Xinjiang Xinxin Mining Industry Co., Ltd.*

新疆新鑫礦業股份有限公司

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

Stock Code : 3833

Annual Report 2010

We See The Future

* *For identification purpose only*

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Corporate Information

Summary

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

The Promoters hold in aggregate 1,451,000,000 domestic shares of the Company. In October 2007, 759,000,000 H shares of the Company were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company was the first Chinese nickel cathode production enterprise listed outside the mainland China.

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

In addition to the existing Kalatongke nickel-copper mine, the Company acquired three nickel-copper mines in Hami, Xinjiang, namely: Huangshandong (黃山東), Huangshan (黃山) and Xiangshan (香山) in 2009.

Resources and Reserves

The resources and reserves estimates for the deposits of the Group's mines at Kalatongke, Huangshandong, Huangshan and Xiangshan as at 31 December 2010 are set out in the following tables:

	Ore	**Grade**		**Metal contents**	
		Cu	**Ni**	**Cu**	**Ni**
	(t)	*(%)*	*(%)*	*(t)*	*(t)*
Resources as at 31 December 2010					
Kalatongke	37,718,339	1.03	0.60	389,100	227,453
Huangshandong, Huangshan, Xiangshan	84,877,700	0.27	0.45	231,558	381,189
Total	122,596,039			620,658	608,642
Reserves as at 31 December 2010					
Kalatongke Mine	21,691,432	1.07	0.68	232,288	146,880
Huangshandong, Huangshan, Xiangshan	33,749,859	0.31	0.50	103,259	167,092
Total	55,441,291			335,547	313,972

Note: The resources and reserves estimates for the deposits at Kalatongke Mine were based on the 2007 estimates as per the independent technical review report as shown in the Company's Prospectus. The resources and reserves estimates for the deposits at Huangshandong, Huangshan and Xiangshan mines were based on the 2008 estimates of resource and reserves as approved for record by the Department of Land and Resources of the PRC. The increases and decreases due to mining consumption and exploration during the period were confirmed by internal experts.

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

Corporate Information

Executive Directors

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

Non-executive Directors

Zhou Chuanyou (周傳有)
Niu Xuetao (牛學濤)

Independent non-executive Directors

Chen Jianguo (陳建國)
Sun Baosheng (孫寶生) (Deceased on 12 March 2011)
Ng Yuk Keung (吳育強)

Supervisors

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

Company secretaries

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

Audit committee

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

Authorised representatives

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

Registered office in Hong Kong

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

Statutory address and principal place of business in the PRC

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

Legal advisers to the Company

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

Auditors

International auditors
PricewaterhouseCoopers

PRC auditors
PricewaterhouseCoopers Zhong Tian CPAs Limited Company

H Share Registrar in Hong Kong

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

Company website

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

Stock Code

3833

Summary of Financial Information

Results of operations

	Year ended 31 December				
	2006	2007	2008	2009	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Revenue	869,068	1,581,163	1,176,663	705,938	**1,125,163**
Cost of sales	(348,419)	(721,705)	(856,580)	(419,050)	**(685,226)**
Gross profit	520,649	859,458	320,083	286,888	**439,937**
Distribution costs	(7,494)	(7,981)	(7,100)	(8,720)	**(6,247)**
Administrative expenses	(65,496)	(94,439)	(115,462)	(93,788)	**(119,692)**
Other gains/(losses) – net	5,259	4,311	(29,386)	(5,505)	**3,839**
Operating profit	452,918	761,349	168,135	178,875	**317,837**
Finance (cost)/income – net	(10,122)	64,995	124,838	50,489	**37,683**
Share of loss of a joint-venture	–	–	(658)	(992)	**(1,911)**
Share of loss of an associate	–	–	–	(1,080)	**(1,165)**
Profit before income tax	442,796	826,344	292,315	227,292	**352,444**
Income tax expense/(credit)	(119)	(238)	5,336	(747)	**(2,585)**
Profit for the year	442,677	826,106	297,651	226,545	**349,859**
Total comprehensive income for the year	442,677	826,106	297,651	226,545	**349,859**
Profit/Total comprehensive income attributable to					
– Owners of the Company	444,004	827,269	297,648	226,745	**349,902**
– Non-concurring interests	(1,327)	(1,163)	3	(200)	**(43)**
	442,677	826,106	297,651	226,545	**349,859**
Earnings per share					
– basic and diluted *(RMB/share)*	0.318	0.498	0.135	0.103	**0.158**

Summary of Financial Information

Financial position

	As at 31 December				
	2006	2007	2008	2009	**2010**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	***RMB'000***
Total non-current assets	830,234	927,608	1,651,271	2,955,017	**3,932,260**
Total current assets	733,751	4,383,618	3,744,032	2,680,432	**2,288,887**
Total assets	1,563,985	5,311,226	5,395,303	5,635,449	**6,221,147**
Total non-current liabilities	189,454	26,707	22,268	136,259	**179,393**
Total current liabilities	202,230	193,559	151,424	213,434	**346,639**
Total liabilities	391,684	220,266	173,692	349,693	**526,032**
Equity attributable to owners of the Company	1,148,688	5,090,960	5,211,808	5,239,653	**5,479,055**
Non-controlling interests	23,613	–	9,803	46,103	**216,060**
Total equity	1,172,301	5,090,960	5,221,611	5,285,756	**5,695,115**
Cash flows					
Net cash generated from operating activities	459,046	719,959	182,305	6,977	**39,528**

Chairman's Statement

Dear Shareholders,

I would like to extend my gratitude for your confidence and support to Xinjiang Xinxin Mining Industry Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group"). I am pleased to report the operating results of the Group for the year ended 31 December 2010 (the "Reporting Year" or "Year"):

Market Overview

As everyone is aware, the global economy got rid of the adverse influence of the international financial crisis and the recession in the global real economy and underwent steady recovery in 2010, coupled with the persistent strong growth of the PRC economy. Having benefiting from the growth of the global economy and the PRC economy, the international and domestic prices of nickel and copper were on the rise for the year of 2010 as compared to 2009. London Metal Exchange ("LME") average three-month future price of nickel cathode was US$21,868 per tonne in 2010, representing an increase of 48.5% as compared to 2009. LME average three-month future price of copper cathode was US$7,554 per tonne in 2010, representing an increase of 45.7% as compared to 2009. The average spot price (including tax) of nickel cathode in Yangtze River Non-ferrous Metals Spot Market (長江有色金屬現貨市場) was RMB166,133 per tonne in 2010, representing an increase of 44.1% as compared to 2009. The average spot price (including tax) of copper cathode was RMB58,961 per tonne in 2010, representing an increase of 40.4% as compared to 2009. For the year of 2010, the domestic price trend of nickel cathode and copper cathode was basically in line with the international market.

During the Reporting Year, the Group recorded an average selling price (excluding tax) of nickel cathode of RMB139,999 per tonne, representing an increase of 41.6% as compared to 2009, and an average selling price (excluding tax) of copper cathode of RMB49,346 per tonne, representing an increase of 36.2% as compared to 2009.

For the year of 2010, the relative shortage in the supply of nickel and copper resources as a result of the recovery of the global economy and the persistent economic growth in the PRC. Consequently, the output of nickel cathode and copper cathode products of the domestic manufacturers was unable to meet the demand in terms of consumption volume. Therefore, the shortage in the supply of same in the domestic market had to be made up by substantial import, which caused transactions to remain active in the domestic market of nickel cathode and copper cathode with both volume and price on the rise.

Industry Position

The Group is principally engaged in the mining, ore processing, smelting and refining of nickel products and other non-ferrous metals, (namely, copper, cobalt, gold, silver, platinum and palladium). According to the statistics of China Non-ferrous Metals Industry Association, the total domestic output of nickel cathode for the year of 2010 was 171,300 tonnes, representing an increase of 4.0% as compared to 2009. With an output of 5,937 tonnes of nickel cathode for the year of 2010, the Group has become the second largest domestic manufacturer in the production of nickel cathode from nickel sulfide resources.

Business Review

Production and Operation

For the year of 2010, the Group enhanced its overall economical benefits by lifting the technical and economic indicators, lowering production costs, raising the output of nickel cathode by means of technological renovation and expansion projects in compliance with existing production techniques and increasing outsourced raw materials. For the Year, the Group recorded a total nickel cathode output of 5,937 tonnes, representing an increase of 16.9% as compared to 2009, of which 3,534 tonnes were produced with self-produced raw materials and 2,403 tonnes were produced with outsourced raw materials, respectively representing a decrease of 17.4% and an increase of 200.8% as compared to 2009. For the Year, the Group recorded a copper cathode output of 4,081 tonnes, representing a decrease of 18.9% as compared to 2009. For the Year, the Group recorded total nickel cathode sales of 6,170 tonnes and total copper cathode sales of 3,994 tonnes, respectively representing an increase of 29.9% and a decrease of 19.0% as compared to 2009.

In light of the rising product selling price as well as the increase in the nickel cathode output and sales volume, the Group realized a significant increase in both sales income and net profit after tax during the Reporting Year as compared to 2009. For the Year, the Group achieved a sales income of RMB1,125.2 million, representing an increase of 59.4% as compared to 2009, with a net profit after tax (profit for the year attributable to owners of the Company) of RMB349.9 million, representing an increase of 54.3% as compared to 2009, and the earnings per share (basic and diluted earnings per share) of RMB0.158 (basic and diluted earnings per share were calculated on the basis of the profit attributable to equity holders of the Company and the weighted average of the issued ordinary shares of the Company of 2,210,000,000 shares for the year), representing an increase of 54.3% as compared to 2009.

In respect of mineral exploration for the year of 2010, Kalatongke Copper-nickel Mine under Xinjiang Xinxin Mining Industry Co., Ltd ("Kalatongke Copper-nickel Mine") mainly carried out the detailed prospecting and the general prospecting in the outskirt of Kalatongke Copper-nickel Mine, the exploration in Tuerkuban Copper-nickel Mine in Burqin, Xinjiang (新疆布爾津縣吐爾庫班套銅鎳礦) and its outskirt, the respective supplementary exploration west of No. 1 Ore Deposit 926 Horizontal Line 28, and the east of No. 1 Ore Deposit 770 Horizontal Line 22, as well as the horizontal tunnel exploration of Eastern Section 350 of No. 2 Ore Deposit of Kalatongke Copper-nickel Mine. A total of 212 m of following-vein and through-vein drifting works 7,174 m of drilling in pit, and 2,031 m of surface drilling has been completed. Xinjiang Yakesi Resources Co., Ltd. ("Xinjiang Yakesi") and Hami Jubao Resources Co., Ltd. ("Hami Jubao") mainly carried out the drilling and supplementary geological exploration in the southern part of Huangshandong (黃山東) No. 17 Mine Line 22-24, and Xiangshan (香山) Mine Line 36-38, the exploration of Huangshan (黃山) Copper-nickel Mine, and the respective productive exploration of Huangshandong No. 12 and No. 17 Copper-nickel Mine. The completed drilling works amounted to 5,475.5 m. During the Reporting Year, the total mineral exploration expenses of the Group amounted to approximately RMB10.2 million.

In respect of mining development, for the year of 2010, Kalatongke Copper-nickel Mine mainly accomplished the excavation of 387 m for No. 2 wind well works and the corresponding installation support for the well bore, the drifting excavation of 648 m of No. 9 ore deposit and the well bore installation of No. 9 main well and wind well, No. 1 ore body ramp and 926 m level ramp excavation of 1,224 m, the tunnel excavation of 415 m for No. 3 wind well works, the excavation of 660 m for No. 2 main well works, the 410 mid-segment drifting excavation and the laying of 800 m of trolley track cable. Xinjiang Yakesi and Hami Jubao mainly carried out the development of No. 17 ore body of Huangshandong, the construction of the auxiliary well of Xiangshan Mine, the development of No. 30 ore body and No. 32 ore body of Huangshanxi (黃山西), and the development of No. 12 ore body of Huangshandong. During the Reporting Year, the total mining development expenses of the Group amounted to approximately RMB326.2 million.

In respect of ore mining, for the year of 2010, Kalatongke Copper-nickel Mine produced 416,408 tonnes of ore while Xinjiang Yakesi and Hami Jubao produced 454,731 tonnes. During the Reporting Year, the total ore mining expenses of the Group amounted to approximately RMB178.9 million.

In respect of ore processing, for the year of 2010, Kalatongke Copper-nickel Mine produced 49,855 tonnes of nickel-copper combined concentrate, while Xinjiang Yakesi and Hami Jubao produced 28,168 tonnes of nickel concentrate and 2,965 tones of copper concentrate.

In respect of smelting and refining processing operation, for the year of 2010 Kalatongke Copper-nickel Mine produced 7,369 tonnes of water hardening and nickel matte ("水淬金屬化高冰鎳"). Xinjiang Zhongxin Mining Company Limited ("Zhongxin Mining") produced 6,525 tonnes of water hardening and nickel matte. Fukang Refinery (阜康冶煉廠) manufactured 5,937 tonnes of nickel cathode and 4,081 tonnes of copper cathode.

In respect of product sales for the Year of 2010, the Group achieved a total sales income of RMB1,125.2 million, which comprised RMB863.8 million from nickel cathode, accounting for 76.8% of the Group's total sales income, and RMB197.1 million from copper cathode recorded revenue, accounting for 17.5% of the Group's total sales income. Other products from the Group's principal businesses (including copper concentrate, electrolytic cobalt, gold, silver, platinum and palladium), achieved a sales income of RMB64.3 million, representing 5.7% of the Group's sales income.

During the Reporting Year, because of its technological renovation and expansion projects, trial production and adjustment of its process flow, Kalatongke Copper-nickel Mine was unable to launch all of its raw materials self-produced in 2010 for smelting processing leading to a decrease in the output of the Group's copper cathode and nickel cathode with self-produced raw materials as compared to 2009. Apart from that, the Group's overall production and operation in 2010 were stable and in good conditions, without any material difficulties or problems in operation. As a safeguard against the market risks, the Group will continue to pursue opportunities of merging and acquiring mines in production of raw materials, so as to further increase its ownership of resources, expand its in-house production capacity for raw materials and uplift its economic benefits.

Progress of Technological Renovation and Expansion Projects and Newly Constructed Project

During the Reporting Year, the four major projects carried out by the Group included the technological renovation and expansion projects for the enhancement in mining, ore processing and smelting capacity of Kalatongke Copper-nickel Mine, the systematic refining capacity of nickel and copper of Fukang Refinery, and the new increase in mining and ore processing capacity of Xinjiang Yakesi, as well as the newly constructed project of Xinjiang Wuxin Copper Company Limited ("Xinjiang Wuxin") for an annual output of 100,000 tonnes of copper cathode. The technological renovation and expansion projects and the newly constructed project of the Group proceeded smoothly as a whole in 2010 and the required progress of works during the Reporting Year was completed on schedule. A total investment of RMB968.2 million has been made, including:

Kalatongke Copper-nickel Mine

Regarding the technological renovation and expansion project in relation to the enhancement in mining, ore processing and smelting of the Kalatongke Copper-nickel Mine as at the end of 2010, 95% of the overall construction work of the mining segment was completed. As planned, it will be launched into production upon completion of the construction by the end of June 2011. The construction for the ore processing segment and the trial production have already been completed. The construction for the smelting segment was also completed basically. It is scheduled to have trial run and launch production in March 2011. During the Reporting Year, a total investment of RMB428.3 million was made.

Fukang Refinery

In respect of the technological renovation and expansion project of 13,000 tonnes of nickel cathode and 12,000 tonnes of copper cathode of Fukang Refinery as at the end of 2010, the technological renovation and expansion project of 13,000 tonnes of nickel cathode has been completed and launched into production. The construction of the technological renovation and expansion in relation to 12,000 tonnes of copper cathode, as well as the transition from the old system to the new system and the linkage trial run have been completed. It will be launched into production in 2011. During the Reporting Year, a total investment of RMB62.9 million was made.

Xinjiang Yakesi

As for the new technological renovation and expansion projects of Xinjiang Yakesi in relation to the mining and ore processing of 4,000 tonnes per day, a total investment of RMB189.5 million was made during the Reporting Year.

Xinjiang Wuxin

As for the newly constructed project of Xinjiang Wuxin for an annual output of 100,000 tonnes of copper cathode, the preliminary work covering the examination and approval for the establishment of the project, design, recruitment of land, leveling work for the plant area and ordering of equipment in advance has been completed as at the end of 2010. A total investment of RMB287.5 million was made during the Reporting Year.

Equity Investment

In July 2010, the Company and Xinjiang Ashele Copper Industry Company Limited jointly completed the capital increase of Xinjiang Wuxin. For the capital increase, the Company invested a total RMB330.0 million. Upon completion of the capital increase, the registered capital of Xinjiang Wuxin has increased from RMB100.0 million to RMB600.0 million, with 66.0% equity interest of Xinjiang Wuxin owned by the Company.

Environmental Protection and Safety

The Group applies and implements scientific development concepts and the policies of "Safety First, Precaution Foremost" and "Equal Emphasis on both Development and Protection" earnestly to ensure its production safety and enforce environmental governance. In 2010, the Group achieved its target of production safety. The environmental governance is stringently observed in compliance with the relevant national laws and regulations. The Group achieved remarkable results in developing the green factory area and the harmonious establishment of mines.

Outlook

Operating Environment

For the year of 2011, the global economy and the international real economy remain in the period of consolidation and recovery. It is expected that the global nickel and copper prices will keep on rising slowly subject to fluctuation. As China economy is expected to keep growing rapidly (the PRC government expects China's GDP growth for the year 2011 to be around 8%), the Group expects the consumption volume of nickel and copper in the domestic non-ferrous metal market to keep on growing in 2011. Because of the comparative shortage in the supply of nickel and copper resources, nickel cathode and copper cathode products from domestic manufacturers are still unable to satisfy the domestic demand in terms of consumption volume. It is necessary to have substantial import to make up the supply shortage in the domestic market. Therefore, the Group expects that the active transactions in the domestic market of nickel cathode and copper cathode will sustain in 2011.

The Group expects the domestic market prices for nickel cathode and copper cathode for the year of 2011 to continue to rise slowly subject to fluctuation based on the average spot prices in Shanghai Yangtze River Non-ferrous Metals Market for the year of 2010.

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Operational Objectives

For the year of 2011, the Group plans to have the output of 8,370 tonnes of nickel cathode, representing an increase of 41.0% as compared to 2010, including 6,070 tonnes manufactured with self-produced raw materials, representing an increase of 71.8% as compared to 2010, and 8,500 tonnes of copper cathode, representing an increase of 108.3% as compared to 2010. Please note that because of quite a number of uncertainties in metal prices and the domestic raw materials market, the above plan has been made on the basis of the current market situation and the existing conditions of the Group. The Board may adjust the relevant production plan in accordance with the changes of situation.

Business Strategies

Production and Operation

For the year of 2011, though the situation of the international and domestic metal markets have shown further recovery, a solid foundation for empowering the rapid growth of the global economy has not yet been formed, and hence, it is necessary to keep a prudent approach. Moreover, 2011 marks the beginning of substantiating gradually the production capacity upon completion of the various technological renovation and expansion projects of the Group. Based on the smooth launch of production of these technological renovation and expansion projects, the Group shall leverage its internal potentials and strive to increase output and income, so as to generate greater economic benefits. As the major mine of the Group, Kalatongke Copper-nickel Mine shall achieve the smooth launch of production regarding the technological renovation and expansion projects, attain new heights in respect of production and operation, standardization of management, safety, environmental protection, cultivation of talents, and exploration of resources, etc. Xinjiang Yakesi, Hami Jubao and Zhongxin Mining shall strengthen their management and achieve breakthroughs in the aspect of stabilizing production techniques, lifting technical and economic indicators, and lowering production costs, etc. Fukang Refinery, as the principal place for the production of the Group's end products, shall endeavor to further refine management, upgrade product quality and recycling rates for metals, and further uplift the levels of skills and technologies and comprehensive recycling abilities. Furthermore, the Group shall also take the initiative to develop new ideas, explore new modes of marketing as well as raw materials procurement, so as to enable the Group to make breakthrough in outsourcing raw materials and processing.

While assuring the fulfillment of the operational objectives for the year of 2011, the Group will endeavor to increase output and further enhance the economic benefits.

Projects Construction Work

For the year of 2011, Kalatongke Copper-nickel Mine will undergo comprehensive optimization of its technological renovation and expansion project in mining, ore processing and smelting in order to ensure that the overall project will be able to attain its designed production capacity as expected in 2013 for the daily mining and ore processing of 3,400 tonnes and 3,000 tonnes respectively, as well as the annual production capability of 8,000 tonnes of water hardening and nickel matte. In 2011, RMB171.2 million was invested in the project of Kalatongke Copper-nickel Mine.

For the year of 2011, Fukang Refinery shall ensure the persistent and stable production of the technological renovation and expansion project of 13,000 tonnes of nickel cathode and 12,000 tonnes of copper cathode, put the construction of the 75t/h circulating fluidized bed boiler project under good control, and carry out the proper preliminary preparation work for the technological renovation and expansion project regarding the on-going increase of production capacity for nickel cathode and copper cathode. Fukang Refinery plans to invest RMB137.6 million in 2011.

For the year of 2011, Xinjiang Yakesi plans to invest RMB416.4 million in the technological renovation and expansion project for the newly added production capacity for the mining and ore processing of 4,000 tonnes per day. The construction of the entire project is expected to be completed for the launch of production by the end of 2012. It is expected to reach the designed production capacity by the end of 2014 with the production capacity for the mining and ore processing of 5,500 tonnes per day.

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For the year of 2011, Xinjiang Wuxin plans to invest RMB968.1 million for the construction project of 100,000 tonnes of copper cathode. The construction of the project is expected to be completed for the launch of production by the end of 2012.

For the year of 2011, Zhongxin Mining plans to invest RMB5.25 million for the preliminary preparation work of the technological renovation and expansion project for increasing the production capacity for water hardening and nickel matte.

Mineral Resources Control and Search for Mines by Geological Means

Mineral resources are the fundamental guarantee for the continuing development of a mining company. After all, the control of mineral resources and the search for mines by geological means are the core components of the business development of the Group. The Group places great emphasis on searching for junior mining projects with potentials for acquisition, enhances in-depth exploration, extends exploration in the surrounding areas of its existing major mines, and applies effective mine searching methods to achieve greater growth of the mineral resources of the Group. For the year of 2011, the Group plans to invest RMB20.3 million in the in-depth exploration and extension of exploration in the surrounding area of existing major mines resources and the search for mines by geological means. In particular, Kalatongke Copper-nickel Mine plans to invest RMB8.0 million in exploration. Xinjiang Yakesi and Hami Jubao plan to invest RMB12.3 million in exploration.

Consolidation and Acquisition of Enterprises

The Company has placed great emphasis on the consolidation and acquisition of enterprises since its listing. Following the successful acquisition of various mining companies including Xinjiang Yakesi, Hami Jubao, Zhongxin Mining and Hami Hexin Mining Company Limited (哈密和鑫礦業有限公司) (in which the Company holds 50% equity interest), a growth of approximately 100% was recorded in the Group's nickel and copper reserves as well as its subsequent development and production capacity. The acquisitions have further optimized the Group's industry chain, strengthened its core competitiveness and uplifted the operational efficiency of assets as a whole. For the year of 2011, the Group will fully utilize its strength to enhance the consolidation, merger and acquisition of enterprises, initiate economic cooperation and capture the opportunities of consolidation, merger and acquisition in the international and the domestic metal markets. The Group will strengthen scientific demonstration and business operation of the selected targets of consolidation, mergers and acquisition, and strive for new breakthrough in terms of consolidation, merger and acquisition of enterprises and capital operation leading to the new milestone of the Group.

2011 is a year full of opportunities and challenges for the Group. The Group will take proactive strategic plans to respond to the favorable opportunities brought by the stabilizing and rebounding international real economy so that the Group can achieve rapid growth under the operating conditions featuring high efficiency and low-cost. We have an experienced management team which assures that the Group is able to operate more effectively under such ever-changing market conditions. With strong balance sheet, abundant reserves of resources, the Group has completed the construction of its technological renovation and expansion projects consecutively since 2010, with the enhanced production capacity being gradually released since 2011. The leading position of the Company for nickel products in an industry where production capacity growth has been constrained by the shortage in resources will enable us to enjoy sufficient benefits when the world economy further improves. The Group believes that with the joint efforts of its staff and the tremendous support from various sectors of the society, the Group will continue to develop rapidly in 2011.

By Order of the Board
Yuan Ze
Chairman

Xinjiang, the PRC
18 March 2011

Management Discussion and Analysis

OPERATING RESULTS

In 2010, the turnover of the Group amounted to RMB1,125.2 million, representing an increase of 59.4% as compared to RMB705.9 million in 2009. The comprehensive income of the Group amounted to RMB349.9 million, representing an increase of 54.4% as compared to RMB226.6 million in 2009. The profit attributable to the equity holders of the Company amounted to RMB349.9 million, representing an increase of 54.3% as compared to RMB226.7 million in 2009.

The Group's substantial increase in turnover and comprehensive income as compared to that of last year were mainly due to the recovery of the global economy and China's continuous strong economic growth, which resulted in a substantial increase of international and domestic nickel and copper prices in 2010 as compared to that of 2009.

In 2010, small and medium sized nickel mines in China and especially in Xinjiang Province operated satisfactorily. The Group grasped this advantageous opportunity to organize production actively, and increased the amount of purchased raw material of nickel, making a substantial increase in production volume for nickel cathode in 2010 as compared to that in 2009.

TURNOVER AND GROSS PROFIT

The following table illustrates the details of sales by products of the Group for the two years ended 31 December 2010 and 2009:

	For the year ended 31 December 2010			For the year ended 31 December 2009		
Product Name	**Sales Volume** *Tonnes*	**Amount** *RMB'000*	**% to** *Turnover*	Sales Volume *Tonnes*	Amount *RMB'000*	% to *Turnover*
Nickel cathode	**6,170**	**863,833**	**76.8%**	4,751.6	469,779	66.6%
Copper cathode	**3,994**	**197,099**	**17.5%**	4,931.2	178,644	25.3%
Copper concentrate	**2,091**	**25,491**	**2.3%**	2,623.5	23,579	3.3%
Other products		**38,740**	**3.4%**		33,936	4.8%
Total turnover		**1,125,163**	**100%**		705,938	100.0%
Cost of sales		**(685,226)**	**60.9%**		(419,050)	59.4%
Gross profit		**439,937**	**39.1%**		286,888	40.6%

In 2010, the turnover of nickel cathode amounted to RMB863.8 million, representing an increase of 83.9% as compared to RMB469.8 million in 2009. The increase in the turnover of nickel cathode was primarily due to the increase in the price of nickel cathode and the increase in the production volume and sales volume of nickel cathode of the Group. The average selling price of the Group's nickel cathode in 2010 amounted to RMB139,999 per tonne, representing an increase of 41.6% as compared to the average selling price of RMB98,867 per tonne in 2009. The Group's sales volume of nickel cathode in 2010 was 6,170 tonnes, representing an increase of 29.9% as compared to 4,751.6 tonnes in 2009.

In 2010, the turnover of copper cathode amounted to RMB197.1 million, representing an increase of 10.3% as compared to RMB178.6 million in 2009. The increase in the turnover of copper cathode was primarily due to the increase in the price of copper cathode, which was partially set-off by the decrease in sales volume. The average selling price of the Group's copper cathode in 2010 amounted to RMB49,346 per tonne, representing an increase of 36.2% as compared to the average selling price of RMB36,227 per tonne in 2009. The sales volume of copper cathode in 2010 was 3,994 tonnes, representing a decrease of 19% as compared to 4,931.2 tonnes in 2009. The decrease in sales volume was primarily due to the fact that Kalatongke Mine underwent a smelting technology renovation and expansion project and process trial in 2010, not all self-produced raw materials were put into refining and processing, while purchased raw materials contained higher level of nickel and lower level of copper, therefore the production volume of copper cathode in 2010 was lower than that in 2009.

In 2010, the turnover of copper concentrate amounted to RMB25.5 million, representing an increase of 8.1% as compared to RMB23.6 million in 2009. The increase in the turnover of copper concentrate was primarily due to the increase in the price of copper. The average selling price of copper concentrate in 2010 was RMB12,191 per tonne, representing an increase of 35.6% as compared to RMB8,988 per tonne in 2009. The increase was partially off-set by the decrease in sales volume. The main reason for the decrease in sales volume was that some of the copper concentrate of the Group was processed into copper cathode for sale in 2010.

In 2010, the turnover of other products amounted to RMB38.7 million, representing an increase of 14.2% as compared to RMB33.9 million in 2009. The increase in turnover of other products was primarily due to the rapid increase in the price of palladium, and the Company increased the sales volume of palladium.

Gross profit of the Group increased by 53.3% from RMB286.9 million in 2009 to RMB439.9 million in 2010. The increase in gross profit was mainly due to the increase in sales volume of nickel cathode and increase in the prices of nickel and copper. The gross profit margin for the two years of 2010 and 2009 were 39.1% and 40.6%, respectively.

SELLING AND MARKETING EXPENSES

Selling and marketing expenses decreased by 28.4%, as compared to the previous year, to RMB6.2 million, primarily because raw materials with nickel produced by Xinjiang Yakesi and Hami Jubao in 2010 were all supplied to the local company Zhongxin Mining, while they were mainly supplied to Kalatongke Copper and Nickel Mining in the first three quarters of 2009, the shortened distance reduced transportation expenses.

ADMINISTRATIVE EXPENSES

Administrative expenses increased by 27.6% to RMB119.7 million, primarily due to the increase in employees' salaries and the increase in the price of metals, which resulted in the increase of mineral resource compensation fee.

OTHER NET INCOME

Other net income increased by RMB9.3 million from a loss of RMB5.5 million in 2009 to a net income of RMB3.8 million in 2010. The increased net income was primarily contributed by the Group's revenue from waste materials.

FINANCE INCOME AND FINANCE COST

Finance income decreased by 25.1% from RMB50.7 million in 2009 to RMB38.0 million in 2010, primarily due to the decline in interest income as a result of the decrease in average cash and bank balance as compared to those in the previous year. Financial cost increased slightly from RMB0.2 million in 2009 to RMB0.3 million in 2010.

FINANCIAL POSITION

The Group's consolidated balance sheet remained strong. Shareholders' equity increased by 4.6% to RMB5,479.1 million in 2010. Total assets increased by 10.4% to RMB6,221.1 million, primarily due to the operation profit generated during the reporting year and the capital increase of the subsidiary, Xinjiang Wuxin.

LIQUIDITY AND FINANCIAL RESOURCES

In 2010, the net cash inflow generated by the Group's operating activities amounted to RMB39.5 million, representing an increase of RMB32.6 million as compared to that of the previous year, primarily due to the increase in operating profit. The net cash outflow used in the Group's investment activities was RMB928.9 million, which was mainly used in purchasing equipment and as the construction costs for the Group's various technology renovation and expansion projects. The net cash inflow generated by financing activities amounted to RMB89.5 million, which mainly represented the capital increase of the subsidiary, Xinjiang Wuxin received from Xinjiang Ashele Copper Company Limited, the other shareholder of Xinjiang Wuxin. The cash outflow was mainly due to the dividend paid by the Company in 2010.

As at 31 December 2010, the Group had total cash and cash equivalents amounting to RMB1,501.70 million, and those as at 31 December 2009 were RMB2,301.4 million.

	As at 31 December 2010	As at 31 December 2009
Current ratio (times)	**6.6**	12.6
Gearing ratio	**0.48%**	not applicable

As at 31 December 2010, the Group's bank debts and borrowings represented the loans for infrastructure projects of the subsidiary Xinjiang Yakesi.

COMMODITY PRICE RISK

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

RISK OF FLUCTUATIONS IN EXCHANGE RATE

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

INTEREST RATE RISK

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

TAXATION RISK

According to the approval issued by the Government of Xinjiang Uygur Autonomous Region, the Company (except for its Shanghai sales branch) was exempted from payment of corporate income tax from 2007 to 2010. According to the approval issued by the Hami State Administration of Taxation of Xinjiang Uygur Autonomous Region, Xinjiang Yakesi could enjoy the low tax rate of 15% for income tax from 2005 to 2010, Hami Jubao could enjoy the low tax rate of 7.5% for income tax from 2009 to 2010.

All the above preferential policies expired in late 2010. As the specific taxation preferential policies for the district are still under development process by the State Government, the Group cannot predict the specific preferential taxation policies that could be enjoyed in the future.

HISTORICAL CAPITAL EXPENDITURE

Capital expenditure was primarily used to expand the production capacities of the Group and to improve the mining, ore processing, smelting and refining technology of the Group. The following table sets out the conditions of the Group's capital expenditure as well as the ratio of the capital of each operation over total capital expenditure for the year ended 31 December 2010 based on various categories of operations:

	Year ended 31 December 2010	
		Percentage
	RMB'000	**%**
Mining, ore processing, smelting and complementary operations in Kalatongke Mine	**458,855**	**43.76%**
Refining and complementary operations in Fukang Refinery	**61,726**	**5.89%**
Mining and ore processing operations in Xinjiang Yakesi	**204,997**	**19.55%**
Mining operation in Hami Jubao	**6,802**	**0.65%**
Smelting and complementary operations in Zhongxin Mining	**27,049**	**2.58%**
100,000 tonnes of copper smelting operation in Xinjiang Wuxin	**289,221**	**27.57%**
Total	**1,048,649**	**100%**

EMPLOYEES

As at 31 December 2010, the Group had a total of 3,211 full-time employees. Breakdowns by function and division are as follows:

Division	Employees	Total (in percentage)
Management and administration	167	5.2%
Engineering technician	397	12.4%
Production staff	2,004	62.4%
Repair and maintenance	364	11.3%
Inspection	265	8.3%
Sales	14	0.4%
Total	3,211	100%

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

Biographical Details of Directors, Supervisors and Senior Management

EXECUTIVE DIRECTORS

Mr. Yuan Ze (袁澤), aged 61, has been the Chairman of the Company since September 2005. Mr. Yuan completed a postgraduate course in natural geography at Nanjing University (南京大學) in December 1997. From October 1998 to January 2002, he served as the secretary of the communist party committee of Xinjiang Non-ferrous Industry Co. (新疆有色金屬工業公司). Since January 2002 and up to present, he has served as the secretary of the communist party committee and chairman of Xinjiang Non-ferrous Metal Industry (Group) Ltd. (新疆有色金屬工業(集團)有限責任公司) ("Xinjiang Non-ferrous"). Mr. Yuan received the Xinjiang Uygur Autonomous Region Model Labour Award (新疆維吾爾自治區勞動模範殊榮) in 2005 and 2007 and was elected a representative of the National People's Congress in March 2008. Mr. Yuan received the National Model Labour Special Award (全國勞動模範殊榮) awarded by the State Council in 2010.

Mr. Shi Wenfeng (史文峰), aged 43, has been a Director and the general manager of the Company since September 2005. Mr. Shi graduated from the Department of Chemical Engineering of Chengdu University of Science and Technology (成都科技大學) with a Bachelor's degree in engineering, majoring in the metallurgy of non-ferrous metals from September 1985 to July 1989 and is a senior engineer in Metallurgy. Mr. Shi has accumulated more than 19 years of experience in the smelting industry. From September 1993 to January 1994, he served as the deputy head of the central refinery workshop of the Fukang Refinery (阜康冶煉廠). From November 1994 to January 1995, he served as the head of the production division of Fukang Refinery (阜康冶煉廠). From February 1995 to March 1998, he served as the assistant head of Fukang Refinery (阜康冶煉廠). From March 1998 to January 2002, he served as the deputy head of Fukang Refinery (阜康冶煉廠). From January 2002 to August 2005, he served as the head of Fukang Refinery (阜康冶煉廠). Mr. Shi received the National Model Labour Award (全國勞動模範殊榮) awarded by the State Council in 2005, and he received the Scientific and Technological Progress First Prize (科學技術進步一等獎) 1995 and 2002 awarded by the National Committee of Science and Technology of the PRC (國家科學技術委員會) and the People's Government of Xinjiang, respectively, for his contribution to the development of the wet process in the refining of nickel and the development of technology and production application in extracting copper and precious metals from smelting tailing of nickel ore.

Mr. Zhang Guohua (張國華), aged 46, has been a Director and the Executive Deputy General Manager of the Company since September 2005. He completed a postgraduate course in management science and engineering at Dalian University of Technology in November 2003. From October 1988 to December 1993, he served as a deputy section leader and section leader of the environmental safety section of Kalatongke Mine. From January 1994 to June 1996, he served as a mining workshop supervisor of Kalatongke Mine. From June 1996 to March 1997, he served as an assistant to the head of Kalatongke Mine. From March 1997 to March 1998, he served as the chairman of the labour union of Kalatongke Mine. From March 1998 to March 1999, he served as the secretary of the communist party committee of the Kalatongke Mine. He served as the deputy general manager and general manager of the sales branch of Xinjiang Non-ferrous Metals Industry Co. from April 1999 to February 2002. Mr. Zhang has accumulated more than 24 years of experience in the mining industry. From March 2002 to August 2005, he served as the head of Kalatongke Mine. He has also served as the secretary of the Communist Party committee of the Company since September 2005. Mr. Zhang was recognised by Xinjiang Non-ferrous as the Model Labour (勞動模範) for the years of 2003 and 2004.

Mr. Liu Jun (劉俊), aged 45, has been a Director and duty general manager of the Company since September 2005. Mr. Liu graduated from Kunming University of Science and Technology with a Bachelor's degree in engineering, majoring in mining engineering from September 1983 to July 1987. He served as the deputy supervisor (production technology) of the mining workshop of Kalatongke Mine from May 1991 to December 1993. From January 1994 to December 1994 he served as the head of production technology division of Kalatongke Mine. He served as the chief engineer of Kalatongke Mine from March 1997 to April 2000. From April 2000 to August 2005 he served as the deputy general manager of Kalatongke Mine. From September 2005 to August 2008, he became the head of Kalatongke Mine and has also served as a Director and deputy general manager of the Company. Mr. Liu has accumulated more than 21 years of experience in the mining industry. Mr. Liu's contribution to nickel matte blowing and recovery processing and industrialised production received a scientific and technological progress second prize from the People's Government of Xinjiang for the year of 2004.

NON-EXECUTIVE DIRECTORS

Mr. Zhou Chuanyou (周傳有), aged 46, has been a non-executive Director and the vice-chairman of the Company since September 2005. He completed a postgraduate course in law at Fudan University (復旦大學) in July 1987. Mr. Zhou taught in Huadong Politics and Law Institute from July 1987 to January 1990. From September 1995 he served as the Chairman of Shanghai Jinying Investment Company Ltd. (), which is the predecessor of Zhongjin Investment (Group) Ltd. (中金投資(集團)有限公司) ("Zhongjin Investment"), and he is currently the beneficial owner of 100% shareholding in Zhongjin Investment. Mr. Zhou has served as a director of Shanghai Yilian Kuangneng Co. Ltd. (上海怡聯礦能實業有限公司) ("Shanghai Yilian") since May 2005 and is currently the beneficial owner of the entire shareholding of Shanghai Yilian. Shanghai Yilian held 12.80% shareholding of the Company and Zhongjin Investment held 8.96% shareholding of the Company. The interest attributable to Mr. Zhou represents his indirect deemed interest in the Company's issued share capital via his equity interests in Shanghai Yilian and Zhongjin Investment. Mr. Zhou has served as a director of Shanghai Zhongjin Real Estate (Group) Co., Ltd. (上海中金房產(集團)有限公司) since February 1998 and a vice chairman and director of Dazhong Insurance Co., Ltd. of China (大眾保險股份有限公司) since September 1998.

Mr. Niu Xuetao (牛學濤), aged 46, has been a non-executive Director of the Company since September 2005. He completed an undergraduate course in law at Northwest Institute of Political Science and Law in July 1990. From February 2003 to February 2008, he served as the deputy chief executive officer of Zhongjin Investment. From June 2004 to July 2005, Mr. Niu served as the vice-president of Xinjiang Fanhua Mine and Energy Industrial Company Ltd. (新疆泛華礦能實業有限公司), a company principally engaged in real estate development business, which is not related to Xinjiang Non-ferrous. From May 2005 to December 2009, he was the general manager of Shanghai Yilian. Mr. Niu is currently the Head Supervisor of Zhongjin Investment since October 1999.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chen Jianguo (陳建國), aged 47, has been an independent non-executive Director of the Company since June 2006, graduated from the Xinjiang University of Finance and Economics (新疆財經大學) (previously known as Xinjiang Institute of Finance and Economics (新疆財經學院)) and obtained a Bachelor's degree in economics in July 1985. In 1988, he obtained a Master's degree in economics from Dongbei University of Finance and Economics (東北財經大學). Since September 1988, he has been teaching at the Faculty of Finance of Xinjiang Institute of Finance and Economics. He was promoted to an associate professor in July 1996 and has become the Head of Faculty of Finance of Xinjiang Institute of Finance and Economics since 1997. From January 1999 to August 1999, he studied in Nyenrode Business Universiteit (奈爾洛德商業大學) in Netherlands pursuant to the Chinese Management Development Program. In 2001, he obtained a Master's degree in Business Administration from Haagse Hogeschool, University of Professional Education in Netherlands. Since April 2002, he has served as a standing council member of Xinjiang International Taxation Research Institute (新疆國際稅收研究會常務理事). He has also been the head of research and development department and a professor of Faculty of Accounting of Xinjiang University of Finance and Economics (新疆財經大學) since October 2007. Mr. Chen has acted as an independent director of Markor International Furniture Co. (美克國際傢俱股份有限公司) and Xinjiang Guannong Fruit & Antler Co., Ltd. (新疆冠農果茸股份有限公司), both of which are PRC companies listed on the Shanghai Stock Exchange, and has also acted as an independent director of Zhundong Petroleum Technology Co., Ltd. (準東石油技術股份有限公司), a PRC company listed on the Shenzhen Stock Exchange, and Great Western Region Tourism Co., Ltd. (大西部旅遊股份有限公司). On 8 September 2008, Mr. Chen was appointed as an independent director of Xinjiang International Enterprise Co., Ltd (新疆國際實業股份有限公司). Mr. Chen was appointed as an independent director of Xinjiang Kangdi Planting Technology Company Limited* (新疆康地種業科技股份有限公司) since January 2010.

Mr. Sun Baosheng (孫寶生)(Deceased on 12 March 2011), aged 63, had been an independent non-executive Director of the Company since 2006, studied and obtained a postgraduate qualification in engineering in 1982. From August 1975 to September 1978, Mr. Sun served as the team leader and technician of the Bureau of Geominerals Exploration and Development of Xinjiang (新疆地礦局). From October 1975 to April 1976, he studied remote sensing geology in Peking University (北京大學). From September 1978 to April 1982, he studied minerogenetic rule and minerogenetic prognostic (成礦規律及成礦預測) at Xinjiang University (新疆大學) and obtained a Master's degree. He had served as the Head of the Teaching and Research Section of Deposits Geochemical (礦物地球化學教研室主任) since October 1981. From February 1993 to February 1994, he worked together with Professor R.W. Hachinson, the Chairman of the Society of Economic Geology (美國經濟地質學會) on deposit geological research in Colorado School of Mines (科羅拉多礦業學院) in the U.S.A. and was granted fund by the National Science Foundation of the U.S.A. (美國國家自然科學基金). He was the professor and the vice department head of the School of Resource and Environmental Science of the Xinjiang University between 2002 and 2004. He was qualified as a professor in June 1994. He was a tutor of PhD students in Xinjiang University, and also serving as deputy director of the Geological Society of Xinjiang Uygur Autonomous Region (新疆地質協會副理事長), member of Council of China Resource Industry (中國資源產業理事會理事), member of the group of experts of Xinjiang Resource and Environment Center (新疆資環中心專家組成員) and visiting fellow of Xinjiang Institute of Ecology and Geography Chinese Academy of Sciences (中國科學院新疆生態與地理研究所客座研究員).

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

Mr. Ng Yuk Keung (吳育強), aged 46, has been an independent non-executive Director of the Company since January 2007, graduated from the University of Hong Kong with a Bachelor's degree in economics and management, and a Master's degree in global business management and E-commerce. He has been qualified as a Chartered Accountant with Institute of Chartered Accountants in England and Wales and is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. During the period from 1988 to 2001, he worked in PricewaterhouseCoopers and took part in various initial public offerings. From 2004 to 2006, he served as deputy chief financial officer, joint company secretary and qualified accountant in an H-share company listed in Hong Kong. From 2006 to 2010, he served as vice president, chief financial officer, company secretary and qualified accountant in China Huiyuan Juice Group (中國匯源果汁集團) (a company listed on the Stock Exchange). Mr Ng is currently the honorary adviser to China Huiyuan Juice Group and an independent non-executive director of Beijing Capital Land Ltd. (首創置業股份有限公司) (stock code: 02868), Sany Heavy Equipment International Holdings Company Limited (三一重裝國際控股有限公司) (stock code: 00631), Zhongsheng Group Holdings Limited (中升集團控股有限公司) (stock code: 00881) and Winsway Coking Coal Holdings Limited (永暉焦煤股份有限公司) (stock code: 01733).

EMPLOYEES' REPRESENTATIVE SUPERVISOR

Mr. Jiang Mingshun (姜明順), aged 55, has been the chairman of the Supervisory Committee since April 2006. He is a Supervisor elected by the employees as employees' representative in the Supervisory Committee. He graduated from Central Xinjiang Communist Party School (新疆自治區黨校) in 1988, majoring in political theory. Mr. Jiang had worked in Keketuohai Mining Bureau (可可托海礦務局) since 1973. From August 1983 to August 1986, he worked in the Labour Union of Keketuohai Mining Bureau. He served as the Party branch secretary of Keketuohai Mining Bureau No. 1 Mine and Transportation Section from August 1988 to January 1992. From 1 November 1991 he served as the assistant chief director (the deputy for the chief director) of the Keketuohai Mining Bureau (可可托海礦務局行政辦公室). He served as deputy head of Fukang Refinery (阜康冶煉廠) from January 2002 to August 2005.

Mr. Sun Baohui (孫寶輝), aged 41, has been a Supervisor of the Company since June 2006. He was elected by the employees as employees' representative in the Supervisory Committee. He majored in the metallurgy of non-ferrous metals and graduated from Kunming University of Science and Technology with a Bachelor's degree in engineering in July 1992. Mr. Sun served as a technician, the deputy head and the head of the smelting workshop at Kalatongke Mine successively from July 1992 to September 2000. From April 2003 to September 2005, he served as the head of the ore processing workshop at Kalatongke Mine. From September 2005 to May 2009, he served as the deputy head of and the president of the labour union at Kalatongke Mine. Mr. Sun is currently the general manager of Xinjiang Wuxin Copper Company Limited since May 2009.

SUPERVISOR

Mr. Liu Daoying (劉道英), aged 48, has been the chairman of the supervisory committee and the head of the supervising and auditing office of Zijin Mining Group Northwest Co., Ltd. (紫金礦業集團西北有限公司). He graduated from Nanping District Liangshi School (南平地區糧食學校) majoring in accounting in July 1981 and obtained professional auditor qualification in the PRC in December 1995. In December 2004, Mr. Liu obtained a diploma in business administration from Sichuan University (四川大學). He was acting as the deputy director and the chief accountant of the Food Bureau of Shanghang County (上杭縣糧食部門) in Fujian Province, and deputy section head and section head of the Auditing Bureau of Shanghang County (上杭縣審計局). Mr. Liu joined the Zijin Mining Group (紫金礦業集團) in December 2005 and served as the assistant to the head and the head of the supervising and auditing office. He is currently the chairman of the supervisory committee and the director of the supervising and auditing office of Zijin Mining Group Northwest Co., Ltd. (紫金礦業集團西北有限公司).

INDEPENDENT SUPERVISOR

Ms. Chen Yuping (陳玉萍), aged 46, is an independent Supervisor of the Company since 12 June 2006. Ms. Chen majored in industry economics and obtained a Bachelor's degree in economics from Xinjiang University of Finance and Economics (新疆財經大學) (previously known as Xinjiang Institute of Finance and Economics (新疆財經學院)) in July 1985 and a Master's degree in business administration from Oklahoma City University (奥克拉荷馬城大學) in the U.S.A. in June 1989. Since July 1985, Ms. Chen has been teaching in the Faculty of Business Administration of Xinjiang Institute of Finance and Economics. Ms. Chen is now a professor and has been the deputy head of the Faculty of Business Administration of Xinjiang University of Finance and Economics since July 2001 and was appointed as the associate professor in July 1996. From January 2000 to September 2000, she studied in Nyenrode Business Universiteit in Netherlands pursuant to the Chinese Management Development Project. She was appointed as the professor in 2006 and the deputy head of the Student Registry of Xinjiang University of Finance and Economics (新疆財經大學) in October 2007.

Mr. Hu Zhijiang (胡志江), aged 65, is an independent Supervisor of the Company since 12 June 2006. He is a qualified senior accountant and a practising accountant. Mr. Hu was a deputy head in the Agricultural Planning and Finance Section of the Finance Department of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區財政廳農財處) from 1992 to 1994. From 1994 to 1997, he served as the head of the Legal and Taxation Section of the Finance Department of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區財政廳法制稅政處). From 1997 to 2001, he served as the head of the Accounting Section of the Finance Department of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區財政廳會計處). From 1998 to 2000, he served as a member of the Senior Assessment Committee for Professional Qualification in Accounting of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區會計專業技術資格高級評審委員會). From 2001 to 2005, he served as the inspector at the deputy department level of the Finance Department of Xinjiang Uygur Autonomous Region (副廳級巡視員). Mr. Hu has been the vice chairman of the eighth committee of the Accounting Association of Xinjiang Uygur Autonomous Region (新疆維吾爾自治區會計學會第八屆理事會) since 2002.

OTHER SENIOR MANAGEMENT

Mr. Zhang Junjie (張俊杰), aged 48, is one of the joint company secretaries of the Company. He graduated from Zhongnan Mining and Smelting Institute (中南礦冶學院) with a Bachelor's degree in engineering, majoring in mining engineering from September 1979 to July 1983. Mr. Zhang has more than 24 years of experience in the mining industry. From July 1983 to September 1988, he was employed as the deputy head of the comprehensive planning department of Xinjiang Keketuohai Mining Bureau. From October 1988 to March 1991, he was the head of the production technology division and the head of the mining workshop of Kalatongke Mine. From April 1991 to March 1993, he was the deputy head and acting head of the production technology division of Xinjiang Keketuohai Mining Bureau. From March 1993 to August 1997, he was the deputy chief economist of Xinjiang Non-ferrous Industry Co. Copper and Nickel Branch (新疆有色金屬工業公司銅鎳分公司). From August 1997 to March 1998, he was a deputy general manager of Xinjiang Non-ferrous Industry Co. Copper and Nickel Branch (新疆有色金屬工業公司銅鎳分公司). From April 1998 to July 2002, he was the head of the finance department of Xinjiang Non-ferrous Metal Industry Co.. From July 2002 to August 2005, he was the head of the assets management department of Xinjiang Non-ferrous. Since September 2005, he has been the secretary to the Board of Directors.

Mr. Lam Cheuk Fai (林灼輝), aged 57, is the qualified accountant and one of the joint company secretaries of the Company. He joined the Company in June 2006. Mr. Lam was awarded a Higher Certificate in Accountancy from the Hong Kong Polytechnic University (formerly known as the Hong Kong Polytechnic) in 1979, and a Master's degree of Business Administration from the University of East Asia, Macau in 1988. Mr. Lam is a fellow member of both the Association of Chartered Certified Accountants of the United Kingdom and the Hong Kong Institute of Certified Public Accountants. From 1979 to 1985, Mr. Lam worked for Touche Ross & Co. (now known as Deloitte & Touche) in Hong Kong and the U.S.A. and Arthur Young & Co. (now known as Ernst & Young) in Hong Kong. Mr. Lam has approximately 30 years of working experience in auditing, accounting, internal control, taxation, company secretarial work and financial management in multinational organisations in the U.S.A., Hong Kong and the PRC. He was previously employed as the chief financial officer and the company secretary by a listed company in Hong Kong.

Mr. Wu Tao (吳濤), aged 44, is the chief engineer of the Company. Mr. Wu studied in the Department of Chemical Engineering at Chengdu University of Science and Technology from September 1985 to July 1989 specialising in the metallurgy of non-ferrous metals and graduated with a Bachelor's degree in engineering. He started working at Kalatongke Mine upon graduation. Since October 1991, he has been working at Fukang Refinery (阜康冶煉廠) and has been the chief engineer since September 2005. He was awarded two Scientific and Technological Progress First Prizes (科學技術進步一等獎), one by the National Committee of Science and Technology in 1995 for his contribution to the wet process adopted in refining and one by the People's Government of Xinjiang for the year of 2002 for his contribution to the development of production methods in smelting, extraction from tailings and the production of copper and precious metals.

Mr. He Hongfeng (何洪峰), aged 41, is the chief financial officer of the Company since September 2005. Mr. He graduated from Xinjiang College of Finance and Economics in 1992 with a Bachelor's degree in economics. Prior to joining the Company in September 2005, he was working in Zhongjin Investment as an accountant. Mr. He is a certified accountant, certified valuer and certified tax consultant in the PRC.

Report of the Directors

The Directors are pleased to present the 2010 report and the audited financial statements of Xinjiang Xinxin Mining Industry Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

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

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

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2010 and the state of financial affairs of the Company and the Group at that date are set out in the consolidated financial statements on pages 54 to 140.

The Board of Directors of the Company (the "Board of Directors" or the "Board") proposed payment of a final dividend of RMB0.15 per share, amounting to a total dividend of approximately RMB331,500,000 for the year ended 31 December 2010, which is subject to the approval of the Company's shareholders in the annual general meeting of the Company. Dividend for shareholders of H shares will be distributed to the shareholders whose names appear on the Company's register of members at the opening of business on 16 May 2011 and is expected to be paid on or before 31 August 2011.

Pursuant to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) and the relevant implementing rules which came into effect on 1 January 2008, the Company is required to withhold and pay corporate income tax at the rate of 10% before distributing the final dividend to non-resident enterprise shareholders as appearing on the H share register of members of the Company. Any shares registered in the names of non-individual registered shareholders (including HKSCC Nominees Limited, other corporate nominees, trustees or other entities and organisations) will be treated as being held by non-resident enterprise shareholder and will therefore be subject to the withholding of the enterprise income tax. Shareholders and investors should peruse the contents of the above rules carefully. If shareholders' names appear on the H Shares register of members, please refer to nominees or trust organization for details of the relevant arrangements. The Company has no obligation and shall not be responsible for confirming the identities of the shareholders. The Company will strictly comply with the law, and withhold and pay the corporate income tax on behalf of the relevant shareholders. The Company will not entertain any requests relating to any delay in confirming the identity of the shareholders or any uncertainties in the identity of the shareholders.

MAJOR INVESTMENTS

Increase in Registered Capital of Xinjiang Wuxin

On 11 June 2009, the Company entered into the investment agreement with Xinjiang Ashele to establish Xinjiang Wuxin for the purposes of engaging in the smelting, processing and sale of copper, gold, silver and other non-ferrous metals. Pursuant to the investment agreement, the Company and Xinjiang Ashele agreed to contribute by way of cash to the establishment of Xinjiang Wuxin in the proportion of 66% and 34%, respectively, with the registered capital amounted to RMB100 million.

On 29 March 2010, the Company entered into another investment agreement with Xinjiang Ashele to further contribute RMB500 million by way of cash to the registered capital of Xinjiang Wuxin in proportion to their respective equity interests in Xinjiang Wuxin. In July 2010, the Company completed the additional investment in Xinjiang Wuxin in the amount of RMB330 million.

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

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

In 2010, the Company applied the proceeds from its initial public offering totaling RMB827.3 million for the following purposes:

- RMB6.1 million was used in relation to the further exploration of areas in Kalatongke Mine;
- RMB154.6 million was used in relation to the further expansion of the mining and ore processing of Kalatongke Mine;
- RMB273.7 million was used in relation to the expansion of the smelting operation in Kalatongke Mine;
- RMB0.2 million was used in relation to the expansion of the refining capacity of Fukang Refinery in respect of 13,000 tonnes of nickel cathode per year;
- RMB62.7 million was used in relation to the expansion of the refining capacity of Fukang Refinery in respect of 12,000 tonnes of copper cathode per year; and
- RMB330 million was used in further capital injection to Xinjiang Wuxin.

SUMMARY OF FINANCIAL INFORMATION

A summary of the operating results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the Company's audited financial statements for the year ended 31 December 2010 (if appropriate), is set out on pages 4 to 5 of this annual report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

The Group did not hold any investment property.

SHARE CAPITAL

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

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

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

BANK LOANS AND BORROWINGS

As at 31 December 2010, the Group had unsecured bank loan of RMB30 million.

DISTRIBUTABLE RESERVES

According to the Articles of Association of the Company, the reserves available for distribution are based on the lower of the Company's profits determined under the China Accounting Standards for Business Enterprises ("CASBE") and regulations or under Hong Kong Financial Reporting Standards ("HKFRS").

In accordance with the Company Law of the PRC, profit after tax can be distributed as dividends shall be deducted after the transfer to the statutory surplus reserve. As at 31 December 2010, the Group's distributable reserve attributable to owners of the Company under CASBE and HKFRS amounted to RMB476,994,000 and RMB640,866,000, respectively.

CHARITABLE CONTRIBUTIONS

During the Year, the Group made charitable contributions totalling RMB16,435,248 (2009: RMB11,000,000).

MAJOR CUSTOMERS AND SUPPLIERS

As at 31 December 2010, the proportion of purchases and sales from major suppliers and major customers of the Company to the total purchases and sales, respectively, are as follows:

Purchases

The total purchases from the largest supplier of the Company represent 8.0% of the total purchase value.

The total purchases from the five largest suppliers of the Company represent 24.8% of the total purchase value.

Sales

The total sales to the largest customer of the Company represent 32.6% of the total sales value.

The total sales to the five largest customers of the Company represent 72.7% of the total sales value.

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

CHARGE ON ASSETS

The Group did not have any charges or pledges of assets as at 31 December 2010.

MAJOR LITIGATION AND ARBITRATION

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

CONTINGENT LIABILITIES

Save as disclosed in note 38 to the consolidated financial statements of the Group, the Group had no other significant contingent liabilities as at 31 December 2010.

EVENTS AFTER THE BALANCE SHEET DATE

On 6 January 2011, each of the Company and the another joint venturer has issued corporate guarantee of RMB75,000,000, respectively, in favour of a new bank loan facility totalling RMB150,000,000 of Hexing Mining. Up to the approval date of these financial statements, Hexin Mining has drawn down loans amounting to RMB50,000,000.

Report of the Directors

DIRECTORS AND SUPERVISORS

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

Executive Directors:

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

Non-executive Directors:

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

Independent non-executive Directors:

Mr. Chen Jianguo	陳建國先生	
Mr. Sun Baosheng	孫寶生先生	*(Deceased on 12 March 2011)*
Mr. Ng Yuk Keung	吳育強先生	

Supervisors:

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

Independent Supervisors:

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

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

Service contracts of Directors and Supervisors

Each of the Directors and Supervisors has entered into a three years service contract with the Company from 14 October 2008 to the date when the term of the second session of the Board of Directors and of the Supervisors Committee end.

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

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

Confirmation of independence

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

Directors', Supervisors' and senior management's remunerations

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

Directors' and Supervisors' interests in contracts

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

Directors' and Supervisors' interests and short positions in shares

Share Appreciation Rights Incentive Scheme

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

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

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

The recipients of the SARIS and their allocated number of SARIS as at 31 December 2010 are listed below:

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

As at 31 December 2010, the interests or short positions, if any, of the Directors and Supervisors in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

Long Positions in Shares and Underlying Shares of the Company

	Number of Shares held				Percentage of	Percentage of
Director/ Supervisor	Personal interest	Corporate interests	Total interests	Classes of share	aggregate interests to relevant class of share	aggregate interests to the total share capital
Zhou Chuanyou		480,924,000	480,924,000	Domestic share *(Note 1)*	33.14	21.76
		4,027,000	4,027,000	H share *(Note 2)*	0.53	0.18

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

2: The H shares are held by Hong Kong CCIG International Industrial Co., Ltd., which is beneficially owned by Zhou Chuanyou.

Save as disclosed above, none of Directors and Supervisors and their respective associates had, as at 31 December 2010, any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which would be required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or which would be required, pursuant to section 352 of the SFO, to be and are recorded in the register required to be kept by the Company or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' AND SUPERVISORS' INTERESTS IN COMPETING BUSINESSES

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

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

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

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

So far as was known to any Director or Supervisor, as at 31 December 2010, the persons or companies (other than a Director or Supervisor of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company were as follows:

Name	**Number of shares held**	**Class of share**	**Approximate percentage of shareholding on relevant class of shares** (%)	**Approximate percentage of the total share capital** (%)
Xinjiang Non-ferrous	885,204,000(L)	Domestic share	61.01	40.06
Shanghai Yilian *(Note)*	282,896,000(L)	Domestic share	19.50	12.80
Zhongjin Investment *(Note)*	198,028,000(L)	Domestic share	13.65	8.96
The National Council for Social Security Fund of the PRC (中國全國社會保障基金理事會)	69,000,000(L)	H share	9.09	3.12
The Hamon Investment Group Pte Limited	46,661,000(L)	H share	6.15	2.11
The Dreyfus Corporation	38,068,000(L)	H share	5.02	1.72

(L) = Long positions

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

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

CONNECTED TRANSACTIONS

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

Continuing connected transactions not exempt under the Listing Rules

1. Xinjiang Non-ferrous (the controlling shareholder of the Company) and the Company entered into a mutual supply agreement on 11 June 2009 (the "Mutual Supply Agreement") whereby both parties agreed that (a) the Xinjiang Non-ferrous Group will provide construction services, certain production supplies, storage, transportation and loading services and other supporting and ancillary services to the Company; and (b) the Company will provide nickel cathode, copper cathode and sulphuric acid to the Xinjiang Non-ferrous Group from 1 January 2010 to 31 December 2012.

   For each of the three years ending 31 December 2010, 2011 and 2012, the annual cap of the aggregate fees payable by the Company to the Xinjiang Non-ferrous Group in respect of the construction services fees and supporting and ancillary services fees amounted to approximately RMB632.1 million, RMB681.6 million and RMB378.3 million, respectively (Note). For the year ended 31 December 2010, the total transactions between the Xinjiang Non-ferrous Group and the Company in respect of the construction services fees and supporting and ancillary services were approximately RMB197.5 million.

   For each of the three years ending 31 December 2010, 2011 and 2012, the annual cap of the aggregate fees payable by the Xinjiang Non-ferrous Group to the Company in respect of the product fees amounted to approximately RMB30.4 million, RMB36.5 million and RMB39.8 million, respectively. For the year ended 31 December 2010, the total transactions between the Company and the Xinjiang Non-ferrous Group in respect of the product fees were approximately RMB22.3 million.

   Note: The annual caps for construction services for each of the three years ending 31 December 2012 were revised. Particulars of which please refer to the announcement and circular of the Company dated 29 March 2010 and 8 April 2010, respectively.

2. The Company entered into a comprehensive services agreement with Xinjiang Non-ferrous Metal Industry (Group) Fuyun Xingtong Service Company Limited* (新疆有色金屬工業(集團)富蘊興銅服務有限公司) ("Fuyun Xingtong"), a wholly-owned subsidiary of Xinjiang Non-ferrous, on 11 June 2009 whereby Fuyun Xingtong agreed to provide certain supporting services including educational, nursery, medical and healthcare services to the employees of the Company from 1 January 2010 to 31 December 2012 (the "Comprehensive Services Agreement"). For each of the three years ending 31 December 2010, 2011 and 2012, the annual cap of the services fees payable to Fuyun Xingtong by the Company is approximately RMB3.7 million RMB4.0 million and RMB4.0 million, respectively. For the year ended 31 December 2010, the total transactions between the Company and Fuyun Xingtong under the Comprehensive Services Agreement were approximately RMB3.2 million.

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

3. On 11 June 2009, the Company entered into a property lease agreement with Xinjiang Non-ferrous pursuant to which Xinjiang Non-ferrous agreed to lease to the Company office premises on the 7th and 8th floors, Youse Building, No. 4 You Hao North Road, Urumqi, Xinjiang, the PRC with a total gross floor area of approximately 1,992 square metres for office use with a term commencing from 1 January 2010 to 31 December 2012. For each of the three years ending 31 December 2010, 2011 and 2012, the annual cap of the rental payable to Xinjiang Non-ferrous by the Company is approximately RMB1.6 million. For the year ended 31 December 2010, the actual rental payable by the Company to Xinjiang Non-ferrous was approximately RMB1.6 million.

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

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

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

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

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

1. have been approved by the Board of Directors;

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

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

4. have not exceeded the revised annual cap amounts as approved either by the Board of Directors on 11 June 2009 or by the general meetings of the Company held on 21 August 2009 and 28 May 2010.

NON-COMPETITION AGREEMENT

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

RELATED PARTY TRANSACTIONS

The Group is also involved in a number of related party transactions, details of which have been disclosed in note 41 to the consolidated financial statements.

PUBLIC FLOAT

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

CLOSURE OF REGISTER FOR ANNUAL GENERAL MEETING AND PAYMENT OF DIVIDENDS

The register of members of the Company will be closed from 18 April 2011 to 16 May 2011 (both days inclusive), during which time no share transfers will be registered. In order to qualify for the final dividends and be eligible to attend the 2010 annual general meeting of the Company, instruments of transfer accompanied by share certificates and other appropriate documents must be lodged with the Company's H share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, no later than 4:30 p.m. on 15 April 2011.

AUDIT COMMITTEE

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

The audit committee provides an important link between the Board of Directors and the Company's auditors in matters falling within the scope of the audit of the Company and the Group. It will review the effectiveness of the external audit and internal controls and risk evaluation and will provide comments and advice to the Board of Directors. The audit committee comprises one non-executive Director namely, Mr. Zhou Chuanyou and two independent non-executive Directors, namely, Mr. Chen Jianguo and Mr. Ng Yuk Keung, with Mr. Chen Jianguo serving as the Chairman. The audit committee and management have reviewed the audited results of the Group for the year ended 31 December 2010.

AUDITORS

The consolidated financial statements have been audited by PricewaterhouseCoopers. Resolutions for (i) the re-appointment of PricewaterhouseCoopers Zhong Tian CPAs Limited Company as the only auditors of the Company to undertake the roles of the international auditors as well as the PRC auditors of the Company; (ii) non re-appointment of PricewaterhouseCoopers as the Company's international auditors are to be proposed at the forthcoming annual general meeting of the Company. As such, subject to the approval by the Shareholders at the forthcoming annual general meeting, PricewaterhouseCoopers will retire upon the conclusion of the forthcoming annual general meeting of the Company.

By order of the Board
Yuan Ze
Chairman

Xinjiang, the PRC
18 March 2011

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

Report of the Supervisory Committee

To all Shareholders:

For the year 2010, the supervisory committee of the Company (the "Supervisory Committee") faithfully fulfilled the supervisory duties to effectively safeguarded the interests of the shareholders of the Company in accordance with the requirements of the Company Law of the PRC and relevant applicable laws and regulations and the Articles of Association of the Company. Below is an independent report on the work progress and the due performance of duties by the Supervisory Committee.

1. Routine Duties of the Supervisory Committee

(1) The Supervisory Committee held two meetings during the Reporting Year, namely: the fourth and the fifth meetings of the second session of the Supervisory Committee. During the meetings, the supervisors of the Company individually reviewed or approved the *Working Report of the Supervisory Committee for 2009, the Annual Report of the Company for 2009, the Consolidated Financial Statement of the Company for 2009, the Accumulated Profit Distribution Plan of the Company for 2009, the Resolution Granting the Performance-based Remuneration to the Chairman of the Supervisory Committee for 2009, the Financial Statements of the Company prepared in accordance with Hong Kong Financial Report Standards and the PRC Generally Accepted Accounting Principles for the first half of 2010 and the Interim Report of the Company for 2010.* All Supervisors (except Supervisor Liu Daoying who was excused due to overseas travel) attended the meetings and expressed their opinions on the issues in compliance with the laws and the Articles of Association of the Company. The Supervisors also performed their duties diligently and acted in the best interests of the Company's shareholders as a whole.

(2) Through attending each and every Board meeting of the Company in 2010, all Supervisors have effectively overseen the issues including the legitimacy of the Board meetings, the lawfulness of the resolutions, the compliance with the laws and regulations and the Articles of Association of the Company, the conformity with the resolutions of the general meetings as well as the practical needs to facilitate the operations and development of the Company.

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

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

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

Report of the Supervisory Committee

During the Reporting Year, all Supervisors have been actively learning in business-related knowledge and the laws and regulations to uplift their ability of job performance. They carried out their obligations and duties diligently in accordance with the annual work plan of the Supervisory Committee. The two independent Supervisors, who are financial specialists, duly performed their supervisory duties by enhancing the capability of the Supervisory Committee and improving the independence of the Supervisory Committee when carrying out its functions.

2. Independent Opinion of the Supervisory Committee

(1) Legitimate Operation by the Company

In 2010, the Company carried out its operations in strict compliance with the relevant laws and regulations including the Company Law, the Articles of Association of the Company, the Code on Corporate Governance Practices as set out in the Listing Rules and the Guidelines for the Internal Control System of Listed Companies. Each of the general meeting, the meeting of Board of Directors, the Supervisory Committee and the senior management has clear roles and has complied with operating procedures, complied with codes, laws and regulations, attained efficiency, and ensured the implementation of various major works of the Company.

(2) Assets of the Company

During the Reporting Year, as approved by the 2009 AGM of the Company, the Company contributed RMB330 million by way of cash to the registered capital of Xinjiang Wuxin in proportion to its equity interest in Xinjiang Wuxin. This capital injection further facilitated the development progress of Xinjiang Wuxin by utilizing the abundant copper resources in Xinjiang, adopting international state-of-art technology to complete the smelting capability of 10-thousand tone production of copper, which will then make Xinjiang Wuxin to be the first leading copper smelting enterprise in Xinjiang, and will bring the Company with enormous economical benefit and in the best interest of all the shareholders.

Positions of other assets were properly reflected in the financial statements of the Company.

(3) Financial Management of the Company

PricewaterhouseCoopers have audited the 2010 financial statements of the Company which have been prepared in accordance with the Hong Kong Financial Reporting Standards and issued the auditors' report with unqualified opinion. The Company has further improved its internal auditing system and the financial accounting management system, made tax payment in compliance with the laws and regulations, and accepted the auditing supervision by internal and external entities. The financial statements prepared by the Company truly stated its financial condition. Revenue for 2010 was RMB1,125.2 million and the profit attributable to owners of the Company was RMB349.9 million.

(4) Connected Transactions

During the Reporting Year, the Company was involved in connected transactions with Xinjiang Non-ferrous Metal Industry (Group) Ltd. (新疆有色金屬工業(集團)有限責任公司) and its subsidiaries, with regard to construction service, supply of raw material and transportation which amounted to RMB197.5 million, labour service payment to Fuyun Xingtong which amounted to RMB3.2 million, product sales which amounted to RMB22.3 million and lease payment which amounted to RMB1.6 million. All connected transactions were conducted within the scope of the Mutual Supply Master Agreement between Xinjiang Non-ferrous Metal Industry (Group) Ltd. and Xinjiang Xinxin Mining Industry Co., Ltd.. The transaction amounts also have not exceeded the Company's 2010 annual caps of continuing connected transaction, which were approved by the relevant Board meetings and general meeting of the Company. All transactions were made pursuant to normal commercial terms, being fair and reasonable. No deterioration of the Company's interests was found upon reviews. The Company also engaged the international auditors, PricewaterhouseCoopers, to perform certain procedures on the connected transactions, for details please refer to page 35 of this annual report.

(5) Internal Control of the Company

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

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

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

The Company explored internal potentials and realized the increases and stability in production, pursued micro-management, uplifted levels of skills and techniques further and continuously improved the recycle rate of metal and the ability of comprehensive multi-metal recycling. The annual safe production target has been achieved.

For procurement, the Company underwent at-least-three-bids system with qualitative products, competitive price, open tender, in order to reduce storage costs and guarantee production.

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

Construction projects of the Company were carried out on schedule. The progress of the main works was under control of the Company and the quality of the works was assured.

In respect of human resources management, the Company selected, trained and maintained various kind of talents, and continuously improved the quality of the team of employees in accordance with the requirements of the development plan of the Company.

Due to the great efforts to pursue the practical internal controls, the Company has recorded a great results of operation in 2010.

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

All Directors and senior management of the Company were diligent and responsible in their work during 2010. They conformed with the laws and regulations and demonstrated cooperation. Their duties were properly segregated. They were responsible and ensured effective implementation of all resolutions approved at general meetings and Board meetings. In carrying out their duties, there was no breach of the laws and regulations, the Articles of Association of the Company or any other action against the interests of the Company. As a result of the decisions made by the Board and the senior management, the Company had made tremendous achievements in various aspects including production, safety, operation and technical improvement.

3. Focus of the Supervisory Committee in 2011

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

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

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

(iv) To endeavor to identify new situations and cope with new problems, and to strive to maintain its independent supervisory role and continue to improve its quality of work.

(v) To prepare the work for the new session of the Supervisor Committee.

Jiang Mingshun
Chairman of the Supervisory Committee
18 March 2011

Corporate Governance Report

The Company strives to maintain a high standard of corporate governance and comply with the relevant regulations of China Securities Regulatory Commission and the Stock Exchange as well as the regulations of other relevant regulatory authorities. The Articles of Association, the terms of reference of the Audit Committee, the terms of reference of the Supervisory Committee and the Model Code are the bases of reference for formulation of the Company's corporate governance practice code. The Company has applied all the code provisions under the Code on Corporate Governance Practices (the "Practice Code") set out in Appendix 14 of the Listing Rules and save and except the Company's practice in the number of Board's meeting held during the Year as set out below, the Company has fully complied with the relevant code provisions and most of the recommended best practices for the financial year ended 31 December 2010. The Company will continue to improve its corporate governance and enhance the transparency of its operations to its shareholders.

THE BOARD OF DIRECTORS

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

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

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

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

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

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

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

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

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

For the year ended 31 December 2010, three Board meetings were held, including the second special meeting of the second session of the Board, the sixth meeting of the second session of the Board and the seventh meeting of the second session of the Board. Below is an attendance record of the meetings:

Name of Directors	Number of Meetings Attended
Chairman (Executive Director)	
Yuan Ze (袁澤)	3/3
Executive Directors	
Shi Wenfeng (史文峰) *(General Manager)*	3/3
Zhang Guohua (張國華) *(Executive Deputy General Manager)*	3/3
Liu Jun (劉俊) *(Deputy General Manager)*	3/3
Non-executive Directors	
Zhou Chuanyou (周傳有) *(Vice-Chairman)*	3/3
Niu Xuetao (牛學濤)	3/3
Independent non-executive Directors	
Chen Jianguo (陳建國)	3/3
Sun Baosheng (孫寶生)	2/3
Ng Yuk Keung (吳育強)	3/3

Provision A1.1 of Practice Code requires that board meetings should be held at least four times a year. Having considered that almost all of the affairs of the Company were reasonably considered and resolved at the three Board Meetings held by the Company in 2010, the Company only held three Board Meeting during the year and thus deviating from the Practice Code. The Company will strive to adhere to the provision relating to the number of board meeting in the Practice Code in the future.

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

RESPONSIBILITIES OF THE DIRECTORS

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as its own code of conduct regarding Directors' securities transactions. Having made specific enquiries of all Directors, all Directors and Supervisors have complied with the required standards as set out in the Model Code for the year ended 31 December 2010.

AVAILABILITY AND USE OF INFORMATION

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

THE COMMITTEES UNDER THE BOARD OF DIRECTORS

Remuneration and Review Committee

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

The Remuneration and Review Committee is mainly responsible for:

– reviewing the structure, number of members and composition (including skills, knowledge and experiences) of the Board on a regular basis; and proposing any changes to the Board;

– Selecting qualifying directors, selecting and nominating such persons or reflecting such opinions to the Board;

– reviewing and determining the independence of independent non-executive Directors;

– making recommendations on appointment and re-appointment issues, succession of Directors (in particular the Chairman) and relevant issues;

– formulating remuneration and incentive policies for the Directors and senior management;

– examining and evaluating the Directors and senior management in terms of fulfilling their responsibilities; and

– ensuring no Directors or their connected persons determine their own remuneration.

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

Auditors' Remuneration

For the year ended 31 December 2010, audit fees charged by the auditors of the Company amounted to approximately RMB2.31 million and no non-audit service assignment was made.

Audit Committee

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

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

Major responsibilities of the Audit Committee are:

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

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

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

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

The Audit Committee has held meetings on a regular basis since its establishment and convened two meetings during the Reporting Year. Attendance rates were 100%.

The annual report of the Company for the year ended 31 December 2010 has been reviewed by the Audit Committee.

As at 31 December 2010, Mr. Zhou Chuanyou, the Director of the Company, beneficially owns 100% of equity interests in Zhongjin Investment (Group), Shanghai Yilian and Hong Kong CCIG International Industrial Co., Ltd., which in turn held 480,924,000 issued domestic shares and 4,027,000 H share of the Company accumulatively. Save as disclosed above, neither of the Directors, Supervisors and senior management of the Company hold any other interests in the Company.

Strategic Development Committee

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

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

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

Supervisory Committee

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

The Supervisory Committee is responsible for exercising supervision over the Board, its members and the senior management; and preventing them from abusing their authorities and jeopardizing the interests of the shareholders, the Company and its employees. Two meetings were held by the Supervisory Committee in 2010. Attendance rates for both meetings were 80%. During the meetings, the Supervisory Committee reviewed the financial conditions and operation of the Company and the due diligence of the senior management. The Supervisory Committee's members perform their duties in accordance with the committee's terms of reference.

SHAREHOLDERS' MEETING AND INVESTOR RELATIONS

The general meeting provides a good opportunity for direct communications and the establishment of a sound relationship between the Board and the shareholders of the Company. Therefore, the Company attaches great importance to such meeting. In 2010, the Company convened one general meeting. All resolutions were approved with a passing rate of over 99%. The general meeting was chaired by the Chairman of the Board, who explained matters concerning the procedures for voting for shareholders' consideration and the shareholders voted on each resolution. Each of the Directors and Supervisors were notified of and attended the general meeting.

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

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

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

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

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

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

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

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

As at 31 December 2010, total market capitalisation of the Company was approximately HK$10.85 billion, of which the market capitalization of public floatation of H shares was approximately HK$3.73 billion.

INTERNAL CONTROL AND CORPORATE MANAGEMENT

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

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

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

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

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

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

The Company will conduct an effective review on the control of financial, operational and risk management activities. In 2010, the Company has followed through the internal control system and the Board has conducted a review of the effectiveness of the internal control system of the Group. The internal audit of the Company plays an important role in the internal control system of the Company. It is responsible for monitoring the effectiveness of the internal control procedures and ensuring the compliance of policies and principals established by each business and operational units. The internal audit function will also make recommendations on operation effectiveness and other risk management issues to the management.

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

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

Pursuant to the statutory regulation and in compliance to the Hong Kong Code on Takeovers and Mergers and the Listing Rules the Company has engaged Hercules Capital Limited as the independent financial advisor of the Company to advise the Company, the independent board committee and the independent shareholders with respect to the amendments to the construction services agreements entered by the Company and Xinjiang Non-ferrous Metals Industry (Group) Ltd. and the continuing connected transactions contemplated thereunder, together with the annual caps for 2010 to 2012; and the further capital injection to Xinjiang Wuxin; and to prepare the independent report of the financial advisor.

DELEGATION OF AUTHORITY

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

FINANCIAL REPORTING

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

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

We have audited the consolidated financial statements of Xinjiang Xinxin Mining Industry Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 54 to 140, which comprise the consolidated and company balance sheets as at 31 December 2010, 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 Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 18 March 2011

Consolidated Balance Sheet

(All amounts in RMB thousands unless otherwise stated)

	Note	As at 31 December 2010	2009
ASSETS			
Non-current assets			
Property, plant and equipment	*6*	**2,906,323**	1,919,017
Mining rights	*7*	**644,075**	658,645
Land use rights	*8*	**121,426**	124,366
Intangible assets	*9*	**28,385**	28,545
Investment in a joint-venture	*11*	**141,766**	143,677
Investment in an associate	*12*	**4,656**	5,821
Other non-current asset	*13*	**56,066**	53,000
Deferred tax assets	*27*	**29,563**	21,946
Total non-current assets		**3,932,260**	2,955,017
Current assets			
Inventories	*14*	**447,985**	261,180
Trade and bills receivables	*15*	**165,441**	13,583
Other receivables and prepayments	*16*	**126,164**	92,552
Interest receivable		**3,439**	11,699
Cash and cash equivalents	*17*	**1,501,686**	2,301,418
Restricted cash	*17*	**44,172**	–
Total current assets		**2,288,887**	2,680,432
Total assets		**6,221,147**	5,635,449
EQUITY			
Equity attributable to owners of the Company			
Share capital	*18*	**552,500**	552,500
Capital reserve	*18*	**4,055,489**	4,055,489
Other reserves	*19*	**230,200**	201,687
Retained earnings			
– Proposed final dividend	*20,37*	**331,500**	110,500
– Others	*20*	**309,366**	319,477
		5,479,055	5,239,653
Non-controlling interests		**216,060**	46,103
Total equity		**5,695,115**	5,285,756

Consolidated Balance Sheet

(All amounts in RMB thousands unless otherwise stated)

	Note	As at 31 December 2010	2009
LIABILITIES			
Non-current liabilities			
Borrowing	*21*	**30,000**	–
Long-term payables	*22*	**100**	939
Provision for close down, restoration and environmental costs	*23*	**6,840**	5,310
Deferred income	*24*	**39,496**	26,328
Deferred tax liability	*27*	**102,957**	103,682
Total non-current liabilities		**179,393**	136,259
Current liabilities			
Current portion of long-term payables	*22*	**251**	116
Trade payables	*25*	**203,737**	97,133
Notes payable	*17(b)*	**36,344**	–
Other payables and accruals	*26*	**106,014**	115,121
Income tax payable		**293**	1,064
Total current liabilities		**346,639**	213,434
Total liabilities		**526,032**	349,693
Total equity and liabilities		**6,221,147**	5,635,449
Net current assets		**1,942,248**	2,466,998
Total assets less current liabilities		**5,874,508**	5,422,015

The notes on pages 61 to 140 are an integral part of these financial statements

The financial statements on pages 54 to 140 were approved by the Board of Directors on 18 March 2011 and were signed on its behalf.

Yuan Ze
Director

Shi Wenfeng
Director

Balance Sheet

(All amounts in RMB thousands unless otherwise stated)

	Note	As at 31 December 2010	2009
ASSETS			
Non-current assets			
Property, plant and equipment	*6*	**1,822,663**	1,337,638
Mining rights	*7*	**263,194**	274,437
Land use rights	*8*	**72,975**	74,621
Intangible assets	*9*	**270**	364
Investments in subsidiaries	*10*	**1,336,131**	1,006,131
Investment in a joint-venture	*11*	**145,327**	145,327
Deferred tax assets	*27*	**6,851**	5,379
Total non-current assets		**3,647,411**	2,843,897
Current assets			
Inventories	*14*	**403,860**	220,811
Trade and bills receivables	*15*	**161,425**	13,583
Other receivables and prepayments	*16*	**272,855**	162,095
Interest receivable		**1,700**	11,159
Cash and cash equivalents	*17*	**1,134,664**	2,178,090
Restricted cash	*17*	**6,315**	–
Total current assets		**1,980,819**	2,585,738
Total assets		**5,628,230**	5,429,635
EQUITY			
Equity attributable to owners of the Company			
Share capital	*18*	**552,500**	552,500
Capital reserve	*18*	**4,055,489**	4,055,489
Other reserves	*19*	**230,200**	201,687
Retained earnings			
– Proposed final dividend	*20,37*	**331,500**	110,500
– Others	*20*	**221,351**	294,633
Total equity		**5,391,040**	5,214,809

(All amounts in RMB thousands unless otherwise stated)

	Note	As at 31 December 2010	2009
LIABILITIES			
Non-current liabilities			
Long-term payables	*22*	**100**	939
Provision for close down, restoration and environmental costs	*23*	**6,004**	4,524
Deferred income	*24*	**16,338**	16,361
Total non-current liabilities		**22,442**	21,824
Current liabilities			
Current portion of long-term payables	*22*	**251**	116
Trade payables	*25*	**155,398**	105,704
Other payables and accruals	*26*	**59,099**	87,182
Total current liabilities		**214,748**	193,002
Total liabilities		**237,190**	214,826
Total equity and liabilities		**5,628,230**	5,429,635
Net current assets		**1,766,071**	2,392,736
Total assets less current liabilities		**5,413,482**	5,236,633

The notes on pages 61 to 140 are an integral part of these financial statements

The financial statements on pages 54 to 140 were approved by the Board of Directors on 18 March 2011 and were signed on its behalf.

Yuan Ze
Director

Shi Wenfeng
Director

Consolidated Statement of Comprehensive Income

(All amounts in RMB thousands unless otherwise stated)

	Note	Year ended 31 December 2010	2009
Revenue	*5*	**1,125,163**	705,938
Cost of sales	*28*	**(685,226)**	(419,050)
Gross profit		**439,937**	286,888
Distribution costs	*28*	**(6,247)**	(8,720)
Administrative expenses	*28*	**(119,692)**	(93,788)
Other gains/(losses) – net	*30*	**3,839**	(5,505)
Operating profit		**317,837**	178,875
Finance income	*31*	**37,997**	50,730
Finance costs	*31*	**(314)**	(241)
Finance income – net	*31*	**37,683**	50,489
Share of loss of a joint-venture	*11*	**(1,911)**	(992)
Share of loss of an associate	*12*	**(1,165)**	(1,080)
Profit before income tax		**352,444**	227,292
Income tax expense	*32*	**(2,585)**	(747)
Profit for the year		**349,859**	226,545
Other comprehensive income, net of tax		**–**	–
Total comprehensive income for the year		**349,859**	226,545
Profit/total comprehensive income attributable to			
– Owners of the Company		**349,902**	226,745
– Non-controlling interests		**(43)**	(200)
		349,859	226,545
Earnings per share for profit attributable to the owners of the Company during the year			
(expressed in Renminbi per share)			
– Basic and diluted	*35*	**0.158**	0.103

The notes on pages 61 to 140 are an integral part of these financial statements.

Proposed final dividends	*36*	**331,500**	110,500

Consolidated Statement of Changes in Equity

(All amounts in RMB thousands unless otherwise stated)

	Note	Attributable to owners of the Company						
	Note	Share capital	Capital reserve	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
At 1 January 2009		552,500	4,055,489	182,168	421,651	5,211,808	9,803	5,221,611
Profit for the year and total comprehensive income		–	–	–	226,745	226,745	(200)	226,545
Transaction with owners								
Dividends relating to 2008	*36*	–	–	–	(198,900)	(198,900)	–	(198,900)
Appropriation to statutory reserve	*19*	–	–	19,519	(19,519)	–	–	–
Capital contribution from non-controlling interests	*10(b)*	–	–	–	–	–	34,000	34,000
Total contributions by and distributions to owners		–	–	19,519	(218,419)	(198,900)	34,000	(164,900)
Non-controlling interests arising on a business combination		–	–	–	–	–	2,500	2,500
Total transaction with owners		–	–	19,519	(218,419)	(198,900)	36,500	(162,400)
Appropriation to safety fund reserve	*19*	–	–	5,797	(5,797)	–	–	–
Utilisation of safety fund reserve	*19*	–	–	(5,797)	5,797	–	–	–
At 31 December 2009		552,500	4,055,489	201,687	429,977	5,239,653	46,103	5,285,756
At 1 January 2010		**552,500**	**4,055,489**	**201,687**	**429,977**	**5,239,653**	**46,103**	**5,285,756**
Profit for the year and total comprehensive income		**–**	**–**	**–**	**349,902**	**349,902**	**(43)**	**349,859**
Transaction with owners								
Dividends relating to 2009	*36*	**–**	**–**	**–**	**(110,500)**	**(110,500)**	**–**	**(110,500)**
Appropriation to statutory reserve	*19*	**–**	**–**	**28,513**	**(28,513)**	**–**	**–**	**–**
Capital contribution from non-controlling interests	*10(b)*	**–**	**–**	**–**	**–**	**–**	**170,000**	**170,000**
Total transaction with owners		**–**	**–**	**28,513**	**(139,013)**	**(110,500)**	**170,000**	**59,500**
Appropriation to safety fund Reserve	*19*	**–**	**–**	**6,972**	**(6,972)**	**–**	**–**	**–**
Utilisation of safety fund Reserve	*19*	**–**	**–**	**(6,972)**	**6,972**	**–**	**–**	**–**
At 31 December 2010		**552,500**	**4,055,489**	**230,200**	**640,866**	**5,479,055**	**216,060**	**5,695,115**

The notes on pages 61 to 140 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

(All amounts in RMB thousands unless otherwise stated)

		Year ended 31 December	
	Note	**2010**	2009
Cash flows from operating activities			
Cash generated from operations	*37(a)*	**51,226**	13,588
Interest paid		**–**	(70)
Income tax paid		**(11,698)**	(6,541)
Net cash generated from operating activities		**39,528**	6,977
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash required		**–**	(280,867)
Release of cash pledged for acquisition of subsidiaries		**–**	271,125
Purchase of property, plant and equipment		**(972,504)**	(671,058)
Prepayment for/purchase of mining rights		**(6,500)**	(1,472)
Purchase of other intangible assets		**(35)**	(76)
Proceeds from disposal of property, plant and equipment	*37(b)*	**3,945**	91
Interest received		**46,237**	55,786
Net cash used in investing activities		**(928,857)**	(626,471)
Cash flows from financing activities			
Dividends paid to the owners of the Company	*36*	**(110,500)**	(198,900)
Dividends paid to previous shareholders of subsidiaries acquired in 2009		**–**	(36,020)
Capital contribution from a non-controlling interests in a subsidiary	*10(b)*	**170,000**	34,000
Proceeds from bank borrowing		**30,000**	–
Repayment of bank borrowings of a subsidiary acquired in 2009		**–**	(55,000)
Net cash generated from/(used) in financing activities		**89,500**	(255,920)
Net decrease in cash and cash equivalents		**(799,829)**	(875,414)
Cash and cash equivalents at beginning of the year		**2,301,418**	3,176,893
Exchange differences on cash and cash equivalents		**97**	(61)
Cash and cash equivalents at end of the year	*37(c)*	**1,501,686**	2,301,418

The notes on pages 61 to 140 are an integral part of these consolidated financial statements.

1 General information

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

In October 2007, the Company completed its initial public offering ("IPO") and the H shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (Note (18)).

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

These consolidated financial statements have been approved for issue by the Board of Directors on 18 March 2011.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

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

The consolidated financial statements have been prepared under the historical cost convention, except that certain financial assets and financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method as appropriate.

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

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

Changes in accounting policy and disclosures

(a) *New and amended standards adopted by the Group*

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.

- HKFRS 3 (revised), 'Business combinations', and consequential amendments to Hong Kong Accounting Standard ('HKAS') 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

  The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed. HKFRS 3 (revised) had no impact on the current period, as there was no business combination in 2010.

  HKAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. HKAS 27 (revised) has had no impact on the current period, as none of the non-controlling interests have a deficit balance; there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there was no acquisition of non-controlling interests in 2010.

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

Changes in accounting policy and disclosures *(continued)*

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

- HKAS 17 (amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. It is not expected to have any impact on the Group's financial statements.

- HKAS 36 (amendment), 'Impairment of assets', which is effective 1 January 2010, clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of HKFRS 8, ' Operating segments' (that is, before the aggregation of segments with similar economic characteristics). It is not expected to have any impact on the Group's financial statements.

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)

- HKFRS 2 (amendment) "Group cash-settled share-based payment transactions"

- HKAS 39 (amendment) "Eligible hedged items"

- HK(IFRIC) – Int 17 "Distributions of non-cash assets to owners"

- HK(IFRIC) – Int 18 "Transfer of assets from customers"

- HK – Int 5 "Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause"

- Amendment to HKFRS 5 "Non-current assets held for sale and discontinued operations" under the first annual improvements project to HKFRSs issued in October 2008

- The second annual improvements project to HKFRSs issued in May 2009

(All amounts in RMB thousands unless otherwise stated)

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

Changes in accounting policy and disclosures *(continued)*

(c) Standards, amendments and interpretations which are not yet effective

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2011, but the Group has not early adopted them:

	Applicable for accounting periods beginning on/after
HKAS 12 (amendment), 'Deferred tax: Recovery of underlying assets'	1 January 2012
HKAS 24 (revised), 'Related party disclosures'	1 January 2011
HKAS 32 (amendment), 'Classification of right issues'	1 February 2010
HKFRS 9, 'Financial instruments'	1 January 2013
HK(IFRIC) – Int 14 (amendment), 'Prepayments of a minimum funding requirement'	1 January 2011
HK(IFRIC) – Int 19, 'Extinguishing financial liabilities with equity instruments'	1 July 2010
Improvements to HKFRSs 2010	1 January 2011 (unless otherwise specified)

The Group will adopt the above new or revised standards, amendments and interpretations to existing standards as and when they become effective. The Group has already commenced the assessment of the impact to the Group and is not yet in a position to state whether these would have a significant impact on its results of operations and financial position.

2 Summary of significant accounting policies *(continued)*

2.2 Consolidation

(a) Subsidiaries

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

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidate statement of comprehensive income (Note 2.9).

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

In the Company's balance sheet the investment in a subsidiary is stated at cost less provision for impairment losses (Note 2.9). Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The result of subsidiary is accounted by the Company on the basis of dividend received and receivable.

2 Summary of significant accounting policies *(continued)*

2.2 Consolidation *(continued)*

(b) *Transactions with non-controlling interests*

The Group treats transactions with non-controlling interests as transactions with equity holders of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(c) *Joint ventures*

The Group's interests in jointly controlled entities are accounted for using the equity method for accounting and are initially recognised at cost. The Group's investment in joint ventures includes goodwill identified on acquisition, if any, net of any accumulated impairment loss. See Note 2.9 for the impairment of non-financial assets including goodwill.

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

2 Summary of significant accounting policies *(continued)*

2.2 Consolidation *(continued)*

(c) Joint ventures (continued)

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

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

Dilution gains and losses arising in investments in joint ventures are recognised in the consolidated statement of comprehensive income.

(d) Associates

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

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

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

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

2 Summary of significant accounting policies *(continued)*

2.2 Consolidation *(continued)*

Changes in accounting policy

The Group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control or significant influence from 1 January 2010 when revised HKAS 27, 'Consolidated and separate financial statements', became effective. The revision to HKAS 27 contained consequential amendments to HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures'.

Previously transactions with non-controlling interests were treated as transactions with parties external to the Group. Disposals therefore resulted in gains or losses in profit or loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings.

Previously, when the Group ceased to have control or significant influence over an entity, the carrying amount of the investment at the date control or significant influence became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets.

The Group has applied the new policy prospectively to transactions occurring on or after 1 January 2010. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

2.3 Segment reporting

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

2 Summary of significant accounting policies *(continued)*

2.4 Foreign currency translation

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

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

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

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

2 Summary of significant accounting policies *(continued)*

2.5 Property, plant and equipment

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

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

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

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

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

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

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

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

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

2 Summary of significant accounting policies *(continued)*

2.6 Land use rights

Land use rights are stated at cost less accumulated amortisation and impairment losses. Cost represents consideration paid for the rights to use the land and expenditure that is directly attributable to the acquisition. Amortisation of land use rights is calculated on a straight-line basis over the period of the land use rights varying from 10 to 50 years.

2.7 Mining rights and exploration rights

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

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

2.8 Goodwill

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

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

2 Summary of significant accounting policies *(continued)*

2.9 Impairment of assets

(a) *Impairment of investments in subsidiaries, joint-ventures and associates, and non-financial assets*

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

(b) *Impairment of financial assets carried at amortised costs*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;

- A breach of contract, such as a default or delinquency in interest or principal payments;

- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

2 Summary of significant accounting policies *(continued)*

2.9 Impairment of assets *(continued)*

(b) Impairment of financial assets carried at amortised costs (continued)

- The disappearance of an active market for that financial asset because of financial difficulties; or

- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

  (i) adverse changes in the payment status of borrowers in the portfolio;

  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. If a loan or held- to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

2.10 Financial assets

(a) Classification

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

2 Summary of significant accounting policies *(continued)*

2.10 Financial assets *(continued)*

(a) Classification (continued)

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

(b) Recognition and measurement

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

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

2.11 Inventories

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

2.12 Trade and other receivables

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

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

2 Summary of significant accounting policies *(continued)*

2.13 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the balance sheets, bank overdrafts (if any) are shown within borrowings in current liabilities.

2.14 Share capital

Shares are classified as equity, including promoters' shares and public H shares.

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

2.15 Trade and other payables

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

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

2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets that necessarily take a substantial period of time to be ready for their intended use or sale are capitalised as part of the costs of assets. All other borrowing costs are expensed.

2 Summary of significant accounting policies *(continued)*

2.17 Current and deferred income tax

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

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

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

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

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

2.18 Employee benefits

(a) Pension obligations

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

2 Summary of significant accounting policies *(continued)*

2.18 Employee benefits *(continued)*

(b) Housing benefits

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

(d) Early retirement benefits

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

(d) Cash-settled share-based compensation scheme

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

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

2.19 Provisions

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

2 Summary of significant accounting policies *(continued)*

2.19 Provisions *(continued)*

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

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

2.20 Revenue recognition

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

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

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

(b) Interest income

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

2.21 Government grants

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

2 Summary of significant accounting policies *(continued)*

2.21 Government grants *(continued)*

Government grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with the costs which they are intended to compensate, otherwise grants with no future costs are recognised on receipt basis.

Government grants relating to assets are included in non-current liabilities as deferred income and are credited to the consolidated statement of comprehensive income on a straight line basis over the expected lives of the related assets.

2.22 Dividend distribution

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

2.23 Operating leases

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

2.24 Exploration and evaluation expenditure

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

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

2 Summary of significant accounting policies *(continued)*

2.25 Contingent liability

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

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

2.26 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of subsidiaries or associates to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the company's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with HKAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of Management. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the consolidated income statement within other operating expenses.

Where guarantees in relation to loans or other payables of subsidiaries or associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment in the financial statements of the company.

3 Financial risk management

(i) Financial risk factors

The Group's activities expose it to a variety of financial risks: cash flow interest rate risk, credit risk, liquidity risk and concentration risk. The Group historically has not used derivative instruments for hedging or trading purposes. Given the Group solely operates in the PRC, the exchange rate risk is considered not significant.

(a) Cash flow interest rate risk

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

As at 31 December 2010, if interest rates on bank deposits had been 10% lower/higher with all other variables held constant, post-tax profit for the year would have been RMB3,447,000 lower/higher (2009: RMB5,073,000).

(b) Credit risk

The carrying amounts of bank deposits and receivables included in the consolidated balance sheet represent the Group's maximum exposure to credit risk in relation to its financial assets. Most of bank balances are deposited with state-owned banks which are considered of remote default risk. For trade receivables from customers, management continuously monitors the credit quality of individual customer, taking into account the customer's financial position, past performance and other factors. Management is also of the opinion that adequate provision for uncollectible trade receivable and other receivables were made as at 31 December 2009 and 2010 after considering the Group's historical experience in collection of trade receivable and other receivables.

(All amounts in RMB thousands unless otherwise stated)

3 Financial risk management *(continued)*

(i) Financial risk factors *(continued)*

(c) Liquidity risk

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

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

The Group

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2009				
Trade payables *(Note 25)*	97,133	–	–	–
Other payables and accruals *(Note 26)*	109,948	–	–	–
At 31 December 2010				
Borrowings *(Note 21)*	**1,614**	**1,614**	**30,000**	**–**
Trade payables *(Note 25)*	**203,737**	**–**	**–**	**–**
Notes payable	**36,344**	**–**	**–**	**–**
Other payables and accruals *(Note 26)*	**92,600**	**–**	**–**	**–**

The Company

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2009				
Trade payables *(Note 25)*	105,704	–	–	–
Other payables and accruals *(Note 26)*	83,531	–	–	–
At 31 December 2010				
Trade payables *(Note 25)*	**155,398**	**–**	**–**	**–**
Other payables and accruals *(Note 26)*	**54,939**	**–**	**–**	**–**

3 Financial risk management *(continued)*

(i) Financial risk factors *(continued)*

(d) Concentration risk

Revenues are principally derived from sales of nickel cathode and copper cathode. Approximately 66% of the total sales for the year ended 31 December 2010 (2009: 48%) were contributed by the top three customers for which the Group has not entered into any long-term sales contracts with them. In the event that these major customers terminate the business relationship with the Group and the Group fails to find new customers, it may have a material adverse impact on the Group's financial position and results of operations. In order to manage the risk, management of the Company continuously explores potential customers.

(ii) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity', as shown in the consolidated balance sheet, plus net debt. The gearing ratio at 31 December 2009 was zero as the Group had no borrowings. As at 31 December 2010, the Group had a bank loan of RMB30,000,000 and notes payable of RMB36,344,000 which are considered not significant as compared with cash and bank balances as at 31 December 2010.

(iii) Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The Group does not have significant financial instruments carrying at fair value as at 31 December 2010 and 2009.

4 Critical accounting estimates and assumptions

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

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

(a) Carrying value of non-current assets

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

As at 31 December 2010, there was no impairment indication noted for property, plant and equipment, land use rights and mining rights. Had impairment test been performed, the recoverable amounts of different cash generating units to which the property, plant and equipment, land use rights and mining rights belong, would have been determined based on value-in-use calculations using cash flow projections, which would have been compiled based on financial budgets approved by senior management covering a five-year period and management's assumptions and estimates including forecast of selling price of nickel and copper, discount rates and inflation rate.

(b) Goodwill impairment assessment

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

As at 31 December 2010, there was no impairment for goodwill. The recoverable amounts of different cash generating units to which the goodwill, have been determined based on value-in-use calculations using cash flow projections, based on financial budgets approved by senior management covering a five-year period and management's assumptions and estimates including forecast of selling price of nickel and copper, discount rates and inflation rate. Cash flows beyond the five-year period are assumed to be equal to that of 2015. The discount rates used in cash flow projections varied with different cash generating units.

4 Critical accounting estimates and assumptions *(continued)*

(c) Useful lives of property, plant and equipment

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

(d) Mineral reserves

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

There are authoritative guidelines regarding the engineering criteria that have to be met before estimated mineral reserves can be designated as "proved" and "probable". Proved and probable mineral reserve estimates are updated at regular basis and have taken into account recent production and technical information about each mine. In addition, as prices and cost levels change from year to year, the estimate of proved and probable mineral reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation rates.

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

(e) PRC corporate income tax

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

(All amounts in RMB thousands unless otherwise stated)

4 Critical accounting estimates and assumptions *(continued)*

(f) Estimate of share appreciation rights

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

5 Segment information

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

Revenues form major products

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

	Year ended 31 December	
	2010	2009
Nickel cathode	**863,833**	469,779
Copper cathode	**197,099**	178,644
Copper concentrate	**25,491**	23,579
Others	**38,740**	33,936
	1,125,163	705,938

As all of the turnover and operating results of the Group for each of the years ended 31 December 2009 and 2010 were derived in the PRC and all the Group's assets and liabilities are located in the PRC, no geographical segment information is shown.

(All amounts in RMB thousands unless otherwise stated)

6 Property, plant and equipment

	The Group						
	Buildings	Machinery and equipment	Electronic equipment and others	Motor vehicles	Mining structures	Construction in progress	Total
At 1 January 2009							
Cost	303,378	238,689	9,152	26,947	20,427	530,150	1,128,743
Accumulated depreciation	(133,501)	(104,967)	(2,885)	(10,842)	(6,171)	–	(258,366)
Net book amount	169,877	133,722	6,267	16,105	14,256	530,150	870,377
Year ended 31 December 2009							
Opening net book amount	169,877	133,722	6,267	16,105	14,256	530,150	870,377
Acquisition of subsidiaries	91,445	42,983	2,722	7,961	36,373	234,255	415,739
Additions	469	3,675	2,021	4,017	–	661,957	672,139
Transfer-in from construction in progress	1,923	6,605	5	–	32,077	(40,610)	–
Other transfer in	–	–	–	–	9,072	–	9,072
Disposals *(Note 37(b))*	–	–	–	(82)	–	–	(82)
Depreciation charges	(15,030)	(18,995)	(1,580)	(3,234)	(9,389)	–	(48,228)
Closing net book amount	248,684	167,990	9,435	24,767	82,389	1,385,752	1,919,017
At 31 December 2009							
Cost	397,215	291,952	13,900	38,203	97,949	1,385,752	2,224,971
Accumulated depreciation	(148,531)	(123,962)	(4,465)	(13,436)	(15,560)	–	(305,954)
Net book amount	248,684	167,990	9,435	24,767	82,389	1,385,752	1,919,017

(All amounts in RMB thousands unless otherwise stated)

6 Property, plant and equipment *(continued)*

	The Group						
	Buildings	Machinery and equipment	Electronic equipment and others	Motor vehicles	Mining structures	Construction in progress	Total
Year ended 31 December 2010							
Opening net book amount	248,684	167,990	9,435	24,767	82,389	1,385,752	1,919,017
Additions	2,298	10,813	3,235	9,725	7	1,022,571	1,048,649
Transfer-in from construction in progress	8,138	148,849	–	–	–	(156,987)	–
Disposals *(Note 37(b))*	(1,881)	(1,598)	(5)	(2,589)	–	–	(6,073)
Depreciation charges	(15,785)	(22,354)	(2,232)	(4,123)	(10,776)	–	(55,270)
Closing net book amount	241,454	303,700	10,433	27,780	71,620	2,251,336	2,906,323
At 31 December 2010							
Cost	404,336	447,310	17,104	42,582	97,956	2,251,336	3,260,624
Accumulated depreciation	(162,882)	(143,610)	(6,671)	(14,802)	(26,336)	–	(354,301)
Net book amount	241,454	303,700	10,433	27,780	71,620	2,251,336	2,906,323

Notes:

(a) Operating lease rentals amounting to RMB1,636,000 (2009: RMB1,636,000) relating to the lease of property are included in the consolidated statement of comprehensive income.

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

	Year ended 31 December	
	2010	2009
Cost of sales	**47,396**	41,391
Distribution costs	**223**	201
Administrative expenses	**7,477**	6,332
	55,096	47,924
Capitalised in construction in progress	**174**	304
	55,270	48,228

(All amounts in RMB thousands unless otherwise stated)

6 Property, plant and equipment *(continued)*

	The Company						
	Buildings	Machinery and equipment	Electronic equipment and others	Motor vehicles	Mining structures	Construction in progress	Total
At 1 January 2009							
Cost	303,378	238,689	9,152	26,947	20,427	522,150	1,120,743
Accumulated depreciation	(133,501)	(104,967)	(2,885)	(10,842)	(6,171)	–	(258,366)
Net book amount	169,877	133,722	6,267	16,105	14,256	522,150	862,377
Year ended 31 December 2009							
Opening net book amount	169,877	133,722	6,267	16,105	14,256	522,150	862,377
Additions	–	2,250	1,261	2,520	–	501,268	507,299
Transfer-in from construction in progress	232	2,518	5	–	–	(2,755)	–
Disposal	–	–	–	(82)	–	–	(82)
Depreciation charges	(11,779)	(15,483)	(1,171)	(2,166)	(1,357)	–	(31,956)
Closing net book amount	158,330	123,007	6,362	16,377	12,899	1,020,663	1,337,638
At 31 December 2009							
Cost	303,610	243,457	10,418	28,744	20,427	1,020,663	1,627,319
Accumulated depreciation	(145,280)	(120,450)	(4,056)	(12,367)	(7,528)	–	(289,681)
Net book amount	158,330	123,007	6,362	16,377	12,899	1,020,663	1,337,638
Year ended 31 December 2010							
Opening net book amount	**158,330**	**123,007**	**6,362**	**16,377**	**12,899**	**1,020,663**	**1,337,638**
Additions	**–**	**1,721**	**751**	**6,979**	**–**	**511,130**	**520,581**
Transfer-in from construction in progress	**4,203**	**131,612**	**–**	**–**	**–**	**(135,815)**	**–**
Disposals	**(1,881)**	**(666)**	**(1)**	**(444)**	**–**	**–**	**(2,992)**
Depreciation charges	**(10,838)**	**(16,166)**	**(1,448)**	**(2,516)**	**(1,596)**	**–**	**(32,564)**
Closing net book amount	**149,814**	**239,508**	**5,664**	**20,396**	**11,303**	**1,395,978**	**1,822,663**
At 31 December 2010							
Cost	**304,498**	**373,648**	**11,141**	**34,619**	**20,427**	**1,395,978**	**2,140,311**
Accumulated depreciation	**(154,684)**	**(134,140)**	**(5,477)**	**(14,223)**	**(9,124)**	**–**	**(317,648)**
Net book amount	**149,814**	**239,508**	**5,664**	**20,396**	**11,303**	**1,395,978**	**1,822,663**

(All amounts in RMB thousands unless otherwise stated)

7 Mining rights

The Group

At 1 January 2009	
Cost	297,021
Accumulated amortisation	(14,025)
Net book amount	282,996
Year ended 31 December 2009	
Opening net book amount	282,996
Acquisition of subsidiaries	387,300
Additions	1,472
Amortisation charges	(13,123)
Closing net book amount	658,645
At 31 December 2009	
Cost	685,793
Accumulated amortisation	(27,148)
Net book amount	658,645
Year ended 31 December 2010	
Opening net book amount	**658,645**
Amortisation charges	**(14,570)**
Closing net book amount	**644,075**
At 31 December 2010	
Cost	**685,793**
Accumulated amortisation	**(41,718)**
Net book amount	**644,075**

(All amounts in RMB thousands unless otherwise stated)

7 Mining rights *(continued)*

The Company

At 1 January 2009	
Cost	297,021
Accumulated amortisation	(14,025)
Net book amount	282,996
Year ended 31 December 2009	
Opening net book amount	282,996
Additions	1,472
Amortisation charges	(10,031)
Closing net book amount	274,437
At 31 December 2009	
Cost	298,493
Accumulated amortisation	(24,056)
Net book amount	274,437
Year ended 31 December 2010	
Opening net book amount	**274,437**
Amortisation charges	**(11,243)**
Closing net book amount	**263,194**
At 31 December 2010	
Cost	**298,493**
Accumulated amortisation	**(35,299)**
Net book amount	**263,194**

7 Mining rights *(continued)*

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

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

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

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

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

(b) In 2009, as the result of acquisition of Xinjiang Yakesi Resources Development Company Limited ("Yakesi") and Hami Jubao Resources Development Company Limited ("Jubao"), the mining rights in relation to four nickel and Copper mines in Hami City, Xinjiang Uygur Autonomous Region, the PRC were obtained. The acquisition considerations allocated to such mining rights were amounting to RMB387,300,000.

For the year ended 31 December 2010, all the Group's mining rights were amortised on a straight-line basis calculating based on the period of the rights ranging from 19 years to 33 years.

(c) Amortisation of mining rights has been charged to costs of sales.

(All amounts in RMB thousands unless otherwise stated)

8 Land use rights

The Group

At 1 January 2009	
Cost	80,636
Accumulated amortisation	(4,369)
Net book amount	76,267
Year ended 31 December 2009	
Opening net book amount	76,267
Acquisition of subsidiaries	50,549
Amortisation charges	(2,450)
Closing net book amount	124,366
At 31 December 2009	
Cost	131,185
Accumulated amortisation	(6,819)
Net book amount	124,366
Year ended 31 December 2010	
Opening net book amount	**124,366**
Amortisation charges	**(2,940)**
Closing net book amount	**121,426**
At 31 December 2010	
Cost	**131,185**
Accumulated amortisation	**(9,759)**
Net book amount	**121,426**

(All amounts in RMB thousands unless otherwise stated)

8 Land use rights *(continued)*

The Company

At 1 January 2009	
Cost	80,636
Accumulated amortisation	(4,369)
Net book amount	76,267
Year ended 31 December 2009	
Opening net book amount	76,267
Amortisation charges	(1,646)
Closing net book amount	74,621
At 31 December 2009	
Cost	80,636
Accumulated amortisation	(6,015)
Net book amount	74,621
Year ended 31 December 2010	
Opening net book amount	**74,621**
Amortisation charges	**(1,646)**
Closing net book amount	**72,975**
At 31 December 2010	
Cost	**80,636**
Accumulated amortisation	**(7,661)**
Net book amount	**72,975**

Amortisation of land use rights has been charged to cost of sales.

As at 31 December 2009 and 2010, the remaining lease terms of land use rights were mainly within 10 to 50 years.

(All amounts in RMB thousands unless otherwise stated)

9 Intangible assets

The Group

	Goodwill	Software	Total
At 1 January 2009			
Cost	–	542	542
Accumulated amortisation	–	(84)	(84)
Net book amount	–	458	458
Year ended 31 December 2009			
Opening net book amount	–	458	458
Acquisition of subsidiaries	27,398	350	27,748
Deemed acquisition as a result of additional capital contribution into a subsidiary	435	–	435
Additions	–	76	76
Amortisation charges	–	(172)	(172)
Closing net book amount	27,833	712	28,545
At 31 December 2009			
Cost	27,833	968	28,801
Accumulated amortisation	–	(256)	(256)
Net book amount	27,833	712	28,545
Year ended 31 December 2010			
Opening net book amount	**27,833**	**712**	**28,545**
Additions	**–**	**35**	**35**
Amortisation charges	**–**	**(195)**	**(195)**
Closing net book amount	**27,833**	**552**	**28,385**
At 31 December 2010			
Cost	**27,833**	**1,003**	**28,836**
Accumulated amortisation	**–**	**(451)**	**(451)**
Net book amount	**27,833**	**552**	**28,385**

(All amounts in RMB thousands unless otherwise stated)

9 Intangible assets *(continued)*

The Company

	Goodwill	Software	Total
At 1 January 2009			
Cost	–	542	542
Accumulated amortisation	–	(84)	(84)
Net book amount	–	458	458
Year ended 31 December 2009			
Opening net book amount	–	458	458
Amortisation charges	–	(94)	(94)
Closing net book amount	–	364	364
At 31 December 2009			
Cost	–	542	542
Accumulated amortisation	–	(178)	(178)
Net book amount	–	364	364
Year ended 31 December 2010			
Opening net book amount	**–**	**364**	**364**
Amortisation charges	**–**	**(94)**	**(94)**
Closing net book amount	**–**	**270**	**270**
At 31 December 2010			
Cost	**–**	**542**	**542**
Accumulated amortisation	**–**	**(272)**	**(272)**
Net book amount	**–**	**270**	**270**

Amortisation of intangible asset has been charged to administrative expenses.

(All amounts in RMB thousands unless otherwise stated)

9 Intangible assets *(continued)*

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified, which is presented below as at 31 December 2010.

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

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

10 Investments in subsidiaries – the Company

	As at 31 December	
	2010	2009
Unlisted investment, at cost	**1,336,131**	1,006,131

(All amounts in RMB thousands unless otherwise stated)

10 Investments in subsidiaries – the Company *(continued)*

The particulars of subsidiaries as at 31 December 2010 are as follows:

Company name	Place of incorporation and kind of legal entity	Registered and fully paid-up capital	Principal activities and place of operation	% interests held
Xinjiang Mengxi Mining Company Limited ("Mengxi Mining") *(Note (a))*	the PRC, limited liability company	RMB15,918,400	Production and sales of nickel concentrate, in the PRC	51%
Xinjiang Wuxin Copper Company Limited ("Wuxin Mining") *(Note (b))*	the PRC, limited liability company	RMB600,000,000	Production and sales of copper cathode, in the PRC	66%
Yakesi *(Note (c))*	the PRC, limited liability company	RMB500,000,000	Production and sales of nickel concentrate and copper concentrate, in the PRC	100%
Jubao *(Note (c))*	the PRC, limited liability company	RMB5,000,000	Production and sales of nickel concentrate and copper concentrate, in the PRC	100%
Xinjiang Zhongxin Mining Company Limited ("Zhongxin Mining") *(Note (d))*	the PRC, limited liability company	RMB120,000,000	Production and sales of nickel matte, in the PRC	97.58%

Notes:

(a) Mengxi Mining was established on 12 June 2008 and has not commenced operations as at 31 December 2010. Mengxi Mining was set up with registered capital of RMB15,918,400. The Company subscribed for 51% of the paid-in capital of Mengxi Mining at a consideration of RMB10,200,000.

(b) Wuxin Mining was established on 7 August 2009 and has not commenced operations as at 31 December 2010. Wuxin Mining was set up with registered capital of RMB100,000,000. The Company subscribed for 66% of the registered capital of Wuxin Mining at a consideration of RMB66,000,000. On 23 July 2010, the registered capital of Wuxin Mining was increased to RMB600,000,000, with additional capital injection of RMB500,000,000, among which RMB330,000,000 was contributed by the Company and the remaining RMB170,000,000 was contributed by the non-controlling interests of Wuxin Mining.

(All amounts in RMB thousands unless otherwise stated)

10 Investments in subsidiaries – the Company *(continued)*

Notes: (continued)

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

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

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

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

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

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

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

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

11 Investment in a joint-venture

The Group

	2010	2009
At 1 January	**143,677**	144,669
Share of loss, net of tax	**(1,911)**	(992)
At 31 December	**141,766**	143,677

The Group acquired 50% equity interests in a joint-venture, Hami Hexin Mining Company Limited ("Hexin Mining") from Xinjiang Non-ferrous in 2008. Hexin Mining is engaged in the development of mining resources, production, purchase and sales of mineral products. As at 31 December 2010, Hexin Mining was in trial run stage.

(All amounts in RMB thousands unless otherwise stated)

11 Investment in a joint-venture *(continued)*

The Group's share of the results for the year ended 31 December 2010, assets and liabilities as at 31 December 2010 of the joint-venture is as follows:

Company name	Place of establishment and kind of legal entity	Assets	Liabilities	Revenue	Net loss	% interests held 2010	% interests held 2009
Hexin Mining	the PRC, limited liability company	RMB284,334,000	RMB142,568,000	–	RMB1,911,000	**50**	50

The Company

As at 31 December 2010 and 2009, the investment in Hexin Mining was stated at cost of RMB145,327,000 on the Company's balance sheet.

12 Investment in an associate

The Group

	2010	2009
At 1 January	**5,821**	–
Increase through acquisition of a subsidiary	**–**	6,901
Share of loss, net of tax	**(1,165)**	(1,080)
At 31 December	**4,656**	5,821

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

The Group's share of the results for the year ended 31 December 2010, assets and liabilities as at 31 December 2010 of the associate is as follows:

Company name	Place of establishment and kind of legal entity	Assets	Liabilities	Revenue	Net loss	% interests held 2010	% interests held 2009
Puxiong Mining	the PRC, limited liability company	RMB15,180,000	RMB10,524,000	RMB3,575,000	RMB1,165,000	**30**	30

(All amounts in RMB thousands unless otherwise stated)

13 Other non-current asset

The Group

	As at 31 December	
	2010	2009
Prepaid utilities *(Note)*	**49,033**	52,336
Others	**7,033**	664
	56,066	53,000

Note:

The balances represented the prepayment for utilities of a subsidiary, which will offset the utilities to be incurred after 1 January 2012.

14 Inventories

The Group

	As at 31 December	
	2010	2009
Cost:		
Raw materials	**112,273**	57,798
Work-in-progress	**48,362**	31,916
Semi-finished goods	**228,945**	111,704
Finished goods	**58,948**	60,410
	448,528	261,828
Provision:		
Raw materials	**(543)**	(648)
Inventory, net	**447,985**	261,180

(All amounts in RMB thousands unless otherwise stated)

14 Inventories *(continued)*

The Company

	As at 31 December	
	2010	2009
Cost:		
Raw materials	**66,337**	36,194
Work-in-progress	**55,956**	29,448
Semi-finished goods	**217,496**	97,963
Finished goods	**64,614**	57,749
	404,403	221,354
Provision:		
Raw materials	**(543)**	(543)
Inventory, net	**403,860**	220,811

The cost of inventories recognised as expense and included in “cost of sales” amounting to approximately RMB685,226,000 and RMB419,050,000 for each of the years ended 31 December 2010 and 2009 respectively.

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

15 Trade and bills receivables

The Group

	As at 31 December	
	2010	2009
Trade receivables *(Note (a))*	**165,753**	7,676
Bills receivable *(Note (d))*	**2,408**	8,561
Less: provision for impairment of trade receivables *(Note (e))*	**(2,720)**	(2,654)
	165,441	13,583

(All amounts in RMB thousands unless otherwise stated)

15 Trade and bills receivables *(continued)*

The Company

	As at 31 December	
	2010	2009
Trade receivables *(Note (a))*	**161,737**	7,676
Bills receivable *(Note (d))*	**2,408**	8,561
Less: provision for impairment of trade receivables *(Note(e))*	**(2,720)**	(2,654)
	161,425	13,583

Notes:

(a) Trade receivables are analysed as follows:

The Group

	As at 31 December	
	2010	2009
Trade receivables		
– Fellow subsidiaries *(Note (c))*	**1,666**	1,108
– Third parties	**164,087**	6,568
Trade receivables, gross	**165,753**	7,676

The Company

	As at 31 December	
	2010	2009
Trade receivables		
– Fellow subsidiaries *(Note (c))*	**1,666**	1,108
– Third parties	**160,071**	6,568
Trade receivables, gross	**161,737**	7,676

(All amounts in RMB thousands unless otherwise stated)

15 Trade and bills receivables *(continued)*

Notes: (continued)

(a) *(continued)*

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

The Group

	As at 31 December	
	2010	2009
0 – 90 days	**161,699**	4,226
91 – 180 days	**659**	283
181 – 365 days	**6**	–
Over 365 days	**3,389**	3,167
	165,753	7,676

The Company

	As at 31 December	
	2010	2009
0 – 90 days	**158,092**	4,226
91 – 180 days	**264**	283
181 – 365 days	**–**	–
Over 365 days	**3,381**	3,167
	161,737	7,676

(b) The credit periods of trade receivables are generally ranging from one to three months. As at 31 December 2010 and 2009, management of the Group assessed the recoverability of trade receivables on a customer by customer basis and made an impairment provision of RMB2,720,000 and RMB2,654,000 respectively; and there were no significant past due but not impaired trade receivable balances. For the balances that not past due nor impaired, management was of the opinion that no impairment provision was required. The Group did not hold any collateral as security.

(c) Trade receivables from related parties are unsecured, non-interest bearing and repayable in accordance with the relevant contracts entered into between the Group and these related parties (Note 40(b)).

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

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

The Group and the Company

	2010	2009
At 1 January	**2,654**	2,511
Provision for impairment of trade receivables	**66**	143
At 31 December	**2,720**	2,654

The provision for impairment of trade receivables have been included in "administrative expense" in the consolidated comprehensive income statement (Note 28).

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

(g) All trade and bills receivables are denominated in RMB.

(All amounts in RMB thousands unless otherwise stated)

16 Other receivables and prepayments

The Group

	As at 31 December	
	2010	2009
Other receivables		
– Amount due from a joint-venture *(Note (a))*	**52,655**	50,000
– Amount due from an associate *(Note (b))*	**7,048**	7,048
– Third parties	**37,971**	9,981
Less: impairment provision *(Note (c))*	**(711)**	(2,152)
	96,963	64,877
Advances to suppliers *(Note (d))*	**29,201**	27,675
	126,164	92,552

The Company

	As at 31 December	
	2010	2009
Other receivables		
– Amount due from Zhongxin Mining	**5**	–
– Amount due from a joint-venture *(Note (a))*	**52,655**	50,000
– Third parties	**27,571**	9,236
Less: impairment provision *(Note (c))*	**(6)**	(1,447)
	80,225	57,789
Advances to suppliers *(Note (d))*	**192,630**	104,306
	272,855	162,095

(All amounts in RMB thousands unless otherwise stated)

16 Other receivables and prepayments *(continued)*

Notes:

(a) Amount due from a joint-venture *(Note 40(b))*

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

According to the contract signed by the Company and Hexin Mining on 19 July 2010, the Company provided a loan of RMB30,000,000 to Hexin Mining. The loan was unsecured, bearing interest at a rate of 5.10% per annum, and repaid on 20 December 2010.

(b) Amount due from an associate *(Note 40(b))*

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

(c) The movement of provision for impairment of receivables are as follows:

The Group

	2010	2009
At 1 January	**(2,152)**	(1,155)
Acquisition of subsidiaries	**–**	(371)
Provision for impairment of other receivables	**–**	(651)
Write-off of provision for impairment of other receivables	**1,441**	25
At 31 December	**(711)**	(2,152)

The Company

	2010	2009
At 1 January	**(1,447)**	(1,155)
Provision for impairment of other receivables	**–**	(292)
Write-off of provision for impairment of other receivables	**1,441**	–
At 31 December	**(6)**	(1,447)

(d) Advances to suppliers are analysed as follows:

The Group

	As at 31 December	
	2010	2009
Advances to suppliers		
– Fellow subsidiaries *(Note 40(b))*	**536**	66
– Third parties	**28,665**	27,609
	29,201	27,675

(All amounts in RMB thousands unless otherwise stated)

16 Other receivables and prepayments *(continued)*

(d) Advances to suppliers are analysed as follows: *(continued)*

The Company

	As at 31 December	
	2010	2009
Advances to suppliers		
– Zhongxin Mining	**183,109**	101,138
– Fellow subsidiaries	**88**	66
– Third parties	**9,433**	3,102
	192,630	104,306

Advance to fellow subsidiaries are unsecured, non-interest bearing and to be settled within one year.

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

17 Cash and bank balances

The Group

	As at 31 December	
	2010	2009
Cash on hand	**10**	6
Cash at bank *(Note (a))*	**1,545,848**	2,301,412
Less: Restricted cash at banks *(Note (b))*	**(44,172)**	–
Cash and cash equivalents	**1,501,686**	2,301,418

The Company

	As at 31 December	
	2010	2009
Cash on hand	**7**	1
Cash at bank *(Note (a))*	**1,140,972**	2,178,089
Less: Restricted cash at banks *(Note (b))*	**(6,315)**	–
Cash and cash equivalents	**1,134,664**	2,178,090

17 Cash and bank balances *(continued)*

Notes:

(a) The balances as at 31 December 2009 and 2010 were mainly deposits with banks in the PRC and denominated in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

(b) Included in the restricted cash at banks, approximately RMB36,344,000 was set aside as the security for issuing bank notes by the banks, and pursuant to the relevant rules and regulations issued by the government authorities, approximately RMB7,828,000 was set aside as guarantee deposits for environmental recovery and safety of production.

18 Share capital and capital reserve

The Group and the Company

	Number of shares	Share capital	Capital reserve	Total
	'000			
	(Note (a))	*(Note (b))*	*(Note (c))*	
At 1 January and 31 December 2009 and 31 December 2010	2,210,000	552,500	4,055,489	4,607,989

Notes:

(a) Upon incorporation on 1 September 2005, the Company issued 300,000,000 shares at par value of RMB1 each to Xinjiang Non-ferrous, Shanghai Yilian Kuangneng Industry Co., Ltd., Zhongjin Investment (Group) Co., Ltd., Xiamen Zijin High-tech Co., Ltd. (now known as Zijin Mining Group (Xiamen) Investment Co., Ltd.), Xinjiang Xinying New Material Co., Ltd. and Shaanxi Honghao Industry Co., Ltd.. On 19 May 2006, the Company increased its paid-up capital from RMB300,000,000 to RMB380,000,000 by issuing of 80,000,000 new shares at par value of RMB1 each to existing owners of the Company.

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

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

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

18 Share capital and capital reserve *(continued)*

The Group *(continued)*

Notes: (continued)

(b) The Company's share capital as at 1 January and 31 December 2009 and 31 December 2010 is as follows:

	As at 1 January and 31 December 2009 and 31 December 2010		
	Number of shares *'000*	**% of issued capital**	**Nominal value** *RMB*
Registered, issued and fully paid			
– Domestic shares of RMB0.25 each	1,451,000	65.66%	362,750
– H shares of RMB0.25 each	759,000	34.34%	189,750
	2,210,000	100.00%	552,500

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

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

19 Other reserves

The Group

	Contribution from Holding Company *(Note (a))*	**Statutory reserve** *(Note (b))*	**Safety fund reserve** *(Note (c))*	**Total**
At 1 January 2009	35,393	146,775	–	182,168
Appropriation to statutory reserve	–	19,519	–	19,519
Appropriation to safety fund reserve	–	–	5,797	5,797
Utilisation of safety fund reserve	–	–	(5,797)	(5,797)
At 31 December 2009	35,393	166,294	–	201,687
At 1 January 2010	**35,393**	**166,294**	**–**	**201,687**
Appropriation to statutory reserve	**–**	**28,513**	**–**	**28,513**
Appropriation to safety fund reserve	**–**	**–**	**6,972**	**6,972**
Utilisation of safety fund reserve	**–**	**–**	**(6,972)**	**(6,972)**
At 31 December 2010	**35,393**	**194,807**	**–**	**230,200**

(All amounts in RMB thousands unless otherwise stated)

19 Other reserves *(continued)*

The Company

	Contribution from Holding Company *(Note (a))*	Statutory reserve *(Note (b))*	Safety fund reserve *(Note (c))*	Total
At 1 January 2009	35,393	146,775	–	182,168
Appropriation to statutory reserve	–	19,519	–	19,519
Appropriation to safety fund reserve	–	–	2,339	2,339
Utilisation of safety fund reserve	–	–	(2,339)	(2,339)
At 31 December 2009	35,393	166,294	–	201,687
At 1 January 2010	**35,393**	**166,294**	**–**	**201,687**
Appropriation to statutory reserve	**–**	**28,513**	**–**	**28,513**
Appropriation to safety fund reserve	**–**	**–**	**3,335**	**3,335**
Utilisation of safety fund reserve	**–**	**–**	**(3,335)**	**(3,335)**
At 31 December 2010	**35,393**	**194,807**	**–**	**230,200**

Notes:

(a) It represents the difference between the fair value of mining rights acquired from Xinjiang Non-ferrous and the discounted net present value of long-term payable for the mining rights acquired (Note 7(a)).

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

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

(All amounts in RMB thousands unless otherwise stated)

20 Retained earnings

The Group

	2010	2009
At 1 January	**429,977**	421,651
Profit attributable to owners of the Company	**349,902**	226,745
Dividends *(Note 36)*	**(110,500)**	(198,900)
Appropriation to statutory reserve *(Note 19)*	**(28,513)**	(19,519)
At 31 December	**640,866**	429,977
Representing:		
Proposed final dividend	**331,500**	110,500
Retained earnings – others	**309,366**	319,477
At 31 December	**640,866**	429,977

The Company

	2010	2009
At 1 January	**405,133**	422,306
Profit attributable to owners of the Company	**286,731**	201,246
Dividends *(Note 36)*	**(110,500)**	(198,900)
Appropriation to statutory reserve *(Note 19)*	**(28,513)**	(19,519)
At 31 December	**552,851**	405,133
Representing:		
Proposed final dividend	**331,500**	110,500
Retained earnings – others	**221,351**	294,633
At 31 December	**552,851**	405,133

(All amounts in RMB thousands unless otherwise stated)

21 Borrowing

The Group

	As at 31 December	
	2010	2009
Long-term unsecured bank loan	**30,000**	–

The loan is unsecured and bearing interest at a rate calculated at 90% of basic rate stipulated by the People's Bank of China, and will be repayable in February 2013. The interest is payable on a quarterly basis. The effective interest rate as at 31 December 2010 was 5.38% per annum.

The loan is denominated in RMB.

The carrying amount of the loan approximates its fair value.

22 Long-term payables

The Group and the Company

	As at 31 December	
	2010	2009
Early retirement benefit obligation *(Note 40(b))*	**351**	1,055
Less: Amounts due within one year	**(251)**	(116)
	100	939

The movements of long-term payable are as follows:

	2010	2009
At 1 January	**1,055**	2,339
Unwinding of discount *(Note 31)*	**149**	71
Payment during the year	**(853)**	(1,355)
At 31 December	**351**	1,055

(All amounts in RMB thousands unless otherwise stated)

22 Long-term payables *(continued)*

The Group and the Company *(continued)*

The provision for early retirement benefit is made for future payments to be made by the Group to former employees who have accepted early retirement terms. These payments are made monthly based on the employees' pre-retirement salary level and age, and are due to be made until the former employees reach normal statutory retirement age. The early retirement policy ceased since the incorporation of the Company.

23 Provision for close down, restoration and environmental costs

The Group

	2010	2009
At 1 January	**5,310**	4,524
Acquisition of subsidiaries	**–**	747
Additions	**1,288**	–
Unwinding of discount *(Note 31)*	**242**	39
At 31 December	**6,840**	5,310

The Company

	2010	2009
At 1 January	**4,524**	4,524
Additions	**1,288**	–
Unwinding of discount	**192**	–
At 31 December	**6,004**	4,524

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

(All amounts in RMB thousands unless otherwise stated)

24 Deferred income

The movements of deferred income during each of the years ended 31 December 2009 and 2010 are as follows:

The Group

	2010	2009
At 1 January	**26,328**	16,383
Acquisition of a subsidiary	**–**	10,069
Additions *(Note (b))*	**13,403**	3
Credited to consolidated statement of comprehensive income	**(235)**	(127)
At 31 December	**39,496**	26,328

The Company

	2010	2009
At 1 January	**16,361**	16,383
Credited to consolidated statement of comprehensive income	**(23)**	(22)
At 31 December	**16,338**	16,361

Notes:

(a) Deferred income as at 31 December 2009 and 2010 represented government grants received in respect of mining and exploration construction projects and land use rights which would be recognised as income after the completion of the projects on a straight-line basis over the expected lives of the related assets. The Group has fulfilled all the conditions for the entitlement of such grants.

(b) The additions of deferred income mainly represented the government grant received in 2010 for supporting the refinery construction projects of Wuxin Mining.

(All amounts in RMB thousands unless otherwise stated)

25 Trade payables

The Group

	As at 31 December	
	2010	2009
Trade payables		
– Fellow subsidiaries *(Note 40(b))*	**38,990**	20,791
– Third parties	**164,747**	76,342
	203,737	97,133

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

	As at 31 December	
	2010	2009
0 – 90 days	**136,856**	77,737
91 – 180 days	**37,370**	5,650
181 – 365 days	**21,846**	6,071
Over 365 days	**7,665**	7,675
	203,737	97,133

The Company

	As at 31 December	
	2010	2009
Trade payables		
– Yakesi	**57,319**	39,241
– Fellow subsidiaries	**9,971**	10,091
– Third parties	**88,108**	56,372
	155,398	105,704

(All amounts in RMB thousands unless otherwise stated)

25 Trade payables *(continued)*

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

	As at 31 December	
	2010	2009
0 – 90 days	**84,169**	90,828
91 – 180 days	**6,381**	5,069
181 – 365 days	**20,510**	2,987
Over 365 days	**44,338**	6,820
	155,398	105,704

The carrying amount of trade payables approximate their fair values. All trade payables are denominated in RMB.

Trade payables to fellow subsidiaries are unsecured, non-interest bearing and repayable in accordance with the relevant contracts entered into between the Group and these fellow subsidiaries.

26 Other payables and accruals

The Group

	As at 31 December	
	2010	2009
Other payables *(Note (a))*	**37,210**	32,769
Salary and welfare payables	**51,403**	46,132
Taxes payable other than income tax *(Note (b))*	**13,414**	5,173
Advances from customers	**3,987**	31,047
	106,014	115,121

(All amounts in RMB thousands unless otherwise stated)

26 Other payables and accruals *(continued)*

The Company

	As at 31 December	
	2010	2009
Other payables *(Note (a))*	**9,900**	13,854
Salary and welfare payables	**41,630**	39,107
Taxes payable other than income tax *(Note (b))*	**4,160**	3,651
Advances from customers	**3,409**	30,570
	59,099	87,182

The carrying amounts of other payables approximate their fair values. All other payables are denominated in RMB.

Other payables to fellow subsidiaries are unsecured, non-interest bearing and repayable in accordance with the relevant contracts entered into between the Group and these fellow subsidiaries.

Notes:

(a) Other payables are analyses as follows:

The Group

	As at 31 December	
	2010	2009
Other payables		
– Fellow subsidiaries *(Note 40(b))*	**2,881**	480
– Third parties	**34,329**	32,289
	37,210	32,769

The Company

	As at 31 December	
	2010	2009
Other payables		
– Fellow subsidiaries	**15**	7
– Third parties	**9,885**	13,847
	9,900	13,854

(All amounts in RMB thousands unless otherwise stated)

26 Other payables and accruals *(continued)*

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

The Group

	As at 31 December	
	2010	2009
Value added tax payable/(recoverable)	**3,985**	(13,148)
City construction tax	**287**	–
Individual income tax	**778**	746
Stamp duty	**1,036**	447
Resource compensation fee	**6,628**	15,190
Others	**700**	1,938
	13,414	5,173

The Company

	As at 31 December	
	2010	2009
Value added tax payable/(recoverable)	**231**	(10,411)
City construction tax	**18**	–
Individual income tax	**404**	658
Stamp duty	**390**	281
Resource compensation fee	**2,805**	11,521
Others	**312**	1,602
	4,160	3,651

(All amounts in RMB thousands unless otherwise stated)

27 Deferred income tax

The Group

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

	As at 31 December	
	2010	2009
Deferred tax assets		
– Deferred tax assets to be recovered after more than 12 months	**(18,364)**	(21,946)
– Deferred tax assets to be recovered within 12 months	**(11,199)**	–
	(29,563)	(21,946)
Deferred tax liabilities		
– Deferred tax liabilities to be settled after more than 12 months	**102,367**	102,957
– Deferred tax liabilities to be settled within 12 months	**590**	725
	102,957	103,682
Deferred tax liabilities – net	**73,394**	81,736

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

	2010	2009
At 1 January	**81,736**	(5,379)
Acquisition of subsidiaries	**–**	90,863
Credited to consolidated statement of comprehensive income *(Note 32)*	**(8,342)**	(3,748)
At 31 December	**73,394**	81,736

(All amounts in RMB thousands unless otherwise stated)

27 Deferred income tax *(continued)*

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

Deferred tax liabilities

	Fair value gains	Others	Total
At 1 January 2009	–	–	–
Acquisition of subsidiaries	104,548	–	104,548
(Credited)/charged to consolidated statement of comprehensive income	(1,001)	135	(866)
At 31 December 2009	103,547	135	103,682
Credited to consolidated statement of comprehensive income	(590)	(135)	(725)
At 31 December 2010	102,957	–	102,957

Deferred tax assets

	Deferred income	Provision	Depreciation	Tax losses	Unrealised profit included in inventories	Others	Total
At 1 January 2009	(4,085)	(557)	(737)	–	–	–	(5,379)
Acquisition of subsidiaries	–	(74)	(227)	(12,839)	–	(545)	(13,685)
Credited to consolidated statement of comprehensive income	–	(57)	–	(2,799)	–	(26)	(2,882)
At 31 December 2009	(4,085)	(688)	(964)	(15,638)	–	(571)	(21,946)
Charged/(credited) to consolidated statement of comprehensive income	–	26	737	4,443	(13,073)	250	(7,617)
At 31 December 2010	(4,085)	(662)	(227)	(11,195)	(13,073)	(321)	(29,563)

(All amounts in RMB thousands unless otherwise stated)

27 Deferred income tax *(continued)*

The Company

Deferred tax assets

	Deferred income	Provision	Depreciation	Unrealised profit	Total
At 1 January and 31 December 2009 and 2010	(4,085)	(557)	(737)	–	(5,379)
Charged/(credited) to the statement of comprehensive income	–	–	737	(2,209)	(1,472)
At 31 December 2010	(4,085)	(557)	–	(2,209)	(6,851)

28 Expenses by nature

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

	Year ended 31 December	
	2010	2009
Depreciation *(Note 6)*	**55,096**	47,924
Amortisation *(Note 7, 8, 9)*	**17,705**	15,745
Provision for impairment of trade receivables	**66**	143
Provision for impairment of other receivables	**–**	651
Employee benefit expenses *(Note 29)*	**204,477**	151,389
Changes in inventories of work-in-progress, semi-finished goods and finished goods	**(132,225)**	(97,422)
Raw materials and consumables used	**388,893**	169,390
Power and fuel consumed	**134,856**	92,979
Subcontracting expenses	**76,831**	70,220
Other manufacturing overheads	**25,339**	15,051
Transportation expenses	**5,096**	6,648
Auditor's remuneration	**2,310**	2,310
Resource compensation fees	**15,672**	9,539
Other taxes	**11,896**	12,144
Others	**5,153**	24,847
Total cost of sales, distribution costs and administrative expenses	**811,165**	521,558

(All amounts in RMB thousands unless otherwise stated)

29 Employee benefit expenses

	Year ended 31 December	
	2010	2009
Wages and salaries	**153,671**	93,034
Housing benefits *(Note (a))*	**9,016**	7,796
Contributions to pension plans *(Note (b))*	**21,125**	16,568
Welfare and other expenses	**20,665**	33,991
	204,477	151,389

Notes:

(a) The balance represented the Group's contributions to government-sponsored housing funds at a rate of 10% of the employees' basic salary for each of the years ended 31 December 2009 and 2010.

(b) The balance represented the Group's contributions to the defined contribution pension plans organised by the relevant municipal and provincial governments at a rate of 20% of the employees' basic salary for each of the years ended 31 December 2009 and 2010.

30 Other gains/(losses) – net

	Year ended 31 December	
	2010	2009
Scrap sales – net	**11,197**	4,489
(Losses)/gains on disposal of property, plant and equipment *(Note 37 (b))*	**(2,128)**	9
Donations *(Note (a))*	**(16,435)**	(11,000)
Government grants *(Note (b))*	**8,402**	–
Others	**2,803**	997
	3,839	(5,505)

Notes:

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

(b) The government grant mainly represented the monetary asset received for compensating the costs incurred, such as social benefit expenses.

(All amounts in RMB thousands unless otherwise stated)

31 Finance income – net

	Year ended 31 December	
	2010	2009
Finance income		
– Interest income on deposits	**34,467**	50,730
– Interest income for the loan to a joint venture *(Note 40(a))*	**3,132**	–
– Interest income for the loan to an associate *(Note 40(a))*	**378**	–
	37,977	50,730
Finance costs		
– Net foreign exchange gains/(losses)	**97**	(61)
– Interest expense on bank borrowings	**–**	(70)
– Unwinding of discount *(Note 22, 23)*	**(391)**	(110)
	(294)	(241)
	37,683	50,489

32 Income tax expense

	Year ended 31 December	
	2010	2009
Current income tax	**10,927**	4,495
Deferred income tax *(Note 27)*	**(8,342)**	(3,748)
	2,585	747

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

The provision for PRC current income tax is calculated based on the statutory income tax rate of 25% of the assessable income of each company within the Group determined in accordance with the relevant PRC income tax rules and regulations for each of the years ended 31 December 2009 and 2010 respectively.

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

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

(All amounts in RMB thousands unless otherwise stated)

32 Income tax expense *(continued)*

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

The subsidiaries, Zhongxin Mining, Wuxin Mining and Mengxi Mining are eligible for corporate income tax based on tax rate of 25%.

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

	Year ended 31 December	
	2010	2009
Profit before tax	**352,444**	227,292
Tax recalculated at corporate income tax of 25%	**88,111**	56,823
Effect of tax exemptions/deductions	**(86,584)**	(55,989)
Income not subject to tax	**–**	(1,250)
Expense not deductible for tax purpose	**1,058**	1,163
Income tax expense	**2,585**	747

33 Emoluments for directors, supervisors and five highest paid individuals

(a) Directors' and supervisors' emoluments

The aggregate amounts of emoluments payable to directors and supervisors of the Company for each of the years ended 31 December 2009 and 2010 are as follows:

	Year ended 31 December	
	2010	2009
Fees	**250**	250
Basic salaries, allowances and other benefits	**2,127**	2,122
Contributions to pension plans	**75**	70
	2,452	2,442

(All amounts in RMB thousands unless otherwise stated)

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

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

The remuneration of each of the directors and supervisors for the year ended 31 December 2010 is set out below:

	Fees	Basic salaries, allowances and other benefits	Contributions to pension plans	Total
Directors				
Mr. Yuan Ze	–	400	–	400
Mr. Shi Wenfeng	–	425	15	440
Mr. Zhang Guohua	–	425	15	440
Mr. Liu Jun	–	345	15	360
Mr. Ng Yuk Keung	100	–	–	100
Mr. Chen Jianguo	50	–	–	50
Mr. Sun Baosheng	50	–	–	50
Supervisors				
Mr. Jiang Mingshun	–	313	15	328
Mr. Sun Baohui	–	219	15	234
Ms. Chen Yuping	25	–	–	25
Mr. Hu Zhijiang	25	–	–	25
	250	2,127	75	2,452

(All amounts in RMB thousands unless otherwise stated)

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

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

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

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for each of the years ended 31 December 2009 and 2010 are as follows:

	Year ended 31 December	
	2010	2009
Directors	**3**	3
Non-director individuals	**2**	2
	5	5

(All amounts in RMB thousands unless otherwise stated)

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

(b) Five highest paid individuals *(continued)*

The details of emoluments paid to the five highest individuals who were directors of the Company for each of the years ended 31 December 2009 and 2010 have been included in Note 33(a) above. Details of emoluments paid to the remaining two non-director individuals are as follows:

	Year ended 31 December	
	2010	2009
Basic salaries, allowances and other benefits	**1,065**	1,064
Contributions to pension plans	**27**	26
	1,092	1,090

For each of the years ended 31 December 2009 and 2010, emoluments of each of the two highest paid non-director individuals were below HK$1,000,000 (equivalent to RMB850,000).

(c) For each of the years ended 31 December 2009 and 2010, no directors, supervisors of the Company or the five highest paid individuals of the Group waived any emoluments and no emoluments were paid by the Group to any of the directors and supervisors of the Company or the five highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

34 Profit attributable to owners of the Company

The profit attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of RMB286,731,000 (2009:RMB201,246,000)

35 Earnings per share

	Year ended 31 December	
	2010	2009
Profit attributable to owners of the Company *(RMB'000)*	**349,902**	226,745
Adjusted weighted average number of shares in issue *(in thousand)*	**2,210,000**	2,210,000
Basic and diluted earnings per share *(RMB)*	**0.158**	0.103

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

36 Dividends

The dividends paid in 2010 and 2009 were RMB110,500,000 (RMB0.05 per share) and RMB198,900,000 (RMB0.09 per share) respectively. A dividend in respect of the year ended 31 December 2010 of RMB0.15 per share, amounting to a total dividend of RMB331,500,000 is to be proposed at the annual general meeting on 16 May 2011. The financial statements do not reflect this as dividend payable.

	Year ended 31 December	
	2010	2009
Proposed final dividend of RMB0.15 (2009: RMB0.05) per share	**331,500**	110,500

(All amounts in RMB thousands unless otherwise stated)

37 Notes to consolidated cash flow statement

(a) Cash generated from operations

	Year ended 31 December	
	2010	2009
Profit for the year	**349,859**	226,545
Adjustments for:		
Income tax expense	**2,585**	747
Depreciation of property, plant and equipment	**55,096**	47,924
Amortisation of mining rights	**14,570**	13,123
Amortisation of land use rights	**2,940**	2,450
Amortisation of other intangible assets	**195**	172
Amortisation of other non-current assets	**341**	296
Losses/(gains) on disposal of property, plant and equipment	**2,128**	(9)
Provision for impairment of trade receivables	**66**	794
Net foreign exchange (gains)/losses	**(97)**	61
Interest income	**(37,977)**	(50,730)
Interest expense	**391**	180
Share of loss of a joint-venture	**1,911**	992
Share of loss of an associate	**1,165**	1,080
Others	**(43,851)**	(127)
Cash generated from operations before working capital changes	**349,322**	243,498
Changes in working capital:		
Increase in inventories	**(186,805)**	(73,673)
Increase in trade and bills receivables	**(151,924)**	(9,427)
(Increase)/decrease in other receivables and prepayments	**(17,971)**	57,724
Increase/(decrease) in trade, notes and other payables	**58,604**	(204,534)
Cash generated from operations	**51,226**	13,588

(All amounts in RMB thousands unless otherwise stated)

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

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

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

	Year ended 31 December	
	2010	2009
Net book amount *(Note 6)*	**6,073**	82
(Losses)/gains on disposal of property, plant and equipment	**(2,128)**	9
Proceeds from sale of property, plant and equipment	**3,945**	91

(c) Cash and cash equivalents

	As at 31 December	
	2010	2009
Cash on hand and at bank	**1,545,858**	2,301,418
Less: restricted cash at banks *(Note 17(b))*	**44,172**	–
Cash and cash equivalents	**1,501,686**	2,301,418

38 Contingencies

(a) Environmental contingencies

Historically, the Group has not incurred any significant expenditure for environmental remediation. Further, except as disclosed in Note 23, the Group is presently not involved in any other environmental remediation and has not accrued any other amounts for environmental remediation relating to its operations. Under existing legislations, management of the Company believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, may move further towards the adoption of more stringent environmental standards.

38 Contingencies *(continued)*

(a) Environmental contingencies *(continued)*

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

(b) Insurance

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

(All amounts in RMB thousands unless otherwise stated)

39 Commitments

(a) Capital commitments

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

The Group

	As at 31 December	
	2010	2009
Contracted but not provided for:		
– Buildings	**572,830**	180,791
– Machinery and equipment	**368,430**	258,758
– Mining right	**6,500**	–
	947,760	439,549
Authorised but not contracted for:		
– Buildings	**691,959**	1,101,298
– Machinery and equipment	**485,564**	1,137,861
	1,177,523	2,239,159
	2,125,283	2,678,708

(All amounts in RMB thousands unless otherwise stated)

39 Commitments *(continued)*

(a) Capital commitments *(continued)*

The Company

	As at 31 December	
	2010	2009
Contracted but not provided for:		
– Buildings	**121,978**	93,554
– Machinery and equipment	**70,602**	150,869
	192,580	244,423
Authorised but not contracted for:		
– Buildings	**98,937**	61,817
– Machinery and equipment	**54,108**	122,141
	153,045	183,958
	345,625	428,381

(b) Operating lease commitments

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

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

The Group and the Company

	As at 31 December	
	2010	2009
No later than 1 year	**1,636**	1,636
Later than 1 year and no later than 5 years	**1,636**	3,272
	3,272	4,908

40 Related-party transactions

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

Xinjiang Non-ferrous itself is a state-owned enterprise and is controlled by the PRC government. In accordance with HKAS 24 (revised), "Related party disclosure", state-owned enterprises and their subsidiaries, other than Xinjiang Non-ferrous Group's companies, directly or indirectly controlled by the PRC government are also defined as related parties of the Group. Other than the related-party transactions disclosed in Note (c), the Group's management is of the opinion that there were no individually/collectively-significant transactions conducted with those government-related entities, other than Xinjiang Non-ferrous Group's companies, for each of the years ended 31 December 2009 and 2010.

For the purpose of preparation of the financial statements, the Group's management regards the following companies were principal related parties of the Group for each of the years ended 31 December 2009 and 2010:

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

(All amounts in RMB thousands unless otherwise stated)

40 Related-party transactions *(continued)*

Management of the Company is of the opinion that, for each of the years ended 31 December 2009 and 2010, the transactions conducted between the Group and any of the related parties listed above were at terms mutually agreed by the underlying parties in the ordinary course of business.

(a) For each of the years ended 31 December 2009 and 2010, the Group had the following material transactions with related parties:

Transactions with the Holding Company

	Year ended 31 December	
	2010	2009
Nature of transactions		
Rental expense of building paid/payable	**1,636**	1,636
Dividend paid	**44,260**	79,668
	45,896	81,304

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

(All amounts in RMB thousands unless otherwise stated)

40 Related-party transactions *(continued)*

(a) For each of the years ended 31 December 2009 and 2010, the Group had the following material transactions with related parties: *(continued)*

Transactions with companies controlled by the Holding Company

Name of related parties	Nature of transactions	Year ended 31 December 2010	2009
– Xinjiang Non-ferrous Metal Industry (Group) Quanxin Construction Co.,Ltd.	Provision of construction services	**189,032**	120,568
	Purchase of equipment and fittings	**552**	465
	Sales of miscellaneous materials and electricity	**–**	4,995
– Fuyun Hengsheng Beryllium Industry Co., Ltd.	Sale of copper cathode	**21,488**	15,285
	Sale of industrial sulphuric acid	**657**	–
	Sale of nickel cathode	**125**	–
– Fukang Non-ferrous Development Co., Ltd.	Provision of transportation services	**3,192**	3,665
	Purchase of raw materials and consumables	**2,049**	1,594
	Provision of heating	**27**	822
	Purchase of coal	**–**	1,103
	Sale of industrial sulphuric acid	**–**	427
– Xinjiang Non-ferrous Metal Industry(Group) Fuyun Xingtong Service Co.,Ltd.	Provision of comprehensive supporting services	**3,201**	3,201
	Provision of other services	**1,129**	1,112
– Xinjiang Non-ferrous Industry Group Precious Metal Co., Ltd.	Purchase of equipment and fittings	**848**	866
	Sale of nickel cathode	**–**	31
– Beijing Baodi Xindi Kemao Co.,Ltd.	Provision of storage services	**402**	256
– Metallurgical Design Institute of Non-ferrous Metals of Urumqi	Provision of mining structure design services	**315**	4,500
– Xinjiang Non-ferrous Metallurgy Transportation Company Co., Ltd.	Provision of transportation services	**–**	364
– Xinjiang Non-ferrous Metal Industry(Group) Fukang Retirement Center	Provision of transportation services	**–**	17
		223,017	159,271

(All amounts in RMB thousands unless otherwise stated)

40 Related-party transactions *(continued)*

(a) For each of the years ended 31 December 2009 and 2010, the Group had the following material transactions with related parties: *(continued)*

Transactions with a joint venture

Name of related parties	Nature of transactions	Year ended 31 December 2010	2009
– Hexin Mining	Provision of loan	**30,000**	50,000
	Purchase of nickel concentrate	**15,251**	–
	Loan interest income	**3,132**	–
		48,383	50,000

For the year ended 31 December 2010, the Company issued corporate guarantees of RMB100,000,000 in favour of Hexin Mining's bank borrowing of RMB50,000,000 and financial lease of RMB50,000,000 (2009: Nil). Such corporate guarantees have remained outstanding as at 31 December 2010.

Transactions with an associate

Name of related parties	Nature of transactions	Year ended 31 December 2010	2009
– Puxiong Mining	Loan interest income	**378**	–

(All amounts in RMB thousands unless otherwise stated)

40 Related-party transactions *(continued)*

(b) Balances due from or due to related parties

	As at 31 December	
	2010	2009
Trade receivables from fellow subsidiaries *(Note 15(c))*		
– Fuyun Hengsheng Beryllium Industry Co., Ltd.	**1,255**	537
– Xinjiang Haoxin Lithia Developing Company Limited	**324**	324
– Fukang Non-ferrous Development Co., Ltd.	**87**	247
	1,666	1,108
Other receivables from		
– Hexin Mining *(Note 16(a))*	**52,655**	50,000
– Puxiong Mining *(Note 16(b))*	**7,048**	7,048
	59,703	57,048
Advances to fellow subsidiaries *(Note 16(d))*		
– Xinjiang Non-ferrous Metallurgy Transportation Company Co., Ltd.	**448**	–
– Xinjiang Non-ferrous Metal Industry (Group) Quanxin Construction Co., Ltd.	**68**	66
– Fukang Non-ferrous Development Co., Ltd.	**20**	–
	536	66

(All amounts in RMB thousands unless otherwise stated)

40 Related-party transactions *(continued)*

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

	As at 31 December	
	2010	2009
Trade payables to fellow subsidiaries *(Note 25)*		
– Xinjiang Non-ferrous Metal Industry (Group) Quanxin Construction Co.,Ltd.	**28,891**	18,726
– China Non-ferrous Metal Import and Export Company of Xinjiang	**7,014**	–
– Xinjiang Non-ferrous Metal Industry(Group) Fuyun Xingtong Service Co.,Ltd.	**910**	579
– Xinjiang Non-ferrous Metallurgy Transportation Company Co., Ltd.	**724**	136
– Xinjiang Non-ferrous Industry Group Precious Metal Co.,Ltd.	**623**	306
– Hexin Mining	**402**	–
– Fukang Non-ferrous Development Co., Ltd.	**276**	894
– Xinjiang Non-ferrous Metallurgy Manufacture Factory	**110**	110
– Metallurgical Design Institute of Non-ferrous Metals of Urumqi	**40**	40
	38,990	20,791
Other payables to fellow subsidiaries *(Note 26(a))*		
– Xinjiang Non-ferrous Metal Industry (Group) Quanxin Construction Co.,Ltd.	**2,611**	203
– China Non-ferrous Metal Import and Export Company of Xinjiang	**220**	220
– Xinjiang Non-ferrous Metallurgy Transportation Co.,Ltd.	**50**	50
– Xinjiang Non-ferrous Metal Industry(Group) Fuyun Xingtong Service Co.,Ltd.	**–**	7
	2,881	480
Long-term payables to Holding Company *(Note 22)*		
– Current	**251**	116
– Non-current	**100**	939
	351	1,055

(All amounts in RMB thousands unless otherwise stated)

40 Related-party transactions *(continued)*

(c) Significant transactions with other state-owned enterprises

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

	Year ended 31 December	
	2010	2009
Deposits	**1,500,944**	2,266,217

	Year ended 31 December	
	2010	2009
Interest income	**33,984**	50,535

As at 31 December 2010, there were nine (2009: six) state-owned banks in each of which the Group placed deposits over RMB100 million.

(ii) Others

For the year ended 31 December 2010, the Group conducted sales approximating RMB458,007,000 (2009: RMB99,802,000) with four (2009: two) stated-owned enterprises; and purchased electricity approximating RMB72,739,000 (2009: RMB64,408,000) from electricity supply bureaus.

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

(d) Key management compensation

	Year ended 31 December	
	2010	2009
Salaries and other short-term employee benefits	**3,350**	3,343
Pension fund	**104**	98
	3,454	3,441

41 Events after the balance sheet date

On 6 January 2011, each of the Company and the another joint venturer has issued corporate guarantee of RMB75,000,000, respectively, in favour of a new bank loan facility totalling RMB150,000,000 of Hexing Mining. Up to the approval date of these financial statements, Hexin Mining has drawn down loans amounting to RMB50,000,000.

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