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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 2006

FINANCIAL HIGHLIGHTS

- Revenues of the Group in 2006 were RMB2,234,975,000, representing an increase of RMB679,271,000 or 43.7% over 2005.
- Profit attributable to equity shareholders of the Company for the year was RMB219,836,000, representing an increase of RMB65,252,000 or 42.2% over 2005.
- Earnings per share were RMB29 cents (based on 761,718,000 shares).
- The Board recommends the distribution of a final dividend of RMB61,620,000 or RMB8 cents per share for the year of 2006 (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 2006, which have been reviewed by the Company's Audit Committee.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	<i>Notes</i>	2006 RMB'000	2005 RMB'000
Turnover	2	2,234,975	1,555,704
Cost of sales	3	(1,792,220)	(1,235,479)
Gross profit		442,755	320,225
Other revenue	4	76,290	11,777
Other net loss	5	(26,718)	(1,148)
Selling and distribution expenses		(15,545)	(11,668)
Administrative expenses and other operating expenses		(108,228)	(71,299)
Profit from operations		368,554	247,887

Write back of deficit on revaluation of property, plant and equipment		–	1,991
Finance costs	6(a)	(31,213)	(23,085)
Profit before taxation	6	337,341	226,793
Income tax	7	(116,509)	(72,017)
Profit for the year		220,832	154,776
Attributable to:			
Equity shareholders of the Company		219,836	154,584
Minority interests		996	192
Profit for the year		220,832	154,776
Dividends payable to equity shareholders of the Company attributable to the year:			
Final dividend proposed after the balance sheet date	8	61,620	61,620
Earnings per share (cents)	9		
Basic		29	31
Diluted		29	31

CONSOLIDATED BALANCE SHEET
At 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
Non-current assets			
Property, plant and equipment		292,115	246,132
Construction in progress		254,533	110,834
Intangible assets		194,878	81,873
Goodwill		4,824	4,716
Lease prepayments		8,976	9,229
Other investments		10,504	10,504
Deposits for long-term investments		460,162	–
Deferred tax assets		12,646	15,627
		1,238,638	478,915
Current assets			
Inventories		435,010	291,757
Trade and other receivables, deposits and prepayments	11	227,573	166,412
Current tax recoverable		–	517
Deposits with banks		442,057	–
Cash and cash equivalents		431,647	117,861
		1,536,287	576,547

Current liabilities			
Bank loans		935,000	292,150
Trade and other payables	12	276,189	143,292
Current tax payables		15,446	2,076
		<u>1,226,635</u>	<u>437,518</u>
Net current assets		<u>309,652</u>	<u>139,029</u>
Total assets less current liabilities		<u>1,548,290</u>	<u>617,944</u>
Non-current liabilities			
Bank loans		–	110,000
Other loan		3,270	3,270
Deferred tax liabilities		1,149	2,554
		<u>4,419</u>	<u>115,824</u>
NET ASSETS		<u>1,543,871</u>	<u>502,120</u>
CAPITAL AND RESERVES			
Share capital		154,050	100,000
Reserves		1,362,163	392,618
Total equity attributable to equity shareholders of the Company		<u>1,516,213</u>	<u>492,618</u>
Minority interests		<u>27,658</u>	<u>9,502</u>
TOTAL EQUITY		<u>1,543,871</u>	<u>502,120</u>

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation

These consolidated financial statements for the year ended 31 December 2006 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 is 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 certain new and revised HKFRSs that are first effective for the current accounting period of the Group and the Company. There are no significant impact on the results of operation of the Group and financial position of the Group and the Company for the year ended 31 December 2006.

The Group and the Company has not applied any new standard or interpretation that is not yet effective for the current accounting period

2. 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:

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Sales of:		
– Gold	1,640,064	1,174,978
– Other metals	569,351	346,673
– Others	32,862	37,581
Less: Sales taxes and levies	(7,302)	(3,528)
	<u>2,234,975</u>	<u>1,555,704</u>

3. Cost of sales

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Direct materials	1,499,522	1,009,501
Direct labour	42,801	32,905
Electricity	55,488	49,582
Tunnelling/extraction expenses	119,222	85,111
Depreciation and amortisation	33,885	37,690
Resources tax	3,383	1,110
Refinery expenses	28,431	22,013
Subcontracting expenses	–	20,008
Movements in inventories	9,488	(22,441)
	<u>1,792,220</u>	<u>1,235,479</u>

4. Other revenue

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Scrap sales	852	1,492
Interest income	64,708	570
Delivery income	10,426	5,745
Government grants	250	1,800
Dividend income from unlisted securities	–	2,100
Sundry income	54	70
	<u>76,290</u>	<u>11,777</u>

5. Other net loss

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Insurance claims	–	81
Net loss on disposal of property, plant and equipment	(941)	(1,008)
Net foreign exchange loss	(25,689)	–
Others	(88)	(221)
	<u>(26,718)</u>	<u>(1,148)</u>

6. Profit before taxation

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

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
(a) <i>Finance costs</i>		
Interest expense on bank advances wholly repayable within five years	30,726	23,080
Interest on other loan	89	5
Other borrowing costs	398	–
	<u>31,213</u>	<u>23,085</u>
(b) <i>Staff costs</i>		
Salaries, wages and bonuses	68,066	54,110
Staff welfare	9,246	7,762
Contributions to retirement benefit schemes	3,419	2,708
	<u>80,731</u>	<u>64,580</u>

(c) *Other items*

Amortisation of lease prepayments	329	254
Operating lease charges in respect of properties	3,140	3,508
Research and development expenses	2,500	335
Impairment losses on trade and other receivables made/(written back)	22	(2,158)
Pollution discharge fee	1,051	952
Environmental rehabilitation fee	2,270	1,285
	<u> </u>	<u> </u>
Auditors' remuneration		
– audit services	2,289	1,400
– other services	750	–
	<u> </u>	<u> </u>
Total amortisation of intangible assets	17,510	10,938
Less: Amortisation capitalised into exploration and evaluation assets	(6,699)	–
	<u> </u>	<u> </u>
	10,811	10,938
	<u> </u>	<u> </u>
Total depreciation	31,522	31,057
Less: Depreciation capitalised into construction in progress	(380)	–
	<u> </u>	<u> </u>
	31,142	31,057
	<u> </u>	<u> </u>

7. **Income tax in the consolidated income statement**

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Current tax – PRC income tax		
Provision for the year	114,067	76,671
Underprovision in respect of prior year	24	–
	<u> </u>	<u> </u>
	114,091	76,671
Deferred tax		
Origination and reversal of temporary differences	2,418	(4,654)
	<u> </u>	<u> </u>
	116,509	72,017
	<u> </u>	<u> </u>

8. **Dividends**

Dividends payable to equity shareholders of the Company attributable to the year

	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
Final dividend proposed after the balance sheet date of RMB8 cents per ordinary share (2005: RMB8 cents per ordinary share)	61,620	61,620
	<u> </u>	<u> </u>

9. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB219,836,000 (2005: RMB154,584,000) and the weighted average of 761,718,000 ordinary shares, after adjusting for the shares issued in 2006, in issue during the year (2005: 500,000,000 ordinary shares), calculated as follows:

Weighted average number of ordinary shares

	Number of shares	
	2006 '000	2005 '000
Issued ordinary shares at 1 January	500,000	500,000
Effect of shares issued pursuant to the placing and public offering	<u>261,718</u>	<u>–</u>
Weighted average number of ordinary shares at 31 December	<u><u>761,718</u></u>	<u><u>500,000</u></u>

There were no dilutive potential ordinary shares during the year and, therefore, the calculation of diluted earnings per share is the same as the calculation above.

10. Segment information

Segment information is presented in respect of the Group's business segments. Business segment information is chosen as the primary format because this is more relevant to the Group's internal financial reporting.

Business segments

The Group comprises the following main business segments:

Mining – The mining operation of the Group;

Smelting – The smelting and refinery operation of the Group.

Turnover and contributions to the Group's profit from principal activities during the year, after elimination of all material inter-company transactions, are as follows:

	Mining <i>RMB'000</i>	Smelting <i>RMB'000</i>	Inter- segment elimination <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Year ended					
31 December 2006					
<i>Revenue and expenses</i>					
Revenue from external customers	22,877	2,212,098	–	–	2,234,975
Inter-segment revenue	283,733	–	(283,733)	–	–
Other revenue from external customers	1,155	10,426	–	64,709	76,290
Total	<u>307,765</u>	<u>2,222,524</u>	<u>(283,733)</u>	<u>64,709</u>	<u>2,311,265</u>
Segment result	66,670	316,873	(8,689)	64,709	439,563
Unallocated operating income and expenses					(71,009)
Profit from operations					368,554
Finance costs					(31,213)
Income tax					(116,509)
Profit for the year					<u>220,832</u>
As at 31 December 2006					
<i>Assets and liabilities</i>					
Segment assets	760,933	776,939	–	–	1,537,872
Unallocated assets					1,237,053
Total assets					<u>2,774,925</u>
Segment liabilities	84,053	88,516	–	–	172,569
Unallocated liabilities					1,058,485
Total liabilities					<u>1,231,054</u>
<i>Other segmental information</i>					
Capital expenditure incurred during the year	303,442	45,318	–	5,088	353,848
Depreciation and amortisation for the year	33,201	14,721	–	1,439	49,361

	Mining RMB'000	Smelting RMB'000	Inter- segment elimination RMB'000	Unallocated RMB'000	Consolidated RMB'000
Year ended					
31 December 2005					
<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	248,905	1,450,846	(136,810)	4,540	1,567,481
Segment result	70,906	261,755	(5,199)	4,540	332,002
Unallocated operating 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
As at 31 December 2005					
<i>Assets and liabilities</i>					
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
<i>Other segmental information</i>					
Capital expenditure incurred during the year	81,553	29,520	–	6,077	117,150
Depreciation and amortisation for the year	27,124	13,953	–	1,172	42,249

11. Trade and other receivables, deposits and prepayments

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 for bad and doubtful debts) as of the balance sheet date is as follows:

	2006 RMB'000	2005 <i>RMB'000</i>
Within 3 months	38,354	19,922
Over 3 months but less than 6 months	12,277	14,309
Over 6 months but less than 1 year	124	2,976
	<hr/>	<hr/>
	50,755	37,207
Other receivables, deposits and prepayments	176,818	129,205
	<hr/>	<hr/>
	227,573	166,412
	<hr/> <hr/>	<hr/> <hr/>

12. Trade and other payables

An ageing analysis of trade payables is as follows:

	2006 RMB'000	2005 <i>RMB'000</i>
Within 3 months	74,631	55,933
Over 3 months but less than 6 months	2,892	2,908
Over 6 months but less than 1 year	531	1,245
Over 1 year but less than 2 years	3,627	735
	<hr/>	<hr/>
	81,681	60,821
Other payables	194,508	82,471
	<hr/>	<hr/>
	276,189	143,292
	<hr/> <hr/>	<hr/> <hr/>

13. The financial results for the year ended 31 December 2006 have been reviewed with no disagreement by the Audit Committee of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF BUSINESS AND PROSPECT

In 2006, the Group produced approximately 10,373 kg (equivalent to approximately 333,499 ounce) of gold including approximately 10,285 kg (equivalent to approximately 330,670 ounce) of gold bullion and approximately 492 kg (equivalent to approximately 15,818 ounce) of compound gold including intra-group sales of approximately 404kg (equivalent to approximately 12,989 ounce) of compound gold, representing an increase of approximately 366 kg (equivalent to approximately 11,767 ounce) or 3.7% as compared with the previous year. The Group's turnover

for 2006 was approximately RMB2,234,975,000, representing an increase of approximately 43.7% as compared with the previous year. The profit attributable to the Company's shareholders was approximately RMB219,836,000, representing an increase of approximately 42.2% as compared with the previous year. The Company's basic earning per share was RMB0.29. In 2006, the Group achieved positive growth in both turnover and profit attributable to shareholders. The increase in profit was mainly due to the strong market demand as well as high product prices and effective control of production cost.

Given that raw materials accounted for over 80% of total production cost and in order to minimize the reliance of purchase of raw materials from outsiders, the Group intends to increase its self-produced gold output through acquisitions and expansion of mine operation, thereby uplifting the overall production and operation targets.

1. Mining Segment

Turnover and production

Our mining business mainly 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 plants as intra-group sales, while other derivative products are sold to third party customers.

The following table sets forth the analysis on the production and sales volume of the mining segment by product category:

		2006		2005	
	Unit	Approximate production volume	Approximate sales volume	Approximate production volume	Approximate sales volume
Gold concentrates	Kg	1,728	1,712	1,443	1,484
Compound gold	Kg	492	492	616	708
From: Henan region		96	96	382	474
Xinjiang region		396	396	234	234
Total	Kg	2,220	2,204	2,059	2,192
Total	Ounce	71,375	70,861	66,198	70,474
Lead concentrates	Kg	72	72	257	257

The Group's total turnover of the mining segment for 2006 was approximately RMB307,765,000, representing an increase of approximately 23.6% from approximately RMB248,905,000 in 2005. During the year, turnover of gold mines in Henan and Xinjiang represented approximately 79.8% and 20.2% of the total turnover of the mining segment respectively. The production volume of compound gold decreased by approximately 124 kg to approximately 492 kg while the production volume of gold concentrates increased by approximately 285 kg to approximately 1,728 kg, because since July 2005, there has been a change in technology of the processing facilities of our gold mines in Henan. As a result of the change in technology, we increased our production in gold

concentrates and decreased our production in compound gold. The change was aimed to increase the gold content of our gold concentrates and boost internal sales of gold concentrates to our smelting plant. 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 in this year was approximately 72 kg.

Segment results

The Group's results of the mining segment for 2006 was approximately RMB66,670,000, representing a decrease of approximately 6.0% from approximately RMB70,906,000 in 2005. The segment result to segment turnover ratio of the Group's mining segment for 2006 was approximately 21.7%, marking a decrease of approximately 6.8% from approximately 28.5% in 2005.

Capital Expenditures

As at 31 December 2006, the Group's capital expenditure was approximately RMB303,442,000, representing an increase of approximately 272.1% from approximately RMB81,553,000 in 2005.

Our principal capital expenditures relate to the provisions of construction of gold mines, purchase of mining rights and acquisition of mining corporations.

Prospect

The Group is expecting an increase in production capacity, gold reserves and resources through the expansion of production scale and improvement of production facilities in both Duolanasayi Gold Mine and Tuokuzibayi Gold Mine located in Xinjiang which are expected to be completed in the fourth quarter of 2007. The Group's processing capacity will increase from 2,400 tons per day currently to 3,000 tons per day.

With our continuous exploration and acquisitions of gold mines, our gold reserves and resources are increasing. Group's objective for 2007 is to increase our gold reserves and resources by exploring the in-depth deposits of Qiangma Gold Mine and Yinxin Gold Mine in the Xiaoqinling Region and continuously engaging in mining and gold production process in the gold mines located in Henan Nanyang Xingyuan Gold Mine, Jiangxi Mingxin Gold Mine, Shangrao County Jintian Industrial Co. Ltd. Gold Mine, Xinjiang Duolanasayi Gold Mine, Tuokuzibayi Gold Mine, Kaqia Gold Mine, Chifeng City Zhengji Gold Mine and Chifeng Jinchan Operating Mine of Inner Mongolia.

2. Smelting Segment

Our smelting plant is situated in Henan Province, and is capable of processing gold, silver, copper and sulphur. Its main products include gold bullion, silver, copper products and sulphuric acid. The following table sets forth the analysis on the production and sales volume of the smelting segment by product category:

Product	Unit	2006		2005	
		Approximate production volume	Approximate sales volume	Approximate production volume	Approximate sales volume
Gold bullion	Kg	10,285	10,426	9,391	9,287
	Ounce	330,670	335,203	301,927	298,584
Silver	Kg	29,175	28,151	33,331	32,750
	Ounce	937,997	905,074	1,071,615	1,052,935
Copper products	Tonne	8,991	9,543	9,994	7,746
Sulphuric acid	Tonne	158,016	160,799	151,212	145,827

Turnover and production

The Group's total turnover in the smelting segment for 2006 was approximately RMB2,222,524,000, representing an increase of approximately 53.2% from approximately RMB1,450,846,000 for the year of 2005. Such increase was principally attributable to the 48.0% increase in the sales of gold bullion as a result of an approximate 31.9% increase in selling price of gold bullion. Also, the unit selling price, sales volume and total sales amount of copper products had increased by approximately 53.2%, 23.2% and 88.7% respectively.

In 2006, the Group's smelting plant processed approximately 700 tonnes of gold concentrates per day, and the utilisation rate for production was approximately 96.7%. This resulted in a slight increase in the Group's production volume. During the period, the gold recovery rate was approximately 96.43%, the silver recovery rate was approximately 76.12% and the copper recovery rate was approximately 93.39%. All recovery rates continued to remain at a high level.

Segment results

Our smelting segment results for 2006 was approximately RMB316,873,000 in total, representing an approximate 21.1% increase from approximately RMB261,755,000 for the year of 2005. The segment results to segment turnover ratio of our smelting business for 2006 was approximately 14.3%, decreasing by approximately 3.7% from approximately 18.0% in 2005. The average selling price of gold bullion increased by approximately 31.9% to approximately RMB155.1 per gram (equivalent to approximately USD600.8 per ounce).

Capital Expenditures

As at 31 December 2006, the capital expenditure of the Group was approximately RMB45,318,000, an increase of approximately 53.5% from approximately RMB29,520,000 in 2005.

Our principal capital expenditures relate to the provisions of smelting construction work, purchase of equipment with regard to its development and expansion projects, and upgrading of production equipment.

Prospect

Riding on the surging gold prices and through advanced technology and production efficiency, the Group's smelting segment was able to deliver respectable results in both production and sales volume and fulfilled all major production and operation targets.

The Group expects to maintain a high recovery rate by securing the supply of gold concentrates for the smelting segment.

Financial Condition

1. Combined Operating Results

Turnover

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

	2006			2005		
	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	1,617,183	10,426 kg	155,111	1,092,341	9,287 kg	117,620
Compound gold	13,812	88 kg	156,955	82,637	708 kg	116,719
From: Henan region	-	- kg	-	54,235	474 kg	114,420
Xinjiang region	13,812	88 kg	156,955	28,402	234 kg	121,376
Silver	80,846	28,151 kg	2,872	58,296	32,750 kg	1,780
Copper products	488,505	9,543 tonne	51,190	258,859	7,746 tonne	33,418
Sulphuric acid	32,862	160,799 tonne	204	37,581	145,827 tonne	258
Lead concentrates	9,069	72 kg	125,958	29,518	257 kg	114,856
	<hr/>			<hr/>		
Turnover before sales tax	2,242,277			1,559,232		
Less: Sales tax	(7,302)			(3,528)		
	<hr/>			<hr/>		
	2,234,975			1,555,704		

The Group's turnover for 2006 was approximately RMB2,234,975,000, representing an approximate 43.7% increase as compared with the previous year. Such increase was chiefly attributable to the increase of approximately 48.0% in the sales of gold bullion, as a result of the increases in our average selling price and quantity of gold bullion sold of approximately 31.9% and 12.3% respectively during the year.

The increase in turnover during the year was also due to the increase in the sale of copper products by approximately 88.7%, that is, from approximately RMB258,859,000 for 2005 to approximately RMB488,505,000 for 2006, of which the average price and sales volume of copper products increased by 53.2% and 23.2% respectively.

Cost of sales

The Group's cost of sales for 2006 was approximately RMB1,792,220,000, representing an approximate 45.1% increase from approximately RMB1,235,479,000 for 2005. Such increase was principally attributable to the increase of 48.5% in the cost of raw materials, especially gold concentrates, to RMB1,499,522,000 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 37.6%, that is, from approximately RMB99,580 per kg in 2005 to RMB137,010 per kg in 2006.

Gross profit and gross profit margin

The Group's gross profit and gross profit margin for 2006 were approximately RMB442,755,000 and approximately 19.8% respectively, representing an increase of approximately 38.3% and a decrease of 0.8% respectively as compared to 2005.

Other revenue

The Group's other revenue for 2006 was approximately RMB76,290,000, representing an approximate 547.8% increase as compared with the previous year. Such change was principally attributable to an increase in bank interest income amounted to RMB64,138,000.

Other net loss

The Group's other net loss for 2006 was approximately RMB26,718,000, representing an increase of 2,227.4% as compared with the previous year. Such increase was mainly attributable to the exchange loss of RMB25,689,000 arising from the one-off initial public offering of the Company during the year.

Selling and distribution expenses

The Group's selling and distribution expenses for 2006 were approximately RMB15,545,000, representing an increase of approximately 33.2% as compared with the previous year. Such increase was principally attributable to increase of transportation cost as a result of production volume increase.

Administrative expenses and other operating expenses

The Group's administrative expenses and other operating expenses for 2006 were approximately RMB108,228,000, representing an approximate 51.8% increase from approximately RMB71,299,000 for 2005. The increase was chiefly attributable to the addition gold mines in Xinjiang and Jiangxi.

Finance costs

The Group's finance costs for 2006 was approximately RMB31,213,000, representing an approximate 35.2% increase from approximately RMB23,085,000 for 2005. The increase was principally attributable to the bank and other borrowings which increased by approximately RMB532,850,000 in net amount to RMB938,270,000 for the year ended 31 December 2006.

Income tax

The PRC statutory income tax rate is 33%. The Group was subject to an effective income tax rate (being total income tax divided by the profit before taxation) of approximately 34.5% for 2006, representing an increase of approximately 2.7% from the effective income tax rate of 31.8% for 2005. The increase was principally attributable to the approximately RMB2,135,000 tax credit additionally granted by the local tax authority for purchasing domestically-produced machinery and equipment and the decrease in tax of RMB1,360,000 arising from the increase in non-taxable revenue.

Profit attributable to the Company's equity holders

The Group's profit attributable to our equity holders for 2006 was approximately RMB219,836,000 representing an approximate 42.2% increase from approximately RMB154,584,000 for 2005. The net profit margin for 2006 was approximately 9.8%, represent a decrease of 0.1% to that of approximately 9.9% in 2005. The Company's basic earning per share was RMB0.29. It was recommended for the payment of a dividend of RMB0.08 per share.

2. Liquidity and capital resources

The Group's primary sources of working capital and long-term funds 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 from:

	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Operating activities	173,212	63,379
Investing activities	(1,250,158)	(126,600)
Financing activities	1,306,350	104,576
Net cash inflow	<u>229,404</u>	<u>41,355</u>

Cash flows and working capital

The Group's cash and cash equivalents increased by approximately RMB229,404,000, that is, from approximately RMB117,861,000 at 31 December 2005 to approximately RMB347,265,000 at 31 December 2006. Such increase was primarily due to cash inflow arising from operating and financing activities offset by an increase in expenses for investing 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 from approximately RMB63,379,000 in 2005 to approximately RMB173,212,000 in 2006. This was mainly due to an increase in profit before tax of approximately 48.7% arising from rises in product prices and sales volume.

Net cash flows used in investing activities

The Group's net cash flows used in investing activities were primarily affected by purchase of property, plant and equipment and construction in progress. Net cash spent in investing activities for 2006 was RMB1,250,158,000. This was mainly due to restricted deposit of approximately RMB526,439,000 and investment deposit of approximately RMB460,162,000.

Net cash flows from financing activities

The Group's net cash flow from financing activities was primarily affected by issuance of new shares during the year and new bank loans. Net cash flow from financing activities was approximately RMB1,306,350,000. This was mainly due to the net proceeds of approximately RMB865,379,000 from issuance of new shares in 2006 and increase of approximately RMB532,850,000 in the bank loans (which offset repayment).

3. Borrowings

As at 31 December 2006, the Group had a total of outstanding bank loans and other borrowings of approximately RMB938,270,000 of which approximately RMB935,000,000 was repayable within one year while approximately RMB3,270,000 was repayable after five years. The gearing ratio as at 31 December 2006 was 33.8% which was based on total borrowing divided by total assets value.

4. Security

As at 31 December 2006, our bank loans of approximately RMB50,000,000 in aggregate were secured by properties with an aggregate net book value of approximately RMB38,275,000 and plant and equipment with an aggregate net book value of approximately RMB43,337,000.

5. Market risks

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

Gold price and other commodities price risk

The Group's turnover and profit during the year 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 supporting general corporate purposes, including capital expenditure and working capital needs. Our bank loans bear interest rates that are subject to adjustment made by our lenders in accordance with changes of 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.

Exchange rate risk

The Group's transactions are all denominated in Renminbi. Fluctuations in exchange rates may affect the international and domestic gold price, which may impact our results of operation. The Renminbi is not a freely convertible currency and the currency would fluctuate against a basket of currencies. The PRC government may take further actions and implement new measures on free trade of Renminbi. Fluctuations in exchange rates may adversely affect the value of our net assets, earnings and any dividends we declare when such are being converted to Hong Kong dollars.

6. Contractual obligations

As at 31 December 2006, capital commitments, including the construction costs not provided for in the financial statement, were approximately RMB294,403,000, representing an increase of approximately RMB11,761,000 from approximately RMB282,642,000 as at 31 December 2005.

As at 31 December 2006, our total future minimum lease payments under noncancellable operating leases amounted to approximately RMB2,487,000, of which approximately RMB695,000 was payable within one year, approximately RMB1,064,000 was payable after one year but within five years, and approximately RMB728,000 was payable after five years.

7. Contingent liabilities

As at 31 December 2006, the Group had no material contingent liabilities.

8. Human resources

During 2006, the average number of employees of the Group was 2,718. Being one of the largest integrated gold producing companies based in PRC, the Company highly treasures its human resources and offers competitive remuneration to employees and provides employees with training programs. In the first half of 2006, the Group has paid out cash bonus to most employees of the Group in recognition of their performance in 2005.

Corporate Governance

After our listing of H Shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 January 2006, the Company has complied with all Code Provisions under the Code on Corporate Governance Practices set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") save for the deviation from Code Provision A.2.1 (Division of responsibilities between the chairman and chief executive officer) and Code Provision 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 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. 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 reelection to take place in the next general meeting, were not adopted.

PURCHASE, SALES OR REDEMPTION OF SHARES OF THE COMPANY

For the year ended 31 December 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

DIVIDENDS

At the board meeting held on 24 April 2006, the Directors declared a final dividend of RMB8 cents per share in respect of the year ended 31 December 2006. Dividends of domestic shares shall be paid in Renminbi while dividends of H shares shall be paid in Hong Kong dollars.

CLOSURE OF REGISTER

The register of members of the Company will be closed from 15 May 2007 to 15 June 2007, (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for 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 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, 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 holders of domestic shares), no later than 4:00 p.m. on 14 May 2007.

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

Hong Kong, 24 April 2007

*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.*