



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)

### ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2005

#### FINANCIAL HIGHLIGHTS

- Revenues of the Group in 2005 were RMB1,555,704,000 representing an increase of RMB332,275,000 or 27.2% over 2004.
- Profit attributable to equity shareholders of the Company for the year was RMB154,584,000, representing an increase of RMB34,524,000 or 28.8% over 2004.
- Earnings per share were RMB31 cents (based on 500,000,000 shares).
- The Board recommends the distribution of a final dividend of RMB61,620,000 or RMB8 cents per share for the year of 2005 (based on 770,249,091 shares).

The Board of Directors (the "Directors") of Lingbao Gold Company Ltd. (the "Company"), is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005, which have been reviewed by the Company's Audit Committee.

**CONSOLIDATED INCOME STATEMENT**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

	<i>Notes</i>	<b>2005</b> <b>RMB'000</b>	2004 RMB'000
<b>Turnover</b>	2	<b>1,555,704</b>	1,223,429
Cost of sales	3	<b>(1,235,479)</b>	(975,691)
<b>Gross profit</b>		<b>320,225</b>	247,738
Other revenue	4	<b>11,777</b>	12,367
Other net loss	5	<b>(1,148)</b>	(787)
Selling and distribution expenses		<b>(11,668)</b>	(6,550)
Administrative expenses and other operating expenses		<b>(71,299)</b>	(58,416)
<b>Profit from operations</b>		<b>247,887</b>	194,352
Write back of deficit on revaluation of property, plant and equipment		<b>1,991</b>	–
Finance costs	6(a)	<b>(23,085)</b>	(15,503)
<b>Profit before taxation</b>	6	<b>226,793</b>	178,849
Income tax	7	<b>(72,017)</b>	(59,454)
<b>Profit for the year</b>		<b>154,776</b>	119,395
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>154,584</b>	120,060
Minority interests		<b>192</b>	(665)
<b>Profit for the year</b>		<b>154,776</b>	119,395
<b>Dividends payable to equity shareholders of the Company attributable to the year:</b>			
Final dividend proposed after the balance sheet date	8	<b>61,620</b>	–
<b>Basic earnings per share (cents)</b>	9	<b>31</b>	24

## CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2005

	<i>Notes</i>	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		246,132	206,211
Construction in progress		110,834	60,082
Intangible assets		81,873	36,568
Goodwill		4,716	—
Lease prepayments		9,229	9,436
Other investments		10,504	10,504
Deferred tax assets		15,627	11,130
		<u>478,915</u>	<u>333,931</u>
<b>Current assets</b>			
Inventories		291,757	187,994
Trade and other receivables, deposits and prepayments	11	166,412	175,680
Amount due from a fellow subsidiary		—	15,751
Current tax recoverable		517	—
Pledged deposits		—	20,045
Cash and cash equivalents		117,861	76,506
		<u>576,547</u>	<u>475,976</u>
<b>Current liabilities</b>			
Bank loans		292,150	294,750
Trade and other payables	12	143,292	159,968
Current tax payable		2,076	15,539
		<u>437,518</u>	<u>470,257</u>
<b>Net current assets</b>		<u>139,029</u>	<u>5,719</u>
<b>Total assets less current liabilities</b>		<u>617,944</u>	<u>339,650</u>
<b>Non-current liabilities</b>			
Bank loans		110,000	—
Other loan		3,270	—
Deferred tax liabilities		2,554	—
		<u>115,824</u>	<u>—</u>
<b>NET ASSETS</b>		<u>502,120</u>	<u>339,650</u>
<b>CAPITAL AND RESERVES</b>			
Share capital		100,000	100,000
Reserves		392,618	237,715
<b>Total equity attributable to equity shareholders of the Company</b>		<u>492,618</u>	<u>337,715</u>
<b>Minority interests</b>		9,502	1,935
<b>TOTAL EQUITY</b>		<u>502,120</u>	<u>339,650</u>

**NOTES ON THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2005**

**1. Basis of preparation**

These consolidated financial statements for the year ended 31 December 2005 have been prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). They have been prepared under the historical cost basis except that the property, plant and equipment and construction in progress are stated at fair value.

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.

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

The Group has early adopted HKFRSs that are effective from 1 January 2005 at 1 January 2004. As a result, such new and revised HKFRSs have no impact on the financial statements for the year ended 31 December 2005 and 2004.

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

**2. Turnover**

The principal activities of the Group are mining, processing, smelting and sales of gold and other metallic products in the People’s Republic of China (“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:

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

**3. Cost of sales**

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

#### 4. Other revenue

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

#### 5. Other net loss

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

#### 6. Profit before taxation

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

	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
(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
	<u>23,085</u>	<u>15,503</u>
(b) Staff costs		
Salaries, wages and bonus	54,110	46,155
Staff welfare	7,762	6,372
Contributions to retirement benefit schemes	2,708	2,198
	<u>64,580</u>	<u>54,725</u>
(c) 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

## 7. Income tax in the consolidated income statement

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

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%).

## 8. Dividends

*Dividends attributable to the year*

	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
Final dividend proposed after the balance sheet date of RMB8 cents per ordinary share (2004: Nil)	<u><u>61,620</u></u>	<u><u>–</u></u>

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

## 9. 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 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.

## 10. Segment information

### *Business segments*

	<b>Mining RMB'000</b>	<b>Smelting RMB'000</b>	<b>Inter- segment elimination RMB'000</b>	<b>Unallocated RMB'000</b>	<b>Consolidated RMB'000</b>
<b>Year ended 31 December 2005</b>					
<i>Revenue and expenses</i>					
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	<u>248,905</u>	<u>1,450,846</u>	<u>(136,810)</u>	<u>4,540</u>	<u>1,567,481</u>
Segment results	70,906	261,755	(5,199)	4,540	332,002
Unallocated income and expenses					<u>(84,115)</u>
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					<u>154,776</u>
<i>Assets and liabilities</i>					
Segment assets	357,138	515,681	–	–	872,819
Unallocated assets					182,643
Total assets					<u>1,055,462</u>
Segment liabilities	29,267	52,428	–	–	81,695
Unallocated liabilities					471,647
Total liabilities					<u>553,342</u>
<i>Other segmental information</i>					
Capital expenditure	81,553	29,520	–	6,077	117,150
Depreciation and amortisation	27,124	13,953	–	1,172	<u>42,249</u>

	Mining RMB'000	Smelting RMB'000	Inter- segment elimination RMB'000	Unallocated RMB'000	Consolidated RMB'000
<b>Year ended 31 December 2004</b>					
<i>Revenue and expenses</i>					
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
<b>Total</b>	<b>211,858</b>	<b>1,093,698</b>	<b>(71,288)</b>	<b>1,528</b>	<b>1,235,796</b>
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)
<b>Profit for the year</b>					<b>119,395</b>
<i>Assets and liabilities</i>					
Segment assets	247,127	464,043	–	–	711,170
Unallocated assets					98,737
<b>Total assets</b>					<b>809,907</b>
Segment liabilities	72,006	66,646	–	–	138,652
Unallocated liabilities					331,605
<b>Total liabilities</b>					<b>470,257</b>
<i>Other segmental information</i>					
Capital expenditure	77,084	33,208	–	–	110,292
Depreciation and amortisation	21,381	12,959	–	–	34,340

## 11. Trade and other receivables, deposits and prepayment

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:

	2005 RMB'000	2004 RMB'000
Within 3 months	19,922	8,398
Over 3 months but less than 6 months	14,309	–
Over 6 months but less than 1 year	2,976	–
Over 1 year	–	2,376
	<b>37,207</b>	10,774
Other receivables, deposit and prepayment	<b>129,205</b>	164,906
	<b>166,412</b>	<b>175,680</b>



## 12. Trade and other payables

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

	<b>2005</b> <b>RMB'000</b>	2004 <i>RMB'000</i>
Within 3 months	<b>55,933</b>	53,813
Over 3 months but less than 6 months	<b>2,908</b>	40,602
Over 6 months but less than 1 year	<b>1,245</b>	553
Over 1 year	<b>735</b>	1,461
	<hr/>	<hr/>
	<b>60,821</b>	96,429
Other payables	<b>82,471</b>	63,539
	<hr/>	<hr/>
	<b>143,292</b>	159,968
	<hr/>	<hr/>

13. The financial results for the year ended 31 December 2005 have been reviewed with no disagreement by the Audit Committee of the Company.

## CHAIRMAN'S STATEMENT

### 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 common in 2005. International gold prices has been increasing and broke the highs over the past decades.

The Company was benefited from the increase of gold prices, advanced and sophisticated processing technology and processing facilities and the capability to carry out comprehensive recovery of numerous elements such as gold, silver and copper. As a result of these factors, the Company achieved satisfactory results. According to the research by China Gold Association, the Company's production volume of gold represented approximately 5% of the total gold production in the PRC; the Company's production volume of smelted gold represented approximately 14.46% of the total production volume in the PRC; the profit of the Company represented approximately 5.7% of the total profit earned in gold industry in the PRC.

With the successful issuance of our H shares in early 2006, the Company 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, Nanyang and Jiangxi 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 retained 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 Hunan Province which is the second largest gold resource region in the PRC and 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.

In 2005, the Company completed the renovation of processing plants of the branch offices, Yinxin Gold Mine Branch and Qiangma Gold Mine Branch, and the technology upgrade of metallurgical branches that involves the technology of processing 100 tonnes of gold concentrates per day. With the increase of the processing capability of Qiangma and Yinxin, the Company's processing capacity will reach 1,400 tonnes per day and the smelting capability of the metallurgical branch will reach 700 tonnes per day. The gold production capacity of the Company was enhanced.

## **II. Emphasis on geological exploration to enhance mining returns**

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

## **III. Scientific management and sound internal control**

By adhering to the business philosophy of “being steady, hardworking, innovative, efficient” and by perfecting internal control innovation and business reengineering, 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. It is expected that the gold price is expected to remain at a high level owing to the steady increase in investors' demand for spot gold, consumers' demand for ornamental, the rise in energy prices, the uncertain political atmosphere and risk factors including the depreciation of US dollars. It is expected that the room for further development of the Company will be even greater in view of these factors.

According to the Group's business development strategy, the Company will strengthen its leading position in the industry in the PRC in 2006. Using the gold production base in Xiaoqinling as the foundation and leveraging on the geographical advantage of its mid-west location, the Company will continue to expand its business by focusing on acquisition of gold mine and thereby increasing the Company's gold reserve and resources level. The Company will also work hard to maintain its capability to generate stable results and sustainable profits through further expansion of production capacity and volume of gold 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, the Company's emphasis in 2006 will be on the control of resources and the increase of gold reserve, the implementation of long-term development of the Group and the further enhancement of the core competitiveness of the Group, with the aim of creating greater returns to shareholders.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

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 226,793,000, 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 RMB31 cents (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.

## I. Review and prospect of business segments

### *Mining Segment*

#### *Turnover and production*

Our mining business comprise 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	Sales	Unit price	Amount	Sales	Unit price
	RMB'000	volume	RMB per kg	RMB'000	volume	RMB per kg
		kg			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		
	<u>248,905</u>			<u>211,858</u>		

Turnover of the Group's total mining segment 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 484kg to approximately 1,443 kg. Since July 2005, there is 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 for 2004 to approximately 1,484 kg for 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 increased by approximately 21 kg to approximately 257 kg.

The Group is prospecting for the increase of production capacity of gold through the constructing gold mines including Hongxin Gold Mine and Kaqia Gold Mine, 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 results for 2005 was approximately RMB70,906,000, representing an approximate 56.2% increase from approximately RMB45,398,000 in 2005. Such increase was principally attributable to, apart from turnover growth, an approximate 9.8% decrease 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 5.8% in unit price respectively. The newly acquired Habahe Huatai had also made profit contribution to the Group, which has improved the mining segment results. The segment results 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 Xingyuan, Jiangxi Mingxin, Xinjiang Duolanasayi, Tuokuzibayi and Kaqia Gold Mines, and accordingly, increasing the Company's gold reserves.

#### *Capital expenditures*

	<b>2004</b> <b>(Actual)</b> <i>RMB'000</i>	<b>2005</b> <b>(Actual)</b> <i>RMB'000</i>	<b>2006</b> <b>(Estimate)</b> <i>RMB'000</i>	<b>2007</b> <b>(Estimate)</b> <i>RMB'000</i>
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 year ending 2006 and 2007 was obtained principally from the proceeds from the global offering of H shares in January 2006, proceeds from internal 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%.

##### *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

	<b>2004</b> <b>(actual)</b> <i>RMB'000</i>	<b>2005</b> <b>(actual)</b> <i>RMB'000</i>	<b>2006</b> <b>(estimate)</b> <i>RMB'000</i>	<b>2007</b> <b>(estimate)</b> <i>RMB'000</i>
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.

## II. Financial conditions and results of operations

### 1. Combined Operating Results

#### Turnover

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

	2005			2004		
	Amount <i>RMB'000</i>	Sales volume <i>kg/tonne</i>	Unit price <i>RMB per kg/tonne</i>	Amount <i>RMB'000</i>	Sales volume <i>kg/tonne</i>	Unit price <i>RMB per kg/tonne</i>
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	-	- kg	-
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)		
	<u>1,555,704</u>			<u>1,223,429</u>		

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 compound gold production in mines of Henan region. In 2005, the Group had successfully acquired Habahe Huatai Gold Limited Liability Company ("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 Gold Limited Liability Company 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 earnings per share was RMB31 cents (based on 500,000,000 shares), a recommendation for the payment of a final dividend of RMB8 cents per share (based on 770,249,091 shares).

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

### *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 28.6% 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 55.0% 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.

### **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 Gold Limited Liability Company.

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 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.

## **CORPORATE GOVERNANCE**

After our listing of H shares on The Stock Exchange of Hong Kong Limited 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.)

Mr. Xu Gaoming is the Chairman and Chief Executive Officer of the Company and has considerable industry experience. 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 to 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 enable the Group to implement decisions promptly and more efficiently. 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 listed issuer. As such, code provision A.4.2, which requires the re-election to take place in the next general meeting, were not adopted. Details of Corporate Governance of the Company is set out in 2005 annual report. The Audit Committee of the Company held a meeting on 11 April 2006 and reviewed the Group's 2005 annual result for the year end of 31 December 2005, 2005 annual report and internal audit plan for 2006.

## CONNECTED TRANSACTIONS

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

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 靈寶郭氏礦業有限責任公司 (Lingbao Guoshi Mining Limited Liability Company) (“**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.

## CONTINUING CONNECTED TRANSACTIONS

**靈寶市電業總公司 (Lingbao Electric Company) (“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 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.

### Conditional waivers

In compliance with the Listing Rules and the conditions of the waivers granted to the Company by The Stock Exchange of Hong Kong Limited from strict compliance with the requirements as stipulated in Chapter 14A of the Listing Rules in connection with the foregoing continuing connected transactions with Lingbao Electric, the Directors including the independent non-executive Directors of the Company have reviewed and confirmed that:

1. each of the foregoing continuing connected transactions with Lingbao Electric was entered into:
  - (i) in the ordinary and usual course of business of the Group;

- (ii) either on normal commercial terms or, if there are not 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 appropriate) independent third parties; and
  - (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and
2. the annual aggregate electricity fee paid and payable by the Group to Lingbao Electric for the year ended 31 December 2005 did not exceed the maximum amount of RMB49,900,000 which is the estimate annual value of the transaction as disclosed in the Prospectus issued by the Company dated 30 December 2005.

The auditors of the Company had also confirmed to the Board that the continuing connected transactions:

- (a) had received the approval of the boards of directors of the relevant companies;
- (b) had been entered into in accordance with the relevant agreement governing the transactions; and
- (c) had not exceeded the caps as stated above.

### **STRUCTURE OF SHARE CAPITAL**

After the listing of the Company's H shares on Hong Kong Stock Exchange and as at the date of this announcement, there were a total of share capital of 770,249,091 shares of the Company which includes:

	<b>Number of shares</b>	<b>Approximate percentage of total share capital</b>
Domestic shares	472,975,091	61.41
H shares	297,274,000	38.59
Total	<u>770,249,091</u>	<u>100.00</u>

### **PURCHASE, REPURCHASE OR SALES OF SHARES OF THE COMPANY**

During the year, neither the Company nor any of its subsidiaries purchased, repurchased, sold or redeemed any of the Company's shares.

### **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.

### **PROCEEDS FROM GLOBAL OFFERING**

The total amount raised by the issue of H shares of the Company 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 issue of H shares would be applied as our general working capital.

## **DIVIDENDS**

At the board meeting held on 12 April 2006, the Directors declared a final dividend of RMB8 cents per share in respect of the year ended 31 December 2005. Dividends of domestic shares shall be paid in Renminbi while dividends of H shares shall be paid in Hong Kong dollars.

## **ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER**

Annual General Meeting (“AGM”) of the Company for the year ended 31 December 2005 will be held at 2nd floor of the registered office of the Company at Xin Village, Yin Zhuang Town, Daonan Industrial Area, Lingbao, Henan, the PRC on 16 June 2006 at 10:00 a.m.. 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. Holders of H shares whose names appear on the H share register of members of the Company at the close of business on 16 May 2006 are entitled to attend the AGM and to receive the final dividends.

By order of the Board  
**Lingbao Gold Company Ltd.**  
**Xu Gaoming**  
Chairman

Hong Kong, 12 April 2006

*As at the date of this announcement, the directors of the Company are:  
Executive Directors: Xu Gaoming, Wang Jianguo, Lu Xiaozhao and Jin Guangcai;  
Non-Executive Directors: Xu Wanmin, Di Qinghua and Qi Guozhong; and  
Independent Non-Executive Directors: Ning Jincheng, Wang Yanwu, Niu Zhongjie and Zheng Jinqiao.*