LINGJIN
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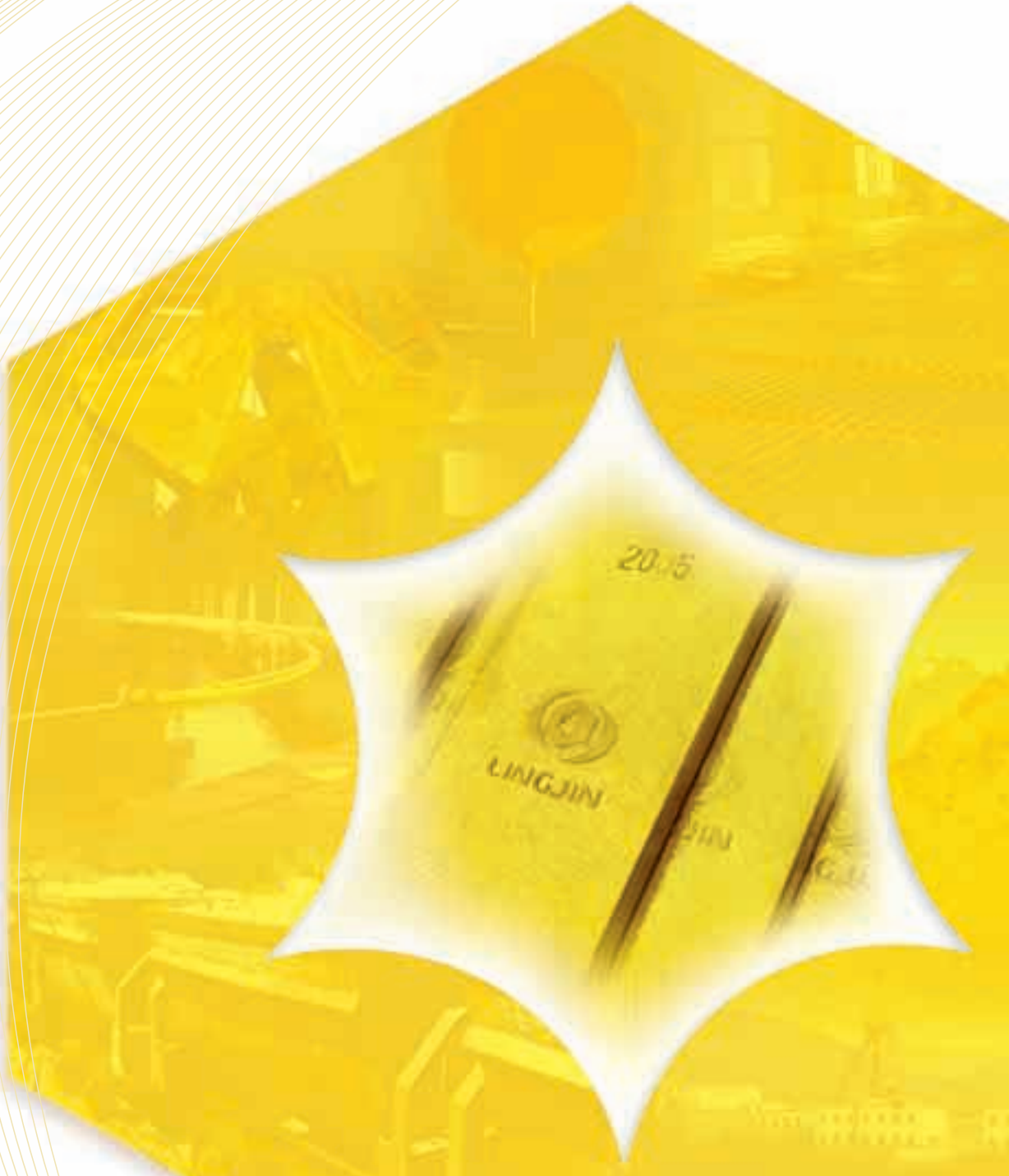
Lingbao Gold Company Ltd.
靈寶黃金股份有限公司

(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 3330)

Annual Report 2005



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Corporate Information

Directors

Executive Directors
Xu Gaoming *(Chairman)*
Wang Jianguo
Lu Xiaozhao
Jin Guangcai

Non-executive Directors
Xu Wanmin
Di Qinghua
Qi Guozhong

Independent Non-executive Directors
Ning Jincheng
Wang Yanwu
Niu Zhongjie
Zheng Jinqiao

Supervisors
Gao Yang *(Chairman of the Supervisory Committee)*
Meng Fanrui
Guo Xuchang
Peng Jinzeng
Lei Mingyang

Joint Company Secretary
Pang Chun Kit *(ACCA, HKICPA)*
Zhao Jugang

Qualified Accountant
Pang Chun Kit *(ACCA, HKICPA)*

Authorised Representatives
Jin Guangcai
Zhao Jugang

Alternate Authorised Representative
Pang Chun Kit *(ACCA, HKICPA)*

Audit Committee
Zheng Jinqiao *(Chairman of Audit Committee)*
Xu Wanmin
Ning Jincheng
Wang Yanwu
Niu Zhongjie

International Auditors
KPMG

PRC Auditors
Peking Certified Public Accountants

Compliance Adviser
BOCI Asia Limited

Legal Adviser
Mallesons Stephen Jaques

Principal Bankers
Bank of China, Lingbao City Branch
Agricultural Bank of China, Lingbao City Branch
China Construction Bank, Lingbao City Branch

Hong Kong Share Registrar and Transfer Office
Computershare Hong Kong Investor Services Limted
Shops 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Registered Office
Xin Village, Yinzhuang Town
Daonan Industrial Area
Lingbao
Henan
The PRC

Principal Place of Business in Hong Kong
Room 1902, MassMutual Tower
38 Gloucester Road
Wanchai
Hong Kong

Stock Information

Stock code	:	3330
Listing date	:	12 January 2006
Issued shares	:	297,274,000 shares (H Shares) 472,975,091 shares (Domestic shares)
Nominal value	:	RMB0.20 per share
Stock name	:	Lingbao Gold

Investor Relations

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Mr. Zhao Jugang/Ms. Qi Haihua
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The People's Republic of China (Postcode: 472500)
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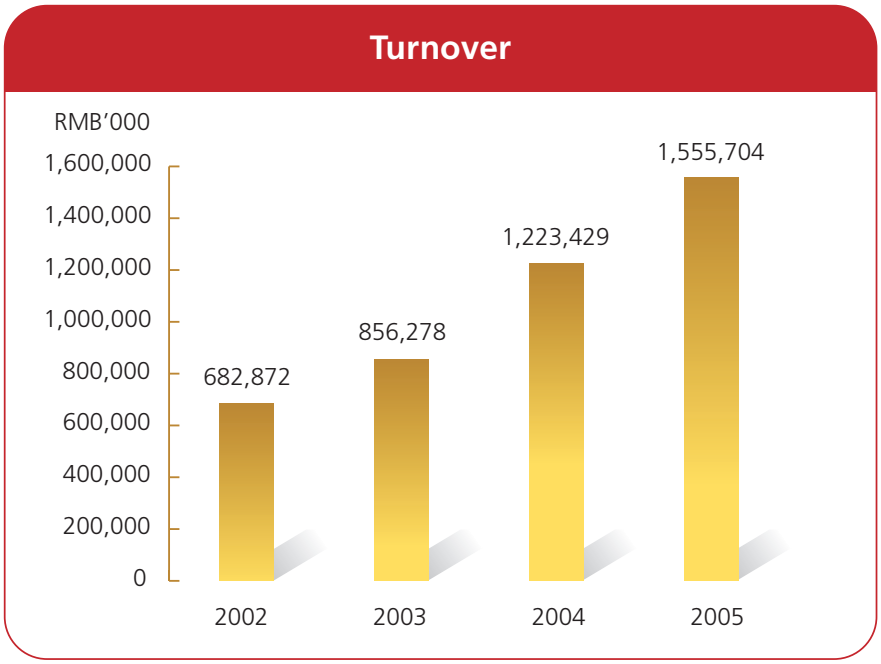
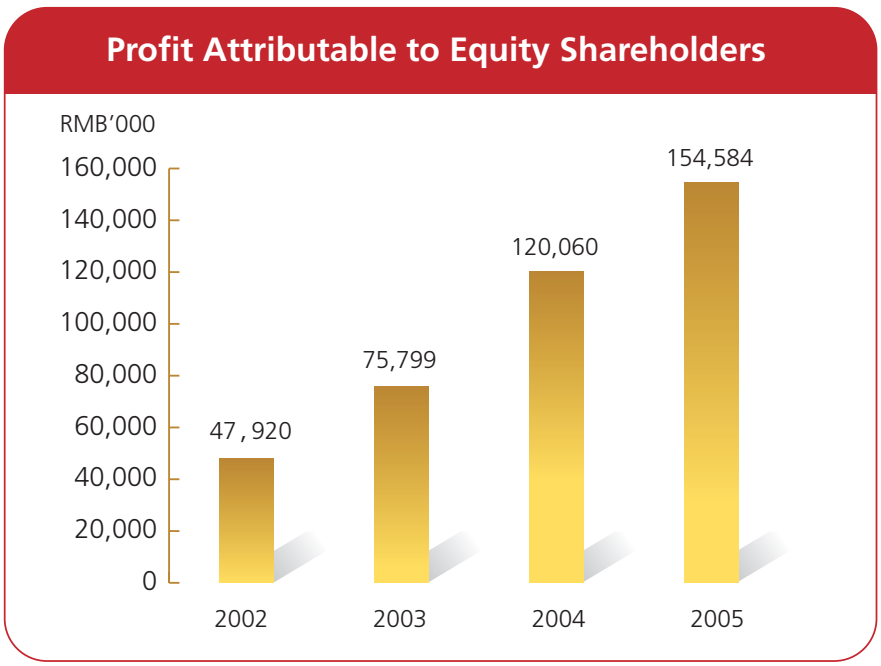
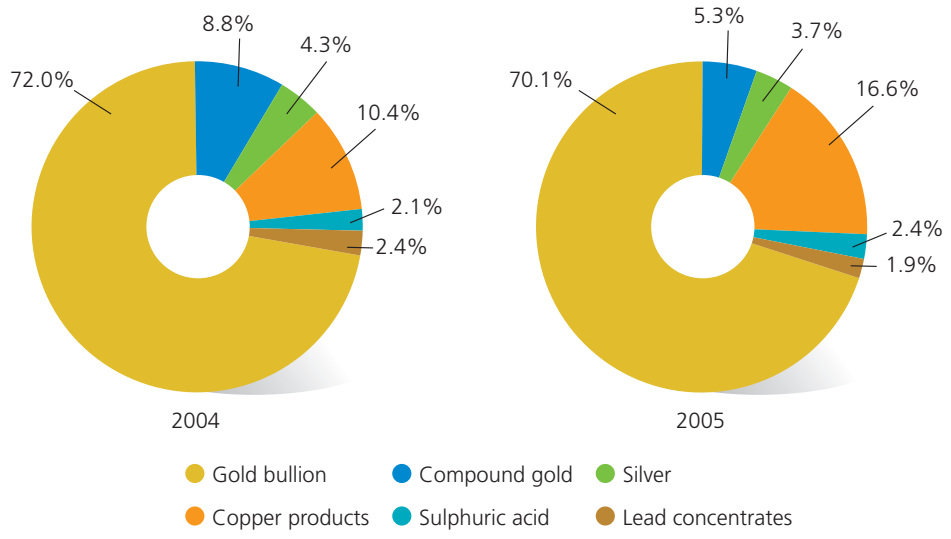
Financial Highlights





Sales Analysis by Products



Capital Resources

	2002 RMB'000	2003 RMB'000	2004 RMB'000	**2005 RMB'000**
Total assets	469,640	609,774	809,907	**1,055,462**
Cash and cash equivalents	35,012	87,872	76,506	**117,861**
Bank and other borrowings	131,800	224,750	294,750	**405,420**
Shareholder equity	141,856	217,655	337,715	**492,618**

Corporate Profile

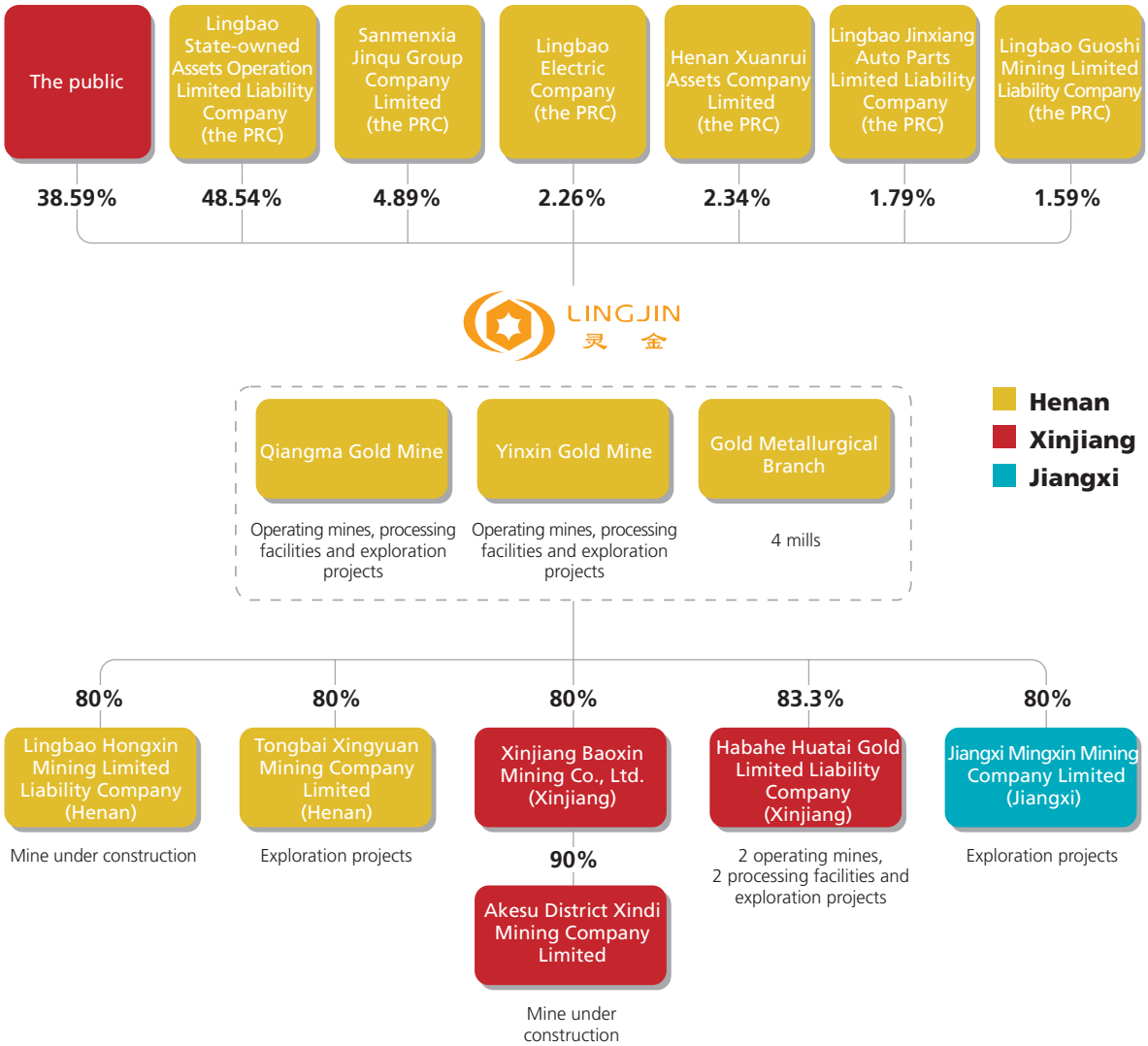
Lingbao Gold Company Ltd. ("Lingbao Gold" or the "Company" and together with its subsidiaries, the "Group") was listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 January 2006. (Stock code: 3330)

The Group is an integrated gold mining enterprise based in the second largest gold producing province in the People's Republic of China ("PRC"), Henan Province, and are mainly engaged in gold mining, smelting and refining. The principal products of the Group are gold and the principal by-products of the Group are silver, copper products and sulphuric acid. The Shanghai Gold Exchange certified the Company as a standard gold bullion production enterprise. The Group's mineral resources are scattered in three provinces in the PRC, including Henan, Xinjiang and Jiangxi with 23 mining and exploration rights and a total area of 654.09 sq.km. The total gold reserve and resources as at 31 December 2005 was approximately 105 tonnes. By the end of 2005, approximately 10,007 kg of gold was produced with the profit attributable to equity shareholders amounting to RMB154,584,000. According to the statistics on the website of China Gold Association, the Company ranked second in gold production among the large-scale gold smelting enterprises nationwide by the end of December 2005.

The Group is committed to become the leading integrated gold mining enterprise in the PRC and gradually promote our brand within the international market. The Group will focus on the exploration and expansion of production scale in order to increase the self-produced gold and gold reserve and resources.

By the end of 2005, the Group had approximately 105 tonnes of remained gold reserves and resources. The acquisition of resources and mining rights in Xinjiang, Jiangxi and Henan increased the gold reserve of the Group by 13 exploration rights and 3 mining rights in 2005.

Corporate Structure



Chairman's Statement

The Company's emphasis in 2006 will be on the control of resources and increase of gold production and reserve, the implementation of long-term development of the Group and the further enhancement of the competitiveness, with an aim of creating greater returns to shareholders.

Xu Gaoming
Chairman

Dear Shareholders,

I am pleased to announce the profit before tax of the Company of approximately RMB227,000,000 for the year ended 31 December 2005, representing a year-on-year growth of 26.8%. Profit attributable to equity shareholders of the Company amounted to RMB 155,000,000, representing a year-on-year growth of 28.8%. Earnings per share of the Company was RMB0.31 (on the basis of 500,000,000 shares prior to issue of shares upon listing). The significant increase in profit attributable to shareholders of the Group in 2005 was mainly attributed to the continued expansion of the production capacity of the Group, the rise in economic and technological standards, effective control of production costs, strong market demand and the advantage over the high selling price of the main products, etc.

After discussion by the board (the "Board") of directors (the "Directors") of the Company, the Directors recommend the declaration of a final dividend of RMB 0.08 per share, the dividend yield is 40%.

Review for the Year 2005

The function of gold as a hedging tool against inflation and as a means to maintain value against the backdrop of the changes in the global geopolitics has become more apparent in 2005. International gold prices has been increasing and broke the highs over the past years.

The Group was benefited from (i) the increase of gold prices; (ii) advanced and sophisticated processing technology and facilities; and (iii) the capability to carry out high recovery of gold, silver, copper and sulphur. As a result of these factors, the Group achieved satisfactory results in 2005. According to the research conducted by China Gold Association, the Company's production volume of gold represented approximately 5% of the total gold production in the PRC; and the Company's production volume of smelted gold represented

approximately 14.46% of the total production volume in the PRC and the profit of the Company represented approximately 5.7% of the total profit earned of gold industry in the PRC.

With the successful issuance of H Shares in early 2006, the Group formally entered into the international capital market.

I. Integration of resources and expansion of scale

Upon the completion of the acquisition of various mines in Xinjiang, Jiangxi and Henan which have an aggregate of 13 exploration rights (covering an area of 594.09 sq.km.) and 3 mining rights (covering an area of 6.18 sq.km.), the Group had an aggregate of 23 exploration and mining rights (involving an area of 654.09 sq.km.) with remained gold reserves and resources of approximately 105 tonnes as of 31 December 2005.

Through acquisitions and integration, the Company successfully expanded its business from Xiaoqinling in Henan Province which is the second largest gold resource region in the PRC as well as the production base of the Company, to the Xinjiang Uygur Autonomous Region and Jiangxi Province which have rich gold resources. The resource base of the Company was therefore strengthened, laying a solid foundation for future development of the Company.

Chairman's Statement

In 2005, the Company completed the upgrading of processing plants of our Yinxin Gold Mine Branch ("Yinxin Branch") and Qiangma Gold Mine Branch ("Qiangma Branch"). The Company also upgraded its metallurgical technology, which resulted in processing an additional 100 tonnes of refractory gold concentrates per day. With the increase of the processing capacity of Qiangma Branch and Yinxin Branch, the Company's ore processing capacity reached 1,400 tonnes per day and the Company's smelting capacity reached 700 tonnes per day. The gold production capacity of the Company was vastly enhanced.

II. Focus on geological exploration and increase gold reserve

While the Company focused on acquisition and business expansion in 2005, it also paid attention to the geological exploration in mines. The Company focused especially in exploration in Xiaoqinling region of the PRC. Six core exploration projects were planned in order to lay a solid foundation for the deep underground exploration of the mines in Xiaoqinling.

III. Scientific management and sound internal control

By adhering to the principle of "being steady, hardworking, innovative, efficient" and by improving internal control and operation innovation, we enhanced the management standard and corporate governance of the Company.

Outlook of the Year 2006

As a result of the influence of international politics, economy and other uncertain factors, the international gold price increased by 10% in the first quarter of 2006. The steady increase in investors' demand for spot gold, the consumers' demand for ornamental, the rise in energy prices, the uncertain political atmosphere and risk factors including the depreciation of US dollars, will bring more development opportunities for the Company.

According to the Group's business strategy, the Company will strengthen its leading position in the gold industry in the PRC in 2006. Using the gold production base in Xiaoqinling as its foundation and leveraging on its geographical advantage in its mid-west location, the Company will continue to expand its business. It will also focus on acquisition and integration of gold mines and thereby increasing the Company's gold reserve and resources. The Company will also work hard to maintain its capability to generate stable results and sustainable profits through further expansion of production capacity and gold volume by speeding up the geological exploration and construction of existing mines. To ensure a sustainable development, the Company will strive to build up a high quality and highly efficient management and technician team through human resources strategy, technological innovation, training of technicians and expert introduction.

To conclude, with an aim of creating greater returns to shareholders, the Company's emphasis in 2006 will be on the control and increase of gold resources and reserve, the implementation of long-term development of the Group and the further enhancement of the competitiveness.

Appreciation

On behalf of the Board, I wish to express our sincere gratitude to all the shareholders for their support and trust, and to the management and all the staff for their dedication and hard work over the past year.

By order of the Board
Xu Gaoming
Chairman

Hong Kong
12 April 2006

Management Discussion and Analysis

(A) Summary

In the year of 2005, the Group produced approximately 10,007 kg of gold (including approximately 9,391 kg of gold bullion and approximately 616 kg of compound gold), representing an increase of approximately 772 kg or 8.4% as compared with the previous year. The turnover and profit before tax for the year ended 31 December 2005 was approximately RMB1,555,704,000 and approximately RMB226,793,000, representing an increase of approximately 27.2% and approximately 26.8% compared with the previous year. The profit attributable to the Company's shareholders was approximately RMB154,584,000, representing an increase of approximately 28.8% compared with the previous year. The earnings per share was RMB0.31 (based on 500,000,000 shares). In the year of 2005, the Company has positive growth in both turnover and profit attributable to shareholders. The increase of profit was due to the continuous expansion of production scale, improvement of economic and technical indicators, effective control of production cost, strong market demand as well as the high product prices.

(B) Review and Prospect of Business Segment

Mining Segment

Turnover and production

Our mining business comprises the sales of gold concentrates and other derivative products, such as compound gold and lead concentrates. All gold concentrates are sold to the Group's smelting plant as intra-group sales, while other derivative products are sold to third party customers.

	2005			2004		
	Amount RMB'000	**Sales volume kg**	**Unit price RMB per kg**	Amount RMB'000	Sales volume kg	Unit price RMB per kg
Gold concentrates	**136,810**	**1,484**	**92,190**	71,288	897	79,474
Compound gold	**82,637**	**708**	**116,719**	107,972	997	108,297
Henan region	**54,235**	**474**	**114,420**	107,972	997	108,297
Xinjiang region	**28,402**	**234**	**121,376**	–	–	–
Lead concentrates	**29,518**	**257**	**114,856**	29,824	262	113,832
Net of sales taxes	**(60)**			(79)		
Others	**–**			2,853		
	248,905			211,858		

Management Discussion and Analysis

Turnover of the total mining segment of the Group for 2005 was approximately RMB248,905,000, representing an approximate 17.5% increase from approximately RMB211,858,000 for 2004. The production of compound gold decreased by approximately 422 kg to approximately 616 kg while production of gold concentrates increased by approximately 484 kg to approximately 1,443 kg. Since July 2005, there has been a change in technology of the processing facilities of our Henan's gold mines. We decreased compound gold production and switched to production of gold concentrates. The said change in technology was aimed to increase the gold content of our gold concentrates and boosting internal sales of gold concentrates to our smelting plant. Our Henan's gold mines have increased the volume of gold concentrates sold to the Group's smelting plant by approximately 65.4%, from approximately 897 kg in 2004 to approximately 1,484 kg in 2005. Apart from gold concentrates and compound gold, the Group's mining segment also produced lead concentrates. Lead concentrates are another type of gold concentrates which contain lead and are sold to third party customers. Production of lead concentrates has increased by approximately 21 kg to approximately 257 kg.

The Group is prospecting for the increase of production capacity of gold through the gold mines under construction including Hongxin Gold Mine and Kaqia Gold Mine, which will be commenced in 2006, together with the expansion of production volume in both Xinjiang Duolanasayi and Tuokuzibayi Gold Mines.

Segment results

The Group's total mining segment result for 2005 was approximately RMB70,906,000, representing an approximate increase of 56.2% from approximately RMB45,398,000 in 2004. Such increase was principally attributable to, apart from turnover growth, an approximate decrease of 9.8% in expenses paid to the construction teams of our operating mines. Furthermore, with the rise of gold prices, the gold concentrates and compound gold produced by our mines had an average increase of approximately 16.0% and 7.8% in unit price respectively. The newly acquired Habahe Huatai Gold Limited Liability Company ("Habahe Huatai") had also made profit contribution to the Group, which has improved the mining segment results. The segment result to segment turnover ratio of the Group's mining segment for 2005 was approximately 28.5%, a slight rise from approximately 21.4% for 2004.

With our continuous focused exploration and acquisitions of gold mines, especially in the Xiaoqinling region, our gold reserves are increasing. The Company's main objective for the year 2006 is to continue to explore the in-depth deposits of Qiangma Gold Mine and Yinxin Gold Mine in the Xiaoqinling region and to continue to engage in mining and gold production process in the Henan Nanyang Xingyuan, Jiangxi Mingxin, Xinjiang Duolanasayi, Tuokuzibayi and Kaqia Gold Mines, and accordingly, increasing the Company's gold reserves.

Capital expenditures

	2004 (Actual) RMB'000	2005 (Actual) RMB'000	2006 (Estimate) RMB'000	2007 (Estimate) RMB'000
Capital expenditures	77,084	81,553	259,304	265,330

Our principal capital expenditures relate to the provisions of construction of gold mines, purchase of mining rights and acquisition of mining corporations. The estimated capital expenditure for the years of 2006 and 2007 was obtained principally from the proceeds from the global offering of H shares in January 2006, proceeds from internally generated funds and bank loans.

Smelting segment

Turnover and production

The Group's total turnover in the smelting segment turnover for 2005 was approximately RMB1,450,846,000, representing an increase of approximately 32.7% from approximately RMB1,093,698,000 for 2004. Such increase was principally attributable to the increase in both production capacity and the sales of gold bullion as a result of an approximate 7.8% and 14.8% increase in selling price and sales volume of gold bullion respectively. Also, the unit selling price, sales volume and total sales amount of copper products had increased by approximately 48.0%, 37.7% and 103.8% respectively.

In 2005, the Group has upgraded its roasting system of gold concentrates and has added a baking roaster with production capacity of approximately 100 tonnes per day, and thereby increasing the processing capacity to approximately 700 tonnes per day from approximately 600 tonnes per day in 2004. This resulted in the increase of our production capacity by approximately 16.7%. The Group's gold concentrates processing volume increased from approximately 201,705 tonnes in 2004 to approximately 236,058 tonnes in 2005. Production of gold bullion had been increased by approximately 1,194 kg to approximately 9,391 kg; production of silver had been increased by approximately 2,396 kg to approximately 33,331 kg; production of copper products had been increased by approximately 3,873 tonnes to approximately 9,994 tonnes; production of sulphuric acid had been increased by approximately 17,403 tonnes to approximately 151,212 tonnes. Apart from the increasing production quantities, our smelting plant has maintained a high recovery rate. The gold recovery rate increased by approximately 0.4% to approximately 96.5%, the silver recovery rate increased by approximately 2.5% to approximately 78.4% and the copper recovery rate increased by approximately 1.1% to approximately 93.2%.

Management Discussion and Analysis

Segment results

Our total smelting segment results for 2005 was approximately RMB261,755,000, representing an approximate 22.8% increase from approximately RMB213,179,000 for 2004. The segment results to segment turnover ratio of our smelting business for 2005 was approximately 18.0%, down from approximately 19.5% for 2004. Such decrease was principally attributable to a faster growth in raw material costs as compared to selling prices of gold and other by-products. In 2005 the total gold concentrate purchase cost was increased by 10.1% from approximately RMB90,410 per kg in 2004 to approximately RMB99,580 per kg in 2005, however the average selling price of gold bullion only increased by approximately 7.8%.

The Group is prospecting an increase in production capacity and recovery rates; also securing the supply of gold concentrates for the smelting segment.

Capital expenditures

	2004 (Actual) RMB'000	**2005 (Actual)** RMB'000	**2006 (Estimate)** RMB'000	**2007 (Estimate)** RMB'000
Capital expenditures	33,208	29,520	15,900	44,100

Our principal capital expenditures relate to the provisions of construction work, purchase of equipment and materials with regard to its development and expansion projects. The above estimated capital expenditure for the year ending 2006 and 2007 was obtained principally from the proceeds of the global offering of H Shares, proceeds from internal generated funds and bank loans.

(C) Financial Review

1. Combined Operating Results

Turnover

The following table sets out the Group's sales breakdown by products:

	2005			2004		
	Amount RMB'000	**Sales volume kg/tonne**	**Unit price RMB per kg/tonne**	Amount RMB'000	Sales volume kg/tonne	Unit price RMB per kg/tonne
Gold bullion	**1,092,341**	**9,287 kg**	**117,620**	882,866	8,092 kg	109,104
Compound gold	**82,637**	**708 kg**	**116,719**	107,972	997 kg	108,297
Henan region	**54,235**	**474 kg**	**114,420**	107,972	997 kg	108,297
Xinjiang region	**28,402**	**234 kg**	**121,376**	–	–	–
Silver	**58,296**	**32,750 kg**	**1,780**	53,009	32,863 kg	1,613
Copper products	**258,859**	**7,746 tonne**	**33,418**	127,047	5,626 tonne	22,582
Sulphuric acid	**37,581**	**145,827 tonne**	**258**	25,367	137,915 tonne	184
Lead concentrates	**29,518**	**257 kg**	**114,856**	29,824	262 kg	113,832
Turnover before sales tax	**1,559,232**			1,226,085		
Less: Sales tax	**(3,528)**			(2,656)		
	1,555,704			1,223,429		

The Group's turnover for the year ended 2005 was approximately RMB1,555,704,000, representing an approximate 27.2% increase compared with the previous year. Such increase was principally attributable to the increase of approximately 23.7% in the sales of gold bullion, as a result of the increase in our average selling price and volume of gold bullion sold of approximately 7.8% and 14.8% respectively during the corresponding period. In 2005, the Group has upgraded its roasting system of gold concentrates and added a baking roaster with production capacity of approximately 100 tonnes per day which increase the processing capacity to approximately 700 tonnes per day in 2005, as compared to approximately 600 tonnes per day in 2004. Since July 2005, the processing technique of the processing facilities of Qiangma Gold Mine and Yinxin Gold Mine has been updated and a substantial part of our compound gold production in these two mines has been switched to gold concentrate production to increase the gold content of our gold concentrates and to increase the internal sales of gold concentrates to our smelting plant so that gold bullion production capacity can be enhanced. This is also the major reason behind the substantial decrease of

Management Discussion and Analysis

compound gold production in mines of Henan region. In 2005, the Group had successfully acquired Habahe Huatai. Compound gold is a major product of Habahe Huatai, hence the selling of compound gold is a new addition to the Xinjiang mines.

The increase in turnover during the year was also due to the increase in the sale of copper product by approximately 103.8%, that is, from approximately RMB127,047,000 for 2004 to approximately RMB258,859,000 for 2005, of which the average price and sales volume of copper products increased by 48.0% and 37.7% respectively compared to that of 2004.

Cost of sales

The Group's cost of sales for 2005 was approximately RMB1,235,479,000 representing an approximate 26.7% increase from approximately RMB975,691,000 for 2004. Such increase was principally attributable to the increase of 26.6% in the average costs of direct materials, especially gold concentrates, to RMB1,009,501,000 as a result of the increase in production capacity, the growth of purchase volume and the increase in gold price. Owing to the rise in gold price, the unit purchase price of gold concentrates increased by approximately 10.1%, that is, from approximately RMB90,410 per kg in 2004 to RMB99,580 per kg in 2005.

Gross profit and gross profit margin

The Group's gross profit and gross profit margin for 2005 were approximately RMB320,225,000 and approximately 20.6% respectively, representing an increase of approximately 29.3% and 0.4% respectively as compared to that of 2004.

Other revenue

The Group's other revenue for 2005 was approximately RMB11,777,000, representing an approximate 4.8% decrease as compared with the previous year. Such change was principally attributable to government grant of RMB1,800,000 for exploration and smelting activities. In addition, there was an increase in dividend income from RMB900,000 for the year 2004 to RMB2,100,000 for the year 2005. In 2004, there was a waiver of accounts payable of RMB2,621,000 but nil in 2005.

Other net loss

The Group's other net loss for 2005 was approximately RMB1,148,000, representing an increase of 45.9% compared with the previous year. Such increase was principally attributable to the loss associated with the disposal of vehicles, machinery and equipment which amounted to approximately RMB1,008,000.

Selling and distribution expenses

The Group's selling and distribution expenses for 2005 was approximately RMB11,668,000, representing an increase of approximately 78.1% compared with the previous year. Such increase was principally attributable to the additional cost of transportation for the increased quantity of gold concentrates and by-

products from smelting process, and the rise of refinery cost. Transportation expenses for 2004 was approximately RMB5,756,000, representing an increase of approximately 53.3% to approximately RMB8,826,000 in 2005. The refinery cost for the gold bullion manufacturing procedure was approximately RMB1,515,000 in 2005, representing a substantial increase from approximately RMB127,000 in 2004. Such increase was principally attributable to the commencement of gold trading in the Shanghai Gold Exchange in December 2004.

Administrative expenses and other operating expenses

The Group's administrative expenses and other operating expenses for 2005 was approximately RMB71,299,000, representing an approximate 22.1% increase from approximately RMB58,416,000 for 2004. The increase was principally attributable to business development and the increase of other operating expenses which include the administrative expenses incurred in the additions of subsidiaries such as Habahe Huatai and Xinjiang Baoxin Mining Company Ltd., leading to an increase of approximately RMB8,427,000 in staff costs.

Finance costs

The Group's finance costs for 2005 was approximately RMB23,085,000, representing an approximate 48.9% increase from approximately RMB15,503,000 for 2004. The increase was principally attributable to the bank and other borrowings which was increased by approximately RMB110,670,000 to RMB405,420,000 for the year ended 31 December 2005 while the People's Bank of China increased the benchmark interest rate from 5.31% in 2004 to 5.58% in 2005.

Income tax

The statutory income tax rate of the PRC is 33%, the Group was subject to an effective income tax rate (being total amount of income tax divided by the amount of profit before taxation) of approximately 31.8% for 2005, representing a decrease of approximately 1.4% from the effective income tax rate of 33.2% for 2004. The decrease was principally attributable to the approximately RMB2,135,000 tax credit granted by the local tax authority for purchasing domestically produced machineries and equipment and the increase of RMB1,063,000 tax benefits arising from the increase in non-taxable revenue.

Profit attributable to equity holders of the Company

The Group's profit attributable to our equity holders for the 2005 was approximately RMB154,584,000, representing an approximate 28.8% increase from approximately RMB120,060,000 for 2004. The net profit margin for 2005 was approximately 9.9%, representing an increase of approximately 0.1% from approximately 9.8% in 2004. The Company's basic earnings per share was RMB0.31 (based on 500,000,000 shares), a recommendation for the payment of a final dividend of RMB0.08 per share (based on 770,249,091 shares).

Management Discussion and Analysis

2. Liquidity and capital resources

The Group's primary sources of working capital and long-term funding needs have been cash flows from operation and borrowings. The Group's primary use of funds has been capital expenditures, operating activities and repayment of borrowings.

Net cash inflow/(outflow) from:

	2005	2004
	RMB'000	RMB'000
Operating activities	**63,379**	61,643
Investing activities	**(126,600)**	(109,295)
Financing activities	**104,576**	36,286
Net cash inflow/(outflow)	**41,355**	(11,366)

Cash flows and working capital

The Group's cash and cash equivalents increased by approximately RMB41,355,000, that is, from approximately RMB76,506,000 at 31 December 2004 to approximately RMB117,861,000 at 31 December 2005. The increase in the cash and cash equivalents was primarily due to the increase in investing activities expenses offset by the cash inflow from operating and financing activities.

Net cash flows from operating activities

The Group's principal source of liquidity is cash generated from operating activities. Net cash inflow from operating activities increased by approximately 2.8%, that is, from approximately RMB61,643,000 in 2004 to approximately RMB63,379,000 in 2005. This was mainly due to an approximate 26.8% increase in profit before tax as a result of increased sales price and volume of our products. However, net cash flows from operating activities increased only slightly from the same period. This was mainly due to an approximate 55.2% increase in inventories as a result of increased operating capital in order to cope with our business growth and expansion of production capacity.

Net cash flows from investing activities

The Group's net cash used in investing activities was primarily affected by purchase of property, plant and equipment and construction in progress. Net cash spent in investing activities increased by approximately 15.8%, that is, from approximately RMB109,295,000 in 2004 to approximately RMB126,600,000 in 2005. This was mainly due to an increase in additional payments of approximately RMB16,473,000 and approximately RMB10,188,000 arising from the acquisition of a subsidiary and the purchase of intangible assets in 2005 respectively.

Net cash flows from financing activities

The Group's net cash flows from financing activities was primarily affected by bank loans. Net cash flow from financing activities increased by approximately 188.2%, that is, from approximately RMB36,286,000 for the year ended 31 December 2004 to approximately RMB104,576,000 for the same period in 2005. This was mainly due to an increase of approximately RMB359,750,000 in the repayment of bank loans in 2005, partially offset by the increase of approximately RMB400,420,000 from the proceeds of bank and other loans obtained during the same period.

3. Borrowings

As at 31 December 2005, the Group had a total of outstanding bank loans and other borrowings of approximately RMB405,420,000, of which approximately RMB292,150,000 was repayable within one year, approximately RMB110,000,000 was repayable after one year but not exceeding two years while the remaining RMB3,270,000 was repayable after five years. The gearing ratio as at 31 December 2005 was 38.4% which was based on total borrowing divided by total assets value.

4. Security

As at 31 December 2005, our bank loans of approximately RMB88,600,000 in aggregate were secured by buildings with an aggregate net book value of approximately RMB40,188,000, machinery equipment with an aggregate net book value of approximately RMB70,897,000, inventories of approximately RMB100,000,000 and trade receivables of approximately RMB12,000,000.

5. Material investment

On 18 April 2005, the Group established Jiangxi Mingxin Mining Company Limited which is a 80% subsidiary.

On 19 May 2005, upon the completion of an expansion project on the Group's smelting capacity, a smelting branch of the Group with a gold concentrate processing capacity of 100 tonnes per day commenced operation. Since then, the Group's gold concentrates processing capacity has reached 700 tonnes per day in aggregate.

6. Material acquisition and disposal

On 29 June 2005, the Group completed the acquisition of 83.3% of Habahe Huatai.

On 15 July 2005, the Group completed the acquisition of 80% of Tongbai Xingyuan Mining Company Limited.

7. Market risks

The Group are exposed to various types of market risks, including fluctuations in gold and other commodities prices, changes in interest rates and foreign exchange rates.

Gold price and other commodities price risk

The Group's turnover and profit are affected by fluctuations in the gold prices and other commodities price as all of our turnover and profit are generated within the PRC. We do not enter into commodity derivative instruments or futures to hedge any potential price fluctuations of gold and other commodities or for trading purposes. Therefore, fluctuations in the prices of gold and other commodities may have a significant effect on the Group's turnover and profit.

Interest rate

The Group is exposed to risks resulting from fluctuations in interest rates on our debt. The Group undertakes debt obligations for support general corporate purposes, including capital expenditure and working capital needs. Our bank loans bear interest rates that are subject to adjustment by our lenders in accordance with changes to the relevant People's Bank

Management Discussion and Analysis

of China ("PBOC") regulations. If the PBOC increases interest rates, our finance cost will be increased. In addition, to the extent that we may need to raise debt financing in the future, upward fluctuations in interest rates will increase the cost of new debt.

Foreign exchange

The Group's transactions are all denominated in Renminbi. Therefore, fluctuations in exchange rates may affect the international and domestic gold price, which may impact our results of operation. The exchange rates of Renminbi have been relatively stable during the past few years. The Renminbi is not a freely convertible currency. However, the PBOC has raised the level of Renminbi trades against the U.S. dollars by 2.1% on 21 July 2005 and the currency would fluctuate against a basket of currencies. In light of the above situation, the PRC government may take further actions and measures on free trade of Renminbi. Fluctuations in exchange rates may adversely affect the value, when such are being converted to Hong Kong dollars, of our net assets, earnings and any dividends we declare.

8. Contractual obligations

As at 31 December 2005, capital commitments, representing the construction costs not provided for in the financial statements, were approximately RMB282,642,000, representing a decrease of approximately RMB99,198,000 from approximately RMB381,840,000 as of 31 December 2004.

As at 31 December 2005, our total future minimum lease payments under non-cancellable operating leases amounted to approximately RMB2,130,000, of which approximately RMB246,000 was payable within one year, approximately RMB920,000 payable after one year but within five years, and approximately RMB964,000 payable after five years.

9. Contingent liabilities

As at 31 December 2005, the Group had no material contingent liabilities.

10. Employees

In 2005, average number of employees of the Group was 2,391.

Profile of Directors, Supervisors and Senior Management

Directors

Executive Directors

Mr. Xu Gaoming（許高明先生）, aged 47, chairman and an executive director. Mr. Xu completed a postgraduate course in politics and economics at Shaanxi Normal University（陝西師範大學）. Mr. Xu has 27 years' working experience in the mining and smelting industry and has overseen several smelting technology improvements. He was appointed as the chairman of the Company in June 2004.

Mr. Wang Jianguo（王建國先生), aged 47, general manager and an executive director. Mr. Wang completed a course in facility management at Zhengzhou Aviation Industry Management Institute (鄭州航空工業管理學院) in 1993 and is an assistant environmental engineer. He has 24 years' working experience in the mining and smelting industry. Mr. Wang was appointed as the general manager of the Company since June 2004.

Mr. Lu Xiaozhao（呂曉兆先生）, aged 43, deputy general manager and an executive director. He completed a course in mining engineering at Shenyang Gold Institute (瀋陽黃金學院). He is a mining engineer and a registered senior consultant with over 20 year's working experience in the mining and smelting industry. Mr. Lu was appointed as a Director and deputy general manager of the Company.

Mr. Jin Guangcai（靳廣才先生）, aged 39, deputy general manager and an executive director. He completed a postgraduate course in politics and economics at Shannxi Normal University（陝西師範大學）. He has approximately eight years' experience in the mining and smelting industry. Mr. Jin was appointed as a deputy general manager of the Company in May 2003 and a Director in October 2004.

Non-executive Directors

Mr. Xu Wanmin（許萬民先生）, aged 46, a non-executive director. He graduated from Central Committee Party School Correspondence College of the Chinese Communist Party (中共中央黨校函授學院) in 1995. He was the chairman of the Company from September 2002 to June 2004. He has been the vice chairman and general manager of Lingbao State-owned Assets since May 2002, and was appointed as a Director in September 2002.

Profile of Directors, Supervisors and Senior Management

Mr. Di Qinghua（狄清華先生）, aged 37, a non-executive director. He completed higher education in economics at Henan Province Party School (河南省黨校). Mr. Di was appointed as a Director in September 2002.

Mr. Qi Guozhong（戚國忠先生）, aged 63, a non-executive director. He graduated from Xi'an Gold Smelting Architecture Institute (西安冶金建築學院). He has over 20 years' working experience in the mining and smelting industry. He is currently the chairman and legal representative of Sanmenxia Jinqu. Mr. Qi was appointed as a Director in September 2002.

Independent Non-executive Directors

Mr. Ning Jincheng（寧金成先生）, aged 50, an independent non-executive director. He graduated from the Macau University of Science and Technology（澳門科技大學）with a PhD degree in law (civil law and business law). He is qualified lawyer in the PRC, having approximately 20 years' legal experience. He is currently practising at Henan Zhengda Law Firm (河南鄭大律師事務所). He is also a professor in civil and commercial law at Zhengzhou University（鄭州大學）, a committee member of Zhengzhou Arbitration Committee Professional Advisory Committee (鄭州仲裁委員會專諮詢委員會) and Zhengzhou People's Procuratorate Legal Professional Advisory Committee (鄭州市人民檢察院法律專家諮詢委員會). Mr. Ning was appointed as an independent Director in September 2002.

Mr. Wang Yanwu（王彥武先生）, aged 57, an independent non-executive director. He graduated from Zhengzhou University（鄭州大學）with a bachelor degree in economics. He is the dean of Henan Province Social Science Institute (河南省社會科學院), a part-time professor of Henan Finance Institute (河南財經學院) and also the vice chairman of Henan Province Enterprise Confederation (河南省企業聯合會) and Henan Province Entrepreneurs' Association (河南省企業家協會), a director of City Scientific Research Association of Henan (河南省城市科學研究會). Mr. Wang was appointed as an independent Director in September 2002.

Mr. Niu Zhongjie（牛鍾潔先生）, aged 38, an independent non-executive director. He is a director of Partners Capital International Limited which is engaged in securities dealing and advising on corporate finance. Mr. Niu obtained a master degree in business administration. Mr. Niu has extensive experience in equity capital markets. He was appointed as an independent Director in June 2005.

Mr. Zheng Jinqiao（鄭錦橋先生）, aged 42, an independent non-executive director. He graduated from Zhongnan University of Economics（中南財經大學）(now known as Zhongnan University of Economics and Law（中南財經政法大學）) with a diploma in industrial accounting and completed a postgraduate course in accounting at Tianjin Finance and Economics Institute（天津財經學院）. He also obtained a master degree in business administration from the Leeds Metropolitan University. Mr. Zheng is a registered Certified Public Accountant, a registered tax agent and a senior accountant in the PRC. He has extensive experience in listing and financial restructuring projects both in the PRC and overseas. He is currently the chairman and chief executive officer of Beijing Richlink Capital Research Co., Ltd.（北京嘉富誠資本研究有限公司）. He is also an independent director of a Singapore-listed company, China Transcom Technologies Limited. Mr. Zheng was appointed as an independent Director in September 2005.

Supervisory Committee and Supervisors

Mr. Gao Yang（高洋先生）, aged 51, a supervisor and chairman of the supervisory committee of the Company. Mr. Gao is a mining engineer with more than 15 years' experience in the mining and smelting industry. Mr. Gao was elected to the office of the chairman of the supervisory committee of the Company in September 2002 and the chairman of the labour union of the Company in October 2003.

Mr. Meng Fanrui（孟凡瑞先生）, aged 51, a supervisor. Mr. Meng is a senior economist in the PRC. He is the chairman and general manager of Henan Xuanrui. He was appointed as a Supervisor in September 2002.

Mr. Guo Xuchang（郭續長先生）, aged 44, a supervisor. He completed his study of the economics management post-secondary course at Henan Provincial Committee Party School of the Chinese Communist Party (中共河南省委黨校). He has been the chairman and general manager of Lingbao Guoshi Mining since September 1999. Mr. Gao was appointed as a Supervisor in September 2002.

Mr. Peng Jinzeng（彭進增先生）, aged 53, a supervisor. He is currently the head of production, corporate administration and safety of Yinxin Branch. Mr. Peng was appointed as a Supervisor in September 2002.

Profile of Directors, Supervisors and Senior Management

Mr. Lei Mingyang（雷明陽先生）, aged 41, a supervisor. He graduated from Xi'an Gold Smelting Architecture Institute (西安冶金建築學院), specialising in mining engineering. He is an accounting professional in the PRC with approximately 10 years' experience in accounting work. Mr. Lei was appointed as a Supervisor in September 2002.

Senior management

Mr. Wang Qisheng（王啟生先生）, aged 53, financial controller of the Company. He is a registered Certified Public Accountant in the PRC, having approximately 13 years' experience in various kinds of auditing work. Mr. Wang was appointed as the financial controller of the Company in December 2003.

Mr. Zhao Jugang（趙舉剛先生）, aged 34, joint company secretary and secretary to the Board of Directors, is responsible for the company secretarial and investor relations affairs of the Company. He graduated from Wuhan University (武漢大學) and obtained a master degree in laws in 2001. He is a non-practising lawyer admitted in the PRC. Mr. Zhao was appointed as the secretary to the Board of Directors in September 2002 and the joint company secretary of the Company in September 2005.

Mr. Pang Chun Kit（彭俊傑先生）, aged 33, joint company secretary, chief financial officer and qualified accountant of the Company, is responsible for company secretarial, financial and accounting management, and investor relations affairs of the Company. Mr. Pang graduated from the Hong Kong Polytechnic University with a Bachelor degree in Accounting. He is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, having approximately eight years' experience in various kinds of accounting work. Mr. Pang was appointed as the qualified accountant and the joint company secretary of the Company in June 2005.

Corporate Governance Report

Being one of the largest integrated gold mining companies based in PRC, the Company is committed to achieving high standards of corporate governance practices and has put in place a set of well-defined corporate governance processes to ensure the transparency of the Company and protect the overall interest and rights of shareholders as well as employees.

After our listing of H Shares on the Stock Exchange on 12 January 2006, the Company has fully complied with the requirements under Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules except for the code provision A.2.1 (division of responsibilities between the chairman and chief executive officer) and A.4.2 (Directors appointed to fill a casual vacancy be subject to election by shareholders at the first general meeting after appointment.)

The Board

The board of directors ("Board" or "Board of Directors") is the executive organization of the Company and shall be responsible for formulating and executing of the operation plans and management decisions of the Company as well as establishing the overall strategic direction of the Company. Its duties include evaluating the performance of senior management and supervising the system of the Company. The Board of Directors has to act in the best interest of the Company and its shareholders.

The Board of Directors comprises of eleven Directors, of whom four are executive Directors, three are non-executive Directors and four are independent non-executive Directors. The details of the Board of Directors are set out in the following table:

Director	Position
Mr. Xu Gaoming	Executive Director and Chairman
Mr. Wang Jianguo	Executive Director
Mr. Lu Xiaozhao	Executive Director
Mr. Jin Guangcai	Executive Director
Mr. Xu Wanmin	Non-executive Director
Mr. Di Qinghua	Non-executive Director
Mr. Qi Guozhong	Non-executive Director
Mr. Ning Jincheng	Independent Non-executive Director
Mr. Wang Yanwu	Independent Non-executive Director
Mr. Zheng Jinqiao	Independent Non-executive Director
Mr. Niu Zhongjie	Independent Non-executive Director

Pursuant to the articles of association of the Company ("Articles of Association"), the term of employment of the Directors shall be three years and the Directors are eligible for re-election. The chairman of the Company, Mr. Xu Gaoming and the other three executive Directors have been engaged in the management of gold mining management for years with rich experience. They shall be responsible for the business management of the Company, formulation and implementation of important strategies, daily business decision, and coordination of overall business operation.

All of the Directors can give sufficient time and attention to the Company's affairs.

Non-executive Directors and independent non-executive Directors possess wide expertise and are able to give professional advice in various aspects such as law, accounting, finance, tax, equity capital and industrial and commercial industries. The non-executive Directors would participate in board meetings of the Company to bring an independent judgement to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct. In addition, they would take the lead in board meetings where potential conflicts of interests arise. They also have to scrutinise the Company's performance in achieving agreed corporate goals and objectives.

Corporate Governance Report

Independent non-executive Directors are expressly identified in all corporate communications that disclose the names of the Directors.

The Company has received written confirmation from each of the Independent non-executive Directors to ensure they are in compliance with Rule 3.13 of the Listing Rules in respect of their independence. Apart from employment relationships with the Company, none of the directors of the Board has any financial, business, family or other material relationships.

The Company has established various internal control systems which allow the Board of Directors to maintain high standard of corporate governance in the management of the Company. To ensure that the Board of Directors performs its duties effectively, the management is required to submit business and financial reports of the Company to the Director regularly.

Directors would make further enquires if they require further enquiries than information volunteered by management. The Board of Directors has separate and independent access to the company secretary, qualified accountant and other senior management at all times to conduct informal discussions. It is at the Company's expense for the Board of Directors to contact the auditors, lawyers or other professionals to obtain independent professional opinions when appropriate. Management are regularly reminded by the company secretary that they have an obligation to provide the Board and its committees with adequate, complete and reliable information in a timely manner.

For the year ended 31 December 2005, the Board of Directors of the Company held nine meetings to discuss and approve various important matters. The table below lists the attendance of directors at the meetings held during the year up to the date of the report. The attendance illustrates the attention of the Board of Directors to the management of the Company's affairs. The matters processed by the Board of Directors in the meetings are all recorded, and the relevant records are kept pursuant to relevant laws and regulations.

Director	The number of meetings that Directors who should attend	The number of meetings that Directors who attended	Attendance (%)
Mr. Xu Gaoming	9	9	100
Mr. Wang Jianguo	9	9	100
Mr. Lu Xiaozhao	9	9	100
Mr. Jin Guangcai	9	9	100
Mr. Xu Wanmin	9	9	100
Mr. Di Qinghua	9	9	100
Mr. Qi Guozhong	9	6	67
Mr. Ning Jincheng	9	8	89
Mr. Wang Yanwu	9	8	89
Mr. Niu Zhongjie	5	4	80
Mr. Zheng Jinqiao	3	3	100

Prior to each regular Board meeting, the management of the Company shall submit materials relevant to the affairs discussed in the meeting to the Board of Directors. Notice convening the regular meeting shall be sent to the Directors at least fourteen days before the meeting so that arrangements can be made to attend the meeting. Documents required for the Board meeting shall be sent to the Directors at least three days before the meeting, to ensure that enough time is given to the Directors to review the documents and get prepared for the meeting.

The Board meeting is chaired by the chairman of the Company to ensure that sufficient time is allocated to the consideration and discussion of each matter in the agenda and each Director is given an equal opportunity to speak. In addition, Directors are given an opportunity to include matters in the agenda. Minutes of board meetings and meetings of board committees record detailed concerns raised by Directors and dissenting views expressed. Minutes of board meetings and meetings of board committees would be kept by secretary and such minutes are opened for inspection at any reasonable time on reasonable notice by any Director.

If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the board which the Board has determined to be material, the matter would not be dealt with by way of circulation or by a committee but a board meeting would be held. Independent non-executive Directors have no material interest in the transaction would be present at such Board meeting.

With respect to the re-election of newly appointed Director, the Company has complied with Paragraph 4(2) of Appendix 3 of the Listing Rules, which permits the Directors who has been appointed to fill a casual vacancy of the Board be subject to re-election at the next annual general meeting of the Company. As such, code provision A.4.2, which requires the re-election to take place in the next general meeting, were not adopted.

Every newly appointed Director would receive a comprehensive, formal and tailored induction on the first occasion of his appointment, and subsequently continuous briefing and professional development would be arranged to ensure that he has a proper understanding of the operations and business of the Company and that he is fully aware of his responsibilities under statute and common law, the Exchange Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company.

Board Committee

The Board of Directors has established four committees. Each committee has its terms of reference, including the review of matters of extraordinary nature, giving suggestions to the Board of Directors and making decisions on behalf of the Board of Directors relating to such matters when appropriate.

(1) Strategic Committee

The strategic committee of the Board is a body specifically set up by the Board according to the resolution of the general meeting and shall mainly be responsible for conducting research and giving advice regarding the long-term development strategies and material investment decisions of the Company.

The strategic committee comprises of six Directors, with one independent non-executive Director pursuant to the implementation measure. The committee now comprises of the following members:

Mr. Xu Gaoming
(Chairman of the committee)
Mr. Wang Jianguo
Mr. Lu Xiaozhao
Mr. Xu Wanmin
Mr. Qi Guozhong
Mr. Wang Yanwu
(Independent non-executive Director)

Corporate Governance Report

The principal terms of reference of the strategic committee are: (a) to conduct research and make suggestions concerning the long-term development strategic plans of the Company; (b) to conduct research and make suggestions concerning the material investment and financial proposals which are subject the approvals of the Board of Directors and the general meeting pursuant to the Articles of Association; (c) to conduct research and make suggestions concerning the material capital management and assets management projects which are subject to the approvals of the Board of Directors and the general meeting pursuant to the Articles of Association; (d) to conduct research and make suggestions concerning other significant events that influence the development of the Company; (e) to carry out inspection concerning the implementation of the above matters; (f) to be responsible for other matters as delegated by the Board.

No strategic committee meeting was held in 2005.

(2) Audit Committee

The audit committee of the Board of Directors is a body specifically set up by the Board according to the resolutions of general meetings and shall mainly be responsible for the communication, supervision and inspection of internal and external audit.

After our listing, the Company has been in full compliance with the requirements of Rules 3.21 of the Listing Rules.

The audit committee comprises of five members. Any former partner of KPMG should be prohibited from acting as a member of the audit committee. Pursuant to the code, an independent non-executive Director specializing in accounting will be the chief member who will be in charge of the work of the committee. The committee now comprises of the following members:

Mr. Zheng Jinqiao
(Chairman of the committee)
Mr. Wang Yanwu
Mr. Ning Jincheng
Mr. Xu Wanmin
Mr. Niu Zhongjie

The principal terms of reference of the Audit Committee are: (a) to suggest recruiting or changing external audit organization; (b) to supervise the internal audit system of the Company and its implementation; (c) to facilitate the communication between internal audit and external audit; (d) to review the financial information and its disclosure; (e) to inspect the internal control system of the Company and to audit major connected transactions; (f) to develop and implement policy on the engagement of an external auditor to supply non-audit service; (g) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The audit committee would discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences; (h) to monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and to review significant financial reporting judgements contained in them. In this regard, in reviewing the Company's annual report and accounts, half-year report before

submission to the Board, the committee should focus particularly on: (i) any changes in accounting policies and practices; (ii) major judgmental areas; (iii) significant adjustments resulting from audit; (iv) the going concern assumptions and any qualifications; (v) compliance with accounting standards; and (vi) compliance with the Exchange Listing Rules and other legal requirements in relation to financial reporting; (vii) members of the committee would liaise with the Company's Board of Directors, senior management and the qualified accountant and the committee must meet, at least once a year, with the Company's auditors; (viii) the committee would consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's qualified accountant, compliance adviser and auditors; (i) to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system; (j) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response; (k) to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function; (l) to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response; (m) to report to the Board on the matters set out in Code C.3.3; and (n) to be responsible for other matters as authorized by the Company.

The terms of reference of audit committee are kept at the registered office of the Company.

The audit committee has been provided with sufficient resources to discharge its duty.

In 2005, no audit committee meeting was held and there was no audit committee report had been issued. On 11 April 2006, the Audit Committee met with the international auditors to discuss the general scope of their audit work. In addition, the Audit Committee had reviewed the financial statements for the year ended 31 December 2005 before the announcement of the Company's full year results. During the discussion, the audit committee has reviewed key areas in which management's judgement applied for adequate provision and disclosure, and critical accounting policies. Moreover, the Audit Committee has reviewed the internal audit plan for 2006.

(3) Nomination Committee

The nomination committee of the Board of Directors is a body specifically set up by the Board according to the resolutions of general meetings and shall mainly be responsible for making suggestions regarding the selection of the directors and managers of the Company, choosing and making suggestions relating to the selection standards and procedures.

Corporate Governance Report

The nomination committee comprises of the following members:

Mr. Ning Jincheng
(Chairman of the committee)
Mr. Zheng Jinqiao
Mr. Wang Yanwu
Mr. Xu Wanmin
Mr. Niu Zhongjie

The main duties of the nomination committee include: (a) making recommendations to the Board on the Board's scale and composition in accordance with the operating activities, scale of assets and shareholding structure of the Company; (b) studying the criteria and procedures for the election of directors and management personnel and making recommendations to the Board thereon; (c) seeking for the right candidates for the position of directors and management personnel; (d) reviewing the candidates for the position of directors and management personnel and making recommendations thereon; (e) reviewing other senior management proposed to be appointed by the Board and making recommendations thereon; (f) undertaking other tasks as delegated by the Board.

The nomination committee would hold a meeting to discuss the appropriateness of the candidates and consult the chairman about their proposals relating to the nomination of other executive Directors and have access to professional advice if considered necessary. The criteria include professional qualification, industrial experience and academic background.

Written notice of the intention to nominate a candidate together with the respective resume would be delivered to the Board of its consideration and approval.

Attendence of individual members of Nomination Committee to the committee meeting in 2005 are as follows:

Director	The number of meetings that Directors who should attend	The number of meetings that Directors who attended	Attendance (%)
Mr. Ning Jincheng	2	2	100
Mr. Zheng Jinqiao	0	0	N/A
Mr. Wang Yanwu	2	2	100
Mr. Xu Wanmin	2	2	100
Mr. Niu Zhongjie	0	0	N/A

Nomination committee had considered the proposal and made recommendations to the Board for:

(a) appointment of Mr. Niu Zhongjie as an independent non-executive Director;

(b) appointment of Mr. Zheng Jinqiao as an independent non-executive Director; and

(c) appointment of Mr. Pang Chun Kit as joint company secretary and qualified accountant of the Company.

(4) Remuneration and Review Committee

The remuneration and review committee of the Board is a body specifically set up by the Board according to the resolutions of general meetings and shall mainly be responsible for formulating the review criteria of and conducting review for the Directors and senior management of the Company, as well as formulating and reviewing their remuneration packages and proposals. It is accountable to the Board. The committee would be provided with sufficient resources to discharge its duty.

The remuneration and review committee comprises of five members, the majority of whom are independent non-executive Directors. The members are as follows:

Mr. Wang Yanwu
(Chairman of the committee)
Mr. Zheng Jinqiao
Mr. Ning Jincheng
Mr. Xu Wanmin
Mr. Niu Zhongjie

The main duties of the remuneration and review committee include: (a) formulating remuneration packages or proposals according to the major areas, duties and importance of the management position of directors and senior management and the remuneration for relevant positions of other relevant enterprises; (b) establishing criteria, procedures and major assessment system for performance assessment and major proposals and systems for awards and punishments; (c) reviewing the performance of duties and conducting annual performance assessment of the Company's Directors and senior management; (d) monitoring the implementation of the Company's remuneration system; (e) undertaking other tasks as delegated by the Board.

Moreover, the remuneration committee has to review and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company.

Besides, the committee would review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate.

None of the Director or any of his associates is involved in deciding his own remuneration.

The remuneration committee makes available its terms of reference, explaining its role and the authority delegated to it by the Board, and copies of the terms of reference are kept at the registered office of the Company.

Corporate Governance Report

Attendence of individual members of remuneration and review committee to the committee meeting in 2005 are as follows:

Director	The number of meetings that Directors who should attend	The number of meetings that Directors who attended	Attendance (%)
Mr. Wang Yanwu	2	2	100
Mr. Zheng Jinqiao	1	1	100
Mr. Ning Jincheng	2	2	100
Mr. Xu Wanmin	2	2	100
Mr. Niu Zhongjie	1	1	100

The remuneration and review committee had considered annual salary review as well as bonus plan of Directors and senior management of the Company for 2004 and 2005.

Breakdown of the Directors' and the supervisors' remuneration for the year ended 31 December 2005 are set out in note 10 to the financial statements.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") as set out in Appendix 10 of the Listing Rules as the code of conduct for securities transactions by Directors. The Company having made specific enquiry of all directors to ensure that Directors have complied with the Model Code in trading the Company's securities.

The Board has established written guidelines for employees who are likely to possess unpublished price sensitive information in respect of their dealings in the securities of the Company.

Chairman and Chief Executive Officer

Code Provision A.2.1 of the Code states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The chairman is responsible for ensuring that the Directors are properly explained on matters discussing at Board meetings and complete with reliable information had been received by directors.

Mr. Xu Gaoming is the chairman and chief executive officer of the Company and has considerable industry experience. Thus, there is a derivation from the code provision A2.1. The Board is of the view that it is in the best interests of the Group to have an executive chairman so that the Board can have the benefit of a chairman who is knowledgeable about the business of the Group and is capable to guide discussions and brief the Board, in particular, the non-executive directors, in a timely manner on various issues and developments of the industry. In addition, the Board believes that this structure can assist the Group to implement decisions promptly and more efficiently.

Management Functions

The Board is responsible for formulating and executing the operation plans and management decisions of the Company as well as establishing the overall strategic direction. When the Board delegates its management functions to the management, clear directions will be given and management will report to the Board on regularly basis. The Board reserves most of the powers and delegates routine duties to management including bank loan arrangement. There would be a periodic review of the arrangement. Management have to obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group.

Chief Financial Officer

Chief financial officer of the Company is responsible for the preparation of the interim and annual financial statements in accordance with the Hong Kong Accounting Standards and to make sure that the results and financial position of the Company are disclosed in an accurate and fair manner. Chief financial officer of the Company shall also be responsible for contacting the auditors regularly. The duties of the chief financial officer also include reviewing the financial risk management of the Company and make suggestions to the Board of Directors. Moreover, chief financial officer shall be responsible for giving advice to the Board of Directors regarding the disclosure of notifiable transactions, connected transactions and price-sensitive information.

Company Secretary

The company secretary shall directly be responsible to the Board of Directors. The company secretary is responsible for ensuring that the proceedings of the Board of Directors are complied with, making appropriate disclosures regarding the interests of securities of the Directors and giving advice to the Board of Directors regarding the disclosure of notifiable transactions, connected transactions and price-sensitive information. The company secretary acts as the principal channel of communication between the Company and the Stock Exchange. The company secretary also assists the Board of Directors in realizing and strengthening corporate governance practices in order to enhance the best interest of the Company and the shareholders.

Financial Reporting

Management provides financial information with explanation to the Board to assist the Board in assessing the financial position of the Company. Financial statements are the responsibilities of Directors. The board has to present a balanced, clear and understandable assessment extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Exchange Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.

The reporting responsibilities of KPMG, the international auditors, are stated in the Auditors' Report on page 47 of the Annual Report.

There was no material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. The Board has taken the same view as that of the audit committee in relation to the appointment of KPMG as international auditors.

Auditors' Remuneration

The Company's international auditors are KPMG. After considering and approving at the meeting of the audit committee held by the Company on 11 April 2006, the audit fee of the Company for the year ended 31 December 2005 was approximately RMB1 million. The Company also incurred approximately RMB5 million for the services provided by the reporting accountants and auditors in respect of the listing of H Shares of the Company on the Stock Exchange and the costs incurred have been charged to the share premium account. The services commenced in 2004 and it was not practicable to separate the amount payable for those services between the reporting accountants and auditors.

Corporate Governance Report

Internal Control

The Company has established various systems for internal management, so as to safeguard the assets and shareholders' interests of the Company and maintain a high standard of corporate governance for the management of the Company. To further strengthen its internal control, the Company conducts regular meetings with auditors, lawyers and other professionals to obtain independent and professional advices for the improvement of the Company's internal management system. In order to monitor the system effectively, the Company established an internal audit department and plans to perform internal control assessment in second half of 2006.

Investor relations and communications with shareholders

The Company highly values its relationship with investors and shareholders. It maintains its relationship with investors, fund managers and shareholders through one-on-one meetings, road shows, seminars and on-site inspection by investors, thereby allowing investors to have a deeper understanding of the Company's financial position, production operations, management decisions, overall strategic directions and latest development.

Voting by Poll

At the upcoming 2005 Annual General Meeting of the Company, the Chairman will demand a poll on all resolutions. The procedures for demanding a poll by the shareholders are incorporated in the circular accompanying with this report.

Each substantially separate issue be proposed by separate resolution at the forthcoming general meeting, the committee heads will be available to answer questions at general meeting, the level of proxies lodged on each resolution will be indicated, and the balance for and against each resolution will be disclosed at the commencement of general meeting. The chairman will also explain the procedures for demanding a poll, and then answer questions from shareholders at the commencement of the general meeting.

Supervisors' Report

1. Meetings of the Supervisory Committee during the Reporting Period

In 2005, three meetings were held by the supervisory committee.

The sixth meeting of the first supervisory committee was held at the conference Room, 2/F of the registered office address on 21 May 2005, at which senior management of the Company presented their reports on the Company's operations in 2005. The financial statements for 2004, the budget proposal for 2005, the profit distribution proposal for 2004 and the audit report for 2004 issued by Peking Certified Public Accountants were approved of the meeting. Conclusions were drawn on the annual performance of the supervisory committee and the 2004 working report of the supervisory committee was considered and approved in the meeting for submission to the general meeting.

The seventh meeting of the first supervisory committee was held at the Conference Room, 2/F of the registered office address on 10 June 2005, at which the proposal for the amendments of staff allocation of the special committees under the Board was approved.

The first meeting of the 2nd supervisory committee was held at the Conference Room, 2/F of the registered office address on 24 September 2005, at which Mr. Gao Yang was elected to the office of the chairman of the Company's 2nd supervisory committee.

2. Independent Work Report of the Supervisory Committee

During the reporting period, the supervisors attended all Board meetings, and the chairman of the supervisory committee participated in the meetings for the general managers of the Company to listen to the work report of the Board and the management, as well as study and express opinions in respect of proposals regarding significant decision-making, major changes of staff and guarantees for funds.

i. Legal Compliance of the Company's Operations

In accordance with the relevant resolutions in general meetings, the Board conscientiously implemented various resolutions and its decision-making procedures were in compliance with the relevant requirements of the Company Law and the Articles of Association. It also set up rules and systems for internal control, project investment management, connected transactions, external guarantees management, materials purchase and engineering project tendering management. None of the directors, senior management and managers was aware of any violations of the laws, regulations and the articles of association or any act which prejudices the Company's interests.

Supervisors' Report

ii. General Financial Position

The Company's financial report for the year was jointly audited by KPMG (as international auditor) and Peking Certified Public Accountants (as PRC auditor), both of which issued an unqualified report thereon. During the year, the Company recorded a sales income and a net profit of RMB1,555,704,000 and RMB154,584,000 respectively, representing an increase of 28.8% as compared with the previous year.

iii. Connected Transactions

Upon review and examination, the Supervisory Committee was not aware of any act which would prejudice the Company's interest in the connected transactions of the Company and such connected transactions were fully disclosed pursuant to the requirements under Rule 14A.45 of the Listing Rules. The services provided by the connected persons in such connected transactions mainly include:

Lingbao Shuangxin Mining Industry Limited Liability Company ("Lingbao Shuangxin") (靈寶雙鑫礦業有限責任公司) supplied gold concentrates to our Company

For the three months ended 30 September 2005, Lingbao Shuangxin supplied gold concentrates to the Company. The total actual payments made by the Company to Lingbao Shuangxin amounted to approximately RMB7,679,000.

The purchase of gold concentrates by the Company from Lingbao Shuangxin in the year was driven by commercial reasons and was resulted from the Company's participation in bidding processes conducted by Lingbao Shuangxin during the year where bidding prices of the Company were accepted by Lingbao Shuangxin.

Lingbao Shuangxin is held as to 40% by Lingbao Guoshi Mining Limited Liability Company ("Lingbao Guoshi Mining") (靈寶郭氏礦業有限責任公司), a promoter of the Company. Lingbao Guoshi Mining held approximately 1.59% shareholding in the Company as at the date of this announcement. Accordingly, Lingbao Shuangxin is an associate of Lingbao Guoshi Mining and hence a connected person of the Company under the Listing Rules.

For details, please refer to the prospectus dated 30 December 2005 issued by the Company.

Continuing Connected Transactions

Lingbao Electric Company ("Lingbao Electric") (靈寶市電業總公司) supplies electricity to the Group

Lingbao Electric (also known as Lingbao Electric Bureau) supplies electricity to the Company on an ongoing basis, as the supply of electricity is essential to the operation of the business of the Group.

A total of seven electricity supply contracts have been entered into between Lingbao Electric and the Company for the supply of electricity to the Company. Three of such contracts were entered into on 20 November 2005, two on 10 February 2005, one on 10 August 2005 and the remaining one on 1 September 2005. The electricity supply contracts are valid for a period of three years. Under these electricity supply contracts, upon expiry of their respective terms, the contracts will continue to be in force upon written confirmation by both parties. Pursuant to these electricity supply contracts, the Company shall make payment to Lingbao Electric in full by the 25th day of each month.

Lingbao Electric is a company incorporated in the PRC and is a promoter of the Company. Lingbao Electric held approximately 2.27% shareholding in the Company as at the date of this announcement. Accordingly, Lingbao Electric is a connected person of the Company under the Listing Rules and the transactions with Lingbao Electric constitute continuing connected transactions.

For the year ended 31 December 2005, the annual electricity fee paid by the Group to Lingbao Electric amounted to RMB43,996,000. It is estimated that the annual electricity fee payable by the Group to Lingbao Electric for the two financial years ending 31 December 2006 and 2007 will not exceed approximately RMB63,700,000 and RMB67,600,000 respectively.

The Stock Exchange has granted a waiver to these continuing connected transactions from strict compliance with the announcement and independent shareholders' approval requirements pursuant to Rule 14A.42(3) of the Listing Rules.

For details, please refer to the prospectus dated 30 December 2005 issued by the Company.

iv. External Guarantees

The Company had no external guarantees in 2005.

v. Task performance of the Supervisory Committee during the Reporting Period

In 2005, the supervisory committee of the Company, to be accountable for the shareholders, has conscientiously performed their duties of supervision, ensured the full implementation of the resolutions in general meetings and safeguarded the interests of the shareholders in accordance with the Company Law, the Articles of Association and the relevant laws and regulations. It has also completed the tasks assigned under the Articles of Association and general meetings, benefiting the disciplined operations and sustainable development of the Company.

Directors' Report

The Directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2005.

Principal Place of Business

Lingbao Gold Company Ltd. (the "Company") is a company incorporated and domiciled in the People's Republic of China ("PRC") and has its registered office at Xin Village, Yinzhuang Town, Daonan Industrial Area, Lingbao, Henan, the PRC and its principal place of business in Hong Kong at Room 1902, MassMutual Tower, 38 Gloucester Road, Wanchai, Hong Kong.

Principal Activities

The principal activities of the Group are the mining, processing, smelting and sales of gold and other metallic products in the PRC.

The analysis of the principal activities of the operations of the Company and its subsidiaries (the "Group") during the financial year are set out in note 21 to the financial statements.

Major Customers and Suppliers

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	64.6%	
Five largest customers in aggregate	84.1%	
The largest supplier		5.9%
Five largest suppliers in aggregate		26.6%

At no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

Financial Statements

The profit of the Group for the year ended 31 December 2005 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 48 to 114.

Transfer to Reserves

Profits attributable to shareholders, before dividends, of RMB154,584,000 (2004: RMB120,060,000) have been transferred to reserves. Other movements in reserves are set out in note 30 to the financial statements.

Dividend

No interim dividend was proposed or paid during the year. At the board meeting held on 12 April 2006, the Directors declared a final dividend of RMB0.08 per share (2004: Nil) in respect of the year ended 31 December 2005. The proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earning for the year ended 31 December 2005.

Fixed Assets

Movements in fixed assets during the year are set out in note 16 to the financial statements.

Details of Share Offering and Listing

	IPO
Class of share listed:	H share
Listing place:	Main board of the Stock Exchange
Offer price:	HK$3.33 per H share
Listing date:	12 January 2006
Number of issued H shares:	297,274,000

Share Capital

As at the date of this report, there were a total of share capital of 770,249,091 shares of the Company which includes:

	Number of shares	Approximate percentage of total share capital
Domestic shares	472,975,091	61.41
H Shares	297,274,000	38.59
Total	770,249,091	100.00

Details of the movements in share capital of the Company during the year are set out in note 30 to the financial statements.

Purchase, Sale or Redemption of Shares of the Company

There were no purchases, sales or redemptions of the Company's securities by the Company or any of its subsidiaries during the year.

Directors and Supervisors

The Directors and supervisors of the Company for the year are as follows:

Directors

Executive Directors

Xu Gaoming, *Chairman*
Wang Jianguo, *General Manager*
Lu Xiaozhao, *Deputy General Manager*
Jin Guangcai, *Deputy General Manager*

Non-executive Directors

Xu Wanmin
Di Qinghua
Qi Guozhong

Independent Non-executive Directors

Ning Jincheng
Wang Yanwu
Niu Zhongjie (appointed on 26 June 2005)
Zheng Jinqiao (appointed on 24 September 2005)
Du Haibao (resigned on 24 September 2005)

Supervisors

Gao Yang
Meng Fanrui
Guo Xuchang
Peng Jinzeng
Lei Mingyang

Biographical Details of Directors, Supervisors and Senior Management

Brief biographical details of Directors, supervisors and senior management of the Company are set out pages 21 to 24 of the annual report.

Directors' Report

Highest Paid Individuals

During the year, the relevant information of the five individuals with the highest remuneration in the Group is disclose in note 11 to the accounts.

Remuneration

The Company has a remuneration committee to formulate compensation policies and determine and manage the compensation of the Company's senior management.

Directors' and Supervisors' Service Contracts

Each of the executive Directors has entered into an executive director service agreement with the Company for a term of three years commencing on 21 December 2005. Each of these service agreements may be terminated by either party with not less than six months' prior written notice.

Each of the non-executive Directors has been appointed for a term of three years commencing on 21 December 2005. No remuneration is payable to the non-executive Directors.

Each of the independent non-executive Directors has been appointed for a term of three years commencing on 21 December 2005.

Mr. Gao Yang, a supervisor, has entered into a supervisor service agreement with the Company for a term of three years commencing on 21 December 2005. The service agreement may be terminated by either party with not less than six months' prior written notice.

Each of Mr. Meng Fanrui, Mr. Guo Xuchang, Mr. Peng Jinzeng and Mr. Lei Mingyang has entered into a supervisor service deed with the Company for a term of three years commencing on 21 December 2005. Each of these deeds may be terminated by either party with not less than six months' prior written notice. Under these deeds, no remuneration is payable to the supervisors.

No Director or supervisor has a service contract with the Company, which is not determinable by the Company within one year without payment of compensation, other than statutory obligations.

Connected Transactions

Lingbao Shuangxin supplied gold concentrates to our Company

For the three months ended 30 September 2005, Lingbao Shuangxin supplied gold concentrates to the Company. The total actual payments made by the Company to Lingbao Shuangxin amounted to approximately RMB7,679,000.

The purchase of gold concentrates by the Company from Lingbao Shuangxin in the year was driven by commercial reasons and was resulted from the Company's participation in bidding processes conducted by Lingbao Shuangxin during the year where bidding prices of the Company were accepted by Lingbao Shuangxin.

Lingbao Shuangxin is held as to 40% by Lingbao Guoshi Mining, a promoter of the Company. Lingbao Guoshi Mining held approximately 1.59% shareholding in the Company as at the date of this announcement. Accordingly, Lingbao Shuangxin is an associate of Lingbao Guoshi Mining and hence a connected person of the Company under the Listing Rules.

For details, please refer to the prospectus dated 30 December 2005 issued by the Company.

Continuing Connected Transactions

Lingbao Electric supplies electricity to the Group

Lingbao Electric (also known as Lingbao Electric Bureau) supplies electricity to the Company on an ongoing basis, as the supply of electricity is essential to the operation of the business of the Group.

A total of seven electricity supply contracts have been entered into between Lingbao Electric and the Company for the supply of electricity to the Company. Three of such contracts were entered into on 20 November 2005, two on 10 February 2005, one on 10 August 2005 and the remaining one on 1 September 2005. The electricity supply contracts are valid for a period of three years. Under these electricity supply contracts, upon expiry of their respective terms, the contracts will continue to be in force upon written confirmation by both parties. Pursuant to these electricity supply contracts, the Company shall make payment to Lingbao Electric in full by the 25th day of each month.

Lingbao Electric is a company incorporated in the PRC and is a promoter of the Company. Lingbao Electric held approximately 2.27% shareholding in the Company as at the date of this announcement. Accordingly, Lingbao Electric is a connected person of the Company under the Listing Rules and the transactions with Lingbao Electric constitute continuing connected transactions.

For the year ended 31 December 2005, the annual electricity fee paid by the Group to Lingbao Electric amounted to RMB43,996,000. It is estimated that the annual electricity fee payable by the Group to Lingbao Electric for the two financial years ending 31 December 2006 and 2007 will not exceed approximately RMB63,700,000 and RMB67,600,000 respectively.

The independent non-executive Directors of the Company have reviewed the continuing connected transactions and are of the opinion that: (1) these transactions are within the ordinary course of business of the Group; (2) these transactions are conducted on normal commercial terms, or where there was no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as applicable) independent third parties; and (3) these transactions are conducted in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditor of the Group has confirmed to the Board of Directors in writing that (a) The transactions have been approved by the Board of Directors; (b) The transactions have been entered into for considerations consistent with the pricing policies as stated in the relevant agreements; (c) The transactions have been entered into in accordance with the terms of the respective agreements and documents governing the respective transactions; and (d) The relevant amounts have not exceeded the relevant caps for waiver.

The Stock Exchange has granted a waiver to these continuing connected transactions from strict compliance with the announcement and independent shareholders' approval requirements pursuant to Rule 14A.42(3) of the Listing Rules.

For details, please refer to the prospectus dated 30 December 2005 issued by the Company.

Directors' Report

Directors, Supervisors and Chief Executive

As at 31 December 2005, no interest and short position of any Director, supervisor and chief executive of the Company in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange (for this purpose, the relevant provisions of the SFO will be interpreted as if applicable to Supervisors) as the Company was not listed on the Stock Exchange on that date.

The Company became a listed company on 12 January 2006. As at the date of this report, the interest and short position of each Director, Supervisor and chief executive of the Company in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange (for this purpose, the relevant provisions of the SFO will be interpreted as if applicable to Supervisors) were as follows:

Supervisors	Relevant entity	Capacity	Number of domestic shares held (Long position)	Approximate percentage of the total issued domestic share capital	Approximate percentage of the total issued share capital
Mr. Meng Fanrui (孟凡瑞先生)	the Company	Corporate *(Note 1)*	18,000,000	3.81%	2.34%
Mr. Guo Xuchang (郭續長先生)	the Company	Corporate *(Note 2)*	12,500,000	2.64%	1.62%

Notes:

1. Henan Xuanrui Assets Company Limited ("Henan Xuanrui") (河南軒瑞產業股份有限公司), a promoter of the Company, owns approximately 2.34% interest in the Company as at the date of this report. Mr. Meng Fanrui (孟凡瑞先生) owns approximately 61.6% interest in Henan Xuanrui and together with his wife Ms. Ma Xianting (馬仙婷小姐), hold approximately 96.1% of the shareholding in Henan Xuanrui. Under section 316 of the SFO, Mr. Meng Fanrui (孟凡瑞先生) is deemed to be interested in the Shares held by Henan Xuanrui.

2. Lingbao Guoshi Mining owns approximately 1.59% interest in the Company as at the date of this report. Mr. Guo Xuchang (郭續長先生) owns approximately 78.8% interest in Lingbao Guoshi Mining and together with his wife Ms. Yang Yuqin (楊玉琴小姐), hold 100% of the shareholding in Lingbao Guoshi Mining. Under section 316 of the SFO, Mr. Guo Xuchang (郭續長先生) is deemed to be interested in the Shares held by Lingbao Guoshi Mining.

Substantial Shareholders

At 31 December 2005, the Directors were not aware of any disclosure of interests or short positions of the persons, other than the Directors, supervisors and chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO and which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as the Company was not listed on the Stock Exchange on that date.

The Company became a listed company on 12 January 2006. As at the date of this report, so far as was known to the Directors, the following person, other than the Directors, supervisors and chief executive of the Company, had an interest in the shares of the Company as recorded in the register required to be kept under section 336 of the SFO and which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Number of Domestic Shares	Nature of interest	Approximate percentage of the total issued domestic share capital	Approximate percentage of the total share capital
Lingbao State-owned Assets Operation Limited Liability Company ("Lingbao State-owned Assets") (靈寶市國有資產經營有限責任公司) *(Notes 1 and 2)*	373,840,620	Beneficial	79.04%	48.54%
Sanmenxia Jinqu Group Company Limited ("Sanmenxia Jinqu") *(Note 3)* (三門陝金渠集團有限公司)	37,698,784	Beneficial	7.97%	4.89%

Name	Number of H shares	Nature of interest	Approximate percentage of the total issued H shares share capital	Approximate percentage of the total share capital
Gartmore Investment Management plc	13,332,000	Investment manager	4.48%	1.73%
Ward Ferry Management (BVI) Limited	18,928,000	Investment manager	6.37%	2.46%

Directors' Report

Notes:

1. In addition to its direct interest in 373,840,620 domestic shares, Lingbao State-owned Assets has an indirect interest in the Company through its equity interest of approximately 43.4% in Lingbao Gold Machinery Limited Liability Company (靈寶市黃機械有限責任公司), which in turn holds approximately 21.1% equity interest in Lingbao Jinxiang Motors. Lingbao Jinxiang Motors is a promoter of the Company, which held approximately 1.7% shareholding in the Company as at the date of this report.

2. Mr. Xu Wanmin（許萬民先生）, a non-executive Director, is the vice chairman and general manager of Lingbao State-owned Assets and Mr. Di Qinghua (狄清華先生), a non-executive Director, is the integrated office manager of Lingbao State-owned Assets. Lingbao State-owned Assets has an interest in the Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. Mr. Qi Guozhong（戚國忠先生）, a non-executive Director, is the chairman and legal representative of Sanmenxia Jinqu. Sanmenxia Jinqu has an interest in the Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Directors' and Supervisors' Interests in Contracts

No contract of significance in relation to the Company's business to which the Company, its subsidiaries or its jointly controlled entities was a party and in which the Director or the Supervisors of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (excluding the Directors' and supervisors' service contracts).

Directors' and Supervisors' Rights to Acquire Shares or Debentures

Apart from disclosed under the paragraph headed "Interests of Directors, Supervisors and Chief Executive", at no time during the year was the Company, its subsidiaries or its jointly controlled entity, a party to any arrangement to enable to the Directors, the supervisors and their respective spouses or children under 18 years of age of acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

Interests of Directors in Competing Business

During the year and up to the date of this report, none of the Directors has any interest in business, which competes or may compete with the business of the Group under the Listing Rules.

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2005 are set out in note 27 and 28 to the financial statements.

Use of Proceeds

The total amount raised by the issue of H shares by the Group in January 2006 was approximately RMB836,800,000. The Company intends to use the proceed in the following purposes:

- approximately RMB595,900,000, for our focused exploration and development of our mining activities, of which (i) approximately RMB270,700,000, will be applied to our focused exploration works at Qiangma Gold Mine and Yinxin Gold Mine situated on the southern side of Xiaoqinling region; (ii) approximately RMB53,400,000, will be applied to the development of other exploration projects and mines under construction in the Xiaoqinling region of Henan province; (iii) approximately RMB203,600,000, will be applied to the development of our Xinjiang mining area; and (iv) approximately RMB68,200,000, will be applied to the development of our Jiangxi mining area.

- approximately RMB135,400,000, for the acquisitions of additional mines and mining rights and integration of mines in the Xiaoqinling region.

- approximately RMB79,900,000, for the expansion of our smelting operation.

- the remaining net proceeds of approximately RMB25,600,000, from the Global Offering to the Company would be applied as our general working capital.

Pre-emptive Rights

There are no provisions regarding pre-emptive rights under the Articles of Association of the Company and related laws of Hong Kong and the PRC, which would oblige the Company to issue new shares on pro-rata basis to the existing shareholders of the Company.

Policy on Income Tax

The Company and its subsidiaries basically paid PRC corporate income tax at a rate of 33% of its assessable profits according to the relevant laws and regulations in the PRC. Details of the Group's income tax information is disclosed in note 9 to the account.

Closure of Register of Members

The register of members of the Company will be closed from 16 May 2006 to 16 June 2006, (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's H shares registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong (for holders of H shares) or the registered office address of the Company at Xin Village, Yinzhuang Town, Daonan Industrial Area, Lingbao, Henan, the PRC (for domestic shares), no later than 4:00 p.m. on 15 May 2006.

Litigation and Arbitration

As at the date of this report, there was no material litigation and arbitration for the Group.

Public Float

Based on the publicly available information and to the best of knowledge of the Directors, the Company has maintained sufficient public float as at the latest practicable date prior to the date of this report.

Four Years Summary

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on pages 115 and 116 of the annual report.

Directors' Report

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 Listing Rules and considers all the independent non-executive directors to be independent.

Auditors

KPMG retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

Taxation

For the year ended 31 December 2005, no foreign shareholder who is not resident of the PRC is liable for Individual or Enterprise Income Tax, Capital Gains Tax, Stamp Duty or Estate Duty of the PRC in relation to their holding of shares of the Company. Shareholders are urged to consult their tax advisers regarding the PRC, Hong Kong and other tax consequences of owning and disposing of H shares.

By order of the board

Xu Gaoming
Chairman

Hong Kong, 12 April 2006

Auditors' Report

To the shareholders of
Lingbao Gold Company Ltd.
(Incorporated in the PRC with limited liability)

We have audited the financial statements on pages 48 to 114 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective Responsibilities of Directors and Auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements 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.

Basis of Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005, and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
Hong Kong, 12 April 2006

Consolidated Income Statement

For the year ended 31 December 2005

	Notes	**2005 RMB'000**	2004 RMB'000
Turnover	*3*	**1,555,704**	1,223,429
Cost of sales	*4*	**(1,235,479)**	(975,691)
Gross profit		**320,225**	247,738
Other revenue	*5*	**11,777**	12,367
Other net loss	*6*	**(1,148)**	(787)
Selling and distribution expenses		**(11,668)**	(6,550)
Administrative expenses and other operating expenses		**(71,299)**	(58,416)
Profit from operations		**247,887**	194,352
Write back of deficit on revaluation of property, plant and equipment		**1,991**	–
Finance costs	*8(a)*	**(23,085)**	(15,503)
Profit before taxation	*8*	**226,793**	178,849
Income tax	*9(a)*	**(72,017)**	(59,454)
Profit for the year		**154,776**	119,395
Attributable to:			
Equity shareholders of the Company	*30(a)*	**154,584**	120,060
Minority interests	*30(a)*	**192**	(665)
Profit for the year		**154,776**	119,395
Dividends payable to equity shareholders of the Company attributable to the year:			
Final dividend proposed after the balance sheet date	*13*	**61,620**	–
Basic earnings per share (cents)	*14*	**31**	24

The notes on pages 56 to 114 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000
Non-current assets			
Property, plant and equipment	*16*	**246,132**	206,211
Construction in progress	*17*	**110,834**	60,082
Intangible assets	*18*	**81,873**	36,568
Goodwill	*19*	**4,716**	–
Lease prepayments	*20*	**9,229**	9,436
Other investments	*22*	**10,504**	10,504
Deferred tax assets	*23(b)*	**15,627**	11,130
		478,915	333,931
Current assets			
Inventories	*24*	**291,757**	187,994
Trade and other receivables, deposits and prepayments	*25*	**166,412**	175,680
Amount due from a fellow subsidiary		**–**	15,751
Current tax recoverable	*23(a)*	**517**	–
Pledged deposits	*29*	**–**	20,045
Cash and cash equivalents	*26*	**117,861**	76,506
		576,547	475,976
Current liabilities			
Bank loans	*27*	**292,150**	294,750
Trade and other payables	*29*	**143,292**	159,968
Current tax payable	*23(a)*	**2,076**	15,539
		437,518	470,257
Net current assets		**139,029**	5,719
Total assets less current liabilities		**617,944**	339,650
Non-current liabilities			
Bank loans	*27*	**110,000**	–
Other loan	*28*	**3,270**	–
Deferred tax liabilities	*23(b)*	**2,554**	–
		115,824	–
NET ASSETS		**502,120**	339,650

Consolidated Balance Sheet

At 31 December 2005

	Notes	**2005 RMB'000**	2004 RMB'000
CAPITAL AND RESERVES			
Share capital	*30(a)*	**100,000**	100,000
Reserves	*30(a)*	**392,618**	237,715
Total equity attributable to equity shareholders of the Company		**492,618**	337,715
Minority interests	*30(a)*	**9,502**	1,935
TOTAL EQUITY		**502,120**	339,650

Approved and authorised for issue by the board of directors on 12 April 2006

Xu Gaoming
Executive director and Chairman

Wang Jianguo
Executive director

The notes on pages 56 to 114 form part of these financial statements.

Balance Sheet

At 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000
Non-current assets			
Property, plant and equipment	*16*	**209,699**	188,322
Construction in progress	*17*	**81,626**	53,817
Intangible assets	*18*	**35,662**	36,568
Lease prepayments	*20*	**9,128**	9,436
Investment in subsidiaries	*21*	**141,270**	36,221
Other investments	*22*	**10,504**	10,504
Deferred tax assets	*23(b)*	**12,203**	11,130
		500,092	345,998
Current assets			
Inventories	*24*	**282,631**	187,319
Trade and other receivables, deposits and prepayments	*25*	**155,606**	163,594
Amount due from a fellow subsidiary		**–**	15,751
Current tax recoverable	*23(a)*	**517**	–
Pledged deposits	*29*	**–**	20,045
Cash and cash equivalents	*26*	**94,401**	74,452
		533,155	461,161
Current liabilities			
Bank loans	*27*	**292,150**	294,750
Trade and other payables	*29*	**133,030**	157,461
Current tax payable	*23(a)*	**–**	15,539
		425,180	467,750
Net current assets/(liabilities)		**107,975**	(6,589)
Total assets less current liabilities		**608,067**	339,409
Non-current liabilities			
Bank loans	*27*	**110,000**	–
Other loan	*28*	**3,270**	–
		113,270	–
NET ASSETS		**494,797**	339,409

Balance Sheet

At 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000
CAPITAL AND RESERVES			
Share capital	*30(b)*	**100,000**	100,000
Reserves	*30(b)*	**394,797**	239,409
TOTAL EQUITY		**494,797**	339,409

Approved and authorised for issue by the board of directors on 12 April 2006

Xu Gaoming
Executive director and Chairman

Wang Jianguo
Executive director

The notes on pages 56 to 114 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

	Notes	**2005 RMB'000**	2004 RMB'000
Total equity at 1 January	*30(a)*	**339,650**	217,655
Movements in equity arising from capital transactions:			
Capital contributions from minority interests	*30(a)*	**1,100**	2,600
Acquisition through business combinations	*30(a)*	**6,275**	–
Surplus on revaluation of land and buildings held for own use, net of deferred tax	*30(a)*	**319**	–
		7,694	2,600
Net profit for the year:			
Attributable to:			
– Equity shareholders of the Company	*30(a)*	**154,584**	120,060
– Minority interests	*30(a)*	**192**	(665)
		154,776	119,395
Total equity at 31 December	*30(a)*	**502,120**	339,650

The notes on pages 56 to 114 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	2005	2004
	RMB'000	RMB'000
Operating activities		
Profit before taxation	**226,793**	178,849
Adjustments for:		
– Write back of deficit on revaluation of property, plant and equipment	**(1,991)**	–
– Depreciation	**31,057**	28,766
– Finance costs	**23,085**	15,503
– Interest income from bank deposits	**(570)**	(456)
– Impairment losses on trade and other receivables (written back)/made	**(2,158)**	1,987
– Loss on disposal of property, plant and equipment	**1,008**	829
– Amortisation of lease prepayments	**254**	225
– Amortisation of intangible assets	**10,938**	5,574
– Dividend income from unlisted securities	**(2,100)**	(900)
Operating profit before changes in working capital	**286,316**	230,377
Increase in inventories	**(95,444)**	(69,014)
Increase in trade and other receivables, deposits and prepayments	**(10,101)**	(43,602)
Decrease/(increase) in amount due from a fellow subsidiary	**15,751**	(3,795)
(Decrease)/increase in trade and other payables	**(42,376)**	6,316
Decrease in amount due to holding company	**–**	(1,240)
Cash generated from operation	**154,146**	119,042
PRC income tax paid	**(90,767)**	(57,399)
Net cash generated from operating activities	**63,379**	61,643

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	Notes	**2005 RMB'000**	2004 RMB'000
Investing activities			
Interest received		**570**	456
Payment for purchase of property, plant and equipment		**(20,362)**	(18,347)
Proceeds from sales of property, plant and equipment		**3,453**	541
Payment for construction in progress		**(86,422)**	(85,450)
Payment for acquisition of subsidiaries	*33*	**(16,473)**	–
Payment for purchase of land use rights		**(178)**	(5,675)
Payment for purchase of intangible assets		**(10,188)**	(820)
Dividends received from other investments		**3,000**	–
Net cash used in investing activities		**(126,600)**	(109,295)
Financing activities			
Decrease/(increase) in pledged deposits		**20,045**	(20,045)
Proceeds from new bank loans		**687,150**	290,000
Repayment of bank loans		**(579,750)**	(220,000)
Proceeds from other loan		**3,270**	–
Interest paid		**(27,239)**	(15,503)
Dividend paid		**–**	(766)
Capital contributions from minority interests		**1,100**	2,600
Net cash from financing activities		**104,576**	36,286
Net increase/(decrease) in cash and cash equivalents		**41,355**	(11,366)
Cash and cash equivalents at 1 January		**76,506**	87,872
Cash and cash equivalents at 31 December	*26*	**117,861**	76,506

The notes on pages 56 to 114 form part of these financial statements.

Notes on the Financial Statements

1 Background of the Company

The Company was incorporated on 27 September 2002 with the approval of the Henan Provincial Government in accordance with document (Yu Gu Pi Zi) 2002 No. 25 as a joint stock company with limited liability in the People's Republic of China (the "PRC") to take over and operate the business of the mining, processing, smelting and sales of gold products (the "Relevant Business"). Prior to the incorporation of the Company, the Relevant Business was conducted by Lingbao State-owned Assets Operation Limited Liability Company, a state-owned enterprise in the PRC. Pursuant to the restructuring of the Company (the "Restructuring"), Lingbao State-owned Assets Operation Limited Liability Company transferred the Relevant Business together with relevant assets and liabilities into the Company and in return the Company allotted and issued 79,500,000 shares of RMB1 each to Lingbao State-owned Assets Operation Limited Liability Company.

In addition, on 27 September 2002, the Company allotted and issued 20,500,000 shares of a nominal value of RMB1 each, for cash at RMB1.33 per share, to certain third parties. Upon completion of the above allotment and issuance of shares, the Company was owned as to 79.5% by Lingbao State-owned Assets Operation Limited Liability Company.

At a board meeting of the Company held on 12 June 2005, it was resolved to sub-divide its shares from one Domestic share of a nominal value of RMB1.00 into five Domestic shares of a nominal value of RMB0.20 each. Such sub-division was approved by the China Securities Regulatory Commission ("CSRC") on 7 December 2005 and the number of shares in the then issued share capital of the Company was increased to 500,000,000 domestic shares of RMB0.20 each in connection with the Global Offering.

The Company's H Shares were successfully listed on the Stock Exchange on 12 January 2006.

2 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

2 Significant accounting policies (continued)

(a) Statement of compliance (continued)

The Group has early adopted HKFRSs that are effective from 1 January 2005 at 1 January 2004. As a result, such new and revised HKASs and HKFRS have no impact on the financial statements for the year ended 31 December 2005 and 2004. A summary of the significant accounting policies adopted by the Group is set out below.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 38), except for HKFRS 6, Exploration for and evaluation of mineral resources that has been early adopted at 1 January 2004.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2005 comprise the Company and its subsidiaries (together referred to as the "Group").

The consolidated financial statements are presented in Renminbi, rounded to the nearest thousand, and are prepared on the historical cost basis except that the property, plant and equipment and construction in progress are stated at fair value as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effects on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 36.

(c) Subsidiaries and controlled entities

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account.

Notes on the Financial Statements

2 Significant accounting policies (continued)

(c) Subsidiaries and controlled entities (continued)

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(l)).

(d) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 2(l)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

2 Significant accounting policies (continued)

(e) Other investments

The Group's policies for investments in equity securities other than investments in subsidiaries are as follows:

Non-trading investments in securities, which are classified as available for sale securities and do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost less impairment losses (see note 2(l)).

Investments are recognised/derecognised on the date the Group and/or the Company commits to purchase/sell the investments.

(f) Property, plant and equipment

Property, plant and equipment are initially recognised in the balance sheet at cost. The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition and location for its intended use.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is initially recognised in the balance sheet at cost. Cost comprises direct cost at construction. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use, notwithstanding any delays in the issue of the relevant commissioning certificate by the relevant PRC authorities.

No depreciation is provided in respect of construction in progress. Upon completion and commissioning for operation, depreciation will be provided at the appropriate rates specified below.

Notes on the Financial Statements

2 Significant accounting policies (continued)

(f) Property, plant and equipment (continued)

Subsequent to a revaluation, property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation, less subsequent accumulated depreciation and impairment losses (see note 2(l)). When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. When an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs is revalued simultaneously. When an asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to shareholder's equity as a component of the revaluation reserve. However, a revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense. When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised as an expense in the consolidated income statement. However, a revaluation decrease is charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation reserve in respect of that same asset. Revaluations are to be performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the consolidated income statement on the date of retirement or disposal.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Buildings	6 – 50 years
– Plant and machinery	8 – 12 years
– Transportation equipment	8 years
– Office and electronic equipment	5 years

Included in property, plant and equipment are mining shafts located at the mining site. Depreciation is provided to write off the cost of mining shafts using the units of production method based on the proven and probable mineral reserves.

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

2 Significant accounting policies (continued)

(g) Research and development expenses

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(l)). Other development expenditure is recognised as an expense in the period in which it is incurred.

(h) Mining rights

Mining rights are stated at cost less accumulated amortisation and impairment losses (see note 2(l)). The mining rights are amortised using the units of production method based on the proven and probable mineral reserves.

(i) Exploration rights

Exploration rights are stated at cost less accumulated amortisation and impairment losses (see note 2(l)). The exploration rights are amortised on a straight-line basis over the estimated useful lives of 1-3 years.

(j) Exploration and evaluation assets

Exploration and evaluation assets are stated at cost less accumulated amortisation and impairment losses (see note 2(l)). Exploration and evaluation assets include exploration and development costs.

Exploration and development costs include expenditure incurred to secure further mineralisation in existing ore bodies and to expand the capacity of a mine. Expenditure during the initial exploration stage is written off as incurred. When it can be reasonably ascertained that a mining property is capable of commercial production, exploration and development costs are capitalised and amortised using the units of production method based on the proven and probable mineral reserves.

(k) Lease prepayments

Lease prepayments represent purchase cost of land use rights in the PRC. Land use rights are carried at cost less impairment losses (see note 2(l)) and are charged to the consolidated income statement on a straight-line basis over the respective periods of the rights which range from 30 to 50 years.

Notes on the Financial Statements

2 Significant accounting policies (continued)

(l) Impairment of assets

(i) Impairment of other investments and trade and other receivables

Investments in equity securities, other than investments in subsidiaries, and trade and other receivables that are stated at cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities and current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses for equity securities are not reversed.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– construction in progress;

– pre-paid interests in leasehold land classified as being held under an operating lease;

– investment in subsidiaries;

– intangible assets; and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

2 Significant accounting policies (continued)

(l) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

Notes on the Financial Statements

2 Significant accounting policies (continued)

(m) Leased assets

(i) Classification of assets leased to the Group

Leases of assets under which do not transfer substantially all the risks and rewards of ownership are classified as operating leases.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made.

(n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 2(l)).

(o) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2 Significant accounting policies (continued)

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit and loss except to the extent that they relate to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

Notes on the Financial Statements

2 Significant accounting policies (continued)

(q) Income tax (continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2 Significant accounting policies (continued)

(r) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the profit or loss over the period of the borrowings using the effective interest method.

(s) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(t) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(u) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sales of goods

Revenue in respect of sale of goods is recognised when the title to the goods and the related risks and rewards of ownership are passed to customers, the Group will not execute the right of supervision and control over the goods, either the proceeds are received or entitlement of proceeds is evidenced, and the cost of sale of goods can be estimated reliably. Revenue excludes value added tax and other sales tax and is after deduction of any trade discounts.

(ii) Service income

Service income is recognised when the related service is rendered.

Notes on the Financial Statements

2 Significant accounting policies (continued)

(u) Revenue recognition (continued)

(iii) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(v) Government grants

Government grants are recognised in the balance sheet initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognised in profit or loss as revenue on a systematic basis over the useful life of the asset.

(v) Employee benefits

(i) Salaries, annual bonuses and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to appropriate local retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in the consolidated income statement as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(w) Borrowing costs

Borrowing costs are expensed in the consolidated income statement in the period in which they are incurred.

(x) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

2 Significant accounting policies (continued)

(y) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(z) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

Business segments

The Group comprises the following main business segments:

Mining – The mining operations of the Group;

Smelting – The smelting and refinery operations of the Group.

Geographical segments

The Group's turnover and operating profit are almost entirely derived from the gold mining and smelting business in the PRC. Accordingly, no analysis by geographical segment has been presented.

Notes on the Financial Statements

3 Turnover

The principal activities of the Group are mining, processing, smelting and sales of gold and other metallic products in the PRC.

Turnover represents the sales value of goods sold to customers net of sales tax and value added tax. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2005	2004
	RMB'000	RMB'000
Sales of:		
– Gold	**1,174,978**	990,838
– Other metals	**346,673**	209,880
– Others	**37,581**	25,367
Less: Sales taxes and levies	**(3,528)**	(2,656)
	1,555,704	1,223,429

4 Cost of sales

	2005	2004
	RMB'000	RMB'000
Direct materials	**1,009,501**	797,356
Direct labour	**32,905**	31,395
Electricity	**49,582**	28,500
Tunnelling/extraction expenses	**85,111**	90,512
Depreciation and amortisation	**37,690**	31,315
Refinery expenses	**23,123**	19,882
Subcontracting expenses	**20,008**	–
Movements in inventories	**(22,441)**	(23,269)
	1,235,479	975,691

5 Other revenue

	2005 RMB'000	2004 RMB'000
Scrap sales	**1,492**	2,723
Interest income from bank deposits	**570**	456
Delivery income	**5,745**	5,492
Government grants (note)	**1,800**	–
Dividend income from unlisted securities	**2,100**	900
Waiver of accounts payable	**–**	2,621
Sundry income	**70**	175
	11,777	12,367

Note: The Group was awarded government grants totalling RMB1,800,000 on 26 May 2005 on the condition that the Group will utilise the grant for the exploration and development of a mine. The amount was recognised in the balance sheet as deferred income initially. The grants were recognised as revenue in the consolidated income statement as other revenue for the year ended 31 December 2005 upon satisfaction of the conditions attaching to the grants.

6 Other net loss

	2005 RMB'000	2004 RMB'000
Insurance claims	**81**	38
Net loss on disposal of property, plant and equipment	**(1,008)**	(829)
Others	**(221)**	4
	(1,148)	(787)

7 Staff costs

	2005 RMB'000	2004 RMB'000
Salaries, wages and bonus	**54,110**	46,155
Staff welfare	**7,762**	6,372
Contributions to retirement benefit schemes	**2,708**	2,198
	64,580	54,725

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement benefit schemes (the "Schemes") organised by the relevant local government authorities in Lingbao, Tongbai, Jiangxi, Urumqi and Habahe whereby the Group is required to make contributions to the Schemes at the rate of 20% of the eligible employees' salaries. The local government authorities are responsible for the entire pension obligations payable to retired employees.

The Group has no other material obligation for the payment of pension benefits associated with those schemes beyond the annual contributions described above.

Notes on the Financial Statements

8 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

		2005 RMB'000	2004 RMB'000
(a)	Finance costs:		
	Interest expense on bank advances wholly repayable within five years	**23,080**	14,763
	Interest on other loan	**5**	–
	Discounting charges	**–**	740
		23,085	15,503
(b)	Other items:		
	Amortisation of intangible assets	**10,938**	5,574
	Amortisation of lease prepayments	**254**	225
	Auditors' remuneration	**1,400**	200
	Depreciation	**31,057**	28,766
	Operating lease charges in respect of properties	**3,508**	3,632
	Research and development expenses	**335**	961
	(Write back of)/impairment losses on trade and other receivables	**(2,158)**	1,987
	Pollution discharge fee	**952**	465
	Environmental rehabilitation fee	**1,285**	880

9 Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2005 RMB'000	2004 RMB'000
Current tax		
PRC income tax for the year	**76,671**	61,227
Deferred tax		
Origination and reversal of temporary differences	**(4,654)**	(1,773)
	72,017	59,454

9 Income tax in the consolidated income statement (continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2005	2004
	RMB'000	RMB'000
Profit before tax	**226,793**	178,849
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**74,842**	59,020
Tax effect of non-deductible expenses	**1,330**	731
Tax effect of non-taxable revenue	**(1,360)**	(297)
Additional tax credit	**(2,135)**	–
Others	**(660)**	–
Actual tax expense	**72,017**	59,454

Pursuant to the income tax rules and regulations of the PRC, the Company and its subsidiaries are subject to the PRC income tax at a rate of 33% (2004: 33%).

Non-deductible expenses mainly comprise expenses beyond statutory deductible limits.

The Company was entitled to an additional tax credit in 2005 for the purchases of domestically produced plant and machinery.

Notes on the Financial Statements

10 Directors' and supervisors' remuneration

Directors' and supervisors' remuneration comprises of payments to directors and supervisors by the Company and its subsidiaries. The remuneration of each of the directors and supervisors of the Company is as follows:

Year ended 31 December 2005

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit schemes RMB'000	Bonus RMB'000	Total RMB'000
Executive directors					
Mr Xu Gaoming	–	200	4	626	830
Mr Wang Jianguo	–	200	4	563	767
Mr Lu Xiaozhao	–	140	4	438	582
Mr Jin Guangcai	–	140	4	438	582
Non-executive directors					
Mr Di Qinghua	–	–	–	–	–
Mr Qi Guozhong	–	–	–	–	–
Mr Xu Wanmin	–	–	–	–	–
Independent non-executive directors					
Mr Ning Jincheng	–	35	–	–	35
Mr Wang Yanwu	–	35	–	–	35
Mr Zheng Jinqiao	–	12	–	–	12
Mr Niu Zhongjie	–	30	–	–	30
Mr Du Haibo	–	23	–	–	23
Supervisors					
Mr Gao Yang	–	140	3	438	581
Mr Meng Fanrui	–	–	–	–	–
Mr Guo Xuchang	–	–	–	–	–
Mr Guo Jizi	–	–	–	–	–
Mr Liu Hua	–	–	–	–	–
Mr Peng Jinzeng	–	60	1	–	61
Mr Lei Mingyang	–	19	1	–	20
Total	–	1,034	21	2,503	3,558

10 Directors' and supervisors' remuneration (continued)

Year ended 31 December 2004

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit schemes RMB'000	Bonus RMB'000	Total RMB'000
Executive directors					
Mr. Xu Gaoming	–	200	2	–	202
Mr. Wang Jianguo	–	200	3	–	203
Mr. Lu Xiaozhao	–	140	4	–	144
Mr. Jin Guangcai	–	140	2	–	142
Non-executive directors					
Mr. Di Qinghua	–	–	–	–	–
Mr. Qi Guozhong	–	–	–	–	–
Mr. Xu Wanmin	–	–	–	–	–
Independent non-executive directors					
Mr. Ning Jincheng	–	30	–	–	30
Mr. Wang Yanwu	–	30	–	–	30
Mr. Du Haibo	–	30	–	–	30
Supervisors					
Mr. Gao Yang	–	140	2	–	142
Mr. Meng Fanrui	–	–	–	–	–
Mr. Guo Xuchang	–	–	–	–	–
Mr. Guo Jizi	–	–	–	–	–
Mr. Liu Hua	–	–	–	–	–
Mr. Peng Jingzeng	–	26	2	55	83
Mr. Lei Mingyang	–	20	1	3	24
Total	–	956	16	58	1,030

Notes on the Financial Statements

11 Senior management remuneration

The five highest paid individuals of the Group for the year ended 31 December 2005 are directors and supervisors of the Company whose remuneration is reflected in the analysis presented in note 10 above.

12 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB155,069,000 (2004: RMB121,754,000) which has been dealt with in the financial statements of the Company (note 30(b)).

13 Dividends

Dividends attributable to the year

	2005	2004
	RMB'000	RMB'000
Final dividend proposed after the balance sheet date of RMB0.08 per ordinary share (2004: Nil)	**61,620**	–

Pursuant to a resolution passed at the Directors' meeting on 12 April 2006, a final dividend in respect of the year ended 31 December 2005 of RMB0.08 (2004: Nil) per share totalling RMB61,620,000 (2004: Nil) was proposed for shareholders' approval at the Annual General Meeting. Final dividend of RMB61,620,000 (2004: Nil) proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

14 Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB154,584,000 (2004: RMB120,060,000) and 500,000,000 Domestic shares in issue (2004: 500,000,000 shares) following the sub-division of share capital of the Company from one Domestic share of a nominal value of RMB1.00 into five Domestic shares of a nominal value of RMB0.20 each, as if the shares had been outstanding since 1 January 2004.

There were no dilutive potential ordinary shares during the year and, therefore, diluted earnings per share are not presented.

15 Related party transactions

During the year, transactions with the following parties are considered as related party transactions.

Name of party	Relationship
Lingbao State-owned Assets Operation Limited Liability Company (靈寶市國有資產經營有限責任公司)	Ultimate holding company
Lingbao Huaxin Tongbo Company Limited (靈寶華鑫銅箔有限公司)	Fellow subsidiary
Lingbao Electric Company (靈寶市電業總公司)	Equity holder
Lingbao Shuangxin Mining Industry Limited Liability Company (靈寶雙鑫礦業有限責任公司)	An associate of Lingbao Guoshi Mining Limited Liability Company (靈寶郭氏礦業有限責任公司), an equity holder

Lingbao Huaxin Tongbo Company Limited ("Huaxin") ceased to be a related party of the Group effective from 29 May 2005, when Lingbao State-owned Assets Operation Limited Liability Company disposed of its entire 69.93% equity interest in Huaxin to an independent third party.

Notes on the Financial Statements

15 Related party transactions (continued)

Particulars of significant transactions between the Group and the above related parties during the year ended 31 December 2005 and 2004 are as follows:

(a) Recurring transactions

	2005	2004
	RMB'000	RMB'000
Sales of goods to Lingbao Huaxin Tongbo Company Limited (靈寶華鑫銅箔有限公司)	**–**	43,258
Subcontracting fee to Lingbao Huaxin Tongbo Company Limited (靈寶華鑫銅箔有限公司)	**10,451**	–
Purchase of electricity from Lingbao Electric Company (靈寶市電業總公司)	**43,996**	37,343
Purchase of gold concentrates from Lingbao Shuangxin Mining Industry Limited Liability Company (靈寶雙鑫礦業有限責任公司)	**8,904**	–

The directors of the Company are of the opinion that the above related party transactions were conducted on normal commercial terms and were priced with reference to prevailing market prices, and in the ordinary course of business. The directors have confirmed that the above transactions will continue in the future after the listing of the Company's shares on the Stock Exchange on 12 January 2006.

(b) Non-recurring transactions

	2005	2004
	RMB'000	RMB'000
Acquisition of a subsidiary from Lingbao State-owned Assets Operation Limited Liability Company (靈寶市國有資產經營有限責任公司)	**16,700**	–

The directors of the Company are of the opinion that the above related party transactions were conducted on normal commercial terms and in the ordinary course of business.

15 Related party transactions (continued)

(c) Amount due from a fellow subsidiary

	2005	2004
	RMB'000	RMB'000
Lingbao Huaxin Tongbo Company Limited (靈寶華鑫銅箔有限公司)	–	15,751

The amount due from a fellow subsidiary is unsecured, interest free and are expected to be recovered within one year. There was no provision made against this amount as at 31 December 2004.

(d) Guarantees

In addition to the above, guarantees totalling RMB290,000,000 were given by Lingbao State-owned Assets Operation Limited Liability Company, the Company's holding company, against certain banking facilities granted to the Group as at 31 December 2004.

The directors have confirmed that all the above guarantees have been released on 17 September 2005.

(e) Transactions with other state-controlled entities in the PRC

The Group operates in an economic regime currently predominated by state-controlled entities. In addition, the Group is part of a larger group of companies under Lingbao State-owned Assets Operation Limited Liability Company, which itself is controlled by the PRC government. Apart from the transactions with Lingbao State-owned Assets Operation Limited Liability Company and fellow subsidiaries, the Group also conducts a majority of its business with entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). These transactions include sales and purchase of goods and ancillary materials, rendering and receiving services, purchase of property, plant and equipment, and obtaining finance. The directors consider that these transactions are conducted in the ordinary course of the Group's business on terms similar to those that would be entered into with non-state-controlled entities. Although the majority of the Group's activities are with the PRC government authorities and affiliates and other state-controlled enterprises, the Group believes that it has provided meaningful disclosure of related party transactions as disclosed above.

Notes on the Financial Statements

15 Related party transactions (continued)

(f) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 10 is as follows:

	2005	2004
	RMB'000	RMB'000
Short-term employee benefits	**4,765**	1,214
Post-employment benefits	**21**	16
	4,786	1,230

Total remuneration is included in "staff costs" (see note 7).

16 Property, plant and equipment

The Group

	Buildings RMB'000	Mining shafts RMB'000	Plant and machinery RMB'000	Transportation equipment RMB'000	Office and electronic equipment RMB'000	Total RMB'000
Cost or valuation:						
At 1 January 2004	59,855	60,030	85,672	13,348	2,525	221,430
Additions	5,653	–	5,427	6,381	886	18,347
Transfer from construction in progress *(Note 17)*	4,696	11,816	16,557	–	521	33,590
Disposals	(392)	–	(1,127)	(542)	–	(2,061)
At 31 December 2004	69,812	71,846	106,529	19,187	3,932	271,306
Representing:						
Cost	51,533	20,975	92,973	17,193	3,515	186,189
Valuation – 2002	18,279	50,871	13,556	1,994	417	85,117
	69,812	71,846	106,529	19,187	3,932	271,306
Accumulated depreciation:						
At 1 January 2004	2,900	19,005	12,621	2,079	415	37,020
Charge for the year	3,098	10,037	12,728	2,271	632	28,766
Written back on disposal	(72)	–	(582)	(37)	–	(691)
At 31 December 2004	5,926	29,042	24,767	4,313	1,047	65,095
Net book value:						
At 31 December 2004	63,886	42,804	81,762	14,874	2,885	206,211

Notes on the Financial Statements

16 Property, plant and equipment (continued)

The Group (continued)

	Buildings RMB'000	Mining shafts RMB'000	Plant and machinery RMB'000	Transportation equipment RMB'000	Office and electronic equipment RMB'000	Total RMB'000
Cost or valuation:						
At 1 January 2005	69,812	71,846	106,529	19,187	3,932	271,306
Additions	6,447	–	6,838	6,577	500	20,362
Transfer from construction in progress *(Note 17)*	13,830	–	21,840	–	–	35,670
Acquisition through business combination *(Note 33)*	4,516	1,516	11,189	1,776	606	19,603
Revaluation	(6,462)	–	–	–	–	(6,462)
Disposals	(2,432)	–	(1,856)	(2,290)	–	(6,578)
At 31 December 2005	85,711	73,362	144,540	25,250	5,038	333,901
Representing:						
Cost	7,794	20,975	121,651	23,474	4,015	177,909
Valuation – 2002	15,847	50,871	11,700	–	417	78,835
Valuation – 2005	62,070	1,516	11,189	1,776	606	77,157
	85,711	73,362	144,540	25,250	5,038	333,901
Accumulated depreciation:						
At 1 January 2005	5,926	29,042	24,767	4,313	1,047	65,095
Charge for the year	4,316	8,094	14,924	2,867	856	31,057
Acquisition through business combination *(Note 33)*	437	54	1,919	134	119	2,663
Revaluation	(8,929)	–	–	–	–	(8,929)
Written back on disposal	(163)	–	(1,102)	(852)	–	(2,117)
At 31 December 2005	1,587	37,190	40,508	6,462	2,022	87,769
Net book value:						
At 31 December 2005	84,124	36,172	104,032	18,788	3,016	246,132

Note: Had property, plant and equipment been carried at cost less accumulated depreciation, the historical carrying amount as at 31 December 2004 and 2005 would have been as follows:

	2005 RMB'000	2004 RMB'000
Buildings	**83,189**	63,206
Mining shafts	**35,949**	42,899
Plant and machinery	**94,338**	74,778
Transportation equipment	**17,298**	13,801
Office and electronic equipment	**3,003**	2,876
	233,777	197,560

16 Property, plant and equipment (continued)

The Company

	Buildings RMB'000	Mining shafts RMB'000	Plant and machinery RMB'000	Transportation equipment RMB'000	Office and electronic equipment RMB'000	Total RMB'000
Cost or valuation:						
At 1 January 2004	59,855	60,030	85,672	13,348	2,525	221,430
Additions	4,449	–	5,427	5,970	748	16,594
Transfer from construction in progress *(Note 17)*	2,508	2,302	12,138	–	146	17,094
Disposals	(392)	–	(1,127)	(1,153)	–	(2,672)
At 31 December 2004	66,420	62,332	102,110	18,165	3,419	252,446
Representing:						
Cost	48,141	11,461	88,554	16,782	3,002	167,940
Valuation – 2002	18,279	50,871	13,556	1,383	417	84,506
	66,420	62,332	102,110	18,165	3,419	252,446
Accumulated depreciation:						
At 1 January 2004	2,900	19,005	12,621	2,079	415	37,020
Charge for the year	3,030	9,583	12,374	2,209	599	27,795
Written back on disposal	(72)	–	(582)	(37)	–	(691)
At 31 December 2004	5,858	28,588	24,413	4,251	1,014	64,124
Net book value:						
At 31 December 2004	60,562	33,744	77,697	13,914	2,405	188,322
Cost or valuation:						
At 1 January 2005	**66,420**	**62,332**	**102,110**	**18,165**	**3,419**	**252,446**
Additions	**4,555**	**–**	**5,859**	**4,651**	**323**	**15,388**
Transfer from construction in progress *(Note 17)*	**13,814**	**–**	**20,912**	**–**	**–**	**34,726**
Revaluation	**(6,462)**	**–**	**–**	**–**	**–**	**(6,462)**
Disposals	**(2,432)**	**–**	**(1,856)**	**(2,237)**	**–**	**(6,525)**
At 31 December 2005	**75,895**	**62,332**	**127,025**	**20,579**	**3,742**	**289,573**
Representing:						
Cost	**2,494**	**11,461**	**115,325**	**19,196**	**3,325**	**151,801**
Valuation – 2002	**15,847**	**50,871**	**11,700**	**1,383**	**417**	**80,218**
Valuation – 2005	**57,554**	**–**	**–**	**–**	**–**	**57,554**
	75,895	**62,332**	**127,025**	**20,579**	**3,742**	**289,573**
Accumulated depreciation:						
At 1 January 2005	**5,858**	**28,588**	**24,413**	**4,251**	**1,014**	**64,124**
Charge for the year	**3,742**	**6,654**	**13,152**	**2,555**	**689**	**26,792**
Revaluation	**(8,929)**	**–**	**–**	**–**	**–**	**(8,929)**
Written back on disposal	**(162)**	**–**	**(1,103)**	**(848)**	**–**	**(2,113)**
At 31 December 2005	**509**	**35,242**	**36,462**	**5,958**	**1,703**	**79,874**
Net book value:						
At 31 December 2005	**75,386**	**27,090**	**90,563**	**14,621**	**2,039**	**209,699**

Notes on the Financial Statements

16 Property, plant and equipment (continued)

As required by the relevant PRC rules and regulations with respect to the Restructuring, the property, plant and equipment, and construction in progress as at 31 May 2002 were revalued for each asset class by 亞太(集團)會計師事務所有限公司, a firm of independent valuers registered in the PRC, on a depreciated replacement costs basis. The surpluses arising from the revaluation of certain property, plant and equipment, and construction in progress of RMB28,939,000 and RMB3,076,000 respectively were credited to capital reserve while deficit arising from the revaluation of certain property, plant and equipment of RMB17,833,000 was charged as an expense for the year ended 31 December 2002. The revalued amounts serve as the tax base for future years for such assets.

In connection with the acquisition of Habahe Huatai Gold Limited Liability Company ("Habahe Huatai"), the property, plant and equipment of Habahe Huatai were revalued at 28 June 2005, by a firm of independent valuers, 北京中盛聯盟資產評估有限公司 and approved by the Ministry of Finance of the PRC. The value of property, plant and equipment of Habahe Huatai pursuant to the valuation, based on a depreciated replacement cost basis, was determined at RMB16,940,000, resulting in a surplus on revaluation of RMB959,000, net of amounts allocated to minority interests.

For the purpose of the listing of the Company's shares on the Stock Exchange, the properties of the Group were revalued as at 30 September 2005 by Sallmanns (Far East) Limited, an independent firm of valuers. The valuation gave rise to a revaluation surplus of approximately RMB2,467,000 from the carrying amount of the buildings at that date. The revaluation surplus was incorporated in the Group's consolidated financial statements for the year ended 31 December 2005.

In accordance with HKAS 16, subsequent to these revaluations, which was based on depreciated replacement costs, property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. Revaluation will be performed periodically to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

17 Construction in progress

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cost or valuation:				
At 1 January	**60,082**	8,222	**53,817**	8,222
Additions	**86,422**	85,450	**62,535**	62,689
Transfer to property, plant and equipment *(Note 16)*	**(35,670)**	(33,590)	**(34,726)**	(17,094)
At 31 December	**110,834**	60,082	**81,626**	53,817
Representing:				
Cost	**110,834**	60,082	**81,626**	53,817
Valuation – 2002	**–**	–	**–**	–
	110,834	60,082	**81,626**	53,817

18 Intangible assets

The Group

	Shanghai Gold Exchange trading rights RMB'000	Exploration and evaluation assets RMB'000	Mining rights RMB'000	Exploration rights RMB'000	Total RMB'000
Cost:					
At 1 January 2004	–	–	50,139	6	50,145
Additions	820	–	–	–	820
At 31 December 2004	820	–	50,139	6	50,965
Accumulated amortisation:					
At 1 January 2004	–	–	8,821	2	8,823
Charge for the year	–	–	5,571	3	5,574
At 31 December 2004	–	–	14,392	5	14,397
Net book value:					
At 31 December 2004	820	–	35,747	1	36,568
Cost:					
At 1 January 2005	**820**	**–**	**50,139**	**6**	**50,965**
Additions	**–**	**7,863**	**511**	**1,814**	**10,188**
Acquisition through business combination *(Note 33)*	**–**	**20,099**	**19,706**	**6,250**	**46,055**
At 31 December 2005	**820**	**27,962**	**70,356**	**8,070**	**107,208**
Accumulated amortisation:					
At 1 January 2005	**–**	**–**	**14,392**	**5**	**14,397**
Charge for the year	**–**	**2,062**	**5,682**	**3,194**	**10,938**
At 31 December 2005	**–**	**2,062**	**20,074**	**3,199**	**25,335**
Net book value:					
At 31 December 2005	**820**	**25,900**	**50,282**	**4,871**	**81,873**

Notes on the Financial Statements

18 Intangible assets (continued)

The Company

	Shanghai Gold Exchange trading rights RMB'000	Exploration and evaluation assets RMB'000	Mining rights RMB'000	Exploration rights RMB'000	Total RMB'000
Cost:					
At 1 January 2004	–	–	50,139	6	50,145
Additions	820	–	–	–	820
At 31 December 2004	820	–	50,139	6	50,965
Accumulated amortisation:					
At 1 January 2004	–	–	8,821	2	8,823
Charge for the year	–	–	5,571	3	5,574
At 31 December 2004	–	–	14,392	5	14,397
Net book value:					
At 31 December 2004	820	–	35,747	1	36,568
Cost:					
At 1 January 2005	**820**	**–**	**50,139**	**6**	**50,965**
Additions	**–**	**3,850**	**–**	**594**	**4,444**
At 31 December 2005	**820**	**3,850**	**50,139**	**600**	**55,409**
Accumulated amortisation:					
At 1 January 2005	**–**	**–**	**14,392**	**5**	**14,397**
Charge for the year	**–**	**–**	**5,097**	**253**	**5,350**
At 31 December 2005	**–**	**–**	**19,489**	**258**	**19,747**
Net book value:					
At 31 December 2005	**820**	**3,850**	**30,650**	**342**	**35,662**

Mining rights represent the rights for mining in the locations of Lingjin One Mine in Lingbao expiring in December 2021, Hongxin Gold Mine expiring in March 2007, and Duolanasayi and Tuokuzibayi Gold Mines in Hababe in June 2006. As at the date of this report, an extension of the mining rights in Habahe Huatai are yet to be obtained.

Exploration rights represent the rights for exploration in the location in Henan, Xinjiang and Jiangxi.

The amortisation charge for the year ended 31 December 2005 and 2004 is included in "cost of sales, and administrative expenses and other operating expenses" in the consolidated income statement of the Group.

19 Goodwill

	The Group RMB'000
Cost:	
At 1 January 2004 and 31 December 2004	–
At 1 January 2005	–
Additions	4,716
At 31 December 2005	**4,716**
Accumulated amortisation and impairment losses:	
At 1 January 2004 and 31 December 2004	–
At 1 January 2005 and 31 December 2005	–
Carrying amount:	
At 31 December 2005	**4,716**
At 31 December 2004	–

Impairment test for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units (CGU) identified according to country of operation and business segment as follows:

	2005 **RMB'000**	2004 RMB'000
Mining	**4,716**	–

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimate rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Notes on the Financial Statements

19 Goodwill (continued)

Key assumptions used for value-in-use calculations:

	2005	2004
	%	%
– Gross margin	**20**	20
– Growth rate	**5**	5
– Discount rate	**5.58**	5.31

Management determined the budgeted gross margin based on past performance and its expectation for market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

20 Lease prepayments

	The Group		**The Company**	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**9,634**	4,184	**9,634**	4,184
Additions	**178**	5,675	**–**	5,675
Less: Amortisation	**(254)**	(225)	**(253)**	(225)
At 31 December	**9,558**	9,634	**9,381**	9,634
Lease prepayments	**9,558**	9,634	**9,381**	9,634
Less: Current portion of lease prepayments included in other deposits and prepayments	**(329)**	(198)	**(253)**	(198)
	9,229	9,436	**9,128**	9,436

The Group's and the Company's leasehold land are located in the PRC. The Group and the Company was formally granted certain rights to use the land on which the Group's and the Company's factories and gold mines are erected for a period of 50 years, with expiry through 2052, by the relevant PRC authorities.

21 Investment in subsidiaries

	2005	2004
	RMB'000	RMB'000
Unlisted shares, at cost	**47,100**	9,400
Amounts due from subsidiaries	**94,170**	26,821
	141,270	36,221

Amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

Details of the subsidiaries at 31 December 2005 are as follows:

Name of company	**Type of legal entity**	**Place of incorporation**	**Percentage of equity attributable to the Company**		**Issued and fully paid-up/ registered capital**	**Principal activities**
			Direct	**Indirect**		
			%	%	RMB'000	
Xinjiang Baoxin Mining Company Limited	Limited liability company	The PRC	80	–	10,000	Sales of mineral products
Lingbao Hongxin Mining Limited Liability Company	Limited liability company	The PRC	80	–	3,000	Exploration and processing of gold; sales of mineral products
Akesu District Xindi Mining Company Limited	Limited liability company	The PRC	–	72	1,000	Mining and exploration of mineral reserves
Jiangxi Mingxin Mining Company Limited	Limited liability company	The PRC	80	–	5,000	Production and sales of precious metal products

Notes on the Financial Statements

21 Investment in subsidiaries (continued)

Name of company	Type of legal entity	Place of incorporation	Percentage of equity attributable to the Company Direct %	Indirect %	Issued and fully paid-up/ registered capital RMB'000	Principal activities
Habahe Huatai Gold Limited Liability Company	Limited liability company	The PRC	83.3	–	12,000	Mining, processing and smelting of gold, production of gold products, sales of gold bullion products, machinery, equipment and components for gold processing
Tongbai Xingyuan Mining Company Limited	Limited liability company	The PRC	80	–	17,000	Geological exploration of mineral reserves

22 Other investments

	The Group and the Company	
	2005	2004
	RMB'000	RMB'000
Investment securities		
Unlisted equity securities available-for-sale, at cost	**10,504**	10,504

Unlisted equity securities represent the Group's 5% equity interest in a PRC domiciled enterprise which is mainly engaged in geological exploration, mining, processing and sales of gold, as well as research, development, production and sale of artificial industrial diamonds. There is no quoted market price for such equity securities and accordingly a reasonable estimate of the fair value could not be made without incurring excessive costs.

23 Income tax in the balance sheets

(a) Current taxation in the balance sheets represents:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC income tax (recoverable)/payable	**(1,559)**	(15,539)	**517**	(15,539)
Representing:				
Current tax recoverable	**517**	–	**517**	–
Current tax payable	**(2,076)**	(15,539)	**–**	(15,539)
	(1,559)	(15,539)	**517**	(15,539)

Notes on the Financial Statements

23 Income tax in the balance sheets (continued)

(b) Deferred tax assets and liabilities recognised:

(i) The Group

The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheet and the movements during the year are as follows:

	Depreciation in excess of related depreciation allowances RMB'000	Timing difference relating to written off of pre-operating expenses RMB'000	Timing difference on doubtful debt provisions/ impairments RMB'000	Timing difference on provision for salary and other employee benefits RMB'000	Others RMB'000 *Note (i)*	Total RMB'000
At 1 January 2004	3,486	830	1,166	3,875	–	9,357
Credited/(charged) to consolidated income statement	255	(221)	601	1,138	–	1,773
At 31 December 2004	3,741	609	1,767	5,013	–	11,130
At 1 January 2005	**3,741**	**609**	**1,767**	**5,013**	**–**	**11,130**
Credited/(charged) to consolidated income statement	**(1,411)**	**143**	**(747)**	**3,655**	**3,014**	**4,654**
Charged to reserves	**(157)**	**–**	**–**	**–**	**–**	**(157)**
Acquisition through business combination *(Note 33)*	**250**	**–**	**–**	**234**	**(3,038)**	**(2,554)**
At 31 December 2005	**2,423**	**752**	**1,020**	**8,902**	**(24)**	**13,073**

23 Income tax in the balance sheets (continued)

(b) Deferred tax assets and liabilities recognised: (continued)

(ii) The Company

The components of deferred tax assets/(liabilities) recognised in the balance sheet and the movements during the year are as follows:

	Depreciation in excess of related depreciation allowances RMB'000	Timing difference relating to written off of pre-operating expenses RMB'000	Timing difference on doubtful debt provisions/ impairments RMB'000	Timing difference on provision for salary and other employee benefits RMB'000	Others RMB'000 *Note (i)*	Total RMB'000
At 1 January 2004	3,486	830	1,166	3,875	–	9,357
Credited/(charged) to income statement	255	(221)	601	1,138	–	1,773
At 31 December 2004	3,741	609	1,767	5,013	–	11,130
At 1 January 2005	**3,741**	**609**	**1,767**	**5,013**	**–**	**11,130**
Credited/(charged) to income statement	**(1,855)**	**(222)**	**(747)**	**3,066**	**988**	**1,230**
Charged to reserves	**(157)**	**–**	**–**	**–**	**–**	**(157)**
At 31 December 2005	**1,729**	**387**	**1,020**	**8,079**	**988**	**12,203**

Notes on the Financial Statements

23 Income tax in the balance sheets (continued)

(b) Deferred tax assets and liabilities recognised (continued)

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Net deferred tax asset recognised on the balance sheet	**15,627**	11,130	**12,203**	11,130
Net deferred tax liability recognised on the balance sheet	**(2,554)**	–	**–**	–
	13,073	11,130	**12,203**	11,130

Notes:

(i) Others mainly represent temporary differences arising from different expense recognition criteria between the accounting and tax basis and unused tax losses. The tax losses will be expired within 5 years.

(ii) There were no significant unrecognised deferred tax assets and liabilities as at 31 December 2004 and 2005.

24 Inventories

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**187,241**	113,745	**181,877**	113,243
Work in progress	**12,105**	2,934	**10,218**	2,934
Finished goods	**78,648**	58,667	**78,648**	58,667
Low-value consumables	**13,763**	12,648	**11,888**	12,475
	291,757	187,994	**282,631**	187,319

The analysis of the amount of inventories recognised as an expense is as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Carrying amount of inventories sold	**1,235,479**	975,691	**1,212,857**	975,335

Notes on the Financial Statements

25 Trade and other receivables, deposits and prepayments

Trade and other receivables, deposits and prepayments comprise:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**14,571**	2,396	**14,571**	2,396
Bills receivables	**22,636**	8,378	**22,636**	8,378
Other receivables	**3,937**	22,796	**3,197**	10,958
Purchase deposits	**82,890**	120,081	**82,890**	120,081
Other deposits and prepayments	**42,378**	22,029	**32,312**	21,781
	166,412	175,680	**155,606**	163,594

Purchase deposits represent amounts paid by the Group in advance to approximately 40 suppliers (2004: 60) to secure timely and stable supplies of mineral sand for the purposes of refining in future periods. The directors of the Company consider that appropriate procedures have been taken by the Group to assess the capabilities of the suppliers to supply mineral sand and expect that the purchase deposits would be gradually recovered through future purchases of mineral sand from the respective suppliers.

All of the trade and other receivables, deposits and prepayments are expected to be recovered within one year.

The Group requests customers to pay cash or settle by bills in full prior to delivery of goods. Subject to negotiation, credit term of a maximum of 180 days is only available for certain major customers with well-established trading records.

An ageing analysis of trade receivables and bills receivable (net of impairment losses) is as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**19,922**	8,398	**19,922**	8,398
Over 3 months but less than 6 months	**14,309**	–	**14,309**	–
Over 6 months but less than 1 year	**2,976**	–	**2,976**	–
Over 1 year	**–**	2,376	**–**	2,376
	37,207	10,774	**37,207**	10,774

26 Cash and cash equivalents

All cash and bank balances, which are denominated in Renminbi, are placed with banks in the PRC.

RMB is not a freely convertible currency in the PRC and the remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

27 Bank loans

The Group's and the Company's bank loans are repayable as follows:

	The Group		**The Company**	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year or on demand	**292,150**	294,750	**292,150**	294,750
Over 1 year but within 2 years	**110,000**	–	**110,000**	–
	402,150	294,750	**402,150**	294,750

All the Group's and the Company's bank loans as at 31 December 2004 and 2005 were interest-bearing. The interest rates of the bank loans ranged from 5.58% to 5.76% for the year ended 31 December 2005 (2004: 5.31% to 5.58%).

Certain of the Group's and the Company's bank loans of RMB290,000,000 as at 31 December 2004 was guaranteed by Lingbao State-owned Assets Operation Limited Liability Company. The directors have confirmed that all the guarantees provided by Lingbao State-owned Assets Operation Limited Liability Company had been released on 17 September 2005.

At 31 December 2005, the bank loans were secured as follows:

	The Group		**The Company**	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank loans				
– secured	**88,600**	–	**88,600**	–
– unsecured	**313,550**	294,750	**313,550**	294,750
	402,150	294,750	**402,150**	294,750

Bank loans of RMB88,600,000 (2004: Nil) were secured by pledges over the Group's and the Company's property, plant and equipment, trade receivables and inventories with an aggregate carrying value of RMB111,085,507, RMB12,000,000 and RMB100,000,000 respectively.

Notes on the Financial Statements

28 Other loan

The Finance Bureau of Lingbao (靈寶市財政局) granted the Company a fifteen-year loan for the construction of a new smelting plant in Lingbao, Henan for a period of 15 years. The loan was unsecured, interest-bearing and repayable in fixed instalments with the first instalment commencing from December 2009. Interest is charged with reference to the 1-year deposit rate of the People's Bank of China plus 0.3% margin.

29 Trade and other payables

Trade and other payables comprise:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**60,821**	56,429	**54,598**	55,036
Bills payables	**–**	40,000	**–**	40,000
Other payables	**22,436**	18,457	**21,301**	17,908
Salary and welfare payable	**42,883**	27,436	**40,264**	27,035
Accruals	**8,386**	11,075	**8,101**	10,911
Receipts in advance	**8,766**	6,571	**8,766**	6,571
	143,292	159,968	**133,030**	157,461

An ageing analysis of trade payables and bills payables is as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**55,933**	53,813	**51,435**	52,420
Over 3 months but less than 6 months	**2,908**	40,602	**1,183**	40,602
Over 6 months but less than 1 year	**1,245**	553	**1,245**	553
Over 1 year but less than 2 years	**735**	1,461	**735**	1,461
	60,821	96,429	**54,598**	95,036

The Group's and the Company's bills payable of RMB40,000,000 as at 31 December 2004 were secured by pledged deposits of RMB20,045,000.

30 Capital and reserves

(a) The Group

		Attributable to equity shareholders of the Company							
	Note	Share capital RMB'000	Retained profits RMB'000	Share premium RMB'000 *(Note iv)*	Statutory reserve RMB'000	Capital reserve RMB'000 *(Note v)*	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2004		100,000	56,266	16,602	12,772	32,015	217,655	–	217,655
Profit for the year		–	120,060	–	–	–	120,060	(665)	119,395
Capital contributions from minority interests	*(ii)*	–	–	–	–	–	–	2,600	2,600
Transfer to reserves	*(i)*	–	(17,578)	–	17,578	–	–	–	–
At 31 December 2004 and 1 January 2005		100,000	158,748	16,602	30,350	32,015	337,715	1,935	339,650
Profit for the year		–	154,584	–	–	–	154,584	192	154,776
Capital contributions from minority interests	*(ii)*	–	–	–	–	–	–	1,100	1,100
Acquisition through business combination	*33*	–	–	–	–	–	–	6,275	6,275
Revaluation surplus, net of deferred tax		–	–	–	–	319	319	–	319
Transfer to reserves	*(i)*	–	(23,368)	–	23,368	–	–	–	–
At 31 December 2005		**100,000**	**289,964**	**16,602**	**53,718**	**32,334**	**492,618**	**9,502**	**502,120**

Notes on the Financial Statements

30 Capital and reserves (continued)

(b) The Company

	Note	Share capital RMB'000	Retained profits RMB'000	Share premium RMB'000 (Note iv)	Statutory reserve RMB'000	Capital reserve RMB'000 (Note v)	Total equity RMB'000
At 1 January 2004		100,000	56,266	16,602	12,772	32,015	217,655
Profit for the year		–	121,754	–	–	–	121,754
Transfer to reserves	(i)	–	(17,578)	–	17,578	–	–
At 31 December 2004 and 1 January 2005		100,000	160,442	16,602	30,350	32,015	339,409
Profit for the year		–	155,069	–	–	–	155,069
Revaluation surplus, net of deferred tax		–	–	–	–	319	319
Transfer to reserves	(i)	–	(22,717)	–	22,717	–	–
At 31 December 2005		**100,000**	**292,794**	**16,602**	**53,067**	**32,334**	**494,797**

Notes:

(i) **PRC statutory reserves**
Transfers from retained earnings to the PRC statutory reserves were made in accordance with the relevant PRC rules and regulations and articles of association of the Company and its subsidiaries incorporated in the PRC and were approved by the respective boards of directors.

(a) *Statutory surplus reserve*
The Company and the subsidiaries are required to transfer 10% of their net profit, as determined in accordance with the PRC accounting standards and regulations, to the statutory surplus reserve (the "SSR") until the reserve balance reaches 50% of the registered capital. Subject to certain restrictions set out in the relevant PRC regulations, the SSR may be converted to increase the share capital of the Company, provided that the remaining balance after the capitalisation is not less than 25% of the registered share capital.

(b) *Statutory public welfare fund*
In accordance with the articles of association, the Company and the subsidiaries are required to transfer 5% to 10% of their net profit, as determined in accordance with the PRC accounting standards and regulations, to the statutory public welfare fund (the "PWF") which is a non-distributable reserve other than in the event of the liquidation of the Company and the subsidiaries. The PWF must be used for capital expenditure on staff welfare facilities and these facilities remain the property of the Group.

(ii) The contributions represented cash contributed by minority interests upon establishment of subsidiaries during the year.

(iii) Upon listing of the Company's shares on the Stock Exchange, the Company may not distribute dividends exceeding the lower of the Group's distributable reserves as determined under the PRC GAAP and HKFRSs.

In accordance with the Company Law of the PRC, profit after taxation can be distributed as dividends after appropriations to the statutory reserves as set out above.

(iv) The application of the share premium account is governed by sections 178 and 179 of the PRC Company Law.

(v) The capital reserve as at 31 December 2004 represents the surpluses arising from the revaluation of certain property, plant and equipment, and construction in progress of RMB28,939,000 and RMB3,076,000 respectively as required by the relevant PRC rules and regulations with respect to the Restructuring of the Company on 31 May 2002.

30 Capital and reserves (continued)

(c) Share capital

The Company's Domestic shares are not currently listed on any stock exchange.

At a board meeting of the Company held on 12 June 2005, it was resolved to sub-divide its shares from one Domestic share of a nominal value of RMB1.00 into five Domestic shares of a nominal value of RMB0.20 each. Such sub-division was approved by the China Securities Regulatory Commission ("CSRC") on 7 December 2005 and the number of shares in the then issued share capital of the Company was increased to 500,000,000 domestic shares of RMB0.20 each in connection with the Global Offering.

The Company's H Shares were successfully listed on the Stock Exchange on 12 January 2006.

The following table sets out the shareholding structure of the Company immediately following the Global Offering and the full exercise of the over-allotment option by BOC International Holdings Limited (the "Over-allotment Option") on 16 January 2006.

Class of shares	Number of shares	Percentage of the Company's issued share capital
Domestic shares	472,975,091	61.41%
H shares	297,274,000	38.59%
Total	770,249,091	100.00%

The holders of Domestic shares and H shares are entitled to receive dividends as and when declared by the Company. All Domestic shares and H shares carry one vote per share without restriction.

(d) Distributability of reserves

According to the Listing Rules of the Main Board of the Stock Exchange Limited, the amount of retained profits available for distribution to shareholders of the Company is the lower of the amount determined in accordance with the PRC Accounting Rules and Regulations and the amount determined in accordance with HKFRS. At 31 December 2005, the amount of retained profits available for distribution was RMB292,794,000 (2004: RMB160,442,000), being the amount determined in accordance with the HKFRS. After the balance sheet date the directors proposed a final dividend of RMB0.08 per ordinary share (2004: Nil), amounting to RMB61,620,000 (2004: Nil). This dividend has not been recognised as a liability at the balance sheet date.

Notes on the Financial Statements

31 Commitments and contingencies

(a) Capital commitments, representing the construction costs not provided for in the financial statements were as follows:

	The Group and the Company	
	2005	2004
	RMB'000	RMB'000
Authorised but not contracted for	**282,642**	381,840

(b) The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**246**	470	**80**	460
After 1 year but within 5 years	**920**	–	**320**	–
After 5 years	**964**	–	**283**	–
	2,130	470	**683**	460

The Group and the Company lease a number of properties under operating leases. The leases typically run for an initial period of one to ten years, with an option to renew the lease when all terms are renegotiated. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

31 Commitments and contingencies (continued)

(c) Environmental contingencies

To date, the Group has not incurred any significant expenditures for environment remediation, is currently not involved in any environmental remediation, and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, has moved and may move further towards more rigorous enforcement of applicable laws, and towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include: (i) the exact nature and extent of the contamination at various sites including, but not limited to mines, concentrators and smelting plants whether operating, closed and 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 proposed or future environmental legislation cannot reasonably be estimated at present, and could be material. The Group paid normal routine pollutant discharge fee of RMB1,285,000 for the year ended 31 December 2005 (2004: RMB880,000).

Notes on the Financial Statements

32 Financial instruments

The Group's financial assets comprise mainly cash and cash equivalents, trade receivables, other receivables, deposits and prepayments and amount due from a fellow subsidiary. The Group's financial liabilities comprise mainly trade and other payables, interest-bearing bank and other loans. The Group does not hold or issue financial instruments for trading purposes. Exposure to credit, business, and currency risks arises in the normal course of the Group's business.

(a) Interest rate risk

The Group's exposure to market risk for changes in interest rate relates primarily to the Group's cash and cash equivalents and banks and other loans. The interest rates and terms of repayment of the interest-bearing bank and other loan of the Group are disclosed in notes 27 and 28.

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

(i) The Group

	2005		2004	
	Effective interest rate %	**One year or less RMB'000**	Effective interest rate %	One year or less RMB'000
Repricing dates for assets/(liabilities) which reprice before maturity				
Pledged deposits	**–**	**–**	0.72	20,045
Cash and cash equivalents	**0.72**	**117,861**	0.72	76,506
Bank loans	**5.58**	**(230,000)**	5.41	(85,000)
Other loan	**2.55**	**(3,270)**	–	–
		(115,409)		11,551
Maturity dates for liabilities which do not reprice before maturity				
Bank loans	**5.58**	**(172,150)**	5.36	(209,750)

32 Financial instruments (continued)

(a) Interest rate risk (continued)

(ii) The Company

	2005		2004	
	Effective interest rate %	**One year or less RMB'000**	Effective interest rate %	One year or less RMB'000
Repricing dates for assets/(liabilities) which reprice before maturity				
Pledged deposits	**–**	**–**	0.72	20,045
Cash and cash equivalents	**0.72**	**94,401**	0.72	74,452
Bank loans	**5.58**	**(230,000)**	5.41	(85,000)
Other loan	**2.55**	**(3,270)**	–	–
		(138,869)		9,497
Maturity dates for liabilities which do not reprice before maturity				
Bank loans	**5.58**	**(172,150)**	5.36	(209,750)

Notes on the Financial Statements

32 Financial instruments (continued)

(b) Credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The Group's major customers are Shanghai Gold Exchange and metallurgical companies in the PRC, which accounted for significant amounts of the Group's total turnover during the year. The Group has no significant credit risk with any of these customers since the Group maintains long-term and stable business relationships with these large customers in the gold bullion industries.

In addition, the Group made purchase deposits of RMB82,891,000 (2004: RMB120,081,000) at 31 December 2005 to suppliers to secure its supplies of mineral sand which is the major raw materials in the smelting process. The balance represented 14% (2004: 25%) of total current assets at 31 December 2005. The Group believes that the purchase deposits will be recovered through purchases from these suppliers in future periods. In the event that these suppliers ceased to provide mineral sand to the Group, the Group may expose itself to significant credit risk arising from the recoverability of the purchase deposits and hence the profitability will be adversely affected.

(c) Foreign currency risk

All the revenue-generating operation of the Group are transacted in RMB, which is not freely convertible into foreign currencies. On 1 January 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted by the People's Bank of China (the "PBOC"). However, the unification of the exchange rate does not imply convertibility of RMB into Hong Kong dollars or other foreign currencies. All foreign exchange transactions must take place through the PBOC or other institutions authorised to buy and sell foreign exchange. Approval of foreign currency payments by the PBOC or other institutions requires submitting a payment application form together with relevant documents.

Pursuant to the foreign exchange policy announced by the PBOC in the Announcement No. 16 of 2005 on 21 July 2005, the PRC authorities has raised the level that RMB trades against USD by 2.1% to RMB8.11 and that the currency would fluctuate against a basket of currencies. While the said new policy does not imply any substantial immediate change and there is no indication of any timing of a further appreciation or widening of the trading band, it does give the PRC authorities a considerable discretion to allow the currency to appreciate further.

32 Financial instruments (continued)

(d) Fair value

Financial assets of the Group comprise cash and cash equivalents, trade and other receivables and other investments. Financial liabilities include trade and other payables, short and long term bank loans and other loan. The carrying amounts of significant financial assets and liabilities approximate to their respective fair values as at 31 December 2004 and 2005 due to the nature or short-term maturity of these instruments.

Fair value estimates are made at a specific point in time and based on relevant market information. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(e) Business risk

During the year ended 31 December 2005, the Group's supplies of direct materials from independent third parties represent 87.3% (2004: 92.8%) of the Group's total direct materials. Although the Group believes that it maintains good relationships with its suppliers, there can be no assurance that its suppliers will continue to sell to the Group on normal commercial terms as and when needed. In the event that these suppliers ceased to sell to the Group and the Group could not secure other sources of supply, the Group's turnover and profitability will be adversely affected.

Notes on the Financial Statements

33 Business combination

In 2005, the Group has acquired an 83.3% equity interest in Habahe Huatai from Lingbao State-owned Assets Operation Limited Liability Company and an 80% interest in Tongbai Xingyuan Mining Company Limited from Mr. Zhou Yudao and Mr. Xu Zhongjian. The aggregate acquisition consideration was RMB32,700,000 satisfied in cash. The aggregate amounts recognised at the acquisition date of their assets and liabilities are RMB96,378,000 and RMB68,394,000 respectively. The acquired companies contributed an aggregate revenue of RMB28,403,000 and aggregate net profit of RMB4,862,000 since acquisition. If the acquisition had occurred on 1 January 2005, Group revenue would have been RMB1,558,832,000 and net profit would have been RMB153,381,000.

The acquisition had the following effect on the Group's assets and liabilities.

Acquiree's net assets at the acquisition date

	RMB'000
Property, plant and equipment	16,940
Intangible assets	46,055
Inventories	8,319
Trade and other receivable, deposits and prepayments	8,837
Cash and cash equivalents	16,227
Trade and other payables	(13,429)
Amount due to the Company	(29,600)
Amount due to Xinjiang Baoxin Mining Co. Ltd.	(15,610)
Amount due to Akesu District Xindi Mining Company Limited	(800)
Amount due to Mr Zhou Yudao	(10)
Tax payable	(116)
Deferred tax liabilities *(Note 23)*	(2,554)
Minority interests	(6,275)
Net identifiable assets	27,984
Goodwill arising on acquisition	4,716
Total purchase price consideration	32,700
Satisfied by	
Cash	32,700
Cash at bank and in hand acquired	16,227
Cash consideration paid	(32,700)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(16,473)

34 Segment information

Business segments

	Mining RMB'000	Smelting RMB'000	Inter-segment elimination RMB'000	Unallocated RMB'000	Consolidated RMB'000
Year ended 31 December 2005					
Revenue and expenses					
Revenue from external customers	112,095	1,443,609	–	–	1,555,704
Inter-segment revenue	136,810	–	(136,810)	–	–
Other revenue from external customers	–	7,237	–	4,540	11,777
Total	248,905	1,450,846	(136,810)	4,540	1,567,481
Segment results	70,906	261,755	(5,199)	4,540	332,002
Unallocated income and expenses					(84,115)
Profit from operations					247,887
Write back of deficit on revaluation of property, plant and equipment					1,991
Finance costs					(23,085)
Income tax					(72,017)
Profit for the year					154,776
Assets and liabilities					
Segment assets	357,138	515,681	–	–	872,819
Unallocated assets					182,643
Total assets					1,055,462
Segment liabilities	29,267	52,428	–	–	81,695
Unallocated liabilities					471,647
Total liabilities					553,342
Other segmental information					
Capital expenditure	81,553	29,520	–	6,077	117,150
Depreciation and amortisation	27,124	13,953	–	1,172	42,249

Notes on the Financial Statements

34 Segment information (continued)

Business segments (Continued)

	Mining RMB'000	Smelting RMB'000	Inter-segment elimination RMB'000	Unallocated RMB'000	Consolidated RMB'000
Year ended 31 December 2004					
Revenue and expenses					
Revenue from external customers	137,717	1,085,712	–	–	1,223,429
Inter-segment revenue	71,288	–	(71,288)	–	–
Other revenue from external customers	2,853	7,986	–	1,528	12,367
Total	211,858	1,093,698	(71,288)	1,528	1,235,796
Segment results	45,398	213,179	–	1,528	260,105
Unallocated income and expenses					(65,753)
Profit from operations					194,352
Finance costs					(15,503)
Income tax					(59,454)
Profit for the year					119,395
Assets and liabilities					
Segment assets	247,127	464,043	–	–	711,170
Unallocated assets					98,737
Total assets					809,907
Segment liabilities	72,006	66,646	–	–	138,652
Unallocated liabilities					331,605
Total liabilities					470,257
Other segmental information					
Capital expenditure	77,084	33,208	–	–	110,292
Depreciation and amortisation	21,381	12,959	–	–	34,340

35 Ultimate holding company

The directors consider the ultimate holding company of the Company to be Lingbao State-owned Assets Operation Limited Liability Company, a stated-owned enterprise established in the PRC. The entity does not produce financial statements available for public use.

36 Accounting estimates and judgements

Key sources of estimation uncertainty

Notes 19 and 22 contain information about the assumptions and their risk factors relating to goodwill impairment, fair value of financial assets. Other key sources of estimation uncertainty are as follows:

(i) Reserves estimates

As explained in policy notes 2(f), 2(h) and 2(j), mining shafts, mining rights and exploration and evaluation assets are amortised using a units of production method based on the proven and probable mineral reserve.

The reserves data set forth in these financial statements represent estimates. Such estimates are judgements based on knowledge, experience and industry practice. Estimates which were valid when originally made may need to be updated when new information or techniques become available. By nature, reserves estimates depend to some extent on interpretations and deductions which may prove to be inaccurate. As further information becomes available, the estimates are likely to change. This may result in alterations to the Group's operations and development plans which may, in turn, adversely affect the Group's operations and performance.

The reserves estimates were reported in accordance with the Chinese system, which is the national standard set by the PRC Government.

Notes on the Financial Statements

36 Accounting estimates and judgements (continued)

(ii) Impairments

In considering the impairment losses that may be required for certain of the Group's assets which include property, plant and equipment, construction in progress and investments in its subsidiaries, recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling prices because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the assets are discounted to their present value, which requires significant judgement relating to items such as level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sale volume, selling price and amount of operating costs.

In considering the impairment losses that may be required for current receivables, future cashflows need to be determined. One of the key assumptions that has to be applied is about the ability of the debtors to settle the receivables. Despite that the Group has used all available information to make this estimation, inherent uncertainty exists and actual write-offs may be higher than the amount estimated.

(iii) Inventory provision

Inventories are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale. In estimating the net realisable value, future cashflows need to be determined. One of the key estimates that has to be made is about the future selling price, it is possible that the recent selling price is not indicative of the future selling price. Any increase or decrease in selling price would affect profit or loss in future years.

37 Post balance sheet events

The following significant transactions took place subsequent to 31 December 2005:

(i) After the balance sheet date, the directors proposed a final dividend. Further details are disclosed in note 13.

(ii) On 12 January 2006, the Company's H shares were successfully listed on the Main Board of the Stock Exchange following the completion of the public offer and placing of 297,274,000 shares as described in the prospectus of the Company dated 30 December 2005. The shareholding structure of the Company immediately following the Global Offering and the Over-allotment Option on 16 January 2006 has been set out in note 30.

38 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 December 2005

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 December 2005 and which have not been adopted in these financial statements.

Of these developments, the following relate to matters that may be relevant to the Company's operations and financial statements:

		Effective for accounting periods beginning on or after
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007
HK(IFRIC) 4	Determining whether an arrangement contains a lease	1 January 2006
HK(IFRIC) 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds	1 January 2006
HK(IFRIC) 7	Applying the restatement approach under HKAS 29 Financial Reporting in hyperinflationary economies	1 March 2006

In addition, the Hong Kong Companies (Amendment) Ordinance 2005 came into effect on 1 December 2005 and the Company Law of the People's Republic of China (revised) ("revised PRC Company Law") issued on 27 October 2005 would be first applicable to the Group's financial statements for the period beginning 1 January 2006.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of the new accounting policies, the Hong Kong Companies (Amendment) Ordinance 2005 and revised PRC Company Law is unlikely to have a significant impact on the Group's results of operations and financial position.

Notes on the Financial Statements

38 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 December 2005 (continued)

Prior to 1 January 2006, limited liabilities companies and joint stock companies incorporated in the PRC is required to transfer 5% to 10% of their net profit, as determined in accordance with the PRC accounting standards and regulation, to statutory public welfare fund. Such requirement is removed in the revised PRC Company Law which is effective from 1 January 2006.

The Group is continuing its assessment of the impact of the other new HKFRS and amendments to Hong Kong Companies Ordinance and revised PRC Company Law on the Group's financial statements.

Four Years Summary

	2005	2004	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Assets and liabilities				
Non-current assets	**478,915**	333,931	257,915	196,544
Net current assets/(liabilities)	**139,029**	5,719	(40,260)	(54,688)
Total assets less current liabilities	**617,944**	339,650	217,655	141,856
Non-current liabilities	**115,824**	–	–	–
NET ASSETS	**502,120**	339,650	217,655	141,856
Share capital	**100,000**	100,000	100,000	100,000
Reserves	**392,618**	237,715	117,655	41,856
Total equity attributable to equity shareholders of the Company	**492,618**	337,715	217,655	141,856
Minority interests	**9,502**	1,935	–	–
TOTAL EQUITY	**502,120**	339,650	217,655	141,856
Operating results				
Turnover	**1,555,704**	1,223,429	856,278	682,872
Profit from operations	**247,887**	194,352	122,788	105,399
Deficit on revaluation of property, plant and equipment written back/(made)	**1,991**	–	–	(17,833)
Finance costs	**(23,085)**	(15,503)	(11,391)	(10,113)
Profit before taxation	**226,793**	178,849	111,397	77,453
Income tax	**(72,017)**	(59,454)	(35,598)	(29,533)
Profit for the year	**154,776**	119,395	75,799	47,920
Attributable to:				
Equity shareholders of the Company	**154,584**	120,060	75,799	47,920
Minority interests	**192**	(665)	–	–
Profit for the year	**154,776**	119,395	75,799	47,920

Four Years Summary

Note:

The Company was incorporated on 27 September 2002 with the approval of the Henan Provincial Government in accordance with document (Yu Gu Pi Zi) 2002 no.25 as a joint stock company with limited liability in the PRC to take over and operate the business of the mining, processing, smelting and sales of gold products.

The Group resulting from the Restructuring is regarded as a continuing entity and that the financial results are presented on the basis that the Company, for the purpose of this report, is regarded as a continuing entity and that the Restructuring had been completed as at 1 January 2002, rather than from 27 September 2002 and that the business of the Group had been conducted by the Company throughout the years as they are related to entities under common control. The assets and liabilities transferred from Lingbao State-owned Assets Operation Limited Liability Company to the Company on 27 September 2002 were based on historical amounts at which they were recorded in their accounts, except for property, plant and equipment, and construction in progress which were transferred at revalued amounts as required by the PRC rules and regulations applicable to state-owned enterprise restructuring for the purpose of determination of the capital contribution from Lingbao State-owned Assets Operation Limited Liability Company upon incorporation of the Company. The acquisition of equity interests in Habahe Huatai Gold Limited Liability Company and Tongbai Xingyuan Mining Company Limited by the Company was accounted for under the acquisition accounting.

The consolidated results of the Group for the four years ended 31 December 2005 have been prepared as if the Group structure immediately after the Restructuring had been in existence since 1 January 2002. This financial summary includes the consolidated results of the Company and its subsidiaries with effect from 1 January 2002 or since their respective dates of incorporation or the date of acquisition, whichever is a shorter period. The consolidated balance sheets at 31 December 2002, 2003, 2004 and 2005 are the combination of the balance sheets of the Company and its subsidiaries at 31 December 2002, 2003, 2004 and 2005. In the opinion of the directors, the resulting consolidated financial statements give a more meaningful view of the results and state of affairs of the Group as a whole.