

	Deferred income	Provision	Depreciation	Total
At 1 January and 31 December 2008 and 31 December 2009	(4,085)	(557)	(737)	(5,379)

27 Expenses by nature

The following items were (credited)/charged to the operating profit during the year:

	Year ended 31 December	
	2009	2008
Depreciation *(Note 6)*	**47,924**	32,512
Amortisation	**15,745**	11,630
Provision for net realisable value of inventories	**–**	53,193
Provision for impairment of trade receivables	**143**	114
Provision for impairment of other receivables	**651**	–
Staff costs *(Note 28)*	**151,389**	160,381
Changes in inventories of finished goods and work-in-progress	**(97,422)**	30,628
Raw materials and consumables used	**169,390**	486,779
Power and fuel consumed	**92,979**	80,304
Subcontracting expenses	**70,220**	30,298
Other manufacturing overheads	**15,051**	10,403
Transportation expenses	**6,648**	4,897
Sales tax levies	**–**	6,734
Auditor's remuneration	**2,310**	2,080
Resource compensation fees	**9,539**	24,954
Other taxes	**12,144**	1,530
Others	**24,847**	42,705
Total cost of sales, distribution costs and administrative expenses	**521,558**	979,142

(All amounts in RMB thousands unless otherwise stated)

28 Employee benefit expense

	Year ended 31 December	
	2009	2008
Wages and salaries	**93,034**	105,601
Housing benefits *(Note (a))*	**7,796**	7,515
Contributions to pension plans *(Note (b))*	**16,568**	15,081
Welfare and other expenses	**33,991**	32,184
	151,389	160,381

Notes:

(a) The balance represented the Group's contributions to government-sponsored housing funds at a rate of 10% of the employees' basic salary for each of the years ended 31 December 2008 and 2009.

(b) The balance represented the Group's contributions to the defined contribution pension plans organised by the relevant municipal and provincial governments at a rate of 20% of the employees' basic salary for each of the years ended 31 December 2008 and 2009.

29 Other losses – net

	Year ended 31 December	
	2009	2008
Scrap sales	**4,489**	2,176
Gains/(losses) on disposal of property, plant and equipment	**9**	(4,035)
Donations *(Note (a))*	**(11,000)**	(29,000)
Gains on disposal of financial assets at fair value through profit or loss	**–**	972
Others *(Note (b))*	**997**	501
	(5,505)	(29,386)

Note:

(a) Donations amounting to RMB11,000,000 were made to the local finance department, and certain social non-profit making organisations to support local development and social welfare.

(b) The Group retransmitted certain electricity supplied by local electricity supply bureaus to other electricity users through the Group's electricity facilities. For each of the years ended 31 December 2009 and 2008, The relevant electricity expenses amounting to RMB11,048,000 and RMB2,573,000 respectively billed by local electricity supply bureaus were fully recharged by the Group to the relevant users at agreed markup. Both electricity expenses and recharged amounts were booked as "Other gains/(losses)" in net.

(All amounts in RMB thousands unless otherwise stated)

30 Finance income – net

	Year ended 31 December	
	2009	2008
Finance income		
– Interest income on bank deposits	**50,730**	126,501
Finance costs		
– Net foreign exchange loss	**(61)**	(1,088)
– Interest expense on bank borrowings	**(70)**	–
– Unwinding of discount	**(110)**	(575)
	(241)	(1,663)
	50,489	124,838

31 Income tax expense/(credit)

	Year ended 31 December	
	2009	2008
Current income tax	**4,495**	43
Deferred income tax *(Note 26)*	**(3,748)**	(5,379)
	747	(5,336)

Effective from 1 January 2008, the Company determines and pays the corporate income tax in accordance with the Corporate Income Tax Law of the PRC ("the new CIT Law") as approved by the National Congress on 16 March 2007. Under the new CIT Law the corporate income tax applicable to the Company is 25% since 2008.

The provision for PRC current income tax is calculated based on the statutory income tax rate of 25% of the assessable income of each group companies determined in accordance with the relevant PRC income tax rules and regulations for each of the years ended 31 December 2008 and 2009 respectively.

(All amounts in RMB thousands unless otherwise stated)

31 Income tax expense/(credit) *(continued)*

The Company, except for its Shanghai branch, is exempted from corporate income tax from 2007 to 2010 pursuant to the approval obtained from the Xinjiang Uygur Autonomous Region Government. This tax exemption is subject to annual review. The exemption of corporate income tax in 2009 was agreed with local tax authority. The directors of the Company believe that the Company will get the approval for income tax exemption in 2010.

The subsidiary, Yakesi, is eligible for corporate income tax based on the deducted tax rate of 15% from 2005 to 2010 pursuant to approval obtained from local tax bureau of Hami, Xinjiang Uygur Autonomous Region.

The subsidiary, Jubao, is exempted from corporate income tax from 2007 to 2008 and eligible for corporate income tax based on the deducted tax rate of 7.5% from 2009 to 2010 pursuant to approval obtained from local tax bureau of Hami, Xinjiang Uygur Autonomous Region.

The subsidiary, Zhongxin Mining, is exempted from corporate income tax from 2007 to 2009 pursuant to approval obtained from local tax bureau of Xinjiang Uygur Autonomous Region.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the corporate income tax rate of 25% as follows:

	Year ended 31 December	
	2009	2008
Profit before tax	**227,292**	292,315
Tax recalculated at corporate income tax rate of 25%	**56,823**	73,079
Effect of tax exemptions/deductions	**(55,989)**	(78,442)
Income not subject to tax	**(1,250)**	–
Expense not deductible for tax purpose	**1,163**	27
Income tax expense/(credit)	**747**	(5,336)

(All amounts in RMB thousands unless otherwise stated)

32 Emoluments for directors, supervisors and five highest paid individuals

(a) Directors' and supervisors' emoluments

The aggregate amounts of emoluments payable to directors and supervisors of the Company for each of the years ended 31 December 2008 and 2009 are as follows:

	Year ended 31 December	
	2009	2008
Fees	**250**	250
Basic salaries, allowances and other benefits	**2,122**	2,028
Contributions to pension plans	**70**	60
	2,442	2,338

The remuneration of each of the directors and supervisors for the year ended 31 December 2008 is set out below:

	Fees	**Basic salaries, allowances and other benefits**	**Contributions to pension plans**	**Total**
Directors				
Mr. Yuan Ze	–	400	–	400
Mr. Shi Wenfeng	–	406	12	418
Mr. Zhang Guohua	–	406	12	418
Mr. Liu Jun	–	326	12	338
Mr. Ng Yuk Keung	100	–	–	100
Mr. Chen Jianguo	50	–	–	50
Mr. Sun Baosheng	50	–	–	50
Supervisors				
Mr. Jiang Mingshun	–	293	12	305
Mr. Sun Baohui	–	197	12	209
Ms. Chen Yuping	25	–	–	25
Mr. Hu Zhijiang	25	–	–	25
	250	2,028	60	2,338

(All amounts in RMB thousands unless otherwise stated)

32 Emoluments for directors, supervisors and five highest paid individuals *(continued)*

(a) Directors' and supervisors' emoluments *(continued)*

The remuneration of each of the directors and supervisors for the year ended 31 December 2009 is set out below:

	Fees	Basic salaries, allowances and other benefits	Contributions to pension plans	Total
Directors				
Mr. Yuan Ze	–	400	–	400
Mr. Shi Wenfeng	–	424	14	438
Mr. Zhang Guohua	–	424	14	438
Mr. Liu Jun	–	344	14	358
Mr. Ng Yuk Keung	100	–	–	100
Mr. Chen Jianguo	50	–	–	50
Mr. Sun Baosheng	50	–	–	50
Supervisors				
Mr. Jiang Mingshun	–	312	14	326
Mr. Sun Baohui	–	218	14	232
Ms. Chen Yuping	25	–	–	25
Mr. Hu Zhijiang	25	–	–	25
	250	2,122	70	2,442

(All amounts in RMB thousands unless otherwise stated)

32 Emoluments for directors, supervisors and five highest paid individuals *(continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for each of the years ended 31 December 2008 and 2009 are as follows:

	Year ended 31 December	
	2009	2008
Directors	**3**	3
Non-director individuals	**2**	2
	5	5

The details of emoluments paid to the five highest individuals who were directors of the Company for each of the years ended 31 December 2008 and 2009 have been included in Note 32(a) above. Details of emoluments paid to the remaining non-director individuals are as follows:

	Year ended 31 December	
	2009	2008
Basic salaries, allowances and other benefits	**1,064**	1,046
Contributions to pension plans	**26**	24
	1,090	1,070

For each of the years ended 31 December 2008 and 2009, emoluments of each of the two highest paid non-director individuals were below HK$1,000,000 (equivalent to RMB880,000).

(c) For each of the years ended 31 December 2008 and 2009, no directors, supervisors of the Company or the five highest paid individuals of the Group waived any emoluments and no emoluments were paid by the Group to any of the directors and supervisors of the Company or the five highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

33 Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB201,246,000 (2008: RMB298,303,000)

34 Earnings per share

	Year ended 31 December	
	2009	2008
Profit attributable to equity holders of the Company *(RMB'000)*	**226,745**	297,648
Adjusted weighted average number of shares in issue *(in thousand)*	**2,210,000**	2,210,000
Basic and diluted earnings per share *(RMB)*	**0.103**	0.135

Upon incorporation on 1 September 2005, the Company issued 300,000,000 shares at par value of RMB1 each to Xinjiang Non-ferrous, Shanghai Yilian Kuangneng Industry Co., Ltd., Zhongjin Investment (Group) Co., Ltd., Xiamen Zijin High-tech Co., Ltd. (now known as Zijin Mining Group (Xiamen) Investment Co., Ltd.), Xinjiang Xinying New Material Co., Ltd. and Shaanxi Honghao Industry Co., Ltd.. On 19 May 2006, the Company increased its paid-up capital from RMB300,000,000 to RMB380,000,000 by issuing of 80,000,000 new shares at par value of RMB1 each to existing equity holders of the Company. In addition, the weighted average number of shares in issue has been adjusted for the share split effective on 27 September 2007 and the new issue of H shares in October 2007.

Diluted earnings per share is equal to basic earnings per share as there was no dilutive potential share outstanding for all years presented.

35 Dividends

	Year ended 31 December	
	2009	2008
Proposed final dividend of RMB0.05 (2008: RMB0.09) per share	**110,500**	198,900

At the meeting of Board of Directors held on 29 March 2010, the directors proposed a final dividend of RMB0.05 per share, totalling approximately RMB110,500,000 for the year ended 31 December 2009, which is subject to the approval by the Company's shareholders in the Annual General Meeting to be held on 28 May 2010. This proposed dividend is not reflected as a dividend payable in the financial statements for the year ended 31 December 2009.

The aggregate amounts of the dividends paid and proposed during 2009 and 2008 have been disclosed in the consolidated statement of comprehensive income in accordance with the Hong Kong Companies Ordicance.

(All amounts in RMB thousands unless otherwise stated)

36 Business Combination

(a) Acquisition of Yakesi and Jubao

On 12 February 2009, the Company acquired 100% equity interests in Yakesi and Jubao (Note 10 and Note 13).

The acquired business contributed revenues of RMB132,936,000 and net profit of RMB41,885,000 to the Group for the period from 12 February 2009 to 31 December 2009. If the acquisition had occurred on 1 January 2009, consolidated revenue and consolidated profit for the year would have been RMB705,938,000 and RMB219,239,000 respectively.

These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiaries to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment, mining rights, land use rights and other intangible assets had applied from 1 January 2009, together with the consequential tax effects.

Details of total purchase consideration are as follows:

Purchase consideration	
– Cash paid	542,250
– Direct cost relating to the acquisition	594
Total purchase consideration	542,844

The goodwill is attributable to the synergy and economy of scale expected from combining the operations of the Group and the acquired subsidiaries.

(All amounts in RMB thousands unless otherwise stated)

36 Business Combination *(continued)*

(a) Acquisition of Yakesi and Jubao *(continued)*

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

	Fair value	Acquirees' carrying amount
Property, plant and equipment	282,893	282,967
Investment in an associate	6,901	6,901
Land use rights	11,285	5,808
Mining rights	387,300	1,213
Other intangible assets	338	338
Other non-current assests	59,422	59,422
Deferred tax assets	74	74
Inventories	13,943	13,943
Trade and other receivables	37,241	37,241
Cash and bank balances	39,366	39,366
Trade payables	(15,030)	(15,030)
Other payables and accrues	(157,166)	(157,166)
Dividend payable to the previous shareholders	(36,020)	(36,020)
Provision for close down, restoration and environmental costs	(747)	(747)
Deferred tax liabilities	(96,944)	–
Fair value of net assets	532,856	238,310
Goodwill	9,988	
Total purchase consideration	542,844	
Total purchase consideration settled in cash		542,844
Consideration prepaid in 2008		(271,125)
Cash and bank balance in subsidiaries acquired		(39,366)
Cash outflow on acquisition in 2009		232,353

(All amounts in RMB thousands unless otherwise stated)

36 Business Combination *(continued)*

(b) Acquisition of Zhongxin Mining

On 18 June 2009, the Company acquired 95% of equity share of Zhongxin Mining.

The acquired business contributed revenues of RMB101,140,000 and net losses of RMB3,129,000 to the Group for the period from 18 June 2009 to 31 December 2009. If the acquisition had occurred on 1 January 2009, consolidated revenue and consolidated profit for the year would have been RMB705,938,000 and RMB219,598,000 respectively.

These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and land use rights had applied from 1 January 2009, together with the consequential tax effects.

Details of total purchase consideration are as follows:

Purchase consideration	
– Cash paid	55,100
– Direct cost relating to the acquisition	1,559
Total purchase consideration	56,659

The goodwill is attributable to the synergy and economy of scale expected from combining the operations of the Group and Zhongxin Mining.

(All amounts in RMB thousands unless otherwise stated)

36 Business Combination *(continued)*

(b) Acquisition of Zhongxin Mining *(continued)*

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

	Fair value	Acquiree's carrying amount
Property, plant and equipment	132,846	131,288
Land use rights	39,264	10,408
Other intangible assets	12	12
Deferred tax assets-net	6,007	13,611
Inventories	13,271	13,271
Trade and other receivables	1,833	1,833
Cash and bank balances	8,145	8,145
Long-term borrowings	(20,000)	(20,000)
Current portion of long-term borrowings	(15,000)	(15,000)
Short-term borrowings	(20,000)	(20,000)
Deferred income	(10,069)	(10,069)
Trade payables	(14,809)	(14,809)
Other payables and accrues	(80,185)	(80,185)
Fair value of net assets	41,315	18,505
Minority interests (5%)	(2,066)	
Goodwill	17,410	
Total purchase consideration	56,659	
Total purchase consideration settled in cash		56,659
Cash and bank balance in subsidiary acquired		(8,145)
Cash outflow on acquisition		48,514

On 24 June 2009, the Company contributed cash of RMB62,000,000 to increase the registered capital of Zhongxin Mining. The registered capital of Zhongxin Mining increased from RMB58,000,000 to RMB120,000,000 (note 10(d)). Consequently, the equity interests held by the Company increased from 95% to 97.58%, and a goodwill of RMB435,000 together with minority interests of the same amount were recognised as a result of deemed acquisition.

(All amounts in RMB thousands unless otherwise stated)

37 Notes to consolidated cash flow statement

(a) Cash generated from operations

	Year ended 31 December	
	2009	2008
Profit for the year	**226,545**	297,651
Adjustments for:		
Income tax expense/(credit)	**747**	(5,336)
Depreciation of property, plant and equipment	**47,924**	32,512
Amortisation of mining rights	**13,123**	9,900
Amortisation of land use rights	**2,450**	1,646
Amortisation of other intangible assets	**172**	84
Amortisation of other non-current assets	**296**	–
(Gains)/losses on disposal of property, plant and equipment	**(9)**	4,035
Provision for impairment of trade and other receivables	**794**	114
Provision for net realisable value of inventories	**–**	53,193
Net foreign exchange loss	**61**	1,088
Interest income	**(50,730)**	(126,501)
Interest expense	**180**	575
Share of loss of a joint-venture	**992**	658
Share of loss of an associate	**1,080**	–
Gains from disposal of financial assets at fair value through profit or loss	**–**	(972)
Others	**(127)**	7,193
Cash generated from operations before working capital changes	**243,498**	275,840
Changes in working capital:		
(Increase)/decrease in inventories	**(73,673)**	60,903
Increase in trade and bills receivables	**(9,427)**	(1,741)
Decrease/(increase) in other receivables and prepayments	**57,724**	(106,898)
Decrease in trade and other payables	**(204,534)**	(45,758)
Cash generated from operations	**13,588**	182,346

(All amounts in RMB thousands unless otherwise stated)

37 Notes to consolidated cash flow statement *(continued)*

(b) Proceeds from sale of property, plant and equipment

In the consolidated cash flow statement, proceeds from sale of property, plant and equipment comprise:

	Year ended 31 December	
	2009	2008
Net book amount	**82**	4,090
Gains/(losses) on disposal of property, plant and equipment	**9**	(4,035)
Proceeds from sale of property, plant and equipment	**91**	55

(c) Cash and cash equivalents

	As at 31 December	
	2009	2008
Cash and cash equivalents	**2,301,418**	3,448,018
Less: restricted cash at bank *(Note 17(a))*	**–**	(271,125)
Cash and cash equivalents	**2,301,418**	3,176,893

38 Contingencies

(a) Environmental contingencies

Historically, the Group has not incurred any significant expenditure for environmental remediation. Further, except as disclosed in Note 22, the Group is presently not involved in any environmental remediation and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislations, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, may move further towards the adoption of more stringent environmental standards.

Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include (i) the exact nature and extent of the contamination at various sites including, but not limited to mines and land development areas, whether operating, closed or sold, (ii) the extent of required cleanup efforts, (iii) varying costs of alternative remediation strategies, (iv) changes in environmental remediation requirements, and (v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under future environmental legislations cannot reasonably be estimated at present, and could be material.

(b) Insurance

The Group carries commercial insurance for its employees who work underground for personal injury and its mining equipments underground. However, such insurance may not be sufficient to cover the potential future losses. While the effect of under-insurance on future incidents cannot be reasonably assessed at present, management believes this can have a material adverse impact on the results of operations or the financial position of the Group.

(All amounts in RMB thousands unless otherwise stated)

39 Commitments

(a) Capital commitments

Capital commitments for property, plant and equipment at the respective balance sheet date are as follows:

The Group

	As at 31 December	
	2009	2008
Contracted but not provided for:		
– Buildings	**180,791**	118,824
– Machinery and equipment	**258,758**	64,982
	439,549	183,806
Authorised but not contracted for:		
– Buildings	**1,101,298**	118,407
– Machinery and equipment	**1,137,861**	609,964
	2,239,159	728,371
	2,678,708	912,177

The Company

	As at 31 December	
	2009	2008
Contracted but not provided for:		
– Buildings	**93,554**	118,824
– Machinery and equipment	**150,869**	64,982
	244,423	183,806
Authorised but not contracted for:		
– Buildings	**61,817**	98,127
– Machinery and equipment	**122,141**	609,964
	183,958	708,091
	428,381	891,897

39 Commitments *(continued)*

(b) Operating lease commitments

The Group leases various offices and warehouses under non-cancelable operating lease agreements.

The future aggregate minimum lease payments under non-cancelable operating leases are as follows:

The Group and the Company

	As at 31 December	
	2009	2008
No later than 1 year	**1,636**	1,636
Later than 1 year and no later than 5 years	**3,272**	–
	4,908	1,636

40 Related-party transactions

The Group is part of a larger group of companies under Xinjiang Non-ferrous and has extensive transactions and relationships with members of the Xinjiang Non-ferrous Group. The Company's directors regard Xinjiang Non-ferrous as the immediate and ultimate holding company of the Company.

Xinjiang Non-ferrous itself is a state-owned enterprise and is controlled by the PRC government. In accordance with HKAS 24 (revised), "Related party disclosure", state-owned enterprises and their subsidiaries, other than Xinjiang Non-ferrous Group's companies, directly or indirectly controlled by the PRC government are also defined as related parties of the Group. Other than the related-party transactions disclosed in note (c), the Group's management is of the opinion that there were no individually/collectively-significant transactions conducted with those government-related entities, other than Xinjiang Non-ferrous Group's companies, for each of the years ended 31 December 2008 and 2009.

For the purpose of preparation of these financial statements, the Group's management regards the following companies were related parties of the Group for each of the years ended 31 December 2008 and 2009:

Name of related parties	Relationship with the Group
Xinjiang Non-ferrous	Holding Company
Xinjiang Lithia Factory	Fellow subsidiary
Xinjiang A'xi Gold Mine	Fellow subsidiary
Xinjiang Haoxin Lithia Developing Company Limited	Fellow subsidiary
Xinjiang Non-ferrous Metallurgy Transportation Co., Ltd.	Fellow subsidiary
Xinjiang Non-ferrous Metal Dibian Trade Company	Fellow subsidiary
China Non-ferrous Metal Import and Export Company of Xinjiang	Fellow subsidiary
Metallurgical Design Institute of Non-ferrous Metals of Urumqi	Fellow subsidiary
Xinjiang Non-ferrous Metallurgy Manufacture Factory	Fellow subsidiary
Xinjiang Non-ferrous Industry Group Precious Metal Co., Ltd.	Fellow subsidiary
Xinjiang Non-ferrous Metal Industrial Materials (Group) Co., Ltd.	Fellow subsidiary
Fukang Non-ferrous Development Co., Ltd.	Fellow subsidiary
Xinjiang Non-ferrous Metal Industry (Group) Fuyun Xingtong Service Co., Ltd.	Fellow subsidiary
Xinjiang Jinhui Real Estate Development Co., Ltd.	Fellow subsidiary
Urumqi Mingyuan Property Management Co., Ltd.	Fellow subsidiary
Yinlong Aluminum-plastics Compound Tube Company of Xinjiang	Fellow subsidiary
Xinjiang Sangong Power Co., Ltd.	Fellow subsidiary
Fuyun Hengsheng Beryllium Industry Co., Ltd.	Fellow subsidiary
Beijing Baodi Xindi Kemao Co., Ltd.	Fellow subsidiary
Xinjiang Non-ferrous Gold Construction Company	Fellow subsidiary
Xinjiang Non-ferrous Metal Industry (Group) Quanxin Construction Co., Ltd.	Fellow subsidiary
Xinjiang Ashele Copper Industry Company Limited	Associate of holding company
Hexin Mining	Joint-venture
Puxiong Mining	Associate

(All amounts in RMB thousands unless otherwise stated)

40 Related-party transactions *(continued)*

The Group's management is of the opinion that, for each of the years ended 31 December 2008 and 2009, the transactions conducted between the Group and any of the related parties listed above were at terms mutually agreed by the underlying parties in the ordinary course of business.

(a) For each of the years ended 31 December 2008 and 2009, the Group had the following material transactions with related parties:

Transactions with the Holding Company

	Year ended 31 December	
	2009	2008
Nature of transactions		
Rental expense of building paid/payable	**1,636**	1,636
Dividend paid	**79,668**	70,816
Acquire 50% equity interests in Hexin Mining	**–**	95,097
	81,304	167,549

Apart from the above transactions, the Company entered into trademark agreements with the Holding Company pursuant to which the Company has the right to use the registered trademark of "Bo Feng" at no cost from 1 September 2005 to 20 March 2019.

(All amounts in RMB thousands unless otherwise stated)

40 Related-party transactions *(continued)*

(a) For each of the years ended 31 December 2008 and 2009, the Group had the following material transactions with related parties: *(continued)*

Transactions with companies controlled by the Holding Company

Name of related parties	Nature of transactions	Year ended 31 December 2009	2008
– Xinjiang Non-ferrous Industry Group Precious Metal Co., Ltd.	Purchase of equipment and fittings	**866**	507
– Xinjiang Non-ferrous Metal Industry (Group) Quanxin Construction Co., Ltd. CH2	Purchase of equipment and fittings	**465**	3,914
	Provision of construction services	**120,568**	101,219
– Fukang Non-ferrous Development Co., Ltd.	Purchase of raw materials and consumables	**1,594**	1,695
	Purchase of coal	**1,103**	1,010
	Provision of transportation services	**3,665**	4,518
	Provision of heating	**822**	9
– Xinjiang Non-ferrous Metallurgy Transportation Company Co., Ltd.	Provision of transportation services	**364**	281
– Xinjiang Non-ferrous Metal Industry (Group) Fuyun Xingtong Service Co., Ltd.	Provision of comprehensive supporting services	**3,201**	2,761
	Provision of other services	**1,112**	1,422
– Metallurgical Design Institute of Non-ferrous Metals of Urumqi	Provision of mining structure design services	**4,500**	848
– Beijing Baodi Xindi Kemao Co., Ltd.	Provision of storage services	**256**	499
– Xinjiang Non-ferrous Metal Industry (Group) Fukang retirement Center	Provision of transportation services	**17**	–
		138,533	118,683

(All amounts in RMB thousands unless otherwise stated)

40 Related-party transactions *(continued)*

(a) For each of the years ended 31 December 2008 and 2009, the Group had the following material transactions with related parties: *(continued)*

Transactions with companies controlled by the Holding Company (continued)

Name of related parties	Nature of transactions	Year ended 31 December 2009	2008
– Fuyun Hengsheng Beryllium Industry Co., Ltd.	Sale of copper cathode	**15,285**	4,835
	Sale of industrial sulphuric acid	**–**	459
– Xinjiang Non-ferrous Industry Group Precious Metal Co., Ltd.	Sale of nickel cathode	**31**	–
– Fukang Non-ferrous Development Co., Ltd.	Sale of industrial sulphuric acid	**427**	2
– Xinjiang Non-ferrous Metal Industry (Group) Quanxin Construction Co., Ltd.	Sale of miscellaneous materials and electricity	**4,995**	–
		20,738	5,296

(b) Balances due from or due to related parties

	As at 31 December 2009	2008
Trade receivables from fellow subsidiaries		
– Xinjiang Non-ferrous Industry Group Precious Metal Co., Ltd.	**–**	38
– Fuyun Hengsheng Beryllium Industry Co., Ltd.	**537**	537
– Fukang Non-ferrous Development Co., Ltd.	**247**	–
– Xinjiang Haoxin Lithia Developing Company Limited	**324**	–
	1,108	575
Other receivables from		
– An associate, Puxiong Mining	**7,048**	–
– A joint-venture, Hexin Mining	**50,000**	–
	57,048	–
Advances to a fellow subsidiary		
– Xinjiang Non-ferrous Metal Industry (Group) Quanxin Construction Co., Ltd.	**66**	58

(All amounts in RMB thousands unless otherwise stated)

40 Related-party transactions *(continued)*

(b) Balances due from or due to related parties *(continued)*

	As at 31 December	
	2009	2008
Trade payables to fellow subsidiaries		
– Xinjiang Non-ferrous Metallurgy Manufacture Factory	**110**	–
– Metallurgical Design Institute of Non-ferrous Metals of Urumqi	**40**	–
– Fukang Non-ferrous Development Co., Ltd.	**894**	725
– Xinjiang Non-ferrous Metal Industry (Group) Fuyun Xingtong Service Co., Ltd.	**579**	518
– Xinjiang Non-ferrous Metal Industry (Group) Quanxin Construction Co., Ltd.	**18,726**	5,267
– Xinjiang Non-ferrous Metallurgy Transportation Company Co., Ltd.	**136**	55
– Xinjiang Non-ferrous Industry Group Precious Metal Co., Ltd.	**306**	393
	20,791	6,958
Other payables to fellow subsidiaries		
– Xinjiang Non-ferrous Metal Industry (Group) Fuyun Xingtong Service Co., Ltd.	**7**	–
– Xinjiang Non-ferrous Metal Industry (Group) Quanxin Construction Co., Ltd.	**203**	–
– Xinjiang Non-ferrous Metallurgy Transportation Co., Ltd.	**50**	–
– China Non-ferrous Metal Import and Export Company of Xinjiang	**220**	–
	480	–
Long-term payables to Holding Company		
– Current	**116**	978
– Non-current	**939**	1,361
	1,055	2,339

(All amounts in RMB thousands unless otherwise stated)

40 Related-party transactions *(continued)*

(c) Significant transactions with other state-owned enterprises

(i) Bank deposits with and interest income from state-owned banks

	As at 31 December	
	2009	2008
Deposits	**2,266,217**	3,436,011

	Year ended 31 December	
	2009	2008
Interest income	**50,535**	126,501

As at 31 December 2009, there were six (2008: six) state-owned banks in each of which the Group placed deposits over RMB100 million.

(ii) Others

For the year ended 31 December 2009, the Group conducted sales approximating RMB99,802,000 (2008: RMB99,697,000) with two (2008: one) stated-owned enterprises; and purchased electricity approximating RMB64,408,000 (2008: RMB50,395,000) from electricity supply bureaus.

In the opinion of the Directors, all transactions disclosed above were conducted in ordinary course of business and commercial terms.

(d) Key management compensation

	Year ended 31 December	
	2009	2008
Salaries and other short-term employee benefits	**3,343**	3,235
Pension fund	**98**	84
	3,441	3,319

41 Post balance sheet events

(a) On 7 January 2010, Hexin Mining entered into a finance lease arrangement with a financial institution, of which RMB50,000,000 was secured by the Company's corporate guarantee.

(b) Pursuant to a resolution passed at the meeting of Board of Directors held on 29 March 2010, the Company will contribute additional capital of RMB330,000,000 into Wuxin Mining together with issuing corporate guarantees amounting to RMB1,075,800,000 in favour of Wuxin Mining's banking facilities, which are subject to the approval by the Company's shareholders in the AGM to be held on 28 May 2010.

Xinjiang Xinxin Mining Industry Co., Ltd.
新疆新鑫礦業股份有限公司