ZHAOJIN

Seizing GOLDEN Opportunities

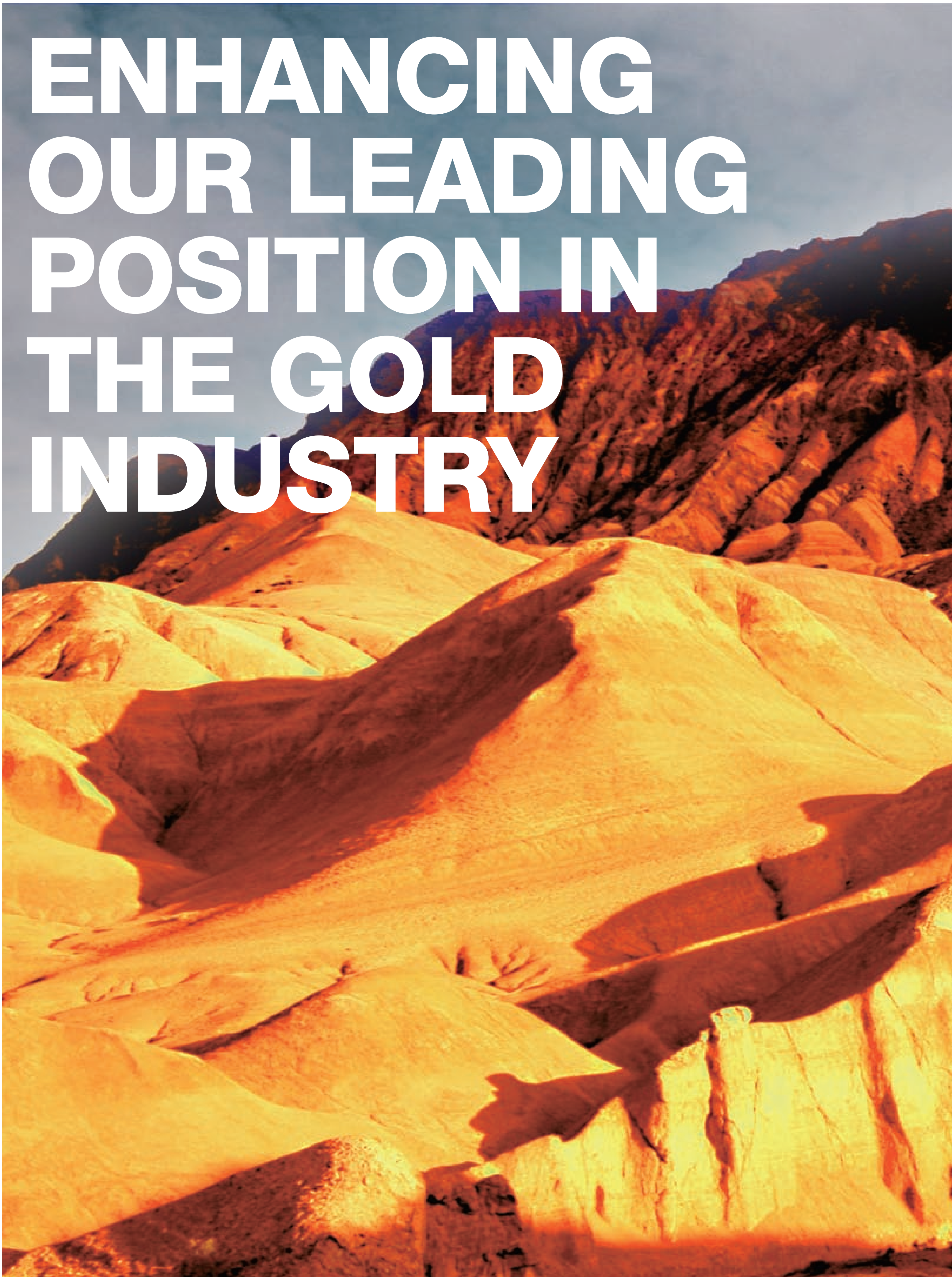
Annual Report 2009
二零零九年年報

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

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(於中華人民共和國註冊成立的股份有限公司)
(Stock Code: 1818) (股份代號：1818)

* For identification purposes only
*僅供識別

ENHANCING OUR LEADING POSITION IN THE GOLD INDUSTRY



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Corporate Information

Name of the Company
招金礦業股份有限公司

English Name of the Company
Zhaojin Mining Industry Company Limited

Legal Representative
Mr. Lu Dongshang

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

Non-executive Directors
Mr. Liang Xinjun *(Vice Chairman)*
Mr. Cong Jianmao
Mr. Weng Zhanbin
Mr. Wu Zhongqing
Mr. Chen Guoping

Independent non-executive Directors
Mr. Yan Hongbo
Mr. Ye Tianzhu
Ms. Chen Jinrong
Mr. Choy Sze Chung Jojo

Members of the Supervisory Committee
Mr. Wang Xiaojie
(Chairman of the Supervisory Committee)
Ms. Jin Ting
Mr. Chu Yushan

Secretary to the Board
Mr. Wang Ligang

Company Secretary
Mr. Ngai Wai Fung

Qualified Accountant
Mr. Ma Ving Lung Nelson

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

Audit Committee Members
Ms. Chen Jinrong
(Chairman of the Audit Committee)
Mr. Chen Guoping
Mr. Choy Sze Chung Jojo

Strategic Committee Members
Mr. Lu Dongshang
(Chairman of the Strategic Committee)
Mr. Liang Xinjun
Mr. Weng Zhanbin

Nomination and Remuneration Committee Members
Mr. Liang Xinjun
(Chairman of the Nomination and Remuneration Committee)
Mr. Lu Dongshang
Mr. Yan Hongbo
Mr. Ye Tianzhu
Ms. Chen Jinrong

Geological and Resources Management Committee Members
Mr. Ye Tianzhu
(Chairman of the Geologicial and Resources Management Committee)
Mr. Weng Zhanbin
Mr. Yan Hongbo

Corporate Information

Safety and Environment Protection Committee Members

Mr. Yan Hongbo
(Chairman of the Safety and Environment Protection Committee)
Mr. Wang Peifu
Mr. Cong Jianmao

Auditors

International Auditors:

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

PRC Auditors:

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

Legal Advisers

PRC Law Advisers:

King & Wood PRC Lawyers
28-29/F
Huai Hai Plaza
1045 Huaihai Road (M)
Shanghai 200031
PRC

Hong Kong Law Advisers:

Stephen Mok & Co in association with Eversheds
21/F
Gloucester Tower
The Landmark
15 Queen's Road Central
Central
Hong Kong

Registered Office

No. 299 Jinhui Road
Zhaoyuan City
Shandong Province, PRC

Principal Place of Business in Hong Kong

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

Hong Kong H Share Registrar and Transfer Office

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

Principal Bankers

Bank of China
78 Fuqian Road
Zhaoyuan City
Shandong
PRC

Agricultural Bank of China
298 Wenquan Road
Zhaoyuan City
Shandong
PRC

Company Website

www.zhaojin.com.cn

Stock Code

1818

Corporate Profile

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

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

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

Recently, the Company has endeavored to focus on gold mining as well as technology and management innovation in order to strengthen our technologies and cost advantages in the industry. Thus, the Company has achieved remarkable results with increasing gold reserves, production volume and corporate efficiency. Meanwhile, the Company has proactively participated in the consolidation of gold resources and implemented strategies for expanding our resources in order to keep in line with the development of the industry. The Company has also endeavored to expand our operations into new areas, improve the overall development progress and further increase our resources. Currently, we possess 6 operating mines within the Zhaoyuan district ("Inside Zhaoyuan"), namely Dayingezhuang Gold Mine, Jinchiling Gold Mine, Xiadian Gold Mine, Hedong Gold Mine, Jintingling Gold Mine and Canzhuang Gold Mine. The Company also owns 24 subsidiaries, joint venture and associates, with their businesses covering major gold production regions in the PRC. According to the Behre Dolbear Report, as at 31 December 2009, our gold ore resources reservation under the Code of The Joint Ore Reserves Committee in Australia (the "JORC") were approximately 10,861 kozs (as at 31 December 2008: 8,136 kozs) and our minable gold reserves were approximately 7,028 kozs (as at 31 December 2008: 5,314 kozs).

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

* On 31 August 2009, Zhaoyuan City State-owned Assets Operation Ltd. has successfully acquired a total of 42,400,000 domestic shares of the Company held by Guangxin Investments, which constituted approximately 2.91% of the total issued share capital of the Shares in the Company.

Financial Summary

Summary of Operating Results

	For the year ended 31 December				
	2009	2008	2007	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**2,796,991**	2,152,731	1,512,273	1,164,415	867,687
Gross profit	**1,449,287**	1,079,917	754,821	623,175	439,387
Share of profit/(loss) of associates	**1,331**	2,672	1,979	(1,935)	(717)
Profit before tax	**1,044,632**	710,339	559,995	517,750	239,976
Profit from discontinued operations	**(29,264)**	(1,483)	–	–	–
Profit attributable to equity holders of the Company	**754,020**	533,905	388,447	351,190	162,891
Earnings per share (RMB)	**0.52**	0.37	0.27	0.24	0.11

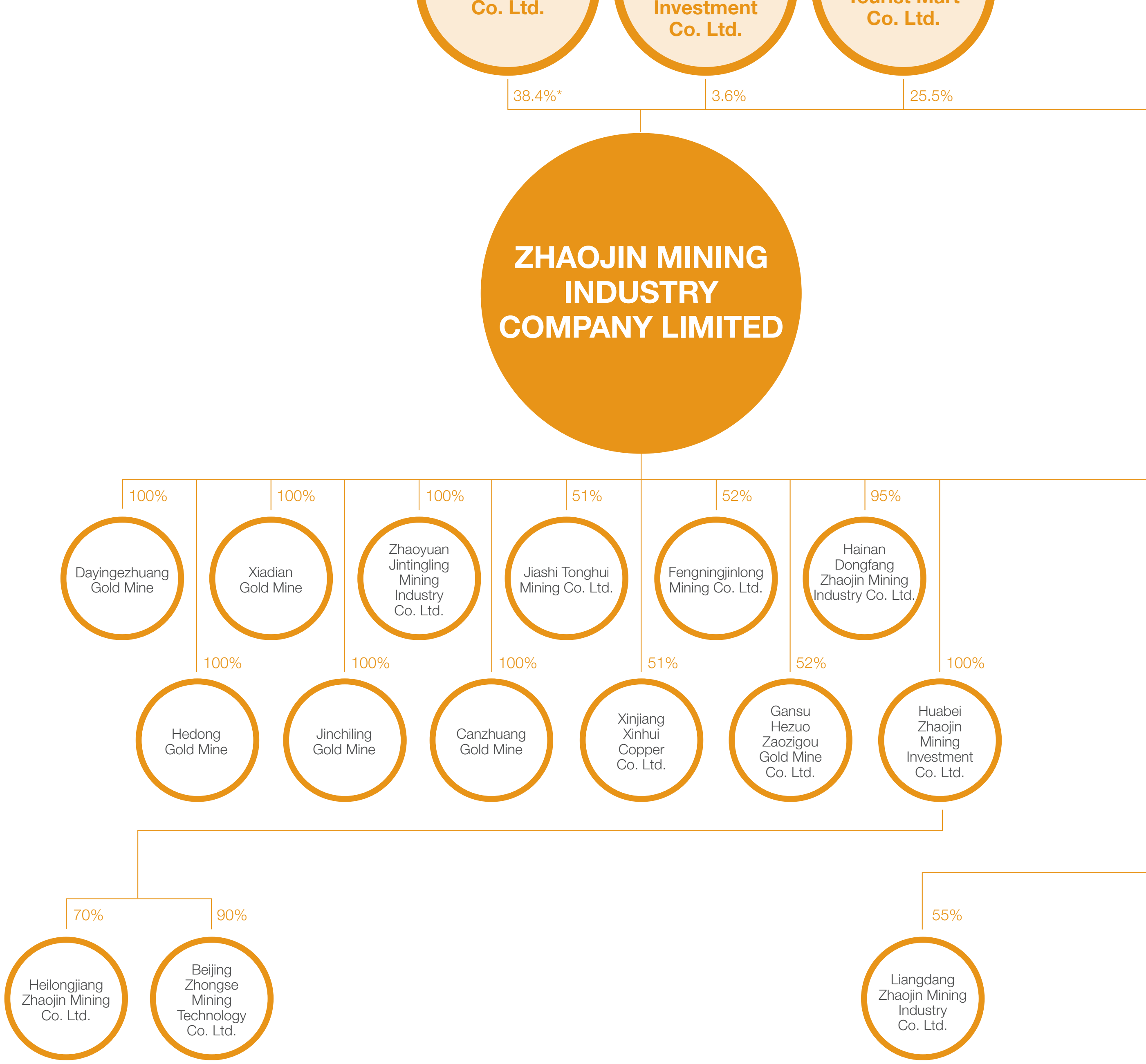
Summary of Assets

	As at 31 December				
	2009	2008	2007	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**8,581,632**	5,930,985	5,013,877	4,907,558	2,133,045
Cash and cash equivalents	**2,209,396**	688,764	1,625,689	2,695,397	138,565
Cash and cash equivalents listed as assets of disposal groups held for sale	**4,715**	–	–	–	–
Total liabilities	**(3,614,215)**	(1,522,316)	(1,260,663)	(1,443,134)	(1,328,005)
Net assets	**4,967,417**	4,408,669	3,753,214	3,464,424	805,040
Net assets per share (RMB)	**3.41**	3.02	2.58	2.38	0.55

The above profit before tax and profit from discontinued operations for 2008 and 2009 have been restated according to the HKFRS while the profit before tax and profit from discontinued operations for 2006 and 2007 have not been restated as the materiality was insignificant for investors' decision. The above earning per share and net assets per share for 2005, 2006 and 2007 have been restated according to the total number of issued shares of 1,457,430,000 shares as at 31 December 2009.

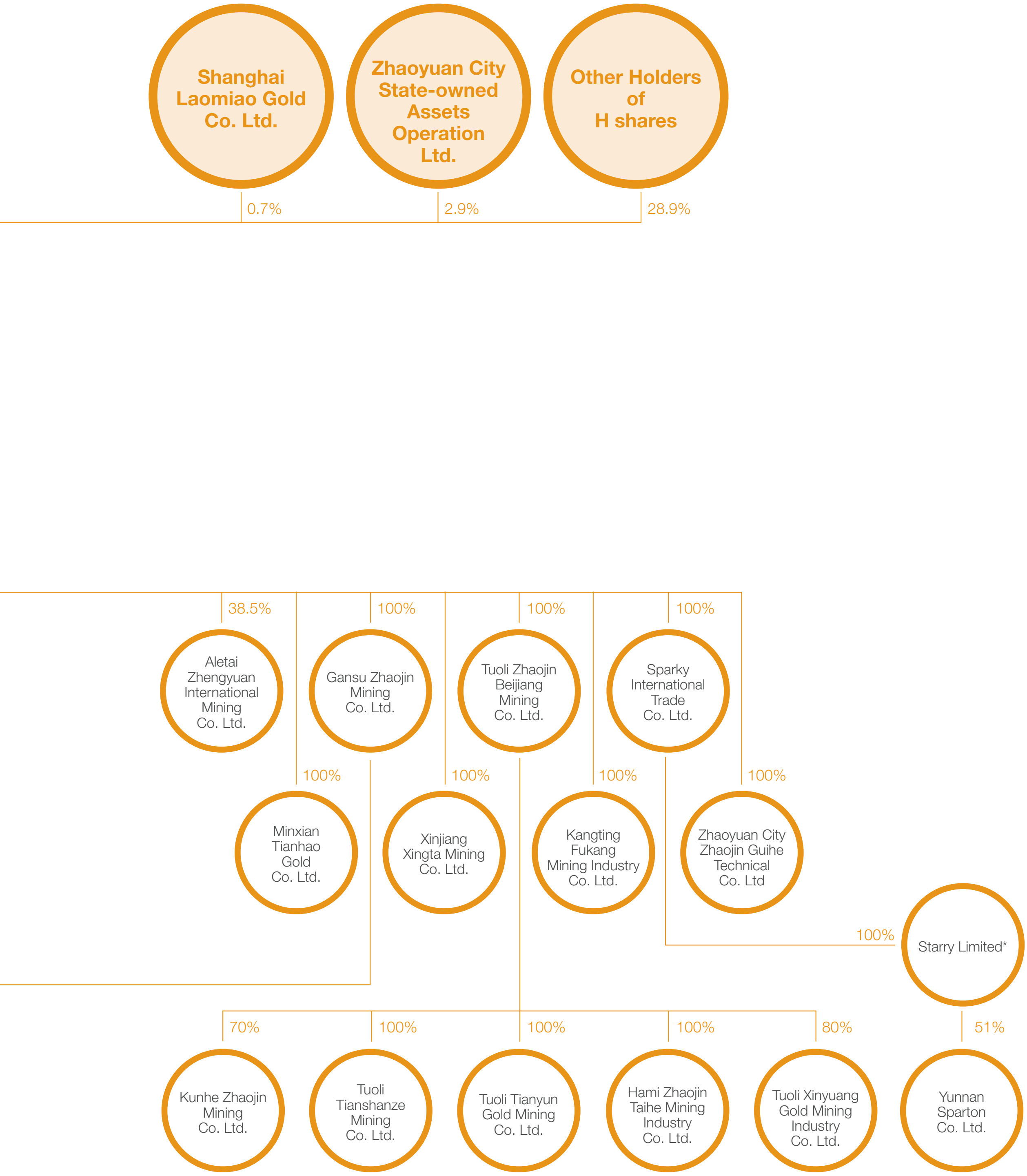
Corporate Structure

The Corporate Structure of ZHAOJIN MINING INDUSTRY COMPANY LIMITED as at 31 December 2009

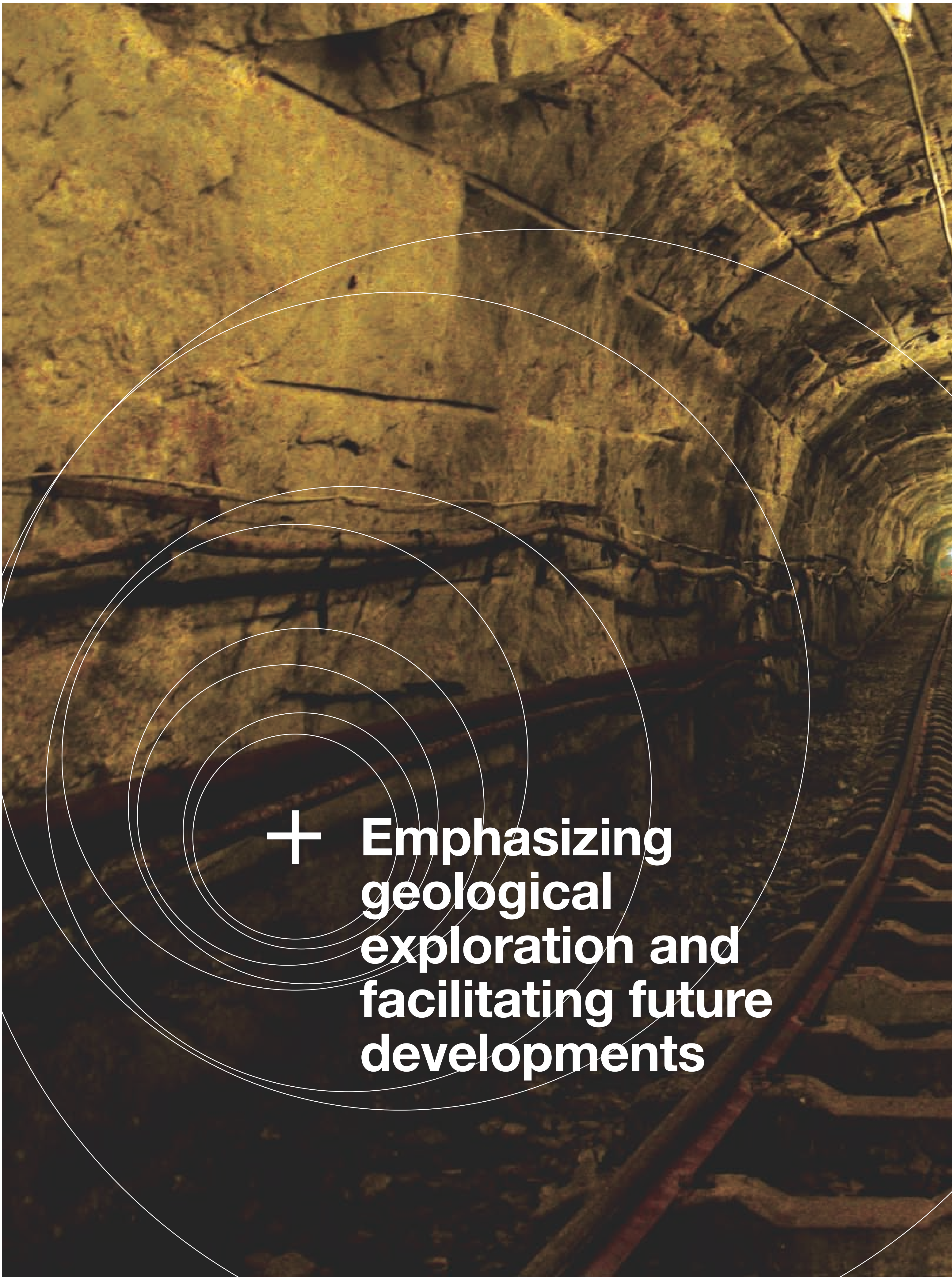


* As at 31 December 2009, 543,257,000 domestic shares and 16,112,500 H shares are held by Shandong Zhaojin Group Co. Ltd., the controlling shareholder of the Company, representing totally 38.4% of the total issued ordinary shares of the Company.

Corporate Structure



* Starry Limited together with its subsidiary, Yunnan Sparton Co. Ltd. was sold at a consideration of RMB12,000,000 in 2010.



Emphasizing geological exploration and facilitating future developments

By adhering to "focusing on technology, choosing the best of the best and achieving breakthroughs" as its principle, the Group improves the exploration potentials of the existing mining areas and commences geological exploration works.

Chairman's Statement

To Shareholders, I am pleased to present the annual report of Zhaojin Mining Industry Company Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2009 (the "Year") on behalf of the board of directors (the "Board") of the Company. I would also like to express our kind regards to all shareholders of the Company (the "Shareholders") on behalf of the Board and all staff members.

Annual Review

Year 2009 was the first year during the time of post economic crisis. Under the consequences of financial crisis sporadically appeared over the past hundred years, gold, as a significant strategic resource of the state, has been well recognized of its functions in respect of the conservation of economic stability and financial security, and the proof against credit currency risks in the financial turmoil. Gold prices for the whole year reflected on its upward move unilaterally. The international gold prices hit a historic high at US$1,226.3/oz on 3 December, and such price has currently been steadily standing above the cap of US$1,000.

As one of the key manufacturers of pure gold in China, the Group, when benefiting revenue from the upsurge of gold prices, has been committing to its right track of development, and adopting strategies of expansion, development and management optimization, as well as taking virtues from others. As a result, rapid growth of enterprise has been realized and new advantage for corporate development has been generated. For the year ended 31 December 2009, the Group's total sales revenue for the year was RMB2,796,991,000 representing a rise of 29.93% over the last corresponding period. The total output of gold amounted to approximately 626,447 ozs, an increase of 10.59% over the previous corresponding period. Net profit of the Group amounted to approximately RMB751,333,000, recording a hike of 39.62% as compared to last corresponding period. The average comprehensive costs of gold per gram was RMB94.82/g, posting 2.75% lower than the last corresponding period. During the Year, the Company had also been honorably entitled with the "National Gold System Advanced Group", the "Excellent Organization Award for National Environmental Protection", the "Top 10 Model Enterprise of Shandong Cyclical Economy Scientific Management in 2009", the "China Integrity Enterprise 2009", the "Contribution Award for China Brand Industry 2009", the "Shandong Integrity Enterprise", etc.

Dividends

In time of rapid development, the Company has borne in mind to reward our shareholders. The Company has maintained a high dividend yield since its listing for rewarding the shareholders' trust and support to the Group with harvest dividend payments. The Board recommended a payment of final cash dividend of RMB0.22 (before taxation) to the annual general meeting for the year of 2009 (2008: RMB0.166 (before taxation)), the Cash dividend payout ratio is 48.44%.

Outlook

In the year 2010, the world's economy is still under a preliminary stage of recovery. While the gloom of global economic crisis is still lingering and a few uncertainties in the macro economy still exist, the Group will execute work themes of "endurance, challenging and growth", and be continuously faithful

Chairman's Statement

to our pure gold production strategies by continuously aspiring higher targets, in anticipation to strive for sound and continuing corporate development and to develop a "harmonized, first-tier international and sustainable Zhaojin" with all efforts. In the course of production and operations, the Company will highlight a development mission of "prioritizing resources and costs". Leveraging on the streamlining of resources, business expansion, reorganization, productivity, management optimization and cost control, we will keep upgrading our capabilities in technology innovation, management efficiency, and expansion and development. Facing pressure and challenges with courage and observing our core enterprise values with persistence, together with development strengths and advantages, we believe that the shareholders' values will be maximized, and the Company will further accomplish a high flying goal on the way towards an international gold mining company.

Acknowledgement

In front of the difficulties and challenges ahead in year 2009, the Group has managed a relatively fast pace of development, benefiting not only from our continuous building of core values in investment, cost control and management improvement, but also from the efforts of the staff, and, especially, the contributions from the shareholders and all sectors paying longstanding support to the Group.

I hereby take this opportunity to express my sincere appreciation to all shareholders and persons from all sectors highly concern to the Group, and also extend my heartfelt tribute to all our directors and the staff for their dedication and excellence. The Group will follow our corporate vision of "Practice", "Innovation", "Integrity" and "Devotion" for realizing effectiveness by compliance, innovation by intellectual, success by unity and advancement by cooperation. Leveraging on our philosophy of taking virtues from others, our perseverance in the strategy of "developing gold mining business in a righteous manner by leveraging on its long history" will definitely heighten values for our shareholders.

Lu Dongshang
Chairman

26 March 2010

Emphasizing geological exploration and facilitating future developments

By adhering to "focusing on technology, choosing the best of the best and achieving breakthroughs" as its principle, the Group improves the exploration potentials of the existing mining areas and commences geological exploration works.

Management Discussion and Analysis

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

Market Overview

For the year ended 31 December 2009, the global financial market is substantially volatile. With the background of various kinds of assets substantially fluctuate under global financial crisis, international gold price keeps strong and the function of gold as resisting financial risk is becoming apparent. Since gold owns value preservation ability and can function as an investment tool, as compared with 2008, the price of gold went to a higher level.

On 3 December 2009, the international gold price made the historical record of US$1,226.30 per ounce. The opening price was US$883.30 per ounce while the closing price was US$1,084.00 per ounce in 2009. The average gold price for the Year was US$972.35 per ounce with a 11.51% growth when compared to last year. The trend of domestic gold price increased in line with the international gold price which hit the historical record and kept at a high level. The opening price of the "9995 gold" in the Shanghai Gold Exchange ("SGE") was RMB192.60 per gram and reached the highest at RMB285.50 per gram while the closing price was RMB248.00 per gram. The average gold price for the Year was approximately RMB215.35 per gram.

The gold production volume in China made a new high record in 2009. The gold production was over 300 tons for the first time, reaching 313.98 tons with an 11.34% growth when compared to last year. This also made our country remaining the No. 1 gold production country globally for three consecutive years. The top five gold production provinces with orders are Shandong, Henan, Jiangxi, Fujian and Yunnan, representing 59.48% of the total production capacity for the whole country.

Management Discussion and Analysis

The average price of gold sold by the Group in the SGE during the Year was approximately RMB221.56 per gram (approximately US$1,009 per ounce, value-added tax included), representing an increase of approximately 14.68% as compared to RMB193.20 per gram (approximately US$879.23 per ounce) in the previous year and was RMB6.21 per gram higher than the average price of gold in the SGE.

Principal Business

For the year ended 31 December 2009, the Group is mainly engaged in the exploration, mining, ore processing, smelting and sales of gold products and other metalic products in the People's Republic of China (the "PRC"). Our principal products include Au9999 and Au9995 standard gold bullions under the brand name of "Zhaojin".

Results for the Year

Gold Output

For the year ended 31 December 2009, the Group's total output of gold amounted to 19,484.68 kg (approximately 626,447 ozs), which increased by 10.59% when compared to the last corresponding period. Among which, approximately 11,306.46 kg (approximately 363,511 ozs) of gold was from the Group's mines, representing a rise of approximately 15.08% over last corresponding period, and 8,178.22 kg (approximately 262,936 ozs) of gold was from processed gold after smelting, posting a growth of approximately 4.93% as compared to the previous corresponding period. While the Group's subsidiaries operate in Zhaoyuan developing steadily, the subsidiaries outside Zhaoyuan has also recorded a rapid growth. In 2009, the total gold output of the Group's subsidiaries outside Zhaoyuan amounted to approximately 1,549.40 kg (approximately 49,814 ozs), representing an increase of approximately 47.18% as compared to the previous year.

Revenue

For the year ended 31 December 2009, the Group's revenue was approximately RMB2,796,991,000 (2008: approximately RMB2,152,731,000), representing an increase of approximately 29.93% as compared to the previous year.

Net Profit

For the year ended 31 December 2009, the Group's net profit was approximately RMB751,333,000, (2008: approximately RMB538,122,000), representing an increase of approximately 39.62% as compared to the previous year.

Management Discussion and Analysis

Management Discussion and Analysis

Earnings per Share

For the year ended 31 December 2009, earnings per share attributable to ordinary equity holders of the Company amounted to approximately RMB0.52 (2008: RMB0.37), increased by approximately 40.54% as compared to the previous year.

Analysis of Results

The substantial growth in profit was primarily attributable to the significant increase in gold output of the Group, higher gold selling price and effective costs control.

Appropriation Proposed

The Board proposed the payment of a cash dividend of RMB0.22 (before taxation) per share to all shareholders (2008: RMB0.166 (before taxation)), the Cash dividend payout ratio is 48.44%.

Regarding the distribution of cash dividend, dividends for shareholders of domestic shares will be declared and paid in Renminbi, whereas dividends for shareholders of H shares will be declared in Renminbi and paid in Hong Kong dollars.

The proposed appropriation proposal for the year is still subject to the approval by the shareholders of the Company at the annual general meeting for the year ended 31 December 2009 ("2009 AGM"), which will be held on Thursday, 3 June 2010.

It is expected that the final dividend for the year ended 31 December 2009 will be paid on or about Monday, 21 June 2010 to the shareholders whose names appear on the register of members of the Company on Thursday, 3 June 2010.

Management Discussion and Analysis

Under the relevant tax rules and regulations of the PRC (collectively the "PRC Tax Law"), the Company is required to withhold corporate income tax at the rate of 10% when distributing the final dividend to non-resident enterprise (such term shall have the meaning as defined under the PRC Tax Law) whose name appears on the H Shares register of members of the Company on Thursday, 3 June 2010.

In accordance with the PRC Tax Law, the Company has an obligation to withhold for payment the corporate income tax from the payment of the final dividend to non-resident enterprises whose names appear on the H Shares register of members of the Company on Thursday, 3 June 2010. Resident enterprises (such term shall have the meaning as defined under the PRC Tax Law) whose names appear on the H Shares register of members of the Company do not wish to have the corporate income tax withheld by the Company for payment should lodge with Computershare Hong Kong Investor Services Limited the relevant documents issued by the relevant PRC tax authority certifying that they are resident enterprises, on or before 4:30 p.m. on Monday, 3 May 2010. The address of Computershare Hong Kong Investor Services Limited is 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

The Company will withhold for payment the corporate income tax strictly in accordance with the PRC Tax Law and the requirements of the relevant government authorities. The Company shall not be liable for any dispute relating to the withholding of corporate income tax which arises from any failure to lodge the relevant documents within the prescribed timeframe as mentioned above.

Business Review

Outward Expansion and Acquisitions

During the Year, the Group increased the marketing research on mining industry and persisted on the expansion strategy. Based on the principle of development by professional on-site investigations, scientific findings and standardized operations, the projects of mining ownership was made by a process of development, acquisition and reservation on a batch by batch basis. Also, the Group focused on the existing mines enterprises in three main areas of Shandong, Gansu and Xinjiang, etc., resulting in the integration and acquisition of the external gold resources and forming an industrial base relatively concentrated in the two areas of Gansu and Xinjiang.

The total completed investment for the Year amounted to RMB541,930,000, with additional exploration area amounted to 90.31 km^2 and additional mining rights amounted to 7.4 km^2, while the acquired gold mine production capacity was approximately 1.02 tons per year (approximately 32,794 ozs per year). Outside Zhaoyuan district, the Company acquired Gansu Hezuo Zaozigou Gold Mine Co. Ltd. (甘肅省合作早子溝金礦有限責任公司) ("ZGM"), Tuoli Tianshanze Mining Co., Ltd (托里縣天山澤礦業有限公司) ("Tianshanze Company"), Tuoli Tianyun Gold Mining Co., Ltd (托里縣天蘊黃金礦業有限公司) ("Tianyun Company"), and Tuoli Xinyuan Gold Mining Industry Co. Ltd. (托里縣鑫源黃金礦業有限公司) ("Xinyuan Gold Company"). In Zhaoyuan, the Company had successfully acquired 100% interest in Canzhuang Gold Mine, previously owned by the State, through Shandong Property Right Exchange Center, and one gold exploration right in the Jinshan area, Zhaoyuan City.

During the Year, the Company had entered into comprehensive strategic cooperation agreements with the municipal governments of Touli in Xinjiang, Chongli in Hebei, Fengcheng in Liaoning, laying a solid foundation for its gold resources reorganization and external development in the future.

Management Discussion and Analysis

On 31 December 2009, there were 30 companies and enterprises of the Group within and outside Zhaoyuan district, covering 10 provinces in the major gold production regions nationwide.

Exploration and increasing gold reserves

In 2009, following the master strategic plan of exploration determined by the Group and based on the motto of "prioritizing science, selecting the best from the bests, and making significant breakthrough", geological exploration was fully implemented inside and outside Zhaoyuan. During the Year, the Group has completed investment of approximately RMB73,743,000 in exploration with an accumulated tunneling of 37,811 meters, drilling of 120,513 meters. Remarkable breakthroughs in geological exploration in the deep underground of major metallogenic belt and favourable results of geological exploration were achieved. The target of exploration and increase gold reserves formulated by the Company was also achieved.

Inside Zhaoyuan: Geological explorations in Zhaoping fault-line area and Wang'er Mountain fault-line area with focuses on the gold mines of Dayingezhuang Gold Mine, Xiadian Gold Mine, Hedong Gold Mine, etc. were commenced, attaining substantial breakthroughs in deep and extra deep underground exploration in the major metallogenic belt inside Zhaoyuan.

Outside Zhaoyuan: Geological explorations in Minli fault-line area and Hatu metallogenic belt with focuses on ZGM, Minxian Tianhao Gold Co., Ltd. and Tuoli Zhaojin Beijiang Mining Co., Ltd. ("Zhaojin Beijiang") were conducted, attaining another new breakthrough in the major metallogenic belt outside Zhaoyuan. The total gold mining resources volume of the enterprises outside Zhaoyuan amounted to 72.94 tons (approximately 2,345,075 ozs) and the gold minable reserves amounted to 27.88 tons (approximately 896,363 ozs), accounting for approximately 21.59% and approximately 12.75% of the Group's total volume, respectively, and signifying

that the enterprises outside Zhaoyuan are developing as a major alternative resources base of the Group and another key resources support for the Group's development.

On 31 December 2009, the Group owned a total of 71 exploration rights with an exploration area of approximately 1,345.31 km^2, and a total of 28 mining rights with a mining area of approximately 61.01 km^2.

In accordance with the standards issued by the Joint Ore Reserves Committee ("JORC") in Australia, the total gold mining resources volume of the Group as at 31 December 2009 amounted to 337.8 tons (approximately 10,860,520 ozs) and the gold minable reserves amounted to 218.6 tons (approximately 7,028,152 ozs), representing a substantial increase of 84.7 tons (approximately 2,723,168 ozs) or 33.49% and 53.3 tons (approximately 1,713,634 ozs) or 32.25%, respectively, as compared to the previous year.

Management Discussion and Analysis

Capital market financing

During the Year, the Company actively explored new paths of capital market financing and continuing to broaden the financing channels to ensure the work of financing reaching a breakthrough in progress. In 2009, the Company successfully issued corporate bonds of RMB1,500,000,000 in the PRC. The issuance dedicated a low interest rate of 5% per annum with an issuance expense rate of 0.8%. The corporate bonds were listed in the Shanghai Stock Exchange. Through the issuance of corporate bonds for financing, the capital capacity of the Company was enhanced and the progress of using the capital market inside and outside the region was uplifted. The Company realized the goal of leaping over in development by using the capital market adequately.

Infrastructure and technology reform

During the Year, the Group accelerated the speed of and increased effective investment in the projects and constructions for infrastructure and technology reform, resulting in an actual completed investment

Management Discussion and Analysis

of RMB497,000,000. Improvement projects for the processing production system of Zhaojin Beijiang and Hainan Dongfang Zhaojin Mining Industry Co. Ltd. ("Hainan Dongfang") were completed as scheduled. Special infrastructure projects in respect of the exploration of deep underground of Dayingezhuang Gold Mine, the comprehensive resources utilization of 600 tons per day of Jinchiling Gold Mine and the upgrading of the mining and processing production system of Tonghui Copper Mining were all completed earlier than the progress schedule. Especially, the earlier operation of the mining and processing expansion project of 1,000 tons per day constructed by Zhaojin Beijiang has further enlarged the Group's production capacity, which casts a foundation for realizing target of annual production capacity.

Currently, the mining capacity of the Company reaches 12,700 tons per day and the processing capacity attained at 16,000 tons per day.

Technological innovation

The Group has emphasized on the innovation and the research and development on technology. Standards for all types of processing techniques have maintained technology advantage in the gold industry.

During the Year, the accumulated technological investments of the Group amounted to approximately RMB43,460,000. The Group has implemented 55 new scientific research and technological innovation projects in total, two of which have reached international advanced standard, reflecting an outstanding technology results. The Group has been awarded with 1 Second Prize and 1 Third Prize of Science and Technology Progress Award by the Department of Science and Technology, Shandong Province, and 2 First Prize of Scientific Technology from the China Gold Association. In addition, 4 Awards of Excellent Results had been presented by Shandong Economic and Trade Committee and 18 state patents had been obtained.

During the Year, applications with the provincial enterprise technology centre and provincial gold engineering and technology centre were completed and approvals were issued successfully. Project for "Critical Technology Study on Monitoring, Warning and Management of Severe Disaster of Non-Coal Mine" (《非煤礦山重大災害監測、預警和管理關鍵技術研究》) was successfully examined and accepted by Department of Science and Technology, Shandong Province, bringing a further advancement in informatization, digitalization and safety of production.

Management Discussion and Analysis

Production safety and environmental protection

During the Year, the Group fully dedicated to the infrastructure projects, strengthened the site control, conducted the "Year of Safety Production", activated the "Three Actions" on law enforcement, management and education for production safety, and renewed the safety management, as well as implemented the environmental responsibilities to all levels. For the Year, the Group entirely avoided severe casualties, fires, explosions, traffic, toxication and environmental pollution incidents. Besides, the Group was honored with the "Excellent Award for Contest of National Occupation Safety and Health Knowledge", the "Top 10 Model Enterprise of Shandong Cyclical Economy Scientific Management in 2009", and has been selected into the record of database of the "Excellent Organization Award for National Environmental Protection".

Corporate social responsibility

The Company has practically taken its responsibilities as a "corporate citizen" by emphasizing on the construction of community relations, and has actively participated in the education development in the rural and depressed area and charity works in the society. During the Year, the Company contributed RMB2,000,000 (2008: RMB2,000,000) to the education development in Gansu province, PRC. All donations were used to renovations of school buildings in the phase of volunteer education in the depressed area of the Gansu province.

The Company also donated RMB1,000,000 to an elderly home in Biguo township, Zhaoyuan City, for enhancing the living facilities of the elderly home and bringing a comfortable environment for the retirements of the elderly.

During the Year, the Company has been awarded the honour of "China Integrity Enterprise 2009", "China Brand Industry Contribution Award 2009",

"National Abiding by Contracts and Keeping Promises Enterprise", "Shandong Province Model Enterprise of Integrity" , "Shandong Province Integrity Enterprise", "Creditworthiness Certificate Grade AAA in Shandong Province" and "Creditworthiness Certificate Grade AAA Agricultural Bank of China, Shandong Province Branch" etc.

Management Discussion and Analysis

Financial Analysis

Revenue

For the year ended 31 December 2009, the Group's revenue was approximately RMB2,796,991,000 (2008: RMB2,152,731,000), representing an increase of approximately 29.93% (2008: approximately 42.35%) as compared to last year. Such increase was primarily attributable to a substantial increase in the gold output and higher gold selling price.

Management Discussion and Analysis

Cost of Sales

For the year ended 31 December 2009, the Group's cost of sales was approximately RMB1,347,704,000, representing an increase of approximately 25.62% (2008: approximately 41.63%) from approximately RMB1,072,814,000 in 2008. Such increase was primarily attributable to the higher volume of gold sales during the Year.

Gross Profit and Gross Profit Margin

During the Year, the Group's gross profit and gross profit margin were approximately RMB1,449,287,000 (2008: RMB1,079,917,000) and approximately 51.82% (2008: approximately 50.16%), representing an increase of approximately 34.20% (2008: approximately 43.07%) and an increase of approximately 1.66% (2008: approximately 0.25%), respectively, as compared to the previous year. The increase in gross profit was primarily attributable to the increases in sales of gold, while the increase in the gross profit margin was primarily because the costs maintained at the level of 2008, while the price of sales of gold maintained at higher level during the Year.

Other Revenue and Gains

During the Year, the Group's other revenue and gains were approximately RMB99,181,000 (2008: approximately RMB58,185,000), representing an increase of approximately 70.46% from the previous year. The increase in the other revenue and gains was primarily attributable to the increase in policy-related subsidies and gains from disposal of equity investment at fair value through profit or loss.

Selling and Distribution Costs

For the year ended 31 December 2009, the Group's selling and distribution costs were approximately RMB38,291,000 (2008: approximately RMB19,982,000), representing an increase of approximately 91.63% (2008: approximately 108.56%) as compared to the previous year. Such increase was primarily attributable to the increase in sales of gold which further led to the increase of cost in gold refinery.

Administrative and Other Operating Expenses

The Group's administrative and other operating expenses were approximately RMB443,739,000 in 2009 (2008: approximately RMB393,193,000), representing an increase of approximately 12.86% from 2008. Such increase was primarily attributable to the expansion of the business.

Finance Costs

For the year ended 31 December 2009, the Group's finance costs were approximately RMB23,137,000 (2008: approximately RMB17,260,000), representing an increase of approximately 34.05% (2008: decreased by approximately 16.8%) from 2008. Such increase was primarily attributable to the increase in temporary borrowings of the Group.

Income Tax

The income tax expenses increased by approximately RMB93,301,000 when compared with the previous year. It is primarily attributable to the increase in sales margin. During the Year, income tax of corporate inside PRC has been provided at a rate of 25% (2008: 25%) on the taxable income. Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits arising in Hong Kong during the Year. The Group has not incurred any Hong Kong profits tax during the Year. The effective tax rate of the Group is 25.3% during the Year (2008: 24.0%).

Management Discussion and Analysis

Profit Attributable to Shareholders

For the year ended 31 December 2009, the Group's profit attributable to the shareholders of the Company was approximately RMB754,020,000, representing an increase of approximately 41.23% (2008: approximately 37.45%) from approximately RMB533,905,000 in 2008.

The net profit margin of the Group for the year ended 31 December 2009 was approximately 26.86% (2008: approximately 25.00%), representing a slight increase from 2008.

Appropriation Proposal

The Board proposed the payment of a cash dividend of RMB0.22 (before taxation) (2008: RMB0.166 (before taxation)) per share, the Cash dividend payout ratio is 48.44%.

Liquidity and Capital Resources

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

Net cash inflow/(outflow) from the followings:

	For the year ended 31 December	
	2009	2008
	RMB'000	RMB'000
Operating activities	**952,140**	518,386
Investing activities	**(822,896)**	(1,316,819)
Financing activities	**1,396,801**	(129,690)
Effect of foreign exchange rate changes, net	**(698)**	(8,802)
Net cash inflow/(outflow)	**1,525,347**	(936,925)

Cash Flows and Working Capital

The Group's cash and cash equivalents have increased from approximately RMB688,764,000 as at 31 December 2008 to approximately RMB2,214,111,000 as at 31 December 2009, of which, RMB4,715,000 was reclassified as the assets of disposal groups held for sale. The increase was primarily attributable to the issuance of RMB1,500,000,000 corporate bonds by the Company during the Year.

At the balance sheet date, the cash and cash equivalents of the Group denominated in Hong Kong dollars amounted to RMB20,712,672 (2008: RMB23,737) and those denominated in United States dollars amounted to RMB24,586,269 (2008: RMB5,751,501). All other cash and cash equivalents held by the Group are denominated in RMB.

Net Cash Flows from Operating Activities

The Group's net cash inflow from operating activities increased from approximately RMB518,386,000 in 2008 to approximately RMB952,140,000 in 2009, representing an increase of approximately 83.67%, which was attributable primarily to the higher revenue generated from the sale of gold.

Net Cash Flows used in Investing Activities

The net cash flow from investing activities is mainly affected by the Group's acquisition of subsidiaries, properties, plant and equipment, mining rights and exploration rights/assets, held-to-maturity investments and equity investments at fair value through profit or loss. The net cash flow used in investing activities decreased by approximately 37.5% from approximately RMB1,316,819,000 in 2008 to approximately RMB822,896,000 in 2009, which was attributable primarily to the redemption of held-to-maturity investments and the disposal of equity investments at fair value through profit or loss by the Group during the Year.

Management Discussion and Analysis

Net Cash Flows from Financing Activities

The net cash flows used in financing activities increased from a net outflow of approximately RMB129,690,000 in 2008 to a net inflow of approximately RMB1,396,801,000 in 2009, which was attributable to the issuance of RMB1,500,000,000 corporate bonds by the Company during the Year.

Borrowings

On 31 December 2009, the Group had outstanding bank loans and other borrowings of RMB668,846,000 (2008: RMB478,980,000), of which RMB611,056,000 (2008: RMB471,190,000) shall be repaid within one year, RMB50,000,000 (2008: RMB nil) shall be repaid within two to five year and RMB7,790,000 (2008: RMB7,790,000) shall be repaid after 5 years. As at 31 December 2009, the Group had cash balances in excess of its borrowings, and hence had no gearing on a net basis.

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

Gearing ratio

Gearing ratio refers to the ratio of consolidated total liabilities to consolidated total equity. As at 31 December 2009, the Group had consolidated total liabilities of RMB3,614,215,000 (2008: RMB1,522,316,000) and total assets of RMB8,581,632,000 (2008: RMB5,930,985,000).The Group's gearing ratio for the year ended 31 December 2009 was 42.12% (2008: 25.67%).

Market Risks

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

Gold Prices and Other Commodities Prices Risks

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

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

The price range of the forward commodity contracts is closely monitored by management. On 31 December 2009, all of the forward commodity contracts of the Group were settled and accordingly, a reasonably possible change of 10% in commodity price would have no material impact on the Group's and Company's profit and equity for the Year.

Interest Rate Risk

The Group's exposure to interest rate risk relates primarily to the Group's cash holdings and interest-bearing bank loans. The Group manages its interest rate exposure from certain cash holdings through

Management Discussion and Analysis

placing them into appropriate short term deposits with a mixture of variable and fixed rates and manages the exposure from all of its interest-bearing loans through the use of fixed rates.

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

Foreign Exchange Risk

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

The Group has no hedging activities during the Year.

Employees and Remuneration Policy

As at 31 December 2009, the Group's total number of staff was 5,513. During the Year, the total staff costs of the Group were approximately RMB338,735,000 (2008: RMB275,977,000). The Group remunerates its employees based on their performance, experience and prevailing industry practices. Other benefits offered to the employees include retirement benefits plans, medical benefits plans and housing fund plans. The Group also provides training to its employees.

Charges

As at 31 December 2009, no charge had been made by the Group.

Substantial Investment

As at 31 December 2009, the details of the Group's investments are set out in note 15 on page 156 to the consolidated financial position statements of this annual report.

Substantial Acquisitions and Disposal

For the year ended 31 December 2009, the details of substantial acquisitions and disposal made by the Group are set out in note 41 and note 42 on page 190, page 194 and note 43 on page 195 to the consolidated financial position statements of this annual report and set out on page 51 to page 53 under the section headed "Acquisitions".

Contingent Liabilities

The details of the contingent liabilities as at 31 December 2009 are set out in note 39 on page 187 to the consolidated financial position statements of this annual report.

Business Outlook

In 2010, the Group will keep preserving its industrial dominance in pure gold and will pursue to maximize the interests and benefits of both the Group and its shareholders by broadening its development horizon, revamping its industrial structure, optimizing its management, and challenging a higher goal.

Engagement in active outward expansion

The Group will continuously engage in its prudent outward expansion policy, and will adopt an active but practical and cautious manner in its move of outward expansion. Riding on the opportunities of the integration of national mineral resources and based on the two main production bases in Xinjiang and Gansu, it is expected that the consolidation of regional resources and the improvement of the

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industries will be achieved by the driving force from centrifugal effect. Besides, development in the key gold mine areas will be strengthened in order to create two new production bases in the northeastern and southwestern regions.

In 2010, the Group intends to acquire gold mining resources volume of 20 tons (approximately 643,015 ozs) and gold mine production capacity of approximately 1.5 tons per year (approximately 48,226 ozs per year).

Strengthening management of enterprises outside Zhaoyuan

The cost control of the Group's enterprises located outside Zhaoyuan will be one of the key focuses of the Group's management in 2010. On the one hand, the Group aims to further expand the scale production of those enterprises by intensifying the level of mechanization and the content of processing technique as well as minimizing the costs, based on the advantages of scale production and technology. Thus, the management costs of these enterprises will have to be lowered practically for gaining a significant cost reduction. On the other hand, the Group will exercise assistance activities among these enterprises on an equivalent level basis for empowering their management quality and spurring their development pace.

Empowering exploration and increasing gold reserves

The Group will concentrate on the geological exploration and the increase of reserves in 2010. Under the principle of "prioritizing science, integrating tunnel & dri1l exploration", affiliated with "in-depth exploration and cutting-edge experiment", the Group intends to conduct the geological exploration in the major mining areas inside and outside Zhaoyuan and the possible metallogenic belts peripherally. Explorations inside and outside Zhaoyuan will primarily concentrate on Xiadian Gold Mine and ZGM, respectively, with the supplement of focuses on Dayingezhuang Gold Mine and Zhaojin Beijiang. It is anticipated that breakthroughs in technology research and new mining sites will be achieved, and the exploration and increase of reserves of other enterprises will see a leap and bound.

In 2010, the Group intends to invest RMB100,000,000 to explore mineral resources and is expected to achieve additional gold mining resources volume of 38 tons (approximately 1,221,728 ozs) or above.

Accelerating infrastructure and technology reform and technology innovation

The Group will enhance the technology and infrastructure reformation and uplift enterprises improvement and upgrading. In 2010, the core of infrastructure and technology reform will lie on the production and capacity expansion and the activities of "Optimization of Special Construction Year" will be launched. The Group also has 32 planned reformation and construction projects with an investment of RMB659,900,000. Following the completion and commencement of these projects, mining capacity of the Group will be increased by 3,000 tons per day and the ore processing capacity of the Group will be increased by 3,700 tons per day. On the front of technology reform, upon the establishment of National Enterprise Technology

Management Discussion and Analysis

Centre, the Group will be committed to develop the platforms for research and development, application and transformation of new achievements, in order to uplift technological upgrades and competitiveness strengthening. The Group currently has 37 planned technology innovation research projects with an investment of RMB54,600,000, to further improve the standard of technology research and exploring, mining, processing, cyaniding and smelting of the production process.

Building a Green Mining Enterprise

In the year 2010, the Group will dedicate to build a green mining industry focusing in safety, efficiency, energy-saving, low consumption, and cyclical development. The Group will commit to five tasks, namely the standards compliance and upgrading by the implementation of safety standardization, the operation of safety environment management and system, the research and application of safety technology, the management of contingent rescue and the cultivation of safety culture, in order to commence the building of a green mining enterprise and to implement the enhancement of the safety and environmental pursuits.

Enhancing the management level and reinforcing cost control

The Group will emphasize on enhancing the management level of each subsidiary, especially on cost control of subsidiaries outside Zhaoyuan.

Directors, Supervisors and Senior Management Profile

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

Executive Directors

Mr. Lu Dongshang, aged 48, the chairman and an executive director of the Company, the Communist Party secretary to the Company, the chairman of and the Communist Party secretary to Zhaojin Group, the vice president of the China Gold Association, the chairman of chairman board of the China Mining Association and a council member of the Shanghai Gold Exchange. Mr. Lu has 28 years of professional experience in the gold mining industry and has made outstanding contribution to the development of China's mining industry. Mr. Lu worked for and held senior positions at several gold mines and mining groups in Zhaoyuan. Mr. Lu has received numerous awards, at the provincial, municipality and national levels, for his achievement in technological advancement. For instance, Mr. Lu was awarded the top award of Science and Technology in Yantai City, Middle-aged and Young Expert with Outstanding Contributions in Shandong Province, the Second Award in National Scientific and Technological Advancement and Gold Medal for Outstanding Entrepreneurs in the National Gold Industry, and granted a special allowance by the State Council. Mr. Lu graduated from the department of mining engineering of Shenyang Gold Institute, graduated from the Cheung Kong Graduate School of Business with an EMBA degree in 2007 and qualified as an applied engineering technology researcher. Mr. Lu has been the chairman and executive director of the Company since April 2004.

Mr. Wang Peifu, aged 53, an executive Director, president and Chief Executive Officer of the Company. He has over 34 years of experience in the gold production industry. Mr. Wang has served as the deputy mine manager of Zhaoyuan Canzhuang Gold Mine, the mine manager of Xiadian Gold Mine, the chairman and general manger of and the Communist Party secretary to Xiadian Mining Co., Ltd, Director, the deputy general manager and general manager of the Company. Mr. Wang has received numerous national patents and honors for his achievement in technology and business management. He was awarded Middle-aged and Young Expert with Outstanding Contributions in Shandong Province, Shandong Provincial Labour Model and Outstanding Venture Entrepreneur in China, and granted a special allowance by the State Council. He had been a part-time professor at Kunming University of Science and Technology, Shandong University of Technology, Northeastern University and University of Science & Technology Beijing. Mr. Wang is an engineering technology application researcher and a certified safety engineer. Mr. Wang graduated from Kunming Industry University and Yantai University and obtained an EMBA degree from the Cheung Kong Graduate School of Business in October 2008. Mr. Wang has been an executive Director of the Company since April 2004.

Directors, Supervisors and Senior Management Profile

Non-executive Directors

Mr. Liang Xinjun, aged 41, a non-executive Director, vice chairman of the Company, and has been an executive director, vice chairman and chief executive officer of Shanghai Fosun Group, a director of Shanghai Yuyuan and an independent director of Shanghai Oriental Pearl (Group) Co., Ltd.. Mr. Liang is a member of the Eleventh Shanghai Committee of Chinese People's Political Consultative Conference; vice chairman of Chinese Young Entrepreneurs' Association; executive vice chairman of China Science and Technology Private Entrepreneurs Association; executive vice president of Chamber of Metallurgy Industry of All-China Federation of Industry and Commerce; chairman of Taizhou Chamber of Commerce in Shanghai and executive vice chairman of Shanghai Fudan University Alumni Association. In October 2002, Mr. Liang was awarded the "First Session of Innovation Award of Shanghai Science and Technology Entrepreneur". In 2002, 2003, 2004 and 2007, Mr. Liang was named an "Outstanding Entrepreneur of China's Science and Technology Private Entrepreneur". In April 2004, Mr. Liang was named "Shanghai Municipal Labour Model" of the years 2001 to 2003. In December 2005, Mr. Liang was awarded the "First Session of Innovation Management Award for Young Entrepreneurs in China". In June 2006, Mr. Liang was named an "Outstanding Party Member of Shanghai New Economic and Social Organisations". In April 2007, Mr. Liang was named a "Shanghai Outstanding Builder of Socialism with Chinese Characteristics". In July 2008, Mr. Liang was named a "Ten Outstanding Young People in Shanghai". Mr. Liang received a bachelor's degree in genetic engineering in 1991 from Fudan University and obtained a master's degree in business administration in 2007 from Cheung Kong Graduate School of Business. Mr. Liang has been appointed as a non-executive Director of the Company since April 2007.

Mr. Cong Jianmao, aged 47, a non-executive Director of the Company, and also the deputy director of Zhaoyuan Municipal Finance Bureau. Mr. Cong has been the chief of the Budget and Finance Section of Zhaoyuan Municipal Commerce Bureau, the chairman of the board of supervisors of Zhaoyuan City State-owned Assets Management Limited, and the chairman of the board of supervisors of Zhaojin Group. Mr. Cong graduated from Shandong TV University and Shandong Economic University. Mr. Cong has been a non-executive Director of the Company since April 2004.

Mr. Weng Zhanbin, aged 43, a non-executive Director of the Company, also currently the general manager of Zhaojin Group. Mr. Weng has 21 years of experience in the gold production industry. He had held positions of deputy section chief and mine supervisor of Zhaoyuan Xiadian Gold Mine; deputy mine general manager and Communist Party deputy secretary of Zhaoyuan Jinchiling Gold Mine; the Communist Party deputy secretary, vice chairman and deputy mine general manager of Jinchiling Mining & Metallurgy Co., Ltd under Zhaojin Group and mine manager of Jinchiling Gold Mine of the Company. Mr. Weng has been granted numerous provincial and national awards, such as Science & Technology Pacesetter of National Gold Industry in the 10th Five-Year Plan Period, Shandong Provincial People-enrich and Qilu-thriving Labour Medal and Shandong Provincial Excellent Entrepreneur in recognition

Directors, Supervisors and Senior Management Profile

of his technological and business management achievements. He has obtained national patents for five of his inventions. Mr. Weng graduated from Baotou Steel and Iron College in 1989 with a degree in mining engineering. He obtained a master degree in mining engineering from Northeastern University in 2002 and a master degree in business administration from Cheung Kong Graduate School of Business in 2008. Mr. Weng has been a non-executive Director of the Company since 26 February 2010.

Mr. Wu Zhongqing, aged 51, a non-executive Director of the Company, also currently the vice president of Shanghai Yuyuan. He had held positions of deputy manager of business department and manager of investment development department of Shanghai Yuyuan; assistant to general manager and vice president of Shanghai Yuyuan. Mr. Wu obtained a senior business administration master degree from Cheung Kong Graduate School of Business, a master degree in business administration from East Asia School of Business (Macau) and an on-the-job postgraduate degree in economic law from East China University of Political Science and Law. He has extensive experience in business operation and investment. Mr. Wu has been a non-executive Director of the Company since 26 February 2010.

Mr. Chen Guoping, aged 52, a non-executive Director of the Company. He is also the chairman of Hainan Mining United Co., Ltd., senior assistant to the president of, and general manager of Mineral Resources Division of Shanghai Fosun High Technology (Group) Co., Ltd.. Mr. Chen had held positions as the supervisor of Engineering Project and Technology Division of Shanghai Krupp Stainless Co., Ltd., technology director of Iron and Steel Division and assistant to general manager and deputy general manager of Fosun Group. Mr. Chen has extensive experience in metallurgical industry. Mr. Chen graduated from Shanghai University of Technology with a bachelor's degree in technology and engineering. Mr. Chen has been a non-executive Director of the Company since November 2009.

Independent non-executive Directors

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

Mr. Ye Tianzhu, aged 69, an independent non-executive director of the Company, and a chief engineer of the Administrative Office for the Management of Projects Concerning the Replacing Resources for Mine in Risk in the PRC, a chief engineer of Potential Evaluation Projects of Mining Resources in the PRC, a director of the Chinese Association of Mining Rights Assessors, a committee member of the 38th Committee of the Geological Society of China and a deputy officer of the Third Committee for Land Layers. Mr. Ye has been an engineer and the chief engineer of the Second, the Fifth and the Sixth Geological Brigade of the Bureau of Geology of the Jilin Province, the chief engineer of the Bureau of Geology and Mineral Resources of Jilin Province, the deputy chief engineer of the Ministry of Geology and Mineral Resources of the PRC, the deputy director of General Bureau and the China Geological Survey, the head of the Department of Reserves of the Ministry of Land and Resources of the PRC and the Director-General of the China Geological Survey and so on. He received National Awards for Technological Development for various achievements in scientific researches and was once awarded the 9th Li Siguang Awards for Geosciences. Mr. Ye graduated from Beijing College of Geosciences majoring in geological survey and mine exploration. Mr. Ye has been an independent non-executive director of the Company since April 2007.

Directors, Supervisors and Senior Management Profile

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

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

Supervisors

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

Directors, Supervisors and Senior Management Profile

Ms. Jin Ting, aged 46, a supervisor of the Company, also currently the assistant to president of Shanghai Yuyuan. She had held positions of deputy manager of finance department, manager of finance department and manager of fund management department of Shanghai Yuyuan. Ms. Jin graduated from Shanghai Light Industry Bureau Vocational University（上海輕工業局職工大學）majoring in finance and accounting. She has extensive experience in finance, audit and human resources. Ms. Jin has been a supervisor of the Company since 26 February 2010.

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

Secretary to the Board/Company Secretary

Mr. Wang Ligang, aged 37, the Secretary to the Board. Mr. Wang has served as various managerial positions for Zhaoyuan Beijie Gold Mine and Zhaojin Group. Since 2004, he served as a director of the general manager's office and director of the Board office of the Company, assistant to Board secretary of the Company and general manager of Sparky International Trade Co., Ltd. Mr. Wang graduated from Shandong Economic University with majoring in labour economy management and held a MBA degree from University of Northern Virginia in US. He has the qualification of senior political officer and affiliated person of The Hong Kong Institute of Chartered Secretaries. Mr. Wang has been the Secretary to the Board since December 2007.

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

Senior Management

Mr. Wang Peifu, aged 53, president and Chief Executive Officer of the Company. For the details of his profiles, please refer to page 32 of this annual report.

Mr. Zhang Banglong, aged 47, the Chief Financial Officer of the Company. Mr. Zhang has served as the deputy chief accountant (acting chief accountant) and chief accountant of the China Yangzi Group Co. Limited, the chief accountant and deputy general manager of the Macat Group Textile Co., Ltd and the financial director, financial manager and chief financial officer of the Company. Mr. Zhang obtained a master's degree from Anhui Institute of Business Administration with majoring in Business Administration, and has the qualification of accountant. Mr. Zhang joined the Company in March 2005 and has served as the chief financial officer since then.

Directors, Supervisors and Senior Management Profile

Mr. Li Xiuchen, aged 46, the Senior Vice President of the Company. Mr. Li has served as a technician of the production office of Luoshan Gold Mine, the deputy supervisor, co-ordination officer and first deputy mine manager of Daiqinjia Gold Mine, the deputy mine manager and deputy general manager at Beijie Gold Mine and Zhongkuang Gold Industry, the deputy general manager, director and general manager of Xinyuan Gold Technology Development Co., Ltd., the deputy general manager and the Vice President of the Company. Mr. Li graduated from Shenyang Institute of Gold Technology with majoring in mine engineering with the qualification of a senior engineer. Mr. Li has been the deputy general manager of the Company since February 2007.

Mr. Shi Wenge, aged 44, the Vice President of the Company. Mr. Shi has served as the geology officer of the department of geological survey of Xiadian Gold Mine, officer of the main shaft mine area and technical supervisor, the department head of the department of geological survey, the head of the technology centre and the head of the planning and development department of Xiadian Gold Mine of Zhaojin Group, the deputy manager of the audits department and the manager of the department of production technology of the Company, the assistant to the General Manager and the deputy general manager of the Company. Mr. Shi graduated from the China University of Geosciences with majoring in geology and exploration and he has the qualification of senior engineer. Mr. Shi has been the deputy general manager of the Company since February 2007.

Mr. Zhang Shantang, aged 54, the Vice President of the Company. He has served as the accountant of Zhaoyuan Luoshan Gold Mine Zone, the Communist Party secretary to the Mining Group, officer, the committee member of the Mining Party, the chairman of Mining Union, the deputy mine manager of and the Communist Party secretary to Canzhuang Gold Mine, the mine manager of Zhaoyuan Daqinjia Gold Mine, the mine manager of Zhaoyuan Canzhuang Gold Mine. He graduated from Central Party School of the Communist Party of China, majoring in Economic Mangament. Mr. Zhang has been the Vice President of the Company since February 2010.

Mr. Sun Xiduan, aged 45, the Vice President of the Company. He has served as the accountant, engineering technician, deputy mine manager of No. 1 Branch Mine, technical supervisor, chief controller, department head of the department of production, mine zone officer, department head of the department of planning of Zhaoyuan Luoshan Gold Mine, the deputy manager and manager of Mining Company of Shandong Zhaojin Shareholding Company Limited (山東招金股份有限公司採礦公司), the person-in-charge of mines, processing plants, cyanidation plants, production department for Zhongkuang Gold Industry Company Limited (中礦金業股份有限公司), the general manager of Zhaojin Mining Industry Company Limited in Wuhe County, Anhui Province (安徽省五河縣招金礦業有限公司), the general manager and chairman of Min county Tianhao Gold Co., Ltd (岷縣天昊黃金有限責任公司), the chairman of Zaozigou Gold Mine, the chairman and the general manager of Gansu Zhaojin Mining Company Limited (甘肅招金礦業有限公司), officer of Gansu Zhaojin Office (甘肅招金辦事處). Mr. Sun graduated from China University of Geosciences, majoring in geology, and qualified as an engineer. Mr. Sun has been the Vice President of the Company since February 2010.

Mr. Li Shanren, aged 50, the Vice President of the Company. Mr. Li has served as the deputy section chief, section chief, deputy mine operation manager, deputy mine production manager of Zhaoyuan Xiadian Gold Mine, deputy mine infrastructure manager of Zhaoyuan Dayingezhuang Gold Mine, the deputy mine manager of Zhaoyuan Canzhuang Gold Mine, the general manager of Zhaojin Beijiang Mining Company Ltd. and the chairman of Kunhe Zhaojin Mining Company Limited in Aleitai, Xinjiang (阿勒泰市昆合礦業有限公司) Mr. Li graduated from Faculty of Engineering, Kunming (昆明工學院), majoring in mining, and qualified as an engineer. Mr. Li has been the Vice President of the Company since February 2010.

Report of the Directors

The Board hereby presents its report, together with the audited consolidated financial statements for the year ended 31 December 2009 (the "Year").

Corporate Reorganization

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

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

Principal Operations

The principal activities of the Company are investment holding and exploration, mining, ore processing, smelting and sale of gold and other metallic products. The Group is mainly engaged in exploration, mining, ore processing, smelting and sale of gold and other metallic products, being a large integrated mining enterprise specialising in the production of gold. The Group principally produces two kinds of gold products, which are Au9999 and Au9995 gold bullions under the brand of "Zhaojin". Currently, the sales of gold products represent approximately 90.13% (2008: 85.25%) of the income from the Group's principal operations. Details of the principal activities of the subsidiaries are set in note 16 to the financial statements on pages 157 to 160 in this annual report.

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

Results

The Group's results for the year ended 31 December 2009 are set out on page 94 of the consolidated income statement in this annual report.

Profit Distribution

As of the date of this annual report, the final dividend for the financial year ended 31 December 2008 paid by the Company was approximately RMB241,933,000 (2007: RMB182,179,000).

The Board proposes the payment of a final cash dividend to all Shareholders for 2009 of RMB0.22 (before taxation) (2008: RMB0.166 (before taxation)) per share, the Cash dividend payout ratio is 48.44%.

The cash dividend for domestic shares will be distributed to the Shareholders and paid in Renminbi and the cash dividend for H shares will be declared to the Shareholders in Renminbi and paid in Hong Kong dollars (at the average exchange rate of the medium rate of converting Renminbi into Hong Kong dollars as quoted by the People's Bank of China for the week immediately prior to 3 June 2010).

The proposed distributions are subject to the approval by the Shareholders at the 2009 annual general meeting of the Company ("AGM") to be held on 3 June 2010.

Report of the Directors

Major Customers and Suppliers

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

During the Year, approximately 89.38% (2008: 85.25%) of the total sales was conducted on the Shanghai Gold Exchange. Similar to a stock exchange, the Shanghai Gold Exchange is a trading platform for gold transactions. Under the circumstances where purchasers and sellers are unknown to each other, all transactions are conducted under the coordination and supervision of the Shanghai Gold Exchange. Therefore, the Shanghai Gold Exchange is deemed to be the Group's sole major customer.

Transactions between the Group and its suppliers are conducted on normal commercial terms. The total amount of purchases from the five largest suppliers did not exceed 30% (2008: 30%) of the Group's total amount of purchases.

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

Reserves

Details of changes in reserves of the Group as at 31 December 2009 are set out on page 98 of this annual report.

Distributable Reserves

The distributable reserves of the Company as at 31 December 2009 are set out in note 37 to the financial statements on pages 184 to 185 of this annual report.

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

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

As at 31 December 2009, in accordance with the PRC Accounting Standards, the relevant Laws of the PRC and the Articles of Association of the Company, the distributable reserves of the Company amounted to approximately RMB868,537,180 (2008: RMB448,502,600), of which approximately RMB320,635,000 are proposed to be the final cash dividend of the Year (2008: dividend of RMB241,933,000).

Report of the Directors

Property, Plant, Equipment and Property Investment

Details of changes in property, plant and equipment of the Group during the Year are set out in note 13 to the financial statements on pages 148 to 151 of this annual report.

The Group did not hold any investment property.

Share Capital

During the Year, details of share capital of the Company are set out in note 36 to the financial statements on page 182 of this annual report.

On 31 August 2009, Zhanyuan City State-owned Assets Operation Ltd. has successfully acquired a total of 42,400,000 domestic shares of the Company held by Guangxin Investments, which constituted 2.91% of the total issued share capital of the Company.

Apart from the above disclosed, during the Year, there was no arrangement for issue of bonus shares, placing and issue of shares of the Company. In addition, the share capital structure of the Company had no changes during the Year and the period from 31 December 2009 to the date of this annual report.

Use of Proceeds from the IPO

The net proceeds raised from the Company's newly issued and listed H shares on the Stock Exchange in December 2006 (after deduction of related issuance expenses) amounted to approximately HKD2,360,000,000. On 10 July 2009, the resolution of the remaining proceeds received by the Group from the Global Offering of approximately HK$526,000,000 for acquisition of domestic and overseas gold mines by the Company in the future has been approved and authorised by meeting of the 2nd extraordinary general meeting of shareholders in 2009. For the year ended 31 December 2009, the used proceeds raised was approximately HKD2,318,509,000, and the unused proceeds of approximately HKD41,491,000 was deposited in bank, the security of which was adequately ensured.

Details of the used proceeds raised of approximately HKD2,318,509,000 are set out as follows:

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

- as to approximately HKD324,000,000 for expanding the exploration activities, particularly in the Zhaoping fault-line area and other major gold deposits in China with a view to enhancing our gold reserves;

- as to approximately HKD1,132,509,000 for the acquisitions of operating gold mines with a view to expanding our scale and competitiveness and to enhancing our continuing development capacity;

Report of the Directors

- as to approximately HKD324,000,000 for the acquisition of advanced exploration projects with a view to expanding our exploration areas and to enhancing our future gold reserves;
- as to approximately HKD220,000,000 for repayment of bank borrowings with a view to lowering the gearing ratio of the Group and improving the financial position of the Company; and

The unused proceeds will be used by the Company for the purposes as set out in the section headed "Future plans and use of proceeds" in the prospectus of the Company dated 24 November 2006 and in the circular of the Company dated 25 May 2009.

Charity Donation

During the Year, the Group made charitable donation totalling RMB3,000,000 (2008: RMB4,660,000).

Bank Borrowings

Details of bank borrowings of the Company and the Group are set out in note 29 to the consolidated financial statements on pages 172 to 176 of this annual report.

Taxation

During the Year, the Company and its subsidiaries were subject to the PRC enterprise income tax at a rate of 25% of taxable profits according to the requirements under the PRC Enterprise Income Tax Law which became effective on 1 January 2008. The relevant details are set out in note 8 to the financial statements on pages 141 to 142 of this annual report.

Pre-emptive Rights

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

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

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

Directors and Supervisors

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

Report of the Directors

Executive Directors

Mr. Lu Dongshang *(Chairman)*	
Mr. Wang Peifu *(President and CEO)*	
Mr. Ma Yushan	(no longer served as executive Director of the Company upon 26 February 2010)

Non-executive Directors

Mr. Liang Xinjun *(Vice Chairman)*	
Mr. Wu Ping	(no longer served as non-executive Director of the Company upon 26 February 2010)
Mr. Cong Jianmao	
Mr. Weng Zhanbin	(elected as non-executive Director of the Company upon 26 February 2010)
Mr. Liu Gendong	(resigned on 1 November 2009)
Mr. Wu Zhongqing	(elected as non-executive Director of the Company upon 26 February 2010)
Mr. Chen Guoping	(appointed as non-executive Director of the Company upon 1 November 2009)

Independent non-executive Directors

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

Supervisors

Mr. Wang Xiaojie *(Chairman of the Supervisory Committee)*	
Mr. Cheng Binghai	(no longer served as Supervisor of the Company upon 26 February 2010)
Ms. Jin Ting	(elected as Supervisor of the Company upon 26 February 2010)
Mr. Chu Yushan	

Profiles of the Directors, Supervisors and Senior Management Personnel

Details of the profiles of the Directors, Supervisors and Senior Management are set out on pages 32 to 37 of this annual report.

Report of the Directors

The Terms of Service of the Directors and the Supervisors

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

Remuneration of the Directors and Supervisors

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

Details of the remuneration of the Directors and Supervisors are set out in note 7 to the financial statements on pages 137 to 141 of this annual report.

The Service Contracts of the Directors and the Supervisors

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

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

Material Contracts in which Directors and Supervisors have Substantial Interests

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

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

As at 31 December 2009, none of the Directors, Supervisors, chief executive of the Company and their respective associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in the Part XV of the Securities and Futures Ordinance of Hong Kong, Chapter 571 of the laws of Hong Kong ("SFO")) which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO or which they were required to notify the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") (for such purposes, the relevant regulations in the SFO were also interpreted as applicable to the Supervisors).

Report of the Directors

Rights to purchase shares or debentures of Directors and Supervisors

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

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

Five Highest-Paid Personnel

The five highest-paid individuals in the Group during the Year include 2 Directors. Full details of the five highest-paid personnel's remuneration are set out in note 7 to the financial statements on pages 137 to 141 of this annual report.

Share Capital and Shareholders' Information

1. Number of Shareholders

Details of the number of shareholders of the Company recorded in the register of members at 31 December 2009 are as follows:

Classification	Number of Shareholders
Domestic shares	5
Overseas-listed foreign shares - H shares	2,364
Total number of Shareholders	2,369

2. Public Float

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

Report of the Directors

Substantial Shareholders

To the best knowledge of the Directors, Supervisors and chief executive of the Company, as at 31 December 2009, the interest and short positions of the substantial shareholders in the issued share capital of the Company which will be required, pursuant to Section 336 of the SFO, to be entered into the register referred to therein, or holding 5% or above in the issued share capital of the Company which will be required to be notified to the Company are as follows:

	Name of Shareholders	Class of shares	Capacity	The number of shares held	Approximate percentage of shareholding in registered capital of the Company	Approximate percentage of shareholding in the total number of issued domestic shares of the Company	Approximate percentage of shareholding in the total number of issued H shares of the Company	Long/Short/ Lending Pool
1	Shandong Zhaojin Group Company Limited	Domestic shares	Beneficial owner	543,257,000 *(Note 1)*	37.27	53.25	–	Long
		H shares	Beneficial owner	16,112,500	1.11	–	3.69	Long
2	Shanghai Yuyuan Tourist Mart Co., Ltd.	Domestic shares	Beneficial owner	371,000,000	25.46	36.36	–	Long
		Domestic shares	Interest of controlled corporation	10,600,000 *(Note 2)*	0.73	1.04	–	Long
3	Shanghai Fosun Industrial Investment Co., Ltd.	Domestic shares	Beneficial owner	53,000,000 *(Note 3)*	3.64	5.19	–	Long
4	Shanghai Fosun High Technology (Group) Co. Ltd.	Domestic shares	Beneficial owner	53,000,000 *(Note 3)*	3.64	5.19	–	Long
5	Fosun International Limited	Domestic shares	Beneficial owner	53,000,000 *(Note 3)*	3.64	5.19	–	Long
6	Fosun Holdings Limited	Domestic shares	Beneficial owner	53,000,000 *(Note 3)*	3.64	5.19	–	Long
7	Fosun International Holdings Ltd.	Domestic shares	Beneficial owner	53,000,000 *(Note 3)*	3.64	5.19	–	Long
8	Mr. Guo Guangchang	Domestic shares	Interest of controlled corporation	53,000,000 *(Note 3)*	3.64	5.19	–	Long

Report of the Directors

	Name of Shareholders	Class of shares	Capacity	The number of shares held	Approximate percentage of shareholding in registered capital of the Company	Approximate percentage of shareholding in the total number of issued domestic shares of the Company	Approximate percentage of shareholding in the total number of issued H shares of the Company	Long/Short/ Lending Pool
9	Atlantis Investment Management Ltd.	H shares	Investment manager	48,000,000	3.29	–	10.98	Long
10	JP Morgan Chase & Co	H shares	Beneficial owner	45,500 *(Note 4)*	0.003	–	0.01	Long
		H shares	Beneficial owner	34,247,500 *(Note 4)*	2.35	–	7.83	Lending Pool
		H shares	Custodian-corporation/ approved lending agent	34,247,500 *(Note 4)*	2.35	–	7.83	Long
11	BNP Paribas Asset Management	H shares	Investment manager	22,305,000	1.53	–	5.10	Long
12.	Bank of America Corporation	H shares	Interest of controlled corporation	22,543,500 *(Note 5)*	1.55	–	5.16	Long

Notes:

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

(2) Shanghai Yuyuan Tourist Mart Co., Ltd. (the "Shanghai Yuyuan") holds 95% of equity interests of Shanghai Laomiao Gold Co., Ltd. (the "Laomiao Gold"), therefore 10,600,000 domestic shares held by Laomiao Gold in the Company is shown as long position of Shanghai Yuyuan.

(3) The 53,000,000 shares referred to herein related to the same block of shares in the Company.

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

(5) Bank of America Corporation holds equity interests in shares of the Company through companies controlled or indirectly controlled by it.

Report of the Directors

As at 31 December 2009, apart from the above disclosed and to the best knowledge of the Directors, Supervisors and of the Company, no person had any interests or short positions in the shares or underlying shares of the Company which were required, pursuant to Section 336 of the SFO, to be entered into the register referred to therein, or holding 5% or above in the issued share capital of the Company which will be required to be notified to the Company.

Connected Transactions and Continuing Connected Transactions

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

1. Non-exempt Continuing Connected Transactions

On 5 March 2009, the Company and Zhaojin Group entered into the Framework Agreement in relation to the sale of silver by the Group to Zhaojin Group and its subsidiaries. Pursuant to the agreement, the annual caps in relation to the sale of silver by the Group to Zhaojin Group and its subsidiaries from 1 January 2009 to 31 December 2011 are RMB77,000,000, RMB85,000,000 and RMB94,000,000, respectively.

Zhaojin Group is a promoter and the controlling shareholder of the Company and the transactions constitute continuing connected transactions of the Company under the Listing Rules. As the relevant percentage ratios in respect of the proposed annual caps are more than 2.5% and each of the proposed annual caps is more than HK$10,000,000, the transactions and the proposed annual caps are subject to the reporting and announcement requirements and the approval of the independent shareholders by poll at the extraordinary general meeting under the Listing Rules. Zhaojin Group and its associates abstained from voting at the extraordinary general meeting.

On 15 May 2009, independent shareholders approved the continuing connected transactions and proposed annual caps at the extraordinary general meeting.

Relevant details were set out in the announcements dated 5 March 2009 and 15 May 2009 and the circular dated 25 March 2009 published on the website of the Stock Exchange at www.hkex.com.hk and on the website of the Company at www.zhaojin.com.cn.

Report of the Directors

2. Continuing Connected Transactions Exempt from the Independent Shareholders' Approval Requirements

On 24 June 2009, the Company entered into the following agreements:

(1) the Land Lease Agreement with Zhaojin Group in relation to the leasing of land use rights by Zhaojin Group to the Company. According to the land lease agreement, the annual rental for the land use rights are approximately RMB3,970,000, RMB3,910,000 and RMB3,790,000 for the years ending 31 December 2009, 2010 and 2011 respectively.;

(2) the Gold Refinery Agreement with Zhaojin Group Gold and Silver Refinery Company Limited (山東招金金銀精煉有限公司) ("Zhaojin Refinery", a 80.5% owned subsidiary of Zhaojin Group) in relation to the provision of gold refining services by Zhaojin Refinery to the Company. Pursuant to the gold refinery agreement, the annual caps in relation to the provision of gold refinery services from 1 January 2009 to 31 December 2011 are RMB4,200,000, RMB4,800,000 and RMB5,500,000 respectively; and

(3) the Digital Mine Construction Technology Services Agreement with Shandong Goldsoft Technology Company Limited (山東金軟科技有限公司) ("Goldsoft Technology", a 50% owned associate of Zhaojin Group) in relation to the provision of digital mine construction technology services by Goldsoft Technology to the Group. Pursuant to the digital mine construction technology services agreement, the annual caps in relation to the provision of gold refinery services from 1 January 2009 to 31 December 2011 are RMB6,280,000, RMB11,440,000 and RMB10,610,000 respectively.

As Zhaojin Group is a promoter and the major shareholder of the Company, while Zhaojin Refinery and Goldsoft Technology, which are owned as to 80.5% and 50% respectively by Zhaojin Group, are associates of Zhaojin Group. Accordingly, Zhaojin Group, Zhaojin Refinery and Goldsoft Technology are connected persons of the Company and the transactions contemplated under the Land Lease Agreement, the Gold Refinery Agreement and the Digital Mine Construction Technology Services Agreement constitute continuing connected transactions for the Company under the Listing Rules. As the relevant percentage ratios in respect of the proposed annual caps of each of the aforesaid transactions for each of the three years ending 31 December 2011 are less than 2.5%, the transactions contemplated under the Land Lease Agreement, the Gold Refinery Agreement and the Digital Mine Construction Technology Services Agreement and the proposed annual caps thereof are subject to the reporting and announcement requirements, but are exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Relevant details were set out in the announcement dated 24 June 2009 published on the website of the Stock Exchange at www.hkex.com.hk and on the website of the Company at www.zhaojin.com.cn.

Report of the Directors

Other Connected Transactions

On 14 October 2009, The Group invited a bid from Shandong Zhaojin Import and Export Company Limited (山東招金進出口股份有限公司) ("Zhaojin Import & Export Company") and independent third parties in relation to the sale of Gold Bearing Materials with a total dry tonne of approximately 34 tonnes by the Group by way of open tender. The tender was awarded to Zhaojin Import & Export Company as the highest bidder. Based on the estimation of the Group on the recycling of metals from Gold Bearing Materials and the price quotation by Zhaojin Import & Export Company, the total consideration for the Gold Bearing Materials to be sold under the Gold Bearing Materials Sales Contract is estimated to be approximately RMB3.2 million. The Company and Zhaojin Import & Export Company entered into the Gold Bearing Materials Sales Contract in relation to the sale of Gold Bearing Materials by the Group to Zhaojin Import & Export Company.

As at the date of this report, Zhaojin Group is a promoter and controlling shareholder of the Company, and Zhaojin Import & Export Company (owned as to 30% by Zhaojin Group and as to 10% by Zhaojin Refinery, an subsidiary 80.5% owned by the Zhaojin Group) is an associate of Zhaojin Group. Accordingly, Zhaojin Import & Export Company is a connected person of the Company, and the transactions contemplated under the Gold Bearing Materials Sales Contract constitute connected transaction for the Company under the Listing Rules. As the relevant percentage ratios in respect of the Transaction are less than 2.5%, the Transaction is subject to the reporting and announcement requirements and is exempt from the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Further details were set out in the announcement dated 14 October 2009 published on the website of the Stock Exchange at www.hkex.com.hk and on the website of the Company at www.zhaojin.com.cn.

Further details of the non-exempt continuing connected transactions and other transactions above are included in notes 40 to the financial statements on pages 188 to 190 in this annual report.

Our independent non-executive Directors have reviewed the continuing connected transactions and other transactions set out in note 40 to financial statements in this annual report, and are of the view that the continuing connected transactions have been entered into under the following circumstances:

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

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

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

Report of the Directors

Our auditor has also reviewed the above non-exempt continuing connected transactions and other transactions and confirmed to our Directors that the continuing connected transactions:

(1) have received the approval of the Board;

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

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

(4) have not exceeded the caps disclosed in the Company's previous announcements.

Undertakings and Statements under the Non-competition Agreement

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

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

During the Year, independent opinions have been stated by the independent non-executive directors, concerning the sale of silver to Zhaojin group, entering into Land Lease Agreement with the Zhaojin Group, entering into Gold Refinery Agreement with Zhaojin Refinery, entering into Digital Mine Construction Technology Services Agreement with Goldsoft Technology and the disposal of Gold Bearing Materials to Zhaojin Import & Export Company.

The Company has also received a statement under the non-competition agreement from Zhaojin Group on 6 January 2010, which stated that Zhaojin Group, as the controlling shareholder of the Company, has complied with their undertakings under the non-competition agreement dated 17 November 2006 for the year ended 31 December 2009.

Report of the Directors

Acquisitions

1. On 19 January 2009, the Company entered into an equity transfer agreement with three independent third parties to acquire 52% equity interest in ZGM. The Company successfully bidded for 52% equity interest in ZGM at a price of RMB55,000,000 in a public tender in the PRC on 21 November 2008. Such acquisition was completed on 9 April 2009.

   ZGM is based in Gannan Tibetan Autonomous Prefecture in Gansu Province and is engaged in exploitation of gold mines and associated mineral resources, processing and sales of mineral products. As at 31 December 2009, ZGM owned one gold mining right with an area of 2.53 km^2, and gold minable reserves of approximately 10,834 kg (approximately 348,321 ozs) with an average grade of 4.14 g/ton, and the production scale was 72,000 tons/year and the mining method adopted was underground mining. A good prospect of finding mine reserves at the depth and periphery of the ZGM is expected.

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

   The acquisition does not constitute any connected transaction for the Company under Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), nor does it constitute any notifiable transaction for the Company under Chapter 14 of the Listing Rules.

2. On 18 February 2009, Zhaojin Beijiang, a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with four vendors (being independent third parties) to acquire 100% equity interest in Tianshanze Company at a consideration of RMB10,000,000.

   Tianshanze Company is based in the south-eastern area of Tuoli, Xinjiang and is engaged in the mining, ore processing and sale of gold and copper. As at 31 December 2009, Tianshanze Company owned one gold mining right with an area of 0.1009 km^2, and the gold minable reserves were approximately 232.5 kg (approximately 7,475 ozs) with an average grade of 22 g/ton.

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

3. On 18 February 2009, Zhaojin Beijiang, a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with four vendors (being independent third parties) to acquire 100% equity interest in Tianyun Company at a consideration of RMB20,000,000.

Report of the Directors

Tianyun Company is based in the south-eastern area of Tuoli, Xinjiang and is engaged in the processing and sale of gold. As at 31 December 2009, Tianyun Company owned one gold mining right with an area of approximately 0.1777 km^2 and one exploration right with an exploration area of 4.82 km^2 and the gold minable reserves were 491 kg (approximately 15,786 ozs) with an average grade of 9.97 g/ton. Tianyun Company owns two production areas, each with mine processing plant with capacities of 120 tons/day and 300 tons/day, respectively. The processing method adopted is flotation and the primary product is gold concentrates.

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

4. On 28 June 2009, Zhaojin Beijiang, a wholly-owned subsidiary of the Company, entered into a share capital enlargement agreement with independent third parties to acquire the shares of Xinyuan Gold Company at a consideration of RMB26,720,000. After the increase in share capital of Xinyuan Gold Company, Zhaojin Beijiang owned 80% equity interest of Xinyuan Gold Company and became its controlling shareholder and beneficial controller.

   This acquisition was completed on 7 July 2009. The mining area of Xinyuan Gold Company is based in Ha Tu Shan in Western Junggar in Tuoli County of Tacheng area, Xinjiang. Xinyuan Gold Company is engaged in the processing and sale of gold. As at 31 December 2009, Xinyuan Gold Company owns two mining rights and one exploration right. The mining rights cover a total area of approximately 0.3054 km^2, while the exploration right covers a total area of approximately 0.41 km^2. The gold mining resources volume (contained ore) was 267,389 tons. The gold minable reserves were 2,164 kg (approximately 69,574 ozs) with an average grade of 5.37 g/ton.

   The acquisition does not constitute a connected transaction for the Company under Chapter 14A of the Listing Rules, nor does it constitute a notifiable transaction for the Company under Chapter 14 of the Listing Rules.

5. On 15 December 2009, the Company obtained 100% state-owned property rights of Canzhuang Gold Mine through bidding at the consideration of RMB426,610,000 from Shandong Property Right Exchange Center. Canzhuang Gold Mine is located inside "Gold Capital of the PRC" – Zhaoyuan City, Shandong Province, and is one of the 100 largest non-ferrous metal mining enterprises in the PRC. As at 31 December 2009, the gold mining resources volume of Canzhuang Gold Mine amounted to approximately 20,105 kg (approximately 646,391 ozs), with an average grade over 4.21 g/ton, and a minable gold reserve of 9,098 kg (approximately 292,507 ozs). The gold mine currently possesses four mining rights (two of which are in the progress of application for ownership) covering an mining area of 3.17 km^2 and twelve exploration rights with an exploration area of 71.92 km^2. With the abundant gold resources and excellent mineralizing conditions of Canzhuang Gold Mine, the acquisition will facilitate the expansion of the Company in respect of the gold mining area in Zhaoyuan region and, through the utilization of the current ore processing capacity, reduce mining cost, further improving the profitability and competitiveness of the Company.

Report of the Directors

The transfer constitutes a notifiable transaction for the Company under Chapter 14 of the Listing Rules. Further details were set out in the announcement of the Company dated 14 December 2009 published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.zhaojin.com.cn.

Significant Events

1. On 15 May 2009, the 2008 annual general meeting reviewed and passed, among other things, the following resolutions:

    (1) The Company's profit distribution proposal for the year ended 31 December 2008 of a cash dividend of RMB0.166 (before taxation) per share to all shareholders. On 18 June 2009, the Company distributed the cash dividend of year 2008 of RMB0.166 (before taxation) per share to all shareholders;

    (2) Amendments to Articles 3.5 and 8.9 of the Articles of Association. Such amendments related to alterations of shareholding structure and despatch of corporate communications and news of the Company by way of electronic means;

    (3) Authorizing the Board to the issue of the corporate bonds in the PRC with an aggregate principal amount of not more than RMB1.5 billion to satisfy the medium-to-long-term financing requirements by the Group, in order to perfect the capital structure of the Company and to enhance the cash flow of the Company;

    (4) Authorizing the Board to allot, issue and deal with shares of up to a maximum of 20% of the aggregate nominal value of each class of the issued Domestic Shares and H Shares as at the date of passing such resolution; and

    (5) Authorizing the Board to repurchase up to a maximum of 10% of the aggregate nominal value of the issued H Shares of the Company as at the date of passing such resolution.

    Further details were set out in the announcement of the Company dated 15 May 2009 published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.zhaojin.com.cn.

2. On 15 May 2009, the domestic shares class meeting and H shares class meeting respectively reviewed the following proposals:

    (1) Authorizing the Board to allot, issue and deal with shares of up to a maximum of 20% of the aggregate nominal value of each class of the issued Domestic Shares and H Shares at the date of passing such resolution; and

    (2) Authorizing the Board to repurchase up to a maximum of 10% of the aggregate nominal value of the issued H Shares of the Company as at the date of passing such resolution.

Report of the Directors

Both proposals were approved at the domestic shares class meeting. The proposal set out in 2.(2) above was approved at the H shares class meeting, yet the proposal set out in 2.(1) above was not approved at the H shares class meeting.

Relevant details were set out in the announcement of the Company dated 15 May 2009 published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.zhaojin.com.cn.

3. The Board decided to adjust the remaining proceeds received by the Company from the Global Offering of approximately HK$526,000,000 for other purposes to carry out acquisition of domestic and overseas gold mines. The Board considers the above adjustment to the intended use of the net proceeds received by the Company from the Global Offering is in the best interest of the Company and its shareholders as a whole. The readjustment was passed by way of ordinary resolution at the second extraordinary general meeting of 2009.

   Relevant details were set out in the announcement of the Company dated 10 July 2009 published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.zhaojin.com.cn.

4. On 25 February 2009, Zhaojin Beijiang, a wholly-owned subsidiary of the Company, established a wholly-owned subsidiary, Hami Zhaojin Taihe Mining Industry Company Limited (哈密市招金泰合礦業有限公司) ("Zhaojin Taihe"), in the Hami City of Xinjiang, with a registered capital of RMB20,000,000. The purpose of establishing Zhaojin Taihe is to ensure the Group's extensive and long-term development in Xinjiang's mining industry, the ability to obtain advantageous resource and mines with high potential, and to guarantee a smooth progress in exploring new mines in Hami City.

5. On 9 October 2009, the Company established a wholly-owned subsidiary, Zhaoyuan Zhaojin Guihe Technical Company Limited (招遠市招金貴合科技有限公司) ("Zhaojin Guihe"), with a registered capital of RMB50,000,000. The purpose of establishing Zhaojin Guihe is to respond to the country's policy of expediting the development of cyclical economy, mainly in processing the waste residue in the Jinchiling gold mine and recycling the residual of gold, silver, copper, lead and zinc in the waste residue, also for further strengthening of the capability of mining technology research and experiment of the Company and at the same time, acquiring more returns from the by-production of sulphur and carbon powder, etc.

6. In order to further improve the Company's governance structure, and link interests of shareholders, the interests of the Company and the interests of operators closely together, the Board resolved on 21 December 2009 to propose to the Shareholders to adopt the Share Appreciation Rights Plan. It was intended to enhance the ability of the Company to attract, inspire and retain senior management and core talents through long-term incentive mechanisms. It also inspired the staff to do their best for the results and create more values for the Company and shareholders.

Report of the Directors

The Share Appreciation Rights Plan has been considered and approval by the Board, and it still subject to the review and approval by the State-owned Assets Supervisory Authorities and the approval by the Shareholders at the general meeting.

Relevant details were set out in the announcement of the Company dated 28 December 2009 published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.zhaojin.com.cn.

Extraordinary General Meetings

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

1. On 15 May 2009, the first extraordinary general meeting of the Company in 2009 was held and the independent shareholders has reviewed and passed in respect of the sale of silver by the Company and its subsidiaries to Zhaojin Group and the continuing connected transactions contemplated thereunder and the proposed maximum annual caps of such transactions

   Relevant details were set out in the announcement dated 15 May 2009 published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.zhaojin.com.cn.

2. On 10 July 2009, the second extraordinary general meeting of the Company in 2009 was held to review and pass the application of the remaining proceeds received by the Group from the Global Offering of approximately HK$526,000,000 for acquisition of domestic and overseas gold mines by the Company in the future and the authorization to the Board to deal with such matters in relation to such application of the remaining proceeds.

   Relevant details were set out in the announcement dated 10 July 2009 published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.zhaojin.com.cn.

Litigation and Arbitration

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

Report of the Directors

Compliance with the Code on Corporate Governance Practices

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

For details of the Corporate Governance Report, please refer to pages 58 to 82 of this annual report.

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

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

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

Audit Committee

The audit committee of the third session of the Board of the Company comprises one non-executive Director and two independent non-executive Directors, namely Mr. Chen Guoping, Ms. Chen Jinrong and Mr. Choy Sze Chung Jojo.

The audit committee has reviewed the Group's audited consolidated annual results for the year ended 31 December 2009, and is of the view that the Group's audited consolidated annual results for the year ended 31 December 2009 are prepared in accordance with the applicable accounting standards, laws and regulations, and appropriate disclosures have already been made.

Confirmation of Independence of the independent non-executive Directors

The Company confirmed that it has received the annual confirmation of independence from each of the independent non-executive Directors in compliance with Rule 3.13 of the Listing Rules on 26 February 2010. The Company is of the view that the existing independent non-executive Directors remain independent in accordance with the relevant guidelines of Rule 3.13 of the Listing Rules.

Report of the Directors

Closure of the Register of Members

In order to determine the H share shareholders who are entitled to attend the 2009 AGM and receive the final dividend for the year ended 31 December 2009, the H share registrar and transfer office will be closed from 4 May 2010 to 3 June 2010, both days inclusive, during which period no transfer of shares will be registered.

For qualifying to attend and vote at the 2009 AGM and receive the final dividend, H share shareholders whose transfer have not been registered must lodge all transfer instruments accompanied by the relevant share certificates with the Company's H share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for H share shareholders, or the registered office of the Company at 299 Jinhui Road, Zhaoyuan City, Shandong Province, the PRC for domestic share shareholders for registration at or before 4:30 p.m. on Monday, 3 May 2010.

Auditor

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

A resolution in relation to the reappointment of Ernst & Young as the international auditor of the Company will be proposed at the 2009 AGM.

By the order of the Board
Lu Dongshang
Chairman

26 March 2010

Corporate Governance Report

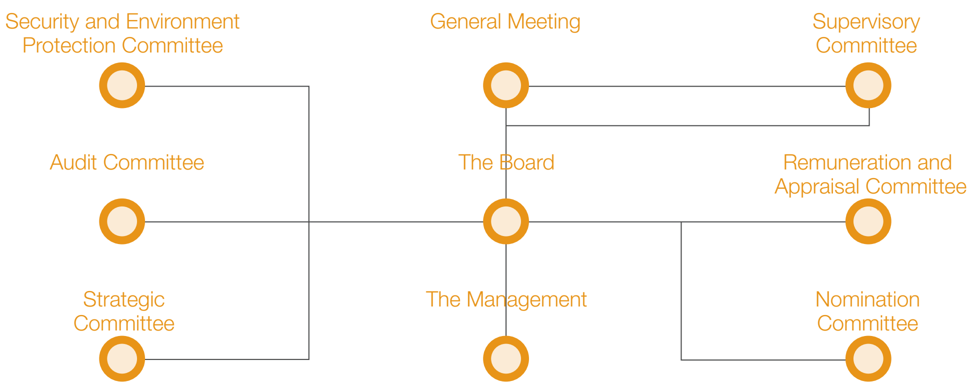
Report of Corporate Governance Practice

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

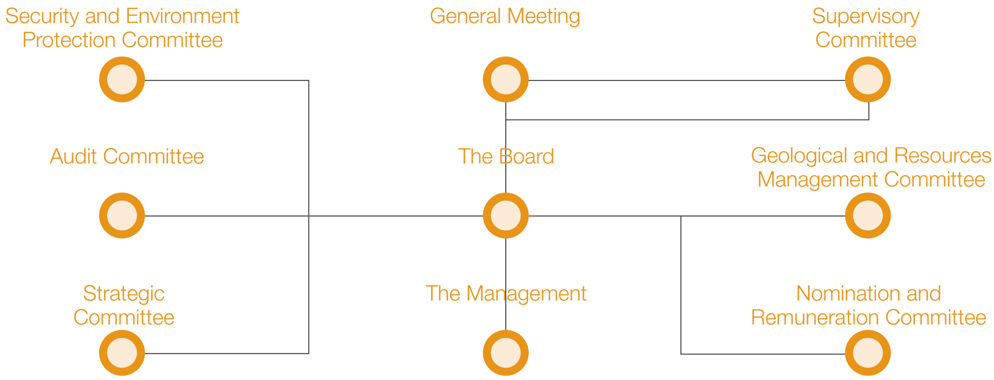
(A) Corporate Governance Practice

For the year ended 31 December 2009, the Company has complied with all the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules of the Hong Kong Stock Exchange with no deviation, and has adopted certain recommended best practices in the Code when it is applicable.

For the year ended 31 December 2009, the corporate governance structure of the Company is set out as follows:



Commencing from 26 February 2010, the corporate governance structure of the Company is updated as follows:



Corporate Governance Report

(B) Securities Transaction of Directors

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

None of the Directors had any interest in securities of the Company as at 31 December 2009. Specific enquiries regarding any non-compliance of the Model Code were made to all Directors, and they all confirmed that they had fully complied with the provisions contained in the Model Code during the Year.

(C) The Board

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

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

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

The third session of Board was elected at the extraordinary general meeting convened on 26 February 2010. All members of the third session of Board have a term of three years commencing from 26 February 2010. The list and profiles of Directors (including their names) are set out from pages 32 to 35 of this annual report.

Corporate Governance Report

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

The Company has two executive Directors responsible for specific management duties, representing 18.2% of the Directorship. This helps the Board closely review and monitor the management procedure of the Company. Mr. Lu Dongshang, the Chairman of the Company, and Mr. Wang Peifu, an executive Director of the Company, have years of extensive experience in the gold mining management industry and are responsible for the operating management, formulating and implementing important strategies, making daily operation decisions and coordinating overall business operations.

The Company has four independent non-executive Directors, representing 36% of the Directorship, which complies with the requirement of Rules 3.10 (1) of the Listing Rules. The Company is of the view that the four independent non-executive Directors have extensive experience in the industry or financial matters and qualifications to perform their responsibilities, which complies with the requirements of Rule 3.10(2) of the Listing Rules which requires that at least one of its independent non-executive Directors have appropriate professional qualifications, accounting or related financial management expertise. Independent non-executive directors were assumed by the persons who are independent of any Directors, Supervisors, chief executives and substantial shareholders (as defined in the Listing Rules) or such individuals without any connection thereto (the independent third party), which complies with the requirement of independence of Listing Rules. According to the Listing Rules, each independent non-executive Director shall confirm his independence to the Hong Kong Stock Exchange prior to his appointment. As at 26 February 2010, the Company has received the annual confirmation of independence from the four independent non-executive Directors in respect of confirming their independent status to the Company in accordance with Rules 3.13 of the Listing Rules. The Company has verified their independence and confirmed that all of the independent non-executive Directors are independent individuals. The four independent non-executive Directors assumed duties in the Audit Committee, Nomination and Remuneration Committee, Geological and Resources Management Committee or Safety and Environmental Protection Committee under the Board.

Corporate Governance Report

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

The Company convened nine Board meetings of the second session of the Board during the Year and the attendance of each Director is set out as follows:

	Number of meetings convened	Attendance	Of which: attendance by proxy
Executive Directors			
Lu Dongshang	9	9	(0)
Wang Peifu	9	9	(1)
Ma Yushan	9	9	(0)
Non-executive Directors			
Liang Xinjun	9	9	(1)
Wu Ping	9	9	(1)
Liu Gendong (Resigned upon 1 November 2009)	7	7	(1)
Chen Guoping (on duty upon 1 November 2009)	2	2	(0)
Cong Jianmao	9	9	(0)
Independent non-executive Directors			
Yan Hongbo	9	9	(0)
Ye Tianzhu	9	9	(0)
Chen Jinrong	9	9	(2)
Choy Sze Chung Jojo	9	9	(1)

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

Corporate Governance Report

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

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

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

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

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

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

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

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

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

Corporate Governance Report

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

(D) Chairman and President

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

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

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

(E) Non-executive Directors

The third session of the Board consists of five non-executive Directors and four independent non-executive Directors, accounting for approximately 81.8% of the total number of the Board's members. Non-executive Directors include Mr. Liang Xinjun, Mr. Cong Jianmao, Mr. Weng Zhanbin, Mr. Wu Zhongqing and Mr. Chen Guoping, and independent non-executive Directors include Mr. Yan Hongbo, Mr. Ye Tianzhu, Ms. Chen Jinrong and Mr. Choy Sze Chung Jojo. Pursuant to the Articles of Association, non-executive Directors and independent non-executive Directors may be re-elected on the expiry of the three-year term commencing from the date of their appointment.

Corporate Governance Report

(F) Directors' Remuneration

For the Year ended 31 December 2009, the Remuneration and Appraisal Committee of the second session of the Board consists of three members, two of which are independent non-executive Directors. The chairman of the Remuneration and Appraisal Committee is Mr. Yan Hongbo, an independent non-executive Director. Other members are Mr. Liang Xinjun, a non-executive Director, and Ms. Chen Jinrong, an independent non-executive Director. The key roles and duties of the Remuneration and Appraisal Committee include:

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

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

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

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

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

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

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

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

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

Corporate Governance Report

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

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

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

Operation procedures of the Remuneration and Appraisal Committee include:

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

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

3. Details about remuneration of Directors and Supervisors for the year ended 31 December 2009 are set out on pages 137 to 141 in this annual report in note 7 to the financial statements; and

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

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

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

	Number of meetings	**Attendance**
Liang Xinjun	3	3
Yan Hongbo	3	3
Chen Jinrong	3	3

Corporate Governance Report

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

1. to review and pass the Proposal on Appraisal of the President in 2009;

2. to review and pass the Proposal on Annual Remuneration of the Senior Management in 2009;

3. to review and pass the Proposal on Special Incentive for Management Staff; and

4. to review and pass the Proposal of Establishment of Share Appreciation Rights Plan and the Proposal of Summary of Implementation of Share Appreciation Rights Plan for the First Time.

On 26 February 2010, the 1st meeting of the third Session of the Board passed the proposal of combining the Remuneration And Appraisal Committee of the Board and the Nomination Committee of the Board into the Nomination And Remuneration Committee of the Board. The Nomination And Remuneration Committee of the third session of the Board consists of five members, three of which are independent non-executive Directors. The Chairman of the Nomination and Remuneration Committee is Mr. Liang Xinjun, an independent non-executive Director. Other members are Mr. Lu Dongshang, an executive Director, and independent non-executive Directors Ms Chen Jinrong, Mr. Ye Tianzhu and Mr. Yan Hongbo.

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

For the relevant details of the Share Appreciation Rights Plan, see no. 6 of "Significant Events" on page 54 of this annual report.

(G) Nomination of Directors

For the Year ended 31 December 2009, the Nomination Committee of the Second session of the Board consists of two independent non-executive Directors, Mr. Ye Tianzhu and Ms. Chen Jinrong and a non-executive Director, Mr. Wu Ping (no longer served as non-executive Director upon 26 February 2010). The Chairman of the Committee is Mr. Ye Tianzhu.

The role and main duties of the Nomination Committee include:

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

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

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

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

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

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

The working process of the Nomination Committee includes:

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

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

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

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

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

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

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

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

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

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

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

	Number of meetings	**Attendance**
Mr. Ye Tianzhu	2	2
Ms. Chen Jinrong	2	2
Mr. Wu Ping	2	2

The summary of the Nomination Committee in relation to the work performed are as follows:

1. reviewed and passed the Proposal of Discharging the Duties of Ma Yushan and Xu Yuanjun as Senior Management; and

2. recommended to the Board that Mr. Chen Guoping as non-executive director, Audit Committee member and Strategic Committee member of the Second Session of the Board

On 26 February 2010, the 1st meeting of the third Session of the Board passed the proposal of combining the Remuneration And Appraisal Committee of the Board and the Nomination Committee of the Board into the Nomination And Remuneration Committee of the Board. The Nomination And Remuneration Committee of the third session of the Board consists of five members, three of which are independent non-executive Directors. The Chairman of the Nomination and Remuneration Committee is Mr. Liang Xinjun, an independent non-executive Director. Other members are Mr. Lu Dongshang, an executive Director, and independent non-executive Directors Ms Chen Jinrong, Mr. Ye Tianzhu and Mr. Yan Hongbo.

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

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(H) Auditors Remuneration

The overseas auditors engaged by the Company is nominated by the Board and approved in the general meeting. Its remuneration was determined by the Board as authorised by the general meeting. During the Year, the remuneration paid to overseas auditors for their auditing services to the Group was approximately RMB2,550,000 (2008: RMB2,300,000).

(I) Audit Committee of the Board

To attain the goal of best corporate governance, the Company established the Audit Committee on 16 October 2004. For the Year ended 31 December 2009, the second session of Audit Committee of the Board was comprised three independent non-executive Directors, Ms. Chen Jinrong, Mr Yan Hongbo and Mr. Choy Sze Chung Jojo and one non-executive Director Mr. Liu Gendong (resigned on 1 November 2009 with Mr. Chen Guoping on duty on the same date). The Chairman of the Committee was Ms. Chen Jinrong. The Committee has been re-elected at the 1st meeting of the third session of the Board on 26 February 2010. The Audit Committee currently comprises two independent non-executive Directors, including Ms. Chen Jinrong and Mr. Choy Sze Chung Jojo, and one non-executive Director, Mr. Chen Guoping. The committee members are required to have necessary professional qualifications and experiences in financial matters and are well served and well exposed in the accounting and financial areas, which are crucial to their key roles and functions, in compliance with the requirement of the relevant Listing Rules. The members of the Audit Committee shall have a term of three years. The Committee is chaired by Ms. Chen Jinrong.

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

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

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

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

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

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

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5. to monitor the Company's financial reporting system and internal control procedures as well as related issues ensuring that management has fulfilled its duty to establish and maintain an effective internal control system including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget;

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

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

During the Year, the Audit Committee had convened two meetings both of which were chaired by the chairman of the committee. All of the Audit Committee members have attended the meetings.

	Number of meetings	**Attendance**
Chen Jinrong	2	2
Yan Hongbo	2	2
Choy Sze Chung Jojo	2	2
Liu Gendong (resigned on 1 November 2009)	2	2
Chen Guoping (elected as non-executive director and member of the Audit Committee on 1 November 2009)	0	0

Major work performed by the Audit Committee during the Year included:

1. to review the Group's annual report and final results announcement for the year ended 31 December 2009;

2. to review the Group's interim report and interim results announcement for the six-month period ended 30 June 2009;

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

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

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

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

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7. to supervise internal auditing of the Company; and

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

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

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

(J) Directors' Responsibilities for the Financial Statements

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

In preparing the financial statements for the year ended 31 December 2009, the Directors have selected appropriate accounting policies and applied them consistently; made judgments and estimates that are prudent and reasonable; and have prepared the financial statements on a going concern basis. The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group.

The statement of the auditors of the Company about their reporting responsibilities on the accounts of the Group is set out in the Auditors' Report on pages 92 to 93 of this Annual Report.

(K) Strategic Committee

The Company has established the Strategic Committee of the Board which is mainly responsible for conducting research and proposing recommendations on the strategies of long-term development and material investment decisions of the Company. For the Year ended 31 December 2009, the second session of the Strategic Committee comprising 5 persons, included executive Director Mr. Lu Dongshang, non-executive Directors Mr. Liang Xinjun and Mr. Liu Gendong (resigned on 1 November 2009 with Mr. Chen Guoping on duty on the same date) and independent non-executive Directors Mr. Yan Hongbo and Mr. Ye Tianzhu. The Chairman of the Committee is Mr. Lu Dongshang. On 26 February 2010, at the first meeting of the third session of the Board, the Committee has been re-elected. Currently, the Committee comprises three persons, with executive Director Mr. Lu Dongshang being the chairman. Other members are non-executive Directors Mr. Liang Xinjun and Mr. Weng Zhanbin. The key duties and responsibilities of the Strategic Committee include:

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

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

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

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

5. examining the above matters; and

6. other duties authorized by the Board.

During the Year, the Strategic Committee convened one meeting to discuss the directions of future development of the Company. Professional strategic advisers and strategic consultants were invited to the meeting. The attendance of each member of the Committee is 100%.

Details of the terms of reference of the Strategic Committee are available on the website of the Company.

(L) Geological and Resources Management Committee

The Company has established Geological and Resources Management Committee on 26 February 2010 which is mainly responsible for the management of geological exploration and gold mineral resources, providing accurate storage basis to the Company, reviewing geological exploration plans, the usage condition of new storage and proved storage, enhancing the decision making ability, reducing operation risk of enterprise and enhancing Company's governance structure. The Committee comprises three persons, with Mr. Ye Tianzhu, an independent non-executive Director, being the chairman of the committee. Other members are non-executive Directors Mr. Weng Zhanbin and independent non-executive Director Mr. Yan Hongbo. The key duties and responsibilities of the Geological and Resources Management Committee include:

1. standardizing the classification of gold mine production according to the relevant national requirement, the scope of application of the storage classification, the preparation of specification of geological exploration summary report and submitting the requirement of procedures of the storage report etc;

2. analyzing the trend of gold mine resources, establishing the long-term strategy and year plan of geological exploration and reservation usage;

3. reviewing the Company's annual report of geological exploration, exploration activities and changes in reservation;

4. reviewing annual resources storage usage condition and keeping the quantity of storage resources reservation, and reviewing the additional resources reservation of various mines;

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5. reviewing and approving the Company's geological exploration plan and implementation scheme, proposal of usage and exploration of resources and annual reservation report;

6. other duties authorized by the Board.

Details of the terms of reference of the Geological and Resources Management Committee are available on the website of the Company.

(M) Safety and Environmental Protection Committee

The Safety and Environmental Protection Committee of the Board is mainly responsible for conducting research and proposing recommendations on material safety and environmental protection decisions of the Company. For the Year ended 31 December 2009, the Safety and Environment Protection Committee comprising 4 persons, including independent non-executive Director Mr. Yan Hongbo, other members are executive Director Mr. Wang Peifu, non-executive Director Mr. Cong Jianmao and independent non-executive Director Mr. Ye TianZhu. On 26 February 2010, at the first meeting of the third session of the Board, the Committee has been re-elected. Currently, the Committee comprises three persons, with independent non-executive Director Mr. Yan Hongbo being the chairman. Other members are executive Director Mr. Wang Peifu and non-executive Director Mr. Cong Jianmao. The key responsibilities and authorities of the Safety and Environmental Protection Committee include:

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

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

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

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

5. carrying out investigation and examination on the above matters; and

6. other duties authorized by the Board.

During the Year, the Safety and Environmental Protection Committee convened one meeting to evaluate the safety and environmental protection matters of the Company during the Year and propose requirements and recommendations on the work of safety and environmental protection for the year 2010. The attendance of each member of the Committee is 100%.

Details of the terms of reference of the Safety and Environmental Protection Committee are available on the website of the Company.

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Monitoring Mechanism

Supervisory Committee

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

For the Year ended 31 December 2009, the second session of the Supervisory Committee comprising Mr. Wang Xiaojie, Mr. Cheng Binghai and Mr. Chu Yushan. Mr. Chu Yushan is a representative supervisor from the staff, and Mr. Wang Xiaojie is the chairman of the Supervisory Committee.

The third Supervisory Committee was established through election at the extraordinary general meeting convened on 26 February 2010, comprising Mr. Wang Xiaojie, Ms. Jin Ting and Mr. Chu Yushan. Mr. Chu Yushan is a representative supervisor from the staff, and Mr. Wang Xiaojie is the chairman of the Supervisory Committee. The number of members and composition of the Supervisory Committee are in accordance with the laws and regulations.

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

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

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

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

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Internal Control and Internal Review

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

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

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

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

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

3. ensuring compliance with related legislations and requirements.

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

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

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

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

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

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

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

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

Chief Financial Officer

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

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

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

Relations with shareholders, investors and other concerned parties

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

General Meeting

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

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

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

In 2009, the Company had convened one annual general meeting, one domestic shares class meeting, one H shares class meeting and one extraordinary general meeting.

Controlling Shareholder

At the end of 2009, 543,257,000 domestic shares and 16,112,500 H shares are held by Zhaojin Group, the controlling shareholder of the Company, totally representing 38.38% of the total issued ordinary shares of the Company.

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

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Independence from Zhaojin Group

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

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

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

- **Production and operational independence:** Since its incorporation, the Group has operated its business independently of Zhaojin Group, and has not shared its production teams, production facilities and equipment, or marketing, sales and general administration resources with Zhaojin Group or its associates, except as described in the section of "Connected Transactions" with respect to the provision of gold refinery and gold bullion trading services by Zhaojin Group, which are conducted on an arm's length basis and normal commercial terms. Zhaojin Group operates a gold bullion trading agency business through its Shanghai Gold Exchange membership and has more than 1,100 customers in addition to the Company as at 31 December 2009 (31 December 2008: approximately 1,000 customers).

  The refinery business owned by Zhaojin Group through its majority interest in Zhaojin Refinery provides gold refinery services to gold production enterprises in the Zhaoyuan district and had approximately 140 customers in addition to the Company as at 31 December 2009 (31 December 2008: approximately 130 customers). Under the terms of the agreements with Zhaojin Group for these services, the Company may terminate the agreements at any time and the Company is not prohibited from engaging other service providers during the term of the agreements.

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

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

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

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

Non-Competition Agreement and Excluded Businesses

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

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

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

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

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

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

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

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

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

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

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

1. Smelting is not the core business of the Company.

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

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

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

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

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

The Company has also received a statement under the non-competition agreement from Zhaojin Group on 6 January 2010, which stated that Zhaojin Group, as the controlling shareholder of the Company, has complied with their undertakings under the non-competition agreement dated 17 November 2006 for the year ended 31 December 2009.

Investor Relations

The Company gives the highest priority to the communication with shareholders and investors of the Company and investor relations management measures are positively implemented by Office of the Secretary of the Board, in order to maintain the communication, to ensure the investors and shareholders have received the updated news of the Company, to facilitate them to make the best investment decision, as well as to nourish the potential investors. To enhance its relations and communications with its shareholders, the Company has established and maintained intensive communication channels with the media, analysts and fund managers through one-on-one meetings, road shows and telephone conferences during the Year. At the same time, the Company has organized several syndicated research involved analysts and fund managers, including field study of the mining enterprise, to provide opportunities for them to deepen the understanding of gold production of the Company through these events. Members of the senior management team regularly attend various kinds of investment forums and investors meeting occasions held in Hong Kong and PRC, when they communicate with investors and shareholders and present the latest developing information of our Company to the market. After every substantial announcement of the Company, we will initiatively contact the relevant analysts and investors to remind them for concern. Press conference is held subsequent to the final results and interim results announcements at which the executive Directors and the management of the Company avail themselves to questions regarding the Group's operational and financial performances. They later held the non-trading road shows and visit every substantial shareholders and investors. Designated members of the Board and the senior management of the Group are given the specific responsibilities to maintain regular dialogues with institutional investors, potential institutional investors, fund managers, shareholders and analysts to keep them abreast of the Company's development.

Corporate Governance Report

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

The Secretary to the Board/Company Secretary and professionals are responsible for information disclosure of the Company and reception of visits of its shareholders and investors. Investor relations enquiry hotline and mailbox has been set up to give responses to the problems concerned by investors. The Company had formulated Information Disclosure Management System and the system for the Investors Relations Management to ensure information disclosure on an open, fair and impartial basis and to improve the Company's transparency.

Investors and the public are welcome to visit the Investor Relations section on the Company's website (www.zhaojin.com.cn) for the latest news and announcements. The Company provides detailed information, latest operational and developing news to shareholders on the website.

Other Interested Parties

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

Continuous Enhancement of Corporate Governance

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

Corporate Social Responsibility

Since establishment, the Company has not only endeavored to our economic development, but also adhered to our ethical strategy of "developing gold mining business in a righteous manner by leveraging on its long history". We have embraced with our ultimate goals of benefiting the society through scientific developments, and committed to the mission of corporate citizenship and the performance of social responsibilities. "Practice", "Innovation", "Integrity" and "Devotion" have always been our core values.

Obligations for Economic Development

Prosperous Local Economic

We have been undergoing our operations subject to laws and in full compliance with all taxes required, and making great contributions to the fiscal resources of the places at which our enterprises located.

Enhancing Local Employment

Most of the mineral enterprises newly acquired by the Company are located at the underdeveloped areas in the central and western parts. We insist to employ local workers that the enterprises are located, resulting in an efficient increase of the local employment rate.

Strengthening Technology Innovation

We have been adopting "developing gold mining with scientific technology" as our strategy and advocating "scientific gold as our new development mission, and continuously stepping up our innovation dependence. The quality of scientific technologies, the core competitive strength, and the new economic growth momentums, of our Company have seen improvements by technologies. The enterprises have achieved rapid growths by the powerful drive of technological innovation, resulting great successes in the arena of innovation dependence.

Obligations of Environmental Safety

Ensuring Production Safety

"Mining gold with no blood stains" has always been our safety principle. We have proactively been constructing mines with safety standardization, advocating advanced technology on safety protections, and further upgrading the hardware facilities of production safety. In 2009, a total of RMB23,670,000 had been spent on safety, and batches of safety technologies with advanced domestic standards had been researched and developed that help addressing the technical problems of mining management, safety appliances of electricity, ventilation improvement and tailings management. Aside from the provision of comprehensive labour safety protection, we have also fully implemented safety awareness educations, fire drills and skills trainings. Safety has been adopted as a standard of our assessment. "Precaution is the core to be adhered" is our belief for constructing enterprises in a safe and healthy manner.

Corporate Social Responsibility

Ecological Protection

"Exploring gold and silver, Maintaining clear water and clean sky" has been our environmental philosophy. The Company believes that an excellent and sustainable enterprise should care for the environment, environmental protection and improvement. During the Year, the Company had persistently committed to the environmental burden and complied with the environmental laws and regulations enacted by the central and local governments. In the process of production, energy saving and emissions reduction had been strictly exercised and clean production had been fully implemented. Series of powerful and efficient measures for strengthening the "three wastes" management and the tailings safety management had been reinforced for purposes of the realization of positive life cycle of the ecological environment.

Development of Economic Cycle

With our full implementation of cyclical economy and active exercise of no waste production, the Company has continuously strengthening the concept of green mining development, resulting in the realizations of the harmony developments among enterprises, society, human-beings and the natural environment, the green economic cycling, as well as the integrated system of clean production. These have become the industrial indicators and guidelines of cycling economic construction.

The Jinchiling Gold Mine, and the zero emission of cyanide wastewater, the comprehensive recollection, the no waste production and the collection and selection of multi elements cyanide tailings, bronze, lead, zinc, sulfur, as well as the high efficiency control on automotive energy saving of cyanide process, being realized, had been awarded the honour of "National Advanced Group of Land Reclamation", and categorized by the Economic and Trade Committee and the Environmental Bureau of Yantai City as the first batch trial enterprises of clean production.

Obligations for Growth of Staff

"Soliciting talents and growing together" has been maintained as our talents vision. Talents as the first resources shall be managed efficiently, personal development of staff and enterprise development shall be closely connected, and the advancement of enterprise and individual values shall be fully combined.

Protecting Interests of Staff

The Company has treated our staff on an equal basis and adhered to our employment policy on a fair and justice manner. For the enactments of scientific salaries and incentives mechanism, multi-graded social security system and better vacation system, we have also entered labour contracts with our staff by laws and confined on the labour employment.

Enhancing the Growth of Staff

By striving for the creation of a better environment and mechanism for the development of various talents and individuals, the Company has provided different training opportunities and promotions to the staff and realized the growing together of the individual staff and the enterprises.

Corporate Social Responsibility

Ensuring the Occupational Health of Staff

The Company has always placed the health and safety of the staff on the first priority, as well as continuously improved the working environment and strengthened the protection of occupational hazard. Social security of working injury insurance for staff has been covered. Qualified articles for individual protection have been provided and regular health check for the staff has been exercised.

Democracy Management

A comprehensive staff representatives system has been established and improved for widely collecting the staff opinions in relation to important matters of the staff benefits and the development of the Company, etc. An exchange platform for the enterprise and the staff has also been set up which brings channels for the staff appeals. The Company has placed "Opinion Box" for fully consulting the staff opinions, and, for understanding the preference of the staff, conducted surveys on staff satisfaction in returning with no name record.

Importing Talents

For more adaptive to the need of multi-crossed development and establishing a team of high quality talents, the Company has gradually increased the strength on the introduction of professionals in recent years, and highly focused on the staff trainings through provision of positive development platform.

Enriching Cultural Life of Staff

The Company has actively organized various kinds of cultural activities as an effective platform for coordinating, harmonizing, attracting as well as inspiring the staff.

Obligations of Enterprise Citizenship

Society is the rich soil for the sustainable development of the corporate. The corporate grows with wealth creation and becomes valuable by returning to the society.

Supporting Development of Education

The Company has practically taken our responsibilities as a "corporate citizen" by making great contributions to the society, and has actively participated in the education development. Since 2007, the Company has annually contributed RMB2,000,000 to the education development in Gansu province, China, and the year of 2009 had been the third straight year of the contributions. All donations were used to renovations of school buildings in the phase of volunteer education in Gansu province.

Participation in Building of Community

During the Year, the Company had donated RMB1,000,000 to a home of the aged in Biguo township, Zhaoyuan City for operation expansion. With such donations, a total of 170 "five guarantee" elderly in the township fully supported the society had been realized, and the living facilities of the home of the aged had been further upgraded, bringing the elderly a comfort environment for their retirements.

Corporate Social Responsibility

In the year of 2009, the Company has been awarded the following prizes:

"National Advanced Group of Gold System"
"Excellent National Environmental Enterprise"
"Top 10 Model Enterprise of Shandong Cyclical Economy Scientific Management in 2009"
"National Occupation Safety and Health Knowledge Contest Excellent Award"
"China Integrity Enterprise 2009"
"China Brand Industry Contribution Award 2009"
"Shangdong Province Integrity Enterprise"
"Creditworthiness Certificate Grade AAA in Shandong Province"
"Creditworthiness Certificate Grade AAA Agricultural Bank of China, Shandong Province Branch"

Report of the Supervisory Committee

To the Shareholders,

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

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

1. Level of Working of the Supervisory Committee

The convention of meeting of Supervisory Committee and the general meeting topic of the Supervisory Committee:

(1) The 5th meeting of the second session of the Supervisory Committee on 5 March 2009
Reviewing and passing Board report, financial report, proposal of profits allocation in 2008 and other resolutions, and reviewing the annual report of Supervisory Committee in 2008

(2) The 6th meeting of the second session of the Supervisory Committee on 13 August 2009
Reviewing and passing the interim results announcement 2009, interim report 2009 and the proposal of interim profits allocation in 2009.

2. Level of Compliance of the Company

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

Report of the Supervisory Committee

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

The Directors, General Manager and other senior management performed their duties to the Company diligently, prudently and faithfully and guarantee the growth of performance through excellent corporate management level to ensure the interests of shareholders. It is not aware of any action of abusing powers, in breach of the laws and regulations of the PRC and the Articles of Association Law or of prejudicial to or against the interests of the Shareholders, the Company and its staff.

4. Report of the Board

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

5. Financial Reporting

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

6. Connected Transactions and Continuing Connected Transactions

The Supervisory Committee is of the view that, during the Year, the connected transactions and continuing connected transactions of the Company are normal and ordinary transactions, dealt in accordance with the principle of impartiality, fairness and reasonableness, are fair and reasonable as far as the Shareholders are concerned, are in the interests of the Company and the Shareholders as a whole, and do not prejudice the interests of the medium and minority shareholders of the Company.

7. The independent opinions of the Supervisory Committee regarding the acquisition and disposal of assets of the Company

During the Year, the acquisition of assets of the Company were based on the principle of marketization, decision making processes were carried out legally and of compliance, and did not find any insider dealings or any behaviours which damage the interests of shareholders.

Report of the Supervisory Committee

8. Litigations

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

In year 2010, the Supervisory Committee will fully perform its supervisory function on the decision-making, finance and the Directors and senior management of the Company. It will carry out its supervisory duties diligently and devote efforts to assisting the Company to achieve its goals as well as to enhance the operational efficiency of the Company.

Wang Xiaojie
Chairman of the Supervisory Committee

26 March 2010

Organizing production activities prudently and ensuring successful project construction

The Group will further consolidate and promote "time is efficiency" as its concept and adhere to "timely production and technology reform" as its principle.

Independent Auditors' Report

ERNST & YOUNG
安永

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

We have audited the financial statements of Zhaojin Mining Industry Company Limited set out on pages 94 to 202, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

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

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

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

Independent Auditors' Report

Opinion

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

Ernst & Young
Certified Public Accountants

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

26 March 2010

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
CONTINUING OPERATIONS			
REVENUE	4, 5	**2,796,991**	2,152,731
Cost of sales		**(1,347,704)**	(1,072,814)
Gross profit		**1,449,287**	1,079,917
Other revenue and gains	5	**99,181**	58,185
Selling and distribution costs		**(38,291)**	(19,982)
Administrative expenses		**(381,603)**	(295,952)
Other operating expenses		**(62,136)**	(97,241)
Finance costs		**(23,137)**	(17,260)
Share of profit and loss of an associate		**1,331**	2,672
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	6	**1,044,632**	710,339
Income tax expense	8	**(264,035)**	(170,734)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**780,597**	539,605
DISCONTINUED OPERATION			
Loss for the year from a discontinued operation	9	**(29,264)**	(1,483)
PROFIT FOR THE YEAR		**751,333**	538,122
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of a foreign operation		**(12)**	(2,228)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(12)**	(2,228)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**751,321**	535,894

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Profit attributable to:			
Owners of the Company		**754,020**	533,905
Minority interests		**(2,687)**	4,217
		751,333	538,122
Total comprehensive income attributable to:			
Owners of the Company		**754,008**	531,677
Minority interests		**(2,687)**	4,217
		751,321	535,894
Earnings per share (RMB) attributable to owners of the Company	12		
Basic and diluted			
– For profit for the year		**0.52**	0.37
– For profit from continuing operations		**0.54**	0.37

Details of the dividend payable and proposed for the year are disclosed in note 11 to the financial statement.

The accompanying notes on pages 104 to 202 form an integral part of the financial statements.

Consolidated Statement of Financial Position

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**2,763,461**	2,147,927
Intangible assets	14	**2,364,514**	1,846,860
Interest in an associate	15	**37,980**	36,649
Long-term deposits	18	**6,882**	5,866
Land lease prepayments	19	**131,483**	76,340
Other long-term assets	20	**164,646**	211,656
Deferred tax assets	21	**94,924**	79,257
Total non-current assets		**5,563,890**	4,404,555
CURRENT ASSETS			
Cash and cash equivalents	22	**2,209,396**	688,764
Trade and notes receivables	23	**10,797**	35,362
Prepayments and other receivables	24	**197,556**	218,233
Inventories	25	**475,111**	422,228
Equity investments at fair value through profit or loss	26	**–**	21,843
Held-to-maturity investments	27	**–**	140,000
Pledged deposit	28	**59,396**	–
		2,952,256	1,526,430
Assets of a disposal group classified as held for sale	9,10	**65,486**	–
Total current assets		**3,017,742**	1,526,430
CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	29	**611,056**	471,190
Trade payables	30	**373,295**	205,555
Other payables and accruals	31	**460,224**	327,182
Provisions	32	**12,966**	12,445
Tax payable		**66,505**	93,824
		1,524,046	1,110,196
Liabilities directly associated with the assets classified as held for sale	9, 10	**26,986**	–
Total current liabilities		**1,551,032**	1,110,196
NET CURRENT ASSETS		**1,466,710**	416,234
TOTAL ASSETS LESS CURRENT LIABILITIES		**7,030,600**	4,820,789

Consolidated Statement of Financial Position

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	29	57,790	7,790
Provisions	32	62,361	56,219
Deferred income	33	39,969	49,280
Corporate bond	34	1,488,036	–
Deferred tax liabilities	21	375,027	298,831
Other long term liability	35	40,000	–
Total non-current liabilities		2,063,183	412,120
NET ASSETS		4,967,417	4,408,669
EQUITY			
Equity attributable to owners of the Company			
Issued share capital	36	1,457,430	1,457,430
Reserves	37	2,789,391	2,356,018
Proposed final dividend	11	320,635	241,933
		4,567,456	4,055,381
Minority interests		399,961	353,288
TOTAL EQUITY		4,967,417	4,408,669

Lu Dongshang
(Director)

Wang Peifu
(Director)

The accompanying notes on pages 104 to 202 form an integral part of the financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 December 2009

	Attribute to owners of the Company								
	Issued share capital RMB'000 (note 36)	Capital reserve RMB'000 (note 37)	Statutory and distributable reserves RMB'000 (note 37)	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2008	728,715	2,091,022	96,355	(3,168)	588,382	182,179	3,683,485	69,729	3,753,214
Total comprehensive income/(loss) for the year	–	–	–	(2,228)	533,905	–	531,677	4,217	535,894
Bonus issue	728,715	(546,536)	–	–	(182,179)	–	–	–	–
Acquisition of minority interests	–	22,398	–	–	–	–	22,398	(37,398)	(15,000)
Acquisition of subsidiaries	–	–	–	–	–	–	–	312,940	312,940
Contribution of capital from minority shareholders upon establishment of subsidiaries	–	–	–	–	–	–	–	3,800	3,800
Transfer to reserves	–	–	52,423	–	(52,423)	–	–	–	–
Dividends									
– 2008 final proposed	–	–	–	–	(241,933)	241,933	–	–	–
– 2007 final paid	–	–	–	–	–	(182,179)	(182,179)	–	(182,179)
At 31 December 2008 and 1 January 2009	1,457,430	1,566,884*	148,778*	(5,396)*	645,752*	241,933	4,055,381	353,288	4,408,669
Total comprehensive income/(loss) for the year	–	–	–	(12)	754,020	–	754,008	(2,687)	751,321
Acquisition of subsidiaries	–	–	–	–	–	–	–	58,194	58,194
Transfer to reserves	–	–	77,735	–	(77,735)	–	–	–	–
Dividend paid to Minority shareholders	–	–	–	–	–	–	–	(8,834)	(8,834)
Dividend									
– 2009 final proposed	–	–	–	–	(320,635)	320,635	–	–	–
– 2008 final paid	–	–	–	–	–	(241,933)	(241,933)	–	(241,933)
At 31 December 2009	**1,457,430**	**1,566,884***	**226,513***	**(5,408)***	**1,001,402***	**320,635**	**4,567,456**	**399,961**	**4,967,417**

* These reserve accounts comprise the consolidated reserves of RMB2,789,391,000 (2008: RMB2,356,018,000) in the consolidated statement of financial position.

The accompanying notes on pages 104 to 202 form an integral part of the financial statements.

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:			
From continuing operations		**1,044,632**	710,339
From discontinued operation	9	**(29,640)**	(2,200)
Adjustments for:			
Depreciation of property, plant and equipment	13	**172,951**	157,839
Amortisation of mining rights	14	**57,668**	87,892
Amortisation of land lease prepayments	19	**3,247**	2,368
Net loss on disposal of property, plant and equipment	5, 6	**14,394**	296
Exploration assets written off	14	**16,821**	29,107
Impairment/(reversal of impairment) of other receivables	6	**2,326**	(389)
Impairment of held for sale asset	9, 10	**31,342**	–
Deferred income recognised	33	**(24,590)**	(6,757)
Interest expenses	6	**21,232**	17,309
Interest accrual for a corporate bond	6	**1,885**	–
Foreign exchange loss	6	**698**	6,577
Interest income	5	**(12,097)**	(18,608)
Excess over the cost of a business combination	41	**(2,979)**	–
Gains on held-to-maturity investments	5	**(341)**	(673)
Loss on disposal of a subsidiary	6	**–**	15,553
Share of profit and loss of an associate		**(3,563)**	(2,672)
Fair value (gains)/losses, net:			
Gains on disposal of equity investments at fair value through profit or loss	5, 6	**(25,774)**	11,796
Derivative instruments – transactions not qualifying as hedges	6	**–**	38,686
		1,268,212	1,046,463
Decrease/(Increase) in trade and notes receivables		**24,565**	(2,135)
Decrease/(Increase) in prepayments and other receivables other than amounts due from a related party		**13,392**	(133,290)
Increase in inventories		**(49,183)**	(88,788)
Decrease in amounts due from a related party		**2,770**	6,807
Increase/(Decrease) in trade payables		**156,691**	(26,284)
Decrease in other payables and accruals other than amounts due to a related party		**(242,135)**	(18,986)
Increase in amounts due to a related party		**107,041**	–
Increase in provisions		**3,178**	7,827
CASH GENERATED FROM OPERATIONS		**1,284,531**	791,614
Income taxes paid		**(332,391)**	(273,228)
NET CASH FLOW FROM OPERATING ACTIVITIES		**952,140**	518,386

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(310,191)**	(686,883)
Purchase of intangible assets		**(184,523)**	(290,941)
Increase in land lease prepayments	19	**(44,924)**	(10,577)
Proceeds from disposal of property, plant and equipment		**421**	17,842
Acquisition of subsidiaries	41, 42	**(423,669)**	(189,738)
Disposal of a subsidiary	43	**–**	20,350
Contribution of capital from minority shareholders upon establishment of subsidiaries		**–**	90
Receipt of government grants	33	**16,779**	24,070
Proceeds from redemption/(purchase) of held-to-maturity investments	27	**140,000**	(140,000)
Gains on held-to-maturity investment	5	**341**	673
Interest received		**12,097**	65,974
Dividends received from an associate		**2,232**	–
Deposits paid for the purchase of subsidiaries	20	**(19,680)**	(125,000)
Redemption of/(investment in) equity investments at fair value through profit or loss		**47,617**	(2,679)
Decrease in a pledged time deposit	28	**(59,396)**	–
NET CASH FLOW USED IN INVESTING ACTIVITIES		**(822,896)**	(1,316,819)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**1,245,596**	1,016,300
Repayment of bank borrowings		**(1,075,980)**	(926,640)
Proceeds from issue of a bond		**1,488,000**	–
Dividends paid		**(241,933)**	(198,874)
Interest paid		**(18,882)**	(20,476)
NET CASH FLOW FROM/(USED IN) FINANCING ACTIVITIES		**1,396,801**	(129,690)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**1,526,045**	(928,123)
Cash and cash equivalents at beginning of year		**688,764**	1,625,689
Effect of foreign exchange rate changes, net		**(698)**	(8,802)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,214,111**	688,764

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS:			
Cash and bank balances	22	**1,518,386**	622,033
Non-pledged time deposits with original maturity from one day to three months when acquired but can be withdrawn at the discretion of the Group with seven days' notice	22	**691,010**	66,731
Cash and short-term deposits attributable to a discontinued operation		**4,715**	–
		2,214,111	688,764

The accompanying notes on pages 104 to 202 form an integral part of the financial statements.

Statement of Financial Position

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	1,166,167	1,205,497
Intangible assets	14	545,637	527,551
Interest in an associate	15	34,650	34,650
Interests in subsidiaries	16	2,172,900	1,340,179
Long-term loans receivable	17	783,985	382,733
Long-term deposits	18	6,880	5,866
Land lease prepayments	19	57,781	47,475
Deferred tax assets	21	3,399	5,058
Other long-term assets	20	152,187	201,532
Total non-current assets		4,923,586	3,750,541
CURRENT ASSETS			
Cash and cash equivalents	22	1,914,623	611,437
Trade and notes receivables	23	3,144	10,611
Prepayments and other receivables	24	208,236	204,105
Inventories	25	318,110	215,303
Short-term loans receivable	17	61,670	276,500
Equity investments at fair value through profit or loss	26	–	522
Held-to-maturity investments	27	–	140,000
Pledged deposit	28	59,396	–
Total current assets		2,565,179	1,458,478
CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	29	566,996	451,400
Trade payables	30	301,164	169,305
Other payables and accruals	31	179,771	137,910
Provisions	32	11,514	11,112
Tax payable		50,787	89,976
Total current liabilities		1,110,232	859,703
NET CURRENT ASSETS		1,454,947	598,775
TOTAL ASSETS LESS CURRENT LIABILITIES		6,378,533	4,349,316

Statement of Financial Position

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	29	**7,790**	7,790
Provisions	32	**48,983**	48,769
Deferred income	33	**26,169**	34,352
Corporate bond	34	**1,488,036**	–
Total non-current liabilities		**1,570,978**	90,911
NET ASSETS		**4,807,555**	4,258,405
EQUITY			
Issued share capital	36	**1,457,430**	1,457,430
Reserves	37	**3,029,490**	2,559,042
Proposed final dividend	11	**320,635**	241,933
TOTAL EQUITY		**4,807,555**	4,258,405

Lu Dongshang
(Director)

Wang Peifu
(Director)

The accompanying notes on pages 104 to 202 form an integral part of the financial statements.

Notes to Financial Statements

31 December 2009

1. Corporate Reorganisation and Information

The Company was established as a joint stock limited liability company under the Company Law of the People's Republic of China (the "PRC") on 16 April 2004. It is principally engaged in the businesses of the mining, processing, smelting of gold and the sale of gold, silver and copper concentrate.

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

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

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

2.1 Basis of Preparation

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

These financial statements are presented in Renminbi ("RMB"), with values rounded to the nearest thousand, and have been prepared under the historical cost convention, except for derivative financial instruments and certain equity investments, which have been measured at fair value. Disposal groups and non-current assets held for sale are stated at the lower of their carrying amounts and fair value less costs to sell as further explained in note 2.4.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2009. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Notes to Financial Statements

31 December 2009

2.1 Basis of Preparation (Continued)

Basis of consolidation (Continued)

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

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

2.2 Changes in Accounting Policy and Disclosures

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*
HKFRS 8	*Operating Segments*
HKAS 1 (Revised)	*Presentation of Financial Statements*
HKAS 18 Amendment*	Amendment to Appendix to HKAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*
HKAS 23 (Revised)	*Borrowing Costs*
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives and* HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*
HK(IFRIC)-Int 13	*Customer Loyalty Programmes*
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate*
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation*
HK(IFRIC)-Int 18	*Transfers of Assets from Customers* (adopted from 1 July 2009)
Improvements to HKFRSs (October 2008)	*Amendments to a number of HKFRSs*

* Included in *Improvements to HKFRSs 2009* (as issued in May 2009).

Notes to Financial Statements

31 December 2009

2.2 Changes in Accounting Policy and Disclosures (Continued)

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

(a) Amendments to HKFRS 1 *First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

The HKAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in profit or loss in the parent's separate financial statements. The distinction between pre and post acquisition profits is no longer required. However, the payment of such dividends requires the Company to consider whether there is an indicator of impairment. The amendment is applied prospectively.

HKAS 27 has also been amended to deal with the measurement of the cost of investments where a parent reorganises the structure of its group by establishing a new entity as its parent.

The HKFRS 1 Amendment allows a first-time adopter of HKFRSs to measure its investments in subsidiaries, associates or jointly-controlled entities using a deemed cost.

As the Group is not a first-time adopter of HKFRSs, the HKFRS 1 Amendment is not applicable to the Group.

(b) Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*

The HKFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation.

As the Group has not entered into share-based payment schemes with non-vesting conditions attached, the amendments have had no impact on the financial position or results of operations of the Group.

(c) Amendments to HKFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*

The HKFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balances is now required for level 3 fair value measurements, as well as significant transfers between level 1 and level 2 in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosure does not have any impact on the Group as the Group does not hold any financial instruments recognised at fair value, while the revised liquidity risk disclosure are presented in note 45 to the financial statements.

Notes to Financial Statements

31 December 2009

2.2 Changes in Accounting Policy and Disclosures (Continued)

(d) HKFRS 8 *Operating Segments*

HKFRS 8, which replaces HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group has determined that its operating segments are different from the business segments previously identified under HKAS 14.

(e) HKAS 1 (Revised) *Presentation of Financial Statements*

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

(f) Amendment to Appendix to HKAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*

Guidance has been added to the appendix (which accompanies the standard) to determine whether the Group is acting as a principal or as an agent. The features to consider are whether the Group (i) has the primary responsibility for providing the goods or services, (ii) has inventory risk, (iii) has the discretion to establish prices and (iv) bears credit risk. The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as a principal in all arrangements. The amendment has had no impact on the financial position or results of operations of the Group.

(g) HKAS 23 (Revised) *Borrowing Costs*

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional provisions in the revised standard, the Group has applied the revised standard on a prospective basis to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The amendments have no significant impact on the financial position or results of operations of the Group.

Notes to Financial Statements

31 December 2009

2.2 Changes in Accounting Policy and Disclosures (Continued)

(h) Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*

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

(i) Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives and HKAS 39 Financial Instruments: Recognition and Measurement – Embedded Derivatives*

The amendment to HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. HKAS 39 has been revised to state that if an embedded derivative cannot be separately measured, the entire hybrid instrument must remain classified as fair value through profit or loss in its entirety. The adoption of the amendments has had no impact on the financial position or results of operations of the Group.

(j) HK(IFRIC)-Int 13 *Customer Loyalty Programmes*

HK(IFRIC)-Int 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no customer loyalty award scheme, the interpretation has had no impact on the financial position or results of operations of the Group.

(k) HK(IFRIC)-Int 15 *Agreements for the Construction of Real Estate*

HK(IFRIC)-Int 15 replaces HK Interpretation 3 *Revenue – Pre-completion Contracts for the Sale of Development Properties*. It clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with HKAS 11 *Construction Contracts* or an agreement for the sale of goods or services in accordance with HKAS 18 Revenue. As the Group currently is not involved in any construction of real estate, the interpretation has had no impact on the financial position or results of operations of the Group.

Notes to Financial Statements

31 December 2009

2.2 Changes in Accounting Policy and Disclosures (Continued)

(l) HK(IFRIC)-Int 16 *Hedges of a Net Investment in a Foreign Operation*

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

(m) HK(IFRIC)-Int 18 *Transfers of Assets from Customers* (adopted from 1 July 2009)

HK(IFRIC)-Int 18 provides guidance on accounting by recipients that receive from customers items of property, plant and equipment or cash for the acquisition or construction of such items, provided that these assets must then be used to connect customers to networks or to provide ongoing access to a supply of goods or services, or both. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

(n) In October 2008, the HKICPA issued its first improvements to HKFRSs which set out amendments to a number of HKFRSs. Except for the amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary* which are effective for annual periods beginning on or after 1 July 2009, the Group adopted all amendments from 1 January 2009. While the adoption of some of the amendments results in changes accounting policies, none of these amendments has had a significant financial impact on the Group.

Notes to Financial Statements

31 December 2009

2.3 Issued but not yet Effective Hong Kong Financial Reporting Standards

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

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*[1]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*[2]
HKFRS 1 Amendments	*Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adoptions*[4]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*[2]
HKFRS 3 (Revised)	*Business Combinations*[1]
HKFRS 9	*Financial Instruments*[6]
HKAS 24 (Revised)	*Related Party Disclosures*[5]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[3]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement*[5]
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*[1]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments*[4]
Amendments to HKFRS 5 included *in Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary*[1]
HK Interpretation 4 (Revised in December 2009)	*Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*[2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2009* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 2, HKAS 38, HK(IFRIC)-Int 9 and HK(IFRIC)-Int 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to HKFRS 5, HKFRS 8, HKAS 1, HKAS 7, HKAS 17, HKAS 36 and HKAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2010
3 Effective for annual periods beginning on or after 1 February 2010
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013

Notes to Financial Statements

31 December 2009

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

HKFRS 1 (Revised) was issued with an aim to improve the structure of the standard. The revised version of the standard does not make any changes to the substance of accounting by first-time adopters. As the Group is not a first-time adopter of HKFRSs, the amendments will not have any financial impact on the Group.

HKFRS 1 Amendments provide relief from the full retrospective application of HKFRSs for the measurement of oil and gas assets and leases. As a result of extending the options for determining deemed cost to oil and gas assets, the existing exemption relating to decommissioning liabilities has also been revised. As the Group is not a first-time adopter of HKFRSs, the amendments will not have any financial impact on the Group.

HKFRS Amendments is to ensure that first-time adoptions are not disadvantaged as compared with current HKFRS preparers. First-time adopters should be permitted to use the same transition provisions permitted for existing preparers of financial statements prepared in accordance with HKFRSs that are included in *Improving Disclosures about Financial Instruments* (Amendments to HKFRS 7). As the Group is not a first-time adopter of HKFRSs, the amendments will not have any financial impact on the Group.

The HKFRS 2 Amendments provide guidance on how to account for cash-settled share-based payment transactions in the separate financial statements of the entity receiving the goods and services when the entity has no obligation to settle the share-based payment transactions. The Group expects to adopt the HKFRS 2 Amendments from 1 January 2010. The amendments are unlikely to have any significant financial impact on the Group.

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

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

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

Notes to Financial Statements

31 December 2009

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

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety by the end of 2010. The Group expects to adopt HKFRS 9 from 1 January 2013.

HKAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt HKAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly.

The HKAS 32 Amendment revises the definition of financial liabilities such that rights, options or warrants issued to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments, provided that the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The Group expects to adopt the HKAS 32 Amendment from 1 January 2011. As the Group currently has no such rights, options or warrants in issue, the amendment is unlikely to have any financial impact on the Group.

The HKAS 39 Amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. The Group expects to adopt the HKAS 39 Amendment from 1 January 2010. As the Group has not entered into any such hedges, the amendment is unlikely to have any financial impact on the Group.

The HK(IFRIC)-Int 14 Amendments remove an unintended consequence arising from the treatment of prepayments of future contributions in certain circumstances when there is a minimum funding requirement. The amendments require an entity to treat the benefit of an early payment as a pension asset. The economic benefit available as a reduction in future contributions is thus equal to the sum of (i) the prepayment for future services and (ii) the estimated future services costs less the estimated minimum funding requirement contributions that would be required as if there were no prepayments. As the Group has no defined benefit scheme, the amendments will not have any financial impact on the Group.

Notes to Financial Statements

31 December 2009

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

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

HK(IFRIC)-Int 19 addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The Group expects to adopt the interpretation from 1 January 2011. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid in accordance with HKAS 39 *Financial Instruments: Recognition and Measurement* and the difference between the carrying amount of the financial liability extinguished, and the consideration paid, shall be recognised in profit or loss. The consideration paid should be measured based on the fair value of the equity instrument issued or, if the fair value of the equity instrument cannot be reliably measured, the fair value of the financial liability extinguished. As the Group has not undertaken such transactions, the interpretation is unlikely to have any material financial impact on the Group.

The amendments to HKFRS 5 clarify that all assets and liabilities of a subsidiary shall be classified as held for sale if an entity has a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest. The Group expects to adopt the amendments from 1 January 2010. The changes must be applied prospectively and will affect future sale transactions or plans involving loss of control of a subsidiary.

Improvements to HKFRSs 2009 issued in May 2009 sets out amendments to a number of HKFRSs. Except for the amendment to HKAS 18, the Group expects to adopt the amendments from 1 January 2010. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group.

Notes to Financial Statements

31 December 2009

2.4 Summary of Significant Accounting Policies

Subsidiaries

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

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

Associates

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

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

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

When investment in an associate is classified as held for sale, it is in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Goodwill

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

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

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

Notes to Financial Statements

31 December 2009

2.4 Summary of Significant Accounting Policies (Continued)

Goodwill (Continued)

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

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

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in profit or loss.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, goodwill and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises

Notes to Financial Statements

31 December 2009

2.4 Summary of Significant Accounting Policies (Continued)

Related parties

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

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

(b) the party is an associate;

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

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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

Notes to Financial Statements

31 December 2009

2.4 Summary of Significant Accounting Policies (Continued)

Property, plant and equipment and depreciation (Continued)

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

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

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

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

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

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

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

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable.

Notes to Financial Statements

31 December 2009

2.4 Summary of Significant Accounting Policies (Continued)

Non-current assets and disposal groups held for sale (Continued)

Non-current assets and disposal groups (other than deferred tax assets and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Leases

Operating leases

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

Land lease prepayments

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

Intangible assets

Mining rights and reserves

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

Exploration rights and assets

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

Notes to Financial Statements

31 December 2009

2.4 Summary of Significant Accounting Policies (Continued)

Intangible assets (Continued)

Exploration rights and assets (Continued)

Exploration rights are amortised over the term of the rights from 2 to 10 years. Equipment used in exploration is depreciated over its useful life of 10 years, or, if dedicated to a particular exploration project, over the life of the project, whichever is shorter. Amortisation and depreciation is included, in the first instance, in exploration rights and assets.

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

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

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and held-to-maturity investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

The Group's financial assets include cash and bank balances, trade and other receivables.

Notes to Financial Statements

31 December 2009

2.4 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets (Continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in profit or loss. These net fair value changes does not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other revenue and gains in the statement of comprehensive income. The loss arising from impairment is recognised in profit or loss.

Notes to Financial Statements

31 December 2009

2.4 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets (Continued)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other revenue and gains in the statement of comprehensive income. The loss arising from impairment is recognised in profit or loss.

Fair value

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

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Notes to Financial Statements

31 December 2009

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

Derecognition of financial assets

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

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

– the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Notes to Financial Statements

31 December 2009

2.4 Summary of Significant Accounting Policies (Continued)

Derecognition of financial assets (Continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, corporate bond and interest-bearing loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method amortisation process. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of comprehensive income.

Notes to Financial Statements

31 December 2009

2.4 Summary of Significant Accounting Policies (Continued)

Financial liabilities (Continued)

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

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

Notes to Financial Statements

31 December 2009

2.4 Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents

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

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

Inventories

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

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

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

Trade and other payables

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

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

Provisions

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

Notes to Financial Statements

31 December 2009

2.4 Summary of Significant Accounting Policies (Continued)

Provisions (Continued)

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

Revenue recognition

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

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

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

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

Notes to Financial Statements

31 December 2009

2.4 Summary of Significant Accounting Policies (Continued)

Government grants

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

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

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

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

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

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

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

Notes to Financial Statements

31 December 2009

2.4 Summary of Significant Accounting Policies (Continued)

Income tax (Continued)

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

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

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

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

Dividends

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

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

Notes to Financial Statements

31 December 2009

2.4 Summary of Significant Accounting Policies (Continued)

Employee benefits

Pension obligations

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

Early retirement benefits

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

Medical benefit costs

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

Housing fund

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

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Notes to Financial Statements

31 December 2009

2.4 Summary of Significant Accounting Policies (Continued)

Foreign currencies (Continued)

The functional currencies of non-PRC incorporated subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their income and expenses are translated into RMB at the weighted average rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

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

3. Significant Accounting Judgements and Estimates

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

Estimation uncertainty

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

(a) Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. Where the actual or expected tax positions of the relevant companies of the Group in future are different from the original estimate, such differences will impact the recognition of deferred tax assets and income tax charge in the period in which such estimate has been changed. The carrying value of deferred tax assets at 31 December 2009 was approximately RMB94,924,000 (2008: RMB79,257,000). Further details are contained in note 21 to the financial statements.

Notes to Financial Statements

31 December 2009

3. Significant Accounting Judgements and Estimates (Continued)

Estimation uncertainty (Continued)

(b) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2009 was RMB360,422,000 (2008: RMB262,725,000).

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

The carrying value of mining and exploration assets and property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed in note 2.4 to the financial statements. The recoverable amount of these assets, or, where appropriate, the cash-generating unit to which they belong, is the higher of its fair value less costs to sell and value in use. Estimating the value in use requires the Group to estimate the expected future cash flows from the cash-generating units and to choose a suitable discount rate in order to calculate the present value of those cash flows. The aggregate carrying value of mining and exploration assets and property, plant and equipment was RMB4,767,553,000 (2008: RMB3,732,062,000).

(d) Provisions

Provisions are based on estimates of future payments made by management and are discounted at rates in the range of 5.3% to 5.9% (2008: 5.4% to 5.9%). Changes in assumptions could significantly affect these estimates. The aggregate carrying value of provisions was RMB75,327,000 (2008: RMB68,664,000).

(e) Mine reserves

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

Notes to Financial Statements

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4. Operating Segment Information

Previously, the Group reported information by business segments, namely mining and smelting in accordance with the different operations of the segments. As explained in note 2.2 above, on 1 January 2009, HKFRS 8 *Operating Segments* became effective. Accordingly, the Group now reports information by the reportable segments set out below, reflecting how senior management monitors the operating results of the Group's operating segments for the purpose of making decisions about resources allocation and performance assessment.

Segment performance is evaluated based on reportable segment profit which is a measure of adjusted profit before tax from continuing operation. Adjusted profit before tax is measured consistently with Group's profit before tax except interest income, finance costs, fair value gains/(losses) and foreign exchange loss that are excluded from such measurement.

As over 99% of the assets of the Group are located in the PRC and over 89% of the sales are sold to the PRC customers, no further geographical or service segment information has been presented.

Segment assets exclude deferred tax assets, pledged deposits, cash and cash equivalents, equity investments at fair value through profit or loss as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, the amount due to the ultimate holding company, convertible bonds, tax payable, deferred tax liabilities as these liabilities are managed on a group basis.

Consequently, for management purposes, the Group is organised into three reportable operating segments as follows:

(a) Gold operations segment consists of the operation of Xia Dian, Da Yin Ge Zhuang, He Dong, Jin Ting Ling, Lu Feng, Tuoli Kuo Ge Sha Ye, Sa Re Kuo Bu, Da Xi Gou, Hainan Dong Fang, Liang Dang, Zao Zi Gou, Xin Yuan, Fu Kang, Can Zhuang gold mines and Jin Chi Ling, Xing Ta smelter complex;

The sources of gold produced are as follows:

	2009 **kg**	2008 kg
Own mines	**9,269**	7,753
Purchase and others	**2,038**	2,072
Tolling	**8,178**	7,794
Total	**19,485**	17,619

(b) Copper operations segment consists of the operation at Tong Hui copper mines and smelter complex;

(c) The "Others" segment consists of the operation at Gansu Zhaojin, Huabei Zhaojin, Beijing Zhongse, Heilongjiang Zhaojin investment and ancillary activities.

Notes to Financial Statements

31 December 2009

4. Operating Segment Information (Continued)

The Group's operations by business units is as follows:

Group

Year ended 31 December 2009

	Gold operations RMB'000	Copper operations RMB'000	Others RMB'000	Total RMB'000
Revenue				
Revenues from external customers	2,644,821	152,170	–	2,796,991
Segment results	1,002,053	29,861	(1,318)	1,030,596
Reconciliation:				
Interest income				12,097
Fair value gain on equity investments at fair value through profit or loss				25,774
Finance costs				(23,137)
Foreign exchange loss				(698)
Profit before tax for from continuing operations				1,044,632
Assets and liabilities				
Segment assets	5,540,481	626,300	51,135	6,217,916
Reconciliation:				
Unallocated assets				2,363,716
Total assets				8,581,632
Segment liabilities	783,310	94,325	28,052	905,687
Reconciliation:				
Unallocated liabilities				2,708,528
Total liabilities				3,614,215
Other segment information				
Capital expenditure	1,501,059	43,909	–	1,544,968
Interest in an associate	37,980	–	–	37,980
Deposit paid for acquisition of subsidiaries and property, plant and equipment	164,646	–	–	164,646
Impairment losses recognised in profit and loss	5,654	–	–	5,654
Share of profit of an associate	1,331	–	–	1,331
Depreciation and amortisation	198,001	35,446	52	233,499
Exploration assets written off	16,821	–	–	16,821

Notes to Financial Statements

31 December 2009

4. Operating Segment Information (Continued)

Group

Year ended 31 December 2008

	Gold operations RMB'000	Copper operations RMB'000	Others RMB'000	Total RMB'000
Revenue				
Revenues from external customers	1,982,042	170,689	–	2,152,731
Segment results	677,446	54,413	(4,495)	727,364
Reconciliation:				
Interest income				18,608
Fair value loss on equity investments at fair value through profit or loss				(11,796)
Finance costs				(17,260)
Foreign exchange loss				(6,577)
Profit before tax from continuing operations				710,339
Assets and liabilities				
Segment assets	4,427,165	647,267	66,689	5,141,121
Reconciliation:				
Unallocated assets				789,864
Total assets				5,930,985
Segment liabilities	590,725	35,948	20,935	647,608
Reconciliation:				
Unallocated liabilities				874,708
Total liabilities				1,522,316
Other segment information				
Capital expenditure	1,647,458	445,484	4,092	2,097,034
Interest in an associate	36,649	–	–	36,649
Deposit paid for acquisition of subsidiaries and property, plant and equipment	211,656	–	–	211,656
Impairment losses reversed in the consolidated statement of comprehensive income	(389)	–	–	(389)
Share of profit of an associate	2,672	–	–	2,672
Depreciation and amortisation	252,202	13,525	55	265,782
Exploration assets written off	29,107	–	–	29,107

Notes to Financial Statements

31 December 2009

5. Revenue, Other Revenue and Gains

Revenue, which is also the Group's turnover represents the net invoiced value of goods sold, net of trade discounts and returns and various types of government surcharges where applicable, and the value of services rendered:

	2009 RMB'000	2008 RMB'000
Revenue		
Sale of goods:		
Gold	**2,521,057**	1,835,295
Copper Concentrate	**158,266**	137,897
Silver	**66,493**	44,866
Sulphur	**13,333**	112,514
Other by-products	**45,157**	14,089
Rendering of service:		
Processing of gold and silver	**18,070**	27,153
	2,822,376	2,171,814
Less:		
Government surcharges	**(25,385)**	(19,083)
Revenue	**2,796,991**	2,152,731
Other revenue and gains		
Bank interest income	**12,097**	18,608
Sale of raw materials	**11,229**	17,027
Government grants	**24,590**	6,757
Gain on disposal of items of property, plant and equipment	**421**	878
Fair value gains, net:		
Equity investments at fair value through profit or loss	**25,774**	–
Excess over the cost of a business combination	**2,979**	–
Gains on held-to-maturity investments	**341**	673
Hotel service fees	**15,046**	12,847
Other gains	**6,704**	1,395
Other revenue and gains	**99,181**	58,185

Notes to Financial Statements

31 December 2009

6. Profit Before Tax From Continuing Operations

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

	2009 RMB'000	2008 RMB'000
Cost of inventories sold	1,347,704	1,072,814
Interest on bank and other borrowings		
– wholly repayable within five years	17,472	13,643
– repayable over five years	199	199
Interest for a corporate bond	1,885	–
Total interest expense on financial liabilities not at fair value through profit or loss	19,556	13,842
Incremental interest on provisions	3,485	3,260
Bank charges and other finance costs	96	158
Finance costs	23,137	17,260
Staff costs (including directors' emoluments as set out in note 7):		
Wages and salaries (including directors' remuneration)	258,503	194,334
Early retirement benefits	12,825	18,129
Defined contribution fund:		
– Retirement costs	34,288	32,742
Other staff benefits	31,790	29,023
Total staff costs	337,406	274,228
Foreign exchange loss	698	6,577
Auditors' remuneration	2,550	2,300
Amortisation of land lease prepayments*	3,247	2,368
Amortisation of mining rights*	57,668	87,892
Depreciation	172,584	157,522
Loss on disposal of property, plant and equipment	14,815	1,174
Operating lease rentals in respect of:		
– Land	6,173	4,992
– Office	662	996
Impairment (Reversal of impairment) of other receivables	2,326	(389)
Exploration assets written off	16,821	29,107
Fair value losses, net:		
– Derivative instruments – transactions not qualified as hedges	–	38,686
– Equity investments at fair value through profit or loss	–	11,796
Loss on disposal of a subsidiary (see note 43)	–	15,553

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

Notes to Financial Statements

31 December 2009

7. Directors' and Supervisors' Emoluments

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

	Note	2009 RMB'000	2008 RMB'000
Fees:			
– Non-executive directors		–	–
– Independent non-executive directors	7(b)	640	520
– Supervisors		–	–
		640	520
Salaries, allowances and benefits in kind		1,546	1,425
Performance related bonuses*		645	453
Pension scheme contributions		91	72
		2,282	1,950
		2,922	2,470

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

Notes to Financial Statements

31 December 2009

7. Directors' and Supervisors' Emoluments (Continued)

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

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
For the year ended 31 December 2009					
Executive directors:					
– Lu Dongshang	–	584	278	28	890
– Wang Peifu	–	540	307	24	871
– Ma Yushan	–	334	60	31	425
	–	1,458	645	83	2,186
Non-executive directors:					
– Liang Xinjun	–	–	–	–	–
– Wu Ping	–	–	–	–	–
– Liu Gendong	–	–	–	–	–
– Cong Jianmao	–	–	–	–	–
– Chen Guoping	–	–	–	–	–
	–	–	–	–	–
Supervisors:					
– Cheng Binghai	–	–	–	–	–
– Wang Xiaojie	–	–	–	–	–
– Chu Yushan	–	88	–	8	96
	–	88	–	8	96
	–	1,546	645	91	2,282

Notes to Financial Statements

31 December 2009

7. Directors' and Supervisors' Emoluments (Continued)

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

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
For the year ended 31 December 2008					
Executive directors:					
– Lu Dongshang	–	596	180	22	798
– Wang Peifu	–	561	199	21	781
– Ma Yushan	–	200	74	21	295
	–	1,357	453	64	1,874
Non-executive directors:					
– Liang Xinjun	–	–	–	–	–
– Wu Ping	–	–	–	–	–
– Liu Gendong	–	–	–	–	–
– Cong Jianmao	–	–	–	–	–
– Chen Guo Ping	–	–	–	–	–
	–	–	–	–	–
Supervisors:					
– Cheng Binghai	–	–	–	–	–
– Wang Xiaojie	–	–	–	–	–
– Chu Yushan	–	68	–	8	76
	–	68	–	8	76
	–	1,425	453	72	1,950

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

Notes to Financial Statements

31 December 2009

7. Directors' and Supervisors' Emoluments (Continued)

(b) Independent non-executive directors

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

	2009 RMB'000	2008 RMB'000
Yan Hongbo	160	130
Choy Sze Chung, Jojo (appointed on 22 May 2007)	160	130
Chen Jinrong (appointed on 16 April 2007)	160	130
Ye Tianzhu (appointed on 16 April 2007)	160	130
	640	520

There were no other emoluments payable to the independent non-executive directors during the year (2008: Nil).

(c) Five highest paid employees

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

	2009	2008
Directors	2	2
Non-director and non-supervisory employees	3	3
	5	5

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

Notes to Financial Statements

31 December 2009

7. Directors' and Supervisors' Emoluments (Continued)

(c) Five highest paid employees (Continued)

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

	2009 RMB'000	2008 RMB'000
Salaries, allowances and benefits in kind	1,049	337
Performance related bonuses	496	947
Pension scheme contributions	71	41
	1,616	1,325

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

	2009	2008
Nil to HK$1,000,000 (Equivalent to RMB880,400)	3	3

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

8. Income Tax Expense

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

PRC corporate income tax ("CIT") has been provided at a rate of 25% (2008: 25%) on the taxable income as reported in the statutory accounts of the companies comprising the Group, which are prepared in accordance with PRC GAAP, as adjusted for income and expense items which are not assessable or deductible for income tax purposes. Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

Notes to Financial Statements

31 December 2009

8. Income Tax Expense (Continued)

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

	2009 RMB'000	2008 RMB'000
Group:		
PRC corporate income tax		
– Charge for the year	290,775	190,961
Deferred tax *(note 21)*	(26,740)	(20,227)
	264,035	170,734

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

	Note	2009 %	2009 RMB'000	2008 %	2008 RMB'000
Profit before tax from continuing operations			1,044,632		710,339
Statutory tax rate applied to profit before tax		25.0	261,158	25.0	177,585
Reconciling items:					
Expenses not deductible for tax		0.5	5,661	1.1	7,758
Tax losses not recognised	(i)	0.1	999	1.5	11,027
Income not subject to tax		(0.1)	(964)	(3.2)	(22,828)
Others		(0.2)	(2,819)	(0.4)	(2,808)
Total tax charge for the year		25.3	264,035	24.0	170,734

(i) Accumulated unused tax losses of approximately RMB3,996,000 arising from subsidiaries of the Group have not been recognised as deferred tax assets in the financial statements as it is not probable that the subsidiaries will generate future taxable income to utilise the tax benefits. The unused tax losses will expire within five years.

Notes to Financial Statements

31 December 2009

9. Discontinued Operation

In November 2009 the Company resolved to dispose of Starry Company Limited, whose wholly-owned subsidiary Yunnan Sparton Company Limited engages in greenfield mine exploration. The Group has decided to cease the Greenfield gold mine exploration as the Group intends to focus its resources on mining activities.

On 6 January 2010, the Company entered into a sales agreement to dispose of its entire interest in Starry, the wholly-owned subsidiary of the Company. The impairment of held for sale assets of RMB28,135,000 was recognized in discontinued operation on the face of the consolidated statement of comprehensive income during the year ended 30 December 2009. The disposal was completed on 6 January 2010 for a consideration of RMB12,000,000 satisfied by cash.

The results of Starry for the year is presented below:

	2009 RMB'000	2008 RMB'000
Expense	**(1,505)**	(2,200)
Loss from the discontinued operation	**(1,505)**	(2,200)
Loss recognised on the remeasurement to fair value	**(28,135)**	–
Loss before tax from the discontinued operation	**(29,640)**	(2,200)
Income tax:		
Related to pre-tax loss	**376**	717
Loss for the year from the discontinued operation	**(29,264)**	(1,483)

Notes to Financial Statements

31 December 2009

9. Discontinued Operation (Continued)

The major classes of assets and liabilities of Starry classified as held for sale as at 31 December 2009 are as follows:

	2009 RMB'000	2008 RMB'000
Assets		
Property, plant and equipment	1,236	–
Intangible assets	29,944	–
Cash and cash equivalents	162	–
Prepayments and other receivables	6	–
Inventories	40	–
Deferred tax assets	815	–
Assets classified as held for sale	32,203	–
Liabilities		
Other payables and accruals	(8,061)	–
Deferred tax liabilities	(12,142)	–
Liabilities directly associated with assets classified as held for sale	(20,203)	–
Net assets directly associated with the disposal group	12,000	–

The net cash flows incurred by Starry Company Limited is as follows:

	2009 RMB'000	2008 RMB'000
Operating activities	(100)	(2,414)
Investing activities	–	(7,434)
Financing activities	182	8,645
Net cash inflow/(outflow)	82	(1,203)

Notes to Financial Statements

31 December 2009

9. Discontinued Operation (Continued)

	2009 RMB	2008 RMB
Loss per share:		
Basic and diluted, from the discontinued operation	**0.020**	0.001

The calculations of basic loss per share from the discontinued operation are based on:

	2009 RMB'000	2008 RMB'000
Loss attributable to ordinary equity holders of the parent from the discontinued operation	**29,264**	1,483

	2009 '000	2008 '000
Weighted average number of ordinary shares in issue during the year used in the basic and diluted loss per share calculation	**1,457,430**	1,457,430

10. Other Assets and Liabilities Classified as Held for Sale

Since December 2009 the Company has been undergoing a negotiation with a third party for the disposal of its 100% equity interest in Fukang Mining Industry Company Limited ("Fu Kang"), as the gold mining activities in Fu Kang is not satisfactory. The proposed total consideration proposed is around RMB26,500,000. The impairment of held for sale assets of RMB3,207,000 was recognized in administrative expense on the face of the consolidated statement of comprehensive income during the year ended 31 December 2009. This disposal of Fu Kang is expected to be completed in 2010.

Notes to Financial Statements

31 December 2009

10. Other Assets and Liabilities Classified as Held for Sale (Continued)

The major classes of assets and liabilities of Fu Kang classified as held for sale as at 31 December 2009 are as follows:

	2009 RMB'000	2008 RMB'000
Assets		
Property, plant and equipment	6,423	–
Intangible assets	22,190	–
Cash and cash equivalents	4,553	–
Inventories	117	–
Assets classified as held for sale	33,283	–
Liabilities		
Other payables and accruals	(204)	–
Deferred income	(1,500)	–
Deferred tax liabilities	(5,079)	–
Liabilities directly associated with assets classified as held for sale	(6,783)	–
Net assets directly associated with the disposal group	26,500	–

11. Dividends

	2009 RMB'000	2008 RMB'000
Ordinary:		
Proposed final – RMB0.22 per share (before taxation) (2008: RMB0.166 per share (before taxation))	320,635	241,933

The board of directors recommends a cash dividend to all shareholders on the basis of RMB0.22 per share (before taxation) (2008: RMB0.166 per share (before taxation)).

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

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12. Earnings Per Share

The calculation of basic earnings per share amounts is based on the profit for the year attributable to owners of the Company, and the weighted average number of ordinary shares in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2009 and 2008 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

The calculation of basic and diluted earnings per share is based on:

	2009 RMB'000	2008 RMB'000
Earnings:		
Profit attributable to owners of the company		
From a continuing operations	783,284	535,388
From a discontinued operation	(29,264)	(1,483)
	754,020	533,905

	2009 '000	2008 '000
Shares:		
Weighted average number of ordinary shares in issue during the year	1,457,430	1,457,430

Notes to Financial Statements

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13. PROPERTY, PLANT AND EQUIPMENT

Group

31 December 2009

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Mining infrastructure RMB'000	Construction in progress (CIP) RMB'000	Total RMB'000
Cost:							
At 1 January 2009	646,502	481,263	41,649	73,696	1,214,516	371,713	2,829,339
Additions	17,738	35,588	8,194	19,630	15,572	374,505	471,227
Transferred from CIP	159,783	170,186	1,515	6,201	224,661	(562,346)	–
Transferred from exploration rights and assets *(note 14)*	–	–	–	–	93,971	–	93,971
Acquisition of subsidiaries *(note 41, 42)*	95,104	45,274	1,645	10,737	148,135	28,578	329,473
Reclassification to a group of assets held for sale *(note 9, 10)*	(1,079)	(4,233)	(167)	(1,458)	(2,949)	(404)	(10,290)
Disposals/written off	(13,541)	(15,168)	(2,245)	(2,912)	(2,806)	–	(36,672)
At 31 December 2009	904,507	712,910	50,591	105,894	1,691,100	212,046	3,677,048
Accumulated depreciation:							
At 1 January 2009	178,952	157,492	21,593	42,126	281,249	–	681,412
Charge for the year	29,387	49,570	6,003	9,773	78,218	–	172,951
Acquisition of subsidiaries *(note 41, 42)*	49,902	16,618	768	5,012	11,412	–	83,712
Reclassification to a group of assets held for sale *(note 9, 10)*	(105)	(1,454)	(110)	(962)	–	–	(2,631)
Disposals/written off	(5,937)	(10,250)	(2,155)	(2,622)	(893)	–	(21,857)
At 31 December 2009	252,199	211,976	26,099	53,327	369,986	–	913,587
Net book value:							
At 31 December 2009	652,308	500,934	24,492	52,567	1,321,114	212,046	2,763,461

Notes to Financial Statements

31 December 2009

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group

31 December 2008

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Mining infrastructure RMB'000	Construction in progress (CIP) RMB'000	Total RMB'000
Cost:							
At 1 January 2008	482,571	340,370	33,806	63,574	880,867	166,553	1,967,741
Additions	63,240	37,434	5,376	10,201	88,704	458,481	663,436
Transferred from CIP	66,474	84,837	2,877	2,171	93,138	(249,497)	–
Transferred from exploration right and assets *(note 14)*	–	–	–	–	12,152	–	12,152
Acquisition of subsidiaries *(note 41, 42)*	44,520	25,257	128	3,061	142,672	9,448	225,086
Disposal of a subsidiary *(note 43)*	(9,606)	(3,330)	(109)	(1,174)	(756)	(35)	(15,010)
Disposals/written off	(697)	(3,305)	(429)	(4,137)	(2,261)	(13,237)	(24,066)
At 31 December 2008	646,502	481,263	41,649	73,696	1,214,516	371,713	2,829,339
Accumulated depreciation:							
At 1 January 2008	154,077	119,925	15,485	34,762	207,357	–	531,606
Charge for the year	25,596	41,097	6,528	9,436	75,182	–	157,839
Acquisition of subsidiaries *(note 41, 42)*	129	18	3	6	–	–	156
Disposals of a subsidiary *(note 43)*	(473)	(1,355)	(33)	(327)	(73)	–	(2,261)
Disposals/written off	(377)	(2,193)	(390)	(1,751)	(1,217)	–	(5,928)
At 31 December 2008	178,952	157,492	21,593	42,126	281,249	–	681,412
Net book value:							
At 31 December 2008	467,550	323,771	20,056	31,570	933,267	371,713	2,147,927

Notes to Financial Statements

31 December 2009

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

31 December 2009

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Mining infrastructure RMB'000	Construction in progress (CIP) RMB'000	Total RMB'000
Cost:							
At 1 January 2009	421,225	337,270	32,115	50,532	575,206	293,148	1,709,496
Additions	401	12,932	3,620	6,294	3,769	95,363	122,379
Transferred from CIP	33,664	36,286	1,216	1,540	118,528	(191,234)	–
Transferred from exploration assets	–	–	–	–	76,537	–	76,537
Transferred to subsidiaries	–	–	–	–	–	(133,822)	(133,822)
Disposals/written off	(12,159)	(14,074)	(2,227)	(2,299)	(1,527)	–	(32,286)
At 31 December 2009	443,131	372,414	34,724	56,067	772,513	63,455	1,742,304
Accumulated depreciation:							
At 1 January 2009	135,310	124,973	17,191	33,769	192,756	–	503,999
Charge for the year	16,456	31,140	4,462	4,343	36,832	–	93,233
Disposals/written off	(5,656)	(10,028)	(2,153)	(2,365)	(893)	–	(21,095)
At 31 December 2009	146,110	146,085	19,500	35,747	228,695	–	576,137
Net book value:							
At 31 December 2009	297,021	226,329	15,224	20,320	543,818	63,455	1,166,167

Notes to Financial Statements

31 December 2009

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

31 December 2008

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

Notes to Financial Statements

31 December 2009

14. Intangible Assets

Group

31 December 2009

	Exploration rights and assets RMB'000	Mining rights and reserves RMB'000	Goodwill RMB'000	Total RMB'000
Cost:				
At 1 January 2009	708,974	1,044,420	262,725	2,016,119
Additions	172,667	51,857	–	224,524
Capitalisation of amortisation	16,052	–	–	16,052
Acquisition of subsidiaries *(note 41, 42)*	170,416	276,953	97,697	545,066
Reclassification to a group of assets held for sale *(note 9, 10)*	(58,079)	(25,397)	–	(83,476)
Write-off	(16,821)	–	–	(16,821)
Transferred to property, plant and equipment *(note 13)*	(93,971)	–	–	(93,971)
At 31 December 2009	899,238	1,347,833	360,422	2,607,493
Accumulated amortisation:				
At 1 January 2009	23,111	146,148	–	169,259
Provided during the year	16,052	57,668	–	73,720
At 31 December 2009	39,163	203,816	–	242,979
Net book value:				
At 31 December 2009	860,075	1,144,017	360,422	2,364,514

Notes to Financial Statements

31 December 2009

14. Intangible Assets (Continued)

Group

31 December 2008

	Exploration rights and assets RMB'000	Mining rights and reserves RMB'000	Goodwill RMB'000	Total RMB'000
Cost:				
At 1 January 2008	125,681	620,196	131,825	877,702
Additions	259,386	31,555	–	290,941
Capitalisation of amortisation	3,928	–	–	3,928
Acquisition of subsidiaries	361,238	415,012	130,900	907,150
Write-off	(29,107)	–	–	(29,107)
Transferred o property, plant and equipment *(note 13)*	(12,152)	–	–	(12,152)
Disposal of a subsidiary *(note 43)*	–	(22,343)	–	(22,343)
At 31 December 2008	708,974	1,044,420	262,725	2,016,119
Accumulated amortisation:				
At 1 January 2008	19,183	58,619	–	77,802
Provided during the year	3,928	87,892	–	91,820
Disposal of a subsidiary *(note 43)*	–	(363)	–	(363)
At 31 December 2008	23,111	146,148	–	169,259
Net book value:				
At 31 December 2008	685,863	898,272	262,725	1,846,860

Notes to Financial Statements

31 December 2009

14. Intangible Assets (Continued)

Company

31 December 2009

	Exploration rights and assets RMB'000	Mining rights and reserves RMB'000	Total RMB'000
Cost:			
At 1 January 2009	207,136	441,062	648,198
Additions	134,115	375	134,490
Write-off	(13,252)	–	(13,252)
Transferred to property, plant and equipment	(76,537)	–	(76,537)
At 31 December 2009	251,462	441,437	692,899
Accumulated amortisation:			
At 1 January 2009	15,909	104,738	120,647
Provided during the year	–	26,615	26,615
At 31 December 2009	15,909	131,353	147,262
Net book value:			
At 31 December 2009	235,553	310,084	545,637

Notes to Financial Statements

31 December 2009

14. Intangible Assets (Continued)

Company

31 December 2008

	Exploration rights and assets RMB'000	Mining rights and reserves RMB'000	Total RMB'000
Cost:			
At 1 January 2008	52,739	414,919	467,658
Additions	194,056	26,143	220,199
Write-off	(27,507)	–	(27,507)
Transferred to property, plant and equipment	(12,152)	–	(12,152)
At 31 December 2008	207,136	441,062	648,198
Accumulated amortisation:			
At 1 January 2008	15,909	84,573	100,482
Provided during the year	–	20,165	20,165
At 31 December 2008	15,909	104,738	120,647
Net book value:			
At 31 December 2008	191,227	336,324	527,551

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the cash-generating units related to gold operations.

For the purpose of impairment testing, the recoverable amounts of the cash-generating units has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period, and approved by senior management. At 31 December 2009, the discount rate applied to cash flow projections is a real rate of 10.66% (2008: 8.75%).

Notes to Financial Statements

31 December 2009

14. Intangible Assets (Continued)

Impairment testing of goodwill (Continued)

Key assumptions used in the value in use calculation for 31 December 2009 and 31 December 2008 are as follows:

Revenues

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

Mining costs

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

Commodity price

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

Discount rates

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

15. Interest in an Associate

Group

	2009 RMB'000	2008 RMB'000
Share of net assets	37,980	36,649

Company

	2009 RMB'000	2008 RMB'000
Unlisted shares, at cost	34,650	34,650

Notes to Financial Statements

31 December 2009

15. Interest in an Associate (Continued)

Particulars of the associate are as follows:

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

The percentages of the Company's voting power held and profit sharing are both 38.5% (2008: 38.5%).

* The statutory financial statements of the associate user not audited by Ernst & Young Hong Kong or any other member firm of the Ernst & Young global network.

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

	2009 RMB'000	2008 RMB'000
Assets	114,795	98,923
Liabilities	16,146	3,731
Revenue	61,574	44,393
Profit	9,255	6,940

16. Interests in Subsidiaries

Company

	2009 RMB'000	2008 RMB'000
Unlisted shares, at cost	2,172,900	1,340,179

Notes to Financial Statements

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16. Interests in Subsidiaries (Continued)

Particulars of the subsidiaries are as follows:

Company name	Place and date of incorporation/ registration and operations	Nominal value of paid-up/ registered capital RMB'000	Percentage of equity interest attributable to the Company Direct %	Indirect %	Principal activities
Zhaoyuan Jintingling Mining Industry Company Limited (招遠市金亭嶺礦業有限公司)	PRC/Mainland China 10 October 2002	45,000	100	–	Mining and processing of gold products
Hainan Dongfang Zhaojin Mining Industry Company Limited (海南東方招金礦業有限公司)	PRC/Mainland China 13 May 2004	5,800	95	–	Mining and processing of gold products
Minxian Tianhao Gold Company Limited (岷縣天昊黃金有限責任公司)	PRC/Mainland China 16 May 2001	46,670	100	–	Mining and processing of gold products
Tuoli Zhaojin Beijiang Mining Company Limited ("TZB") (托里縣招金北疆礦業有限公司)	PRC/Mainland China 16 April 2004	30,000	100	–	Mining and processing of gold products
Subsidiary of TZB:					
Kunhe Zhaojin Mining Company Limited (阿勒泰市招金昆合礦業有限公司)	PRC/Mainland China 27 August 2007	10,000	–	70	Mining and processing of gold products
Tuoli Tianshanze Mining Industry Co., Ltd. ("Tianshanze Company") (托里縣天山澤礦業有限責任公司)*	PRC/Mainland China 15 May 2004	1,000	–	100	Mining and processing of gold products
Tuoli Tianyun Mining Industry Co., Ltd. ("Tianyun Company") (托里縣天蘊黃金礦業有限公司)*	PRC/Mainland China 23 Aug 2004	3,000	–	100	Mining and processing of gold products
Xinyuan Gold Mining Industry Co., Ltd. ("Xinyuan Gold Company") (托里縣鑫源黃金礦業有限公司)*	PRC/Mainland China 7 January 2004	33,400	–	80	Mining and processing of gold products
Tuoli Hami Mining Industry Co., Ltd. ("Zhaojin Taihe") (哈密市招金泰合礦業有限公司)**	PRC/Mainland China 25 February 2009	20,000	–	100	Purchasing and sale of gold products

Notes to Financial Statements

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16. Interests in Subsidiaries (Continued)

Company name	Place and date of incorporation/ registration and operations	Nominal value of paid-up/ registered capital RMB'000	Percentage of equity interest attributable to the Company Direct %	Indirect %	Principal activities
Xinjiang Xingta Mining Company Limited (新疆星塔礦業有限公司)	PRC/Mainland China 24 November 2005	160,000	100	–	Smelting of gold products
Fukang Mining Industry Company Limited ("Fu Kang") (康定縣富康礦業有限責任公司)	PRC/Mainland China 16 August 2002	6,680	100	–	Mining and processing of gold products
Huabei Zhaojin Mining Investment Company Limited ("HZMI") (華北招金礦業投資有限公司)	PRC/Mainland China 20 June 2007	50,000	100	–	Investment holding
Subsidiaries of HZMI:					
Heilongjiang Zhaojin Mining Company Limited (黑龍江招金礦業開發有限公司)	PRC/Mainland China 10 September 2007	10,000	–	70	Investment holding
Beijing Zhongse Mining Technology Company Limited (北京中色鴻鑫礦業科技有限責任公司)	PRC/Mainland China 26 September 2007	10,000	–	90	Investment holding
Gansu Zhaojin Mining Company Limited ("GSZJ") (甘肅招金礦業有限公司)	PRC/Mainland China 14 August 2007	10,000	100	–	Investment holding
Subsidiary of GSZJ:					
Liangdang Zhaojin Mining Industry Company Limited (兩當縣招金礦業有限公司)	PRC/Mainland China 28 March 2008	6,000	–	55	Mining and processing of gold products
Sparky International Trade Company Limited ("SIT") (斯派柯國際貿易有限公司)	Hong Kong 31 May 2007	68,598	100	–	Purchase of gold concentrates from outside China
Subsidiary of SIT:					
Starry Company Limited ("Starry") (滿天星股份有限公司)	British Virgin Islands 19 July 2006	7	–	100	Investment holding
Subsidiary of Starry:					
Yunnan Sparton Company Limited ("Sparton") (雲南斯帕頓礦業有限公司)	PRC/Mainland China 5 April 2004	19,354	–	51	Exploration of minerals

Notes to Financial Statements

31 December 2009

16. Interests in Subsidiaries (Continued)

Company name	Place and date of incorporation/ registration and operations	Nominal value of paid-up/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
		RMB'000	%	%	
Fengningjinlong Mining Company Limited ("FNJL") (豐寧金龍黃金工業有限公司)	PRC/Mainland China 14 September 2000	94,519	52	–	Mining, smelting and processing of gold products
Zhaojin Guihe Technical Company Limited ("Guihe") (招遠市招金貴合科技有限公司)**	PRC/Mainland China 9 October 2009	50,000	100	–	Manufacturing and sale of sulphur acid and noble metal; electricity generation
Gansu Hezuo Zaozigou Mining Industry Company Limited ("ZGM") (甘肅省合作早子溝金礦有限責任公司)***	PRC/Mainland China 29 October 2008	2,000	52	–	Mining, smelting and processing of gold products
Zhaojin Canzhuang Gold Mine ("Canzhuang") (招金股份有限公司蠶莊金礦)*	PRC/Mainland China 21 December 2009	35,290	100	–	Mining and processing of of gold products
Jiashi Tonghui Mining Company Limited (伽師縣銅輝礦業有限責任公司)****	PRC/Mainland China 5 January 2004	9,000	51	–	Mining and processing of copper products
Xinjiang Xinhui Copper Company Limited (新疆鑫慧銅業有限公司)	PRC/Mainland China 16 November 2006	30,000	51	–	Smelting of copper products

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

* Details of the acquisition of subsidiaries are included in note 41 to the financial statements.

** During the year, the Company established two subsidiaries with equity investments at a total consideration of RMB295,112,000.

*** Details of the acquisition of ZGM is included in note 42 to the financial statements.

**** Jiashi Tonghui Mining Company Limited and Kashi Area Xinxin Mining Industry Company Limited merged into a company named Jiashi Tonghui Mining Company Limited in November 2009.

Notes to Financial Statements

31 December 2009

17. Loans Receivable

Company

	2009 RMB'000	2008 RMB'000
Entrustment loans receivable	**845,655**	659,233
Less: Due within 12 months	**(61,670)**	(276,500)
Due after 12 months	**783,985**	382,733

The Company entered into entrustment loan agreements with its subsidiaries and a bank. Pursuant to the entrustment loan agreements, the Company extended loans to subsidiaries through the bank. The loans are unsecured, bear interest at fixed interest rates ranging from 4.86% to 8.69% per annum and have fixed repayment dates in 2009, 2010 and 2011.

The fair value of loans receivable with a carrying value of RMB845,655,000 (2008: RMB659,233,000) was RMB813,722,049 (2008: RMB677,139,000) at the end of reporting period and has been calculated by discounting the expected future cash flows at prevailing interest rates.

18. Long-Term Deposits

Long-term deposits of the Company represent utilities and environmental rehabilitation deposits paid to service providers and the government respectively. The amounts are not expected to be refunded within the next 12 months.

19. Land Lease Prepayments

Group

	2009 RMB'000	2008 RMB'000
At cost:		
At beginning of year	**88,617**	78,040
Additions during the year	**44,924**	10,577
Acquisition of subsidiaries *(note 41)*	**13,466**	–
At end of year	**147,007**	88,617
Accumulated amortisation:		
At beginning of year	**12,277**	9,909
Amortisation for the year	**3,247**	2,368
At end of year	**15,524**	12,277
Net book value:		
At end of year	**131,483**	76,340

Notes to Financial Statements

31 December 2009

19. Land Lease Prepayments (Continued)

Company

	2009 RMB'000	2008 RMB'000
At cost:		
At beginning of year	55,225	44,747
Additions during the year	12,025	10,478
At end of year	67,250	55,225
Accumulated amortisation:		
At beginning of year	7,750	6,211
Amortisation for the year	1,719	1,539
At end of year	9,469	7,750
Net book value:		
At end of year	57,781	47,475

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

Group

	2009 RMB'000	2008 RMB'000
Medium term leases	124,619	69,325
Long term leases	6,864	7,015
Total	131,483	76,340

Company

	2009 RMB'000	2008 RMB'000
Medium term leases	50,917	40,460
Long term leases	6,864	7,015
Total	57,781	47,475

Notes to Financial Statements

31 December 2009

20. Other Long-Term Assets

Group

	2009 RMB'000	2008 RMB'000
Deposits paid for the purchase of subsidiaries	114,680	125,000
Advance payment for the purchase of property, plant and equipment	49,966	86,656
Prepayment for long-term assets	164,646	211,656

Company

	2009 RMB'000	2008 RMB'000
Deposits paid for the purchase of subsidiaries	114,680	125,000
Advance payment for the purchase of property, plant and equipment	37,507	76,532
Prepayment for long-term assets	152,187	201,532

During the year, the Company placed deposits amounting to RMB19,680,000 to acquire one exploration right. As at 31 December 2009, the acquisitions have not been completed, pending the completion of due diligence.

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21. Deferred Tax

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

Group

31 December 2009

	At 1 January RMB'000	(Charged)/ credited to profit or loss *(Note 8)* RMB'000	Arising on acquisition RMB'000	Disposal of a subsidiary RMB'000	Reclassi- –fication to assets/ liabilities classified as held for sale RMB'000	At 31 December RMB'000
Deferred tax assets:						
Income received on share subscription funds	(7,624)	4,408	–	–	–	(3,216)
Excess tax depreciation over book value						
– Intangible assets	41,006	(10,840)	–	–	–	30,166
– Property, plant and equipment	(7,435)	(1,744)	–	–	–	(9,179)
Provision for early retirement and rehabilitation	19,610	1,827	–	–	–	21,437
Other temporary differences	33,700	22,831	–	–	(815)	55,716
Deferred tax assets	79,257	16,482	–	–	(815)	94,924
Deferred tax liabilities:						
Fair value adjustments arising from acquisition of subsidiaries	(298,831)	10,258	(103,675)	–	17,221	(375,027)
Deferred tax liabilities	(298,831)	10,258	(103,675)	–	17,221	(375,027)
Total	(219,574)	26,740	(103,675)	–	16,406	(280,103)

Notes to Financial Statements

31 December 2009

21. Deferred Tax (Continued)

The movements in deferred tax assets and liabilities during the year are as follows: (continued)

Group

31 December 2008

	At 1 January RMB'000	(Charged)/ credited to profit or loss *(Note 8)* RMB'000	Arising on acquisition RMB'000	Disposal of a subsidiary RMB'000	Others RMB'000	At 31 December RMB'000
Deferred tax assets:						
Income received on share subscription funds	(12,032)	4,408	–	–	–	(7,624)
Excess tax depreciation over book value						
– Intangible assets	49,051	(8,045)	–	–	–	41,006
– Property, plant and equipment	(3,776)	(3,659)	–	–	–	(7,435)
Provision for early retirement and rehabilitation	13,839	2,415	–	–	–	16,254
Other temporary differences	27,406	9,650	–	–	–	37,056
Deferred tax assets	74,488	4,769	–	–	–	79,257
Deferred tax liabilities:						
Non-deductible premium paid on acquisition						
– Intangible assets	(106,528)	5,148	(194,259)	6,026	(819)	(290,432)
– Property, plant and equipment	(9,038)	639	–	–	–	(8,399)
Excess book value of a derivative over tax cost	(9,671)	9,671	–	–	–	–
Deferred tax liabilities	(125,237)	15,458	(194,259)	6,026	(819)	(298,831)
Total	(50,749)	20,227	(194,259)	6,026	(819)	(219,574)

Notes to Financial Statements

31 December 2009

21. Deferred Tax (Continued)

The movements in deferred tax assets and liabilities during the year are as follows (continued):

Company

31 December 2009

	At 1 January RMB'000	(Charged)/ credited to profit or loss RMB'000	At 31 December RMB'000
Deferred tax assets/(liabilities):			
Income received on share application funds	(7,624)	4,408	(3,216)
Excess tax depreciation over book value			
– Intangible assets	(5,300)	(8,627)	(13,927)
– Property, plant and equipment	(8,207)	(5,148)	(13,355)
Provision for early retirement and rehabilitation	16,086	244	16,330
Other temporary differences	10,103	7,464	17,567
Deferred tax assets/(liabilities)	5,058	(1,659)	3,399

31 December 2008

	At 1 January RMB'000	(Charged)/ credited to profit or loss RMB'000	At 31 December RMB'000
Deferred tax assets/(liabilities):			
Income received on share application funds	(12,032)	4,408	(7,624)
Excess tax depreciation over book value			
– Intangible assets	(2,505)	(2,795)	(5,300)
– Property, plant and equipment	(6,400)	(1,807)	(8,207)
Provision for early retirement and rehabilitation	11,418	2,562	13,980
Excess book value of a derivative over tax cost	(9,671)	9,671	–
Other temporary differences	17,361	(5,152)	12,209
Deferred tax assets/(liabilities)	(1,829)	6,887	5,058

Notes to Financial Statements

31 December 2009

22. Cash and Cash Equivalents

Group

	2009 RMB'000	2008 RMB'000
Cash on hand	**1,282**	1,628
Cash in banks, unrestricted	**1,521,819**	620,405
Time deposits	**691,010**	66,731
	2,214,111	688,764
Reclassification to a group of assets held for sale *(note 9, 10)*	**(4,715)**	–
	2,209,396	688,764

Company

	2009 RMB'000	2008 RMB'000
Cash on hand	**133**	48
Cash in banks, unrestricted	**1,275,490**	566,389
Time deposit	**639,000**	45,000
	1,914,623	611,437

At the end of the reporting period, the cash and cash equivalents of the Group denominated in Hong Kong dollars ("HK$") amounted to RMB20,712,672 (2008: RMB23,737) and those denominated in United States dollars ("US$") amounted to RMB24,586,269 (2008: RMB5,751,501). All other cash and cash equivalents held by the Company and the Group are denominated in RMB. The RMB is not freely convertible into other currencies; however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulation, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

Notes to Financial Statements

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23. Trade and Notes Receivables

Group

	2009 RMB'000	2008 RMB'000
Trade receivables	**3,351**	29,112
Notes receivable	**7,446**	6,250
	10,797	35,362

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

	2009 RMB'000	2008 RMB'000
Outstanding balances due within 90 days	**10,797**	35,362

Company

	2009 RMB'000	2008 RMB'000
Trade receivables	**224**	10,611
Notes receivable	**2,920**	–
	3,144	10,611

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

	2009 RMB'000	2008 RMB'000
Outstanding balances due within 90 days	**3,144**	10,611

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

Notes to Financial Statements

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24. Prepayments and Other Receivables

Group

	2009 RMB'000	2008 RMB'000
Prepayments	**155,367**	106,622
Other receivables	**41,115**	107,761
Amount due from a related party:		
– which can exercise significant influence over the Group	**1,080**	3,850
	197,562	218,233
Reclassification to a group of assets held for sale *(note 9)*	**(6)**	–
	197,556	218,233

Company

	2009 RMB'000	2008 RMB'000
Prepayments	**70,071**	85,503
Other receivables	**11,350**	72,682
Amounts due from related parties:		
– A party with significant influence over the Group	**10**	10
– Subsidiaries of the Company	**126,805**	45,910
	208,236	204,105

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

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

Notes to Financial Statements

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25. Inventories

Group

	2009 RMB'000	2008 RMB'000
Raw materials	46,587	43,186
Work in progress	374,831	249,763
Finished goods	53,850	129,279
	475,268	422,228
Reclassification to a group of assets held for sale *(note 9,10)*	(157)	–
	475,111	422,228
Included in the above balances are: Inventories processed for third parties	165,673	127,525

Company

	2009 RMB'000	2008 RMB'000
Raw materials	23,301	26,720
Work in progress	282,973	156,573
Finished goods	11,836	32,010
	318,110	215,303
Included in the above balances are: Inventories processed for third parties	165,673	127,525

Notes to Financial Statements

31 December 2009

26. Equity Investments at Fair Value through Profit or Loss

Group

	2009 RMB'000	2008 RMB'000
Hong Kong listed equity investments at fair value	–	21,321
A share listed equity investments at fair value	–	522
	–	21,843

Company

	2009 RMB'000	2008 RMB'000
A share listed equity investments at fair value	–	522

27. Held-to-Maturity Investments

Group and Company

	2009 RMB'000	2008 RMB'000
Held-to-maturity investments	–	140,000

In 2008, the Group entered into agreements with creditworthy banks to hold certain investments with fixed periods of repayment ranging from 7 days to 6 months. The investment principals are guaranteed, while the rate of return is floating. The Group redeemed the investment in 2009 upon expiration.

Notes to Financial Statements

31 December 2009

28. Pledged Deposit

Group and Company

	2009 RMB'000	2008 RMB'000
Pledged deposit	59,396	–

The pledged deposit represents the deposit serving as a guarantee for the bank borrowing of a loan denominated in Hong Kong dollars with a total amount of HK$67,450,000 in 2009 (2008: Nil).

29. Interest-bearing Bank and Other Borrowings

Group

	2009 RMB'000	2008 RMB'000
Unsecured:		
– Bank loans	596,200	463,700
– Other borrowings	13,250	15,280
	609,450	478,980
Secured:		
– Bank loans	59,396	–
Total	668,846	478,980
Analysed into:		
Bank loans repayable:		
– Within one year	605,596	471,190
– In the second year	–	–
– In the third to fifth years	50,000	–
– Over five years	–	–
	655,596	471,190
Other borrowing repayable:		
– Within one year	5,460	–
– In the second year	–	–
– In the third to fifth years	–	–
– Over five years	7,790	7,790
	13,250	478,980
Portion classified as:		
– Current	(611,056)	(471,190)
– Non-current	57,790	7,790

Notes to Financial Statements

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

Group

Notes:

(a) Effective interest rates and maturity dates

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

	2009	2008
(i) Bank loans – fixed rate		
– Effective interest rate (%)	4.06	4.74
– Maturity (year)	2010 – 2012	2009
(ii) Other borrowings – fixed rate		
– Effective interest rate (%)	4.23	2.95
– Maturity (year)	2010 – 2021	2009 – 2021

(b) Unutilised limit of bank loans

	2009 RMB'000	2008 RMB'000
Banking facilities:		
– Available	2,595,596	5,410,000
– Utilised	(655,596)	(463,700)
Unutilised	1,940,000	4,946,300

(c) Corporate guarantees

The following loans of the Group are guaranteed by Zhaojin Group (see note 40(b)):

	2009 RMB'000	2008 RMB'000
Bank loans	20,000	6,600

Notes to Financial Statements

31 December 2009

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

Company

	2009 RMB'000	2008 RMB'000
Unsecured:		
– Bank loans	**565,596**	450,000
– Other borrowings	**9,190**	9,190
	574,786	459,190
Repayable:		
– Within one year	**566,996**	451,400
– Over five years	**7,790**	7,790
	574,786	459,190
Portion classified as:		
– Current	**(566,996)**	(451,400)
– Non-current	**7,790**	7,790

Notes:

(a) Effective interest rates and maturity dates

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

	2009	2008
(i) Bank loans – fixed rate		
– Effective interest rate (%)	**3.91**	4.74
– Maturity (year)	**2010**	2009
(ii) Other borrowings – fixed rate		
– Effective interest rate (%)	**2.16**	2.16
– Maturity (year)	**2010 – 2021**	2009 – 2021

Notes to Financial Statements

31 December 2009

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

Company

Notes: (Continued)

(b) Unutilised limit of bank loans

	2009 RMB'000	2008 RMB'000
Banking facilities:		
– Available	**2,475,596**	5,290,000
– Utilised	**(565,596)**	(450,000)
Unutilised	**1,910,000**	4,840,000

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

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

Group

	Carrying amounts		Fair values	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Fixed rate bank loans	**50,000**	–	**48,619**	–
Other borrowings	**7,790**	7,790	**5,527**	5,397
	57,790	7,790	**54,146**	5,397

Notes to Financial Statements

31 December 2009

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

Company

	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Fixed rate bank loans	–	–	–	–
Other borrowings	7,790	7,790	5,527	5,397
	7,790	7,790	5,527	5,397

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

30. Trade Payables

Group

	2009 RMB'000	2008 RMB'000
Trade payables	102,809	78,030
Payable under tolling arrangements	270,486	127,525
	373,295	205,555

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

	2009 RMB'000	2008 RMB'000
Outstanding balances with ages:		
Within one year	357,431	201,599
Over one year but within two years	14,160	2,754
Over two years but within three years	634	134
Over three years	1,070	1,068
	373,295	205,555

Notes to Financial Statements

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30. Trade Payables (Continued)

Company

	2009 RMB'000	2008 RMB'000
Trade payables	30,678	41,780
Payable under tolling arrangements	270,486	127,525
	301,164	169,305

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

	2009 RMB'000	2008 RMB'000
Outstanding balances with ages:		
Within one year	297,452	169,305
Over one year but within two years	3,712	–
	301,164	169,305

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

Notes to Financial Statements

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31. Other Payables and Accruals

Group

	2009 RMB'000	2008 RMB'000
Accrued taxes other than income tax	**10,450**	12,600
Accrued expenses and other payables	**223,567**	146,421
Capital expenditure payables	**124,358**	165,088
	358,375	324,109
Reclassification to a group of assets held for sales *(note 9, 10)*	**(8,265)**	–
	350,110	324,109
Amount due to a related party:		
– which can exercise significant influence over the Group	**110,114**	3,073
	460,224	327,182

Company

	2009 RMB'000	2008 RMB'000
Accrued taxes other than income tax	**4,262**	5,155
Accrued expenses and other payables	**146,573**	66,146
Capital expenditure payables	**28,936**	66,609
	179,771	137,910

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

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

Notes to Financial Statements

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32. Provisions

Group

	2009 RMB'000	2008 RMB'000
Provision for rehabilitation		
At beginning of year	7,015	6,512
Interest increment	211	325
Change in discount rate	646	229
Decrease	(726)	(51)
At end of year	7,146	7,015
Provision for early retirement		
At beginning of year	61,649	54,325
Additional early retirees	12,508	13,809
Change in discount rate	317	4,320
Interest increment	3,274	2,935
Acquisition of a subsidiary	5,553	–
Utilised during the year	(15,120)	(13,740)
At end of year	68,181	61,649
Total	75,327	68,664
Analysis of total provisions		
Current	12,966	12,445
Non-current	62,361	56,219
	75,327	68,664

Notes to Financial Statements

31 December 2009

32. Provisions (Continued)

Company

	2009 RMB'000	2008 RMB'000
Provision for rehabilitation		
At beginning of year	5,602	5,838
Interest increment	159	292
Change in discount rate	524	186
Decrease	(511)	(714)
At end of year	5,774	5,602
Provision for early retirement		
At beginning of year	54,279	44,810
Additional early retirees	11,396	15,851
Change in discount rate	273	3,780
Interest increment	2,882	2,420
Utilised during the year	(14,106)	(12,582)
At end of year	54,724	54,279
Total	60,498	59,881
Analysis of total provisions		
Current	11,514	11,112
Non-current	48,983	48,769
	60,497	59,881

The provisions are based on estimates of future payments made by management and are discounted at rates in the range of 5.3% to 5.9% (2008: 5.4% to 5.9%). Changes in assumptions could significantly affect these estimates.

The provision for rehabilitation is in relation to the estimated costs of complying with the Group's obligations for land reclamation. These costs are expected to be incurred on mine closure, which, based on current mineral reserve estimates, ranges from 2 to 37 years.

The provision for early retirement is in respect of future payments to be made by the Group to former employees who have accepted early retirement terms. These payments are made monthly based on the employees' pre-retirement salary level and age, and are due to be made until the former employees reach normal statutory retirement age, which extends up to 2030.

Notes to Financial Statements

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33. Deferred Income

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

Group

	Notes	2009 RMB'000	2008 RMB'000
At beginning of year		49,280	31,967
Received during the year		16,779	24,070
Recognised as income during the year	5	(24,590)	(6,757)
		41,469	49,280
Reclassification to a group of liabilities held for sale	10	(1,500)	–
At end of year		39,969	49,280

Company

	2009 RMB'000	2008 RMB'000
At beginning of year	34,352	24,191
Received during the year	3,930	16,570
Recognised as income during the year	(12,113)	(6,409)
At end of year	26,169	34,352

Notes to Financial Statements

31 December 2009

34. Corporate Bond

On 23 December 2009, the Company issued a domestic corporate bond to the public in Shanghai Stock Exchange with par value of RMB1.5 billion. The bond carries interest at 5% per annum with a term of seven years, which is payable annually in arrears on 23 December each year. The bond is redeemable, at the option of bondholders, at par value on 23 December 2014.

Group and Company

	2009 **RMB'000**	2008 RMB'000
Par value of a bond issued during the year	**1,500,000**	–
Issuance expense	**(12,000)**	–
Interest expense	**36**	–
Corporate bond at 31 December	**1,488,036**	–

The fair value of the Company's corporate bond approximates its carrying amount as at 31 December 2009. It is calculated by discounting the expected future cash flows of prevailing interest rate for similar grade corporate bond with similar duration.

35. Other Long Term Liability

The balance represents the payable for the renewal of mining right which will not be settled within twelve months after the end of the reporting period. The fair value of the long-term liability is RMB34,522,000 which is calculated by discounting the expected future cash flows of market interest rate.

36. Share Capital

	2009 **RMB'000**	2008 RMB'000
Registered, issued and fully paid:		
Domestic shares of RMB1.00 each	**1,020,257**	1,020,257
H shares of RMB1.00 each	**437,173**	437,173
	1,457,430	1,457,430

Notes to Financial Statements

31 December 2009

37. Reserves

i. Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 98.

ii. Company

	Capital reserve RMB'000	Statutory reserves RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000
At 1 January 2008	2,442,125	96,355	463,199	182,179	3,183,858
Total comprehensive income for the year	–	–	528,011	–	528,011
Bonus issue	(546,536)	–	(182,179)	–	(728,715)
Transfer to reserves	–	51,396	(51,396)	–	–
Dividends					
– 2008 final proposed	–	–	(241,933)	241,933	–
– 2007 final paid	–	–	–	(182,179)	(182,179)
At 31 December 2008 and 1 January 2009	1,895,589	147,751	515,702	241,933	2,800,975
Total comprehensive income for the year	–	–	791,083	–	791,083
Transfer to reserves	–	52,422	(52,422)	–	–
Dividends					
– 2009 final proposed	–	–	(320,635)	320,635	–
– 2008 final paid	–	–	–	(241,933)	(241,933)
At 31 December 2009	**1,895,589**	**200,173**	**933,728**	**320,635**	**3,350,125**

Notes to Financial Statements

31 December 2009

37. Reserves (Continued)

Capital reserve

In 2006, share premium, which represented the difference between the nominal value and the issue price of the new H Shares issued to the public upon listing of the Company's H Shares on the Main Board of SEHK, amounting to RMB2,332,417,547 was recognised in the capital reserve. In addition, share subscription expenses of RMB163,665,082 were set off against the share premium.

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

There was no movement in the share premium of the Group and of the Company during the year.

Statutory reserves

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

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

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

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

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

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

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

At 31 December 2009, the Group's reserves available for distribution were approximately RMB868,537,180 (2008: RMB448,502,605).

Notes to Financial Statements

31 December 2009

38. Commitments

(a) Capital commitments

Group

	2009 RMB'000	2008 RMB'000
Contracted, but not provided for:		
– Land and buildings	**1,549**	5,887
– Plant and machinery	**6,656**	9,354
– Unlisted equity investments in subsidiaries	**–**	15,000
	8,205	30,241
Authorised, but not contracted for:		
– Land and buildings	**328,450**	107,300
– Plant and machinery	**418,950**	126,900
– Exploration and evaluation assets	**766,400**	250,970
	1,513,800	485,170

Company

	2009 RMB'000	2008 RMB'000
Contracted, but not provided for:		
In respect of:		
– Land and buildings	**1,549**	5,887
– Plant and machinery	**6,656**	9,354
– Unlisted equity investments in subsidiaries	**–**	15,000
	8,205	30,241
Authorised, but not contracted for:		
In respect of		
– Land and buildings	**137,950**	61,060
– Plant and machinery	**189,650**	57,110
– Exploration and evaluation assets	**549,800**	146,770
	877,400	264,940

Notes to Financial Statements

31 December 2009

38. Commitments (Continued)

(b) Operating lease commitments

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

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

Group

	2009 RMB'000	2008 RMB'000
Within one year	4,526	3,950
In the second to fifth years, inclusive	4,364	–
	8,890	3,950

Company

	2009 RMB'000	2008 RMB'000
Within one year	3,909	3,330
In the second to fifth years, inclusive	3,787	–
	7,696	3,330

Notes to Financial Statements

31 December 2009

39. Contingent Liabilities

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

(a) Guarantees

Company

	2009 RMB'000	2008 RMB'000
Guarantees provided to bank		
for loan facilities granted to:		
– Tuoli Zhaojin Beijiang Mining Company Limited	–	5,000
– Kunhe Zhaojin Mining Company Limited	50,000	–
	50,000	5,000

(b) Indemnities from Zhaojin Group

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

Notes to Financial Statements

31 December 2009

40. Related Party Transactions

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

	2009 RMB'000	2008 RMB'000
Nature of relationships/transactions		
(i) Zhaojin Group, a party which can exercise significant influence over the Group		
Recurring transactions		
Sale of sliver	37,510	–
Expenses:		
– Payment of ground rent	3,962	3,270
– Gold exchange commission fee	715	604
– Commission fee for purchase of property, plant and equipment	140	538
(ii) Subsidiaries of Zhaojin Group		
Recurring transactions		
Expenses:		
– Fees for refining services	4,175	3,020
– Fees for mining construction activities	39	–
Non-recurring transactions		
Capital transactions:		
– Purchase of property, plant and equipment	4	2,578
– Purchase of software	1,362	522
(iii) Associates of Zhaojin Group		
Recurring transactions		
– Sale of gold bearing materials	3,900	–

Notes to Financial Statements

31 December 2009

40. Related Party Transactions (Continued)

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

The above transactions were conducted at commercial prices based on market rates. In addition, the following transactions took place:

i. The Company entered into an indemnity agreement with Zhaojin Group on 17 November 2006, as disclosed in note 39(b) to the consolidated financial statements. These indemnities are provided free of charge.

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

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

(b) Guarantees granted by Zhaojin Group as security for the Group's bank loans are disclosed in note 29(c) to the financial statements. These guarantees were provided free of charge.

(c) Outstanding balances with related parties

As disclosed in notes 23 and 30 to the financial statements, the Group had outstanding advances receivable/payable from/to related parties at the end of the reporting period. The advances are unsecured, interest-free and have no fixed terms of repayment.

(d) Compensation of key management personnel of the Group:

	2009 RMB'000	2008 RMB'000
Short term employee benefits	1,522	4,083
Post-employment benefits	–	
Total compensation paid to key management personnel	1,522	4,083

Further details of directors' emoluments are included in note 7 to the financial statements.

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31 December 2009

40. Related Party Transactions (Continued)

(e) During the year, no fees were paid to non-executive directors and supervisors.

(f) Connected transactions

The transactions disclosed in items (a) to (e) above also constitute connected transactions and/or continuing connected transactions as referred to in Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

41. Business Combinations

Acquisitions of subsidiaries during the year were as follows:

(a) On 15 December 2009, the Company completed the acquisition of a 100% equity interest of Canzhuang at the consideration of RMB426,610,000, satisfied by cash. Canzhuang is engaged in the mining and processing of gold and the sale of gold products.

The fair values of the identifiable assets and liabilities of Canzhuang as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair value recognised on acquisition RMB'000	**Previous carrying amount** RMB'000
Property, plant and equipement	213,459	179,082
Intangible assets	338,764	337
Land lease prepayments	13,466	186
Long-term prepaid expense	–	128
Cash and bank balances	47,941	47,941
Prepayments and other receivables	10,379	9,480
Inventories	3,272	1,788
Deferred income	–	(9,750)
Interest-bearing bank and other borrowings	(20,250)	(20,250)
Trade payables	(11,049)	(11,049)
Other payables and accruals	(148,634)	(154,185)
Provisions	(5,553)	–
Deferred tax liabilities	(99,522)	–
	342,273	43,708
Goodwill	84,337	
Satisfied by:		
Cash	426,610	

Notes to Financial Statements

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41. Business Combinations (Continued)

(b) On 18 February 2009, the Company completed its acquisition of a 100% equity interest in Tianshanze Company and Tianyun Company at consideration of RMB30 million, satisfied by cash. These two companies are incorporated in Xinjiang Province and owned by the same individual shareholders. The main businesses are the mining and processing of gold and the sale of gold products.

The fair values of the identifiable assets and liabilities of the above two companies as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair value recognised on acquisition RMB'000	**Previous carrying amount** RMB'000
Property, plant and equipement	17,761	13,073
Inventories	588	442
Deferred tax liabilities	(1,710)	–
	16,639	13,515
Goodwill	13,361	
Satisfied by:		
Cash	30,000	

Notes to Financial Statements

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41. Business Combinations (Continued)

(c) On 28 June 2009, TZB, the wholly-owned subsidiary of the Company, entered into a share capital injection agreement with third parties to acquire a 80% equity interest in Xinyuan Gold Company in form of subscription of additional paid-in capital. Consequently, TZB completed the acquisition at a consideration of RMB26,720,000 satisfied by cash. Xinyuan Gold Company is engaged in the mining and processing of gold and the sale of gold products.

The fair values of the identifiable assets and liabilities of the above Xinyuan Gold Company as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair value recognised on acquisition RMB'000	**Previous carrying amount** RMB'000
Property, plant and equipement	12,541	2,765
Intangible assets	4,835	4,835
Cash and bank balances	26,720	26,720
Other payables and accruals	(4,528)	(4,528)
Deferred tax liabilities	(2,444)	–
Minority interest	(7,425)	–
	29,699	29,792
Excess over the cost of a business combination	(2,979)	
Satisfied by:		
Cash	26,720	

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41. Business Combinations (Continued)

An analysis of the net outflow of cash and cash equivalents in respect of the above acquisitions are as follows:

	2009 RMB'000
Cash consideration	483,330
Cash and bank balances acquired	(74,661)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	408,669

Since acquisition, the above subsidiaries contributed RMB4,627,045 to the Group's revenue and RMB1,357,554 to the Group's profit for the year ended 31 December 2009. Had the combinations taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit for the year of the Group would have been RMB2,908,040,080 and RMB813,782,296 respectively.

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42. Acquisition of a Subsidiary

On 9 April 2009, the Company completed its acquisition of a 52% equity interest in ZGM, a company incorporated in the PRC, at consideration of RMB55 million. The purchase consideration was fully settled in cash.

The carrying amounts of the identifiable assets and liabilities of the above acquisition as at the date of acquisition was as follows:

	Carrying amounts RMB'000
Property, plant and equipment *(note 13)*	2,000
Intangible assets *(note 14)*	103,769
Minority interests	(50,769)
	55,000
Satisfied by:	
Cash	55,000

An analysis of the net outflow of cash and cash equivalents in respect of the above acquisition is as follows:

	2009 **RMB'000**
Cash consideration	**55,000**
Deposit paid in 2008	**(40,000)**
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**15,000**

From the date of acquisition, the results of the new acquired subsidiary has no significant impact on the Group's consolidated turnover or net profit for the year ended 31 December 2009.

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43. Disposal of a Subsidiary

	Notes	2009 RMB'000	2008 RMB'000
Net assets disposed of:			
Property, plant and equipment	13	–	12,749
Intangible assets	14	–	21,980
Long-term deposit		–	7,200
Deferred tax liability		–	(6,026)
Subtotal		–	35,903
Loss on disposal of subsidiary	6	–	(15,553)
		–	20,350
Satisfied by:			
Cash		–	20,350

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2009 RMB'000	2008 RMB'000
Cash consideration	–	20,350
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	–	20,350

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44. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of reporting period are as follows:

Group

Financial assets

	2009		2008			
	Loans and receivables RMB'000	Total RMB'000	FA RMB'000	Loans and receivables RMB'000	Held-to-maturity investments RMB'000	Total RMB'000
Long-term deposits	6,882	6,882	–	5,866	–	5,866
Trade and notes receivables	10,797	10,797	–	35,362	–	35,362
Financial assets included in other receivables	42,195	42,195	–	111,611	–	111,611
Equity investments at fair value through profit or loss	–	–	21,843	–	–	21,843
Held-to-maturity investments	–	–	–	–	140,000	140,000
Cash and cash equivalents	2,209,396	2,209,396	–	688,764	–	688,764
	2,269,270	2,269,270	21,843	841,603	140,000	1,003,446

FA – Represents financial assets at fair value through profit or loss that are classified as held for trading.

Financial liabilities

	2009 Financial liabilities at amortised cost RMB'000	2008 Financial liabilities at amortised cost RMB'000
Trade payables	373,295	205,555
Financial liabilities included in other payables	374,582	248,477
Interest-bearing bank and other borrowings	668,846	478,980
Corporate bond	1,488,036	–
Other long-term liability	40,000	–
	2,944,759	933,012

Notes to Financial Statements

31 December 2009

44. Financial Instruments by Category (Continued)

The carrying amounts of each of the categories of financial instruments as at the end of reporting period are as follows (continued)

Company

Financial assets

	2009		2008			
	Loans and receivables RMB'000	Total RMB'000	FA RMB'000	Loans and receivables RMB'000	Held-to-maturity investments RMB'000	Total RMB'000
Long-term deposits	6,880	6,880	–	5,866	–	5,866
Trade and notes receivables	3,144	3,144	–	10,611	–	10,611
Financial assets included in other receivables	138,165	138,165	–	118,602	–	118,602
Equity investments at fair value through profit or loss	–	–	522	–	–	522
Held-to-maturity investments	–	–	–	–	140,000	140,000
Cash and cash equivalents	1,914,623	1,914,623	–	611,437	–	611,437
	2,062,812	2,062,812	522	746,516	140,000	887,038

FA – Represents financial assets at fair value through profit or loss that are classified as held for trading.

Financial liabilities

	2009 Financial liabilities at amortised cost RMB'000	2008 Financial liabilities at amortised cost RMB'000
Trade payables	301,164	169,305
Financial liabilities included in other payables	117,869	99,303
Interest-bearing bank and other borrowings	574,786	459,190
Corporate bond	1,488,036	–
	2,481,855	727,798

Notes to Financial Statements

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45. Financial Risk Management Objectives and Policies

Financial assets of the Group mainly include cash and cash equivalents, trade and notes receivables, deposits and other receivables, equity investments at fair value through profit or loss and held-to-maturity investments. Financial liabilities of the Group include bank and other borrowings, trade payables and other payables, corporate bond and other long-term liability.

The main risks arising from the Group's financial instruments are liquidity risk, interest rate risk, commodity price risk, credit risk and foreign exchange risk. The directors review and agree policies for managing each of these risks and they are summarised below.

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed facilities from banks to meet its commitments over the foreseeable future in accordance with its strategic plan.

Subsequent to the IPO of the Company in December 2006, the Group's cash and cash equivalents are more than its total debts. Accordingly, management is of the view that the liquidity risk of the Group is minimal.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group

	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
2009					
Interest-bearing bank and other borrowings	206,200	404,856	50,000	7,790	668,846
Trade payables	373,295	–	–	–	373,295
Other payables	374,582	–	–	–	374,582
Corporate bond	–	75,000	300,000	1,650,000	2,025,000
Other long-term liability	–	10,000	30,000	–	40,000*
	954,077	489,856	380,000	1,657,790	3,481,723

* The amount represents the contractual amount to be paid in installment according to the loan commitment.

2008					
Interest-bearing bank and other borrowings	50,000	421,190	–	7,790	478,980
Trade payables	205,555	–	–	–	205,555
Other payables and accruals	248,477	–	–	–	248,477
	504,032	421,190	–	7,790	933,012

Notes to Financial Statements

31 December 2009

45. Financial Risk Management Objectives and Policies (Continued)

Company

	Less than 3 months RMB'000	3 to less than 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
2009					
Interest-bearing bank and other borrowings	**206,200**	**360,796**	**–**	**7,790**	**574,786**
Trade payables	**301,164**	**–**	**–**	**–**	**301,164**
Other payables	**117,869**	**–**	**–**	**–**	**117,869**
Corporate bond	**–**	**75,000**	**300,000**	**1,650,000**	**2,025,000**
Guaranteed of loan	**–**	**–**	**50,000**	**–**	**50,000**
	625,233	**435,796**	**350,000**	**1,657,790**	**3,068,819**
2008					
Interest-bearing bank and other borrowings	50,000	401,400	–	7,790	459,190
Trade payables	169,305	–	–	–	169,305
Other payables	99,303	–	–	–	99,303
Guaranteed of loan	5,000	–	–	–	5,000
	323,608	401,400	–	7,790	732,798

Interest rate risk

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

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

A reasonably possible change of 100 basis points in interest rates would have no material impact on the Group's profit and equity for the year.

Notes to Financial Statements

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45. Financial Risk Management Objectives and Policies (Continued)

Price risk

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

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

The price range of the forward commodity contracts is closely monitored by management. At 31 December 2009, substantially all of the forward commodity contracts of the Group were settled and accordingly, a reasonably possible change of 10% in commodity prices would have no material impact on the Group's and Company's profit and equity for the year.

Credit risk

The Group has no significant credit risk with customers since all gold and silver sales are made through the SGE, or through physical delivery of gold and silver in settlement of liabilities to suppliers of gold and silver concentrate, and substantially all copper sales are made in cash.

The Group's notes receivable are guaranteed by banks and the risk for default in payment is minimal. The carrying amounts of cash and cash equivalents, trade and notes receivables, and other receivables represent the Group's maximum exposure to credit risk attributable to its financial assets.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, other receivables, arises from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments.

Substantial amounts of the Group's cash and cash equivalents are held in major financial institutions located in Mainland China and Hong Kong, which management believes are of high credit quality.

The Group has no significant concentration of credit risk with any single counterparty.

Foreign exchange risk

As 31 December 2009, the Group held limited HK$ and US$ denominated cash and cash equivalents. Accordingly, the Group's exposure to exchange rate fluctuations between RMB and HK$ and US$ was minimal during the year.

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31 December 2009

45. Financial Risk Management Objectives and Policies (Continued)

Fair values

Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The fair values of the Group's long-term borrowings, corporate bonds and other long-term liability are disclosed in notes 29, note 34 and note 35 to the financial statements. The carrying amounts of all other financial instruments approximated to their fair values due to the short term to maturity at each of the end of each reporting period.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. The Group makes no change to its capital structure between 2008 and 2009.

The Group is currently funding its capital expenditure through corporate bond and new bank borrowings. The proceeds from the IPO are being utilised in accordance with the plan stated in the Company's prospectus dated 24 November 2006. Under normal circumstances, the Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. The Group's policy is to maintain the gearing ratio between 20% and 35%. Net debt is defined as liability funding of the Group's long term operating assets, net of cash balances. It excludes liabilities incurred for working capital purposes. Capital includes equity attributable to the owners of the Company. As at 31 December 2008 and 2009 respectively, the Group's cash and cash equivalents exceed its total bank and other borrowings, and therefore no gearing ratio for 2008 or 2009 is presented.

The excess of cash and cash equivalents over net debt is as follows:

Group

	2009 RMB'000	2008 RMB'000
Interest-bearing bank and other borrowings	**668,846**	478,980
Less: Cash and cash equivalents	**(2,214,111)**	(688,764)
Excess of cash and cash equivalents over net debt	**(1,545,265)**	(209,784)

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46. Comparative Amounts

As further explained in note 2.2 to the financial statements, due to the adoption of new and revised HKFRSs during the current year, the presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified and restated to conform with the current year's presentation. In addition, the comparative statement of comprehensive income has been re-presented as if the operation discontinued during the current year had been discontinued at the beginning of the comparative period (note 9).

47. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 26 March 2010.

Five Years Financial Summary

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements is set out below:

	Year ended 31 December				
	2009 RMB'000	2008 RMB'000	2007 RMB'000 (Remark)	2006 RMB'000 (Remark)	2005 RMB'000 (Remark)
RESULTS					
REVENUE	**2,796,991**	2,152,731	1,512,273	1,164,415	867,687
Cost of sales	**(1,347,704)**	(1,072,814)	(757,452)	(541,240)	(428,300)
Gross profit	**1,449,287**	1,079,917	754,821	623,175	439,387
Other revenue and gains	**99,181**	58,185	155,031	16,411	8,891
Selling and distribution costs	**(38,291)**	(19,982)	(9,581)	(5,669)	(4,795)
Administrative expenses	**(381,603)**	(295,952)	(216,039)	(143,488)	(139,736)
Other operating expenses	**(62,136)**	(97,241)	(105,471)	(5,801)	(16,947)
Finance costs	**(23,137)**	(17,260)	(20,745)	(54,346)	(46,107)
Share of profit and loss of an associate	**1,331**	2,672	1,979	(1,935)	(717)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	**1,044,632**	710,339	559,995	428,347	239,976
Interest income arising from share application funds	**–**	–	–	89,403	–
PROFIT BEFORE TAX	**1,044,632**	710,339	559,995	517,750	239,976
Income tax expense:					
– On profit before interest income arising from share application funds	**(264,035)**	(170,734)	(184,072)	(139,216)	(80,283)
– On interest income arising from share application funds	**–**	–	–	(28,883)	–
Total income tax expense	**(264,035)**	(170,734)	(184,072)	(168,099)	(80,283)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**780,597**	539,605	375,923	349,651	159,693
DISCONTINUED OPERATION					
Loss for the year from a discontinued operation	**(29,264)**	(1,483)	–	–	–
PROFIT FOR THE YEAR	**751,333**	538,122	375,923	349,651	159,693
Attributable to:					
Equity holders of the Company	**754,020**	533,905	388,447	351,190	162,891
Minority interests	**(2,687)**	4,217	(12,524)	(1,539)	(3,198)
	751,333	538,122	375,923	349,651	159,693
ASSETS, LIABILITIES AND MINORITY INTERESTS					
TOTAL ASSETS	**8,581,632**	5,930,985	5,013,877	4,907,558	2,133,045
TOTAL LIABILITIES	**(3,614,215)**	(1,522,316)	(1,260,663)	(1,443,134)	(1,328,005)
MINORITY INTERESTS	**(399,961)**	(353,288)	(69,729)	(56,911)	(58,450)
	4,567,456	4,055,381	3,683,485	3,407,513	746,590

ZHAOJIN MINING INDUSTRY COMPANY LIMITED*
招 金 礦 業 股 份 有 限 公 司