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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
2006

Contents




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 Secretaries
Poon, Lawrence Chi Leung *(ASCPA, HKICPA)*
Zhao Jugang

Qualified Accountant
Poon, Lawrence Chi Leung *(ASCPA, HKICPA)*

Authorised Representatives
Jin Guangcai
Zhao Jugang

Alternate Authorised Representative
Poon, Lawrence Chi Leung *(ASCPA, 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
Dibb Lupton Alsop

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

Share Registrar and Transfer Office for H Shares
Computershare Hong Kong Investor Services Limited
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, 19th Floor, 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
Website	:	www.lbgold.com

Investor Relations

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Hong Kong
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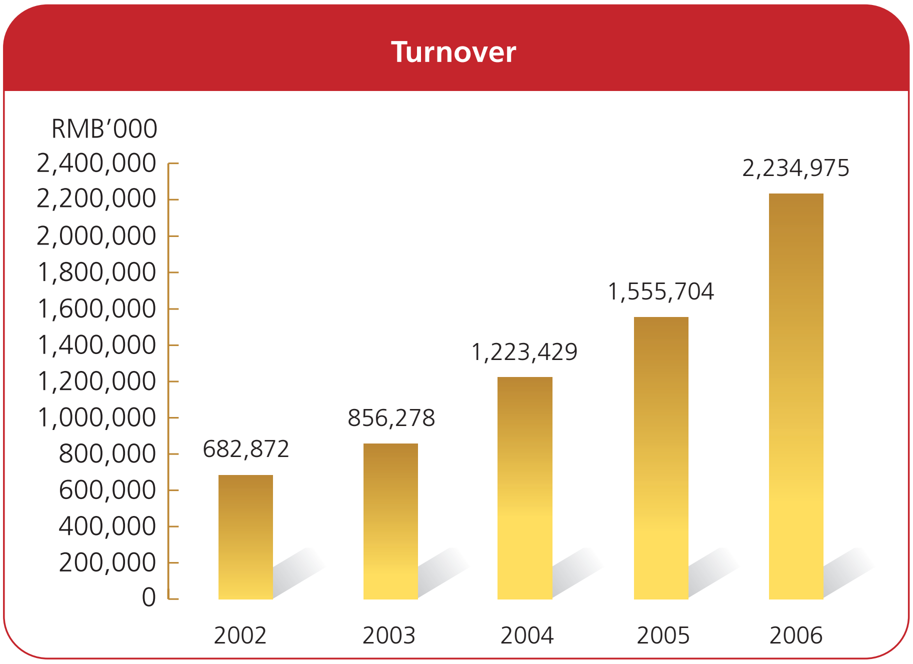
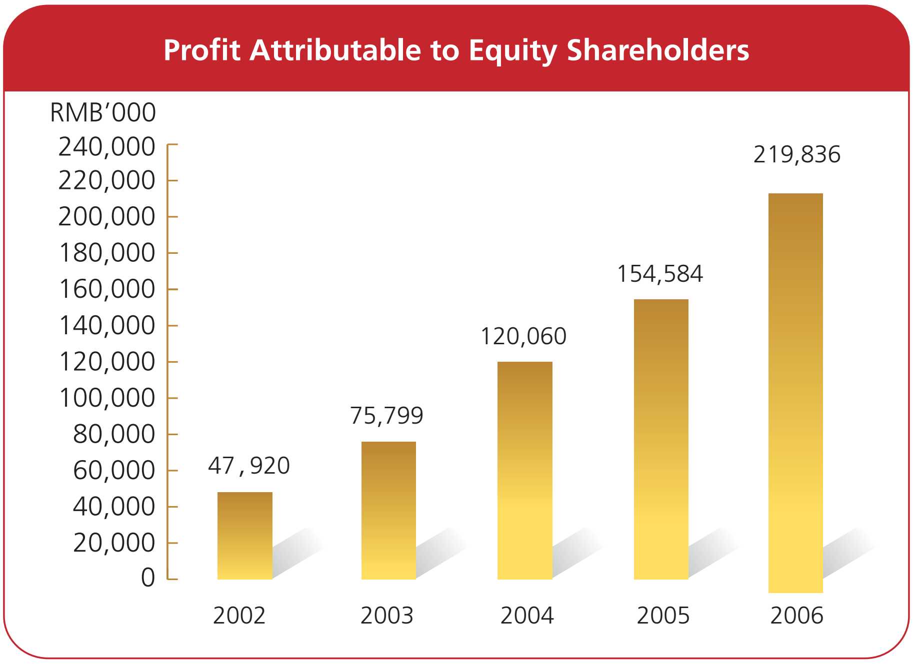
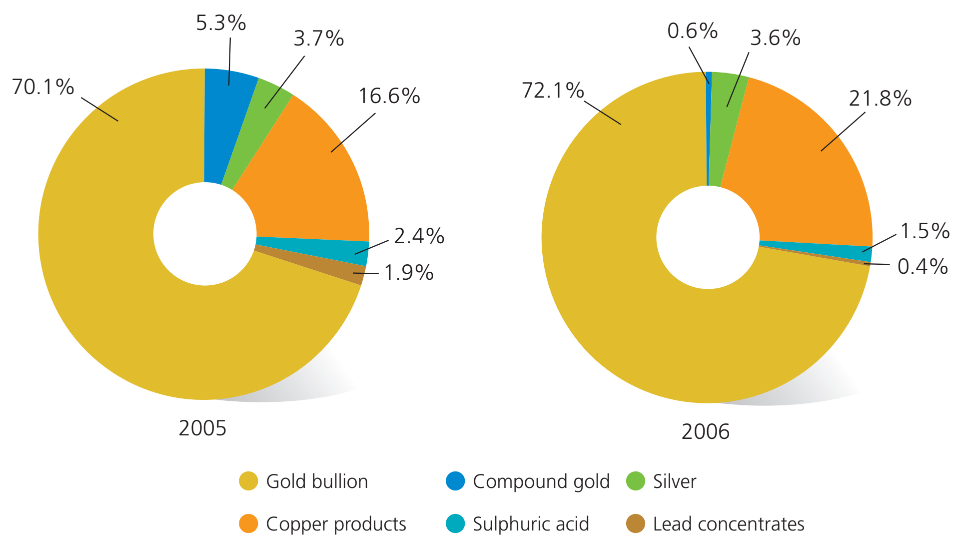
Financial Highlights





Sales Analysis by Products



Capital Resources

	2002 RMB'000	2003 RMB'000	2004 RMB'000	2005 RMB'000	**2006 RMB'000**
Total assets	469,640	609,774	809,907	1,055,462	**2,774,925**
Cash and cash equivalents	35,012	87,872	76,506	117,861	**431,647**
Bank and other borrowings	131,800	224,750	294,750	405,420	**938,270**
Shareholder equity	141,856	217,655	337,715	492,618	**1,516,213**

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 situated 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 four provinces in the PRC, including Henan, Xinjiang, Jiangxi and Inner Mongolia with 40 mining and exploration rights with a total area of 1,081.34 sq.km. The total gold reserve and resources as at 31 December 2006 was approximately 108.73 tonnes (approximately 3,496,000 ounce). In 2006, approximately 10,373 kg (approximately 333,499 ounce) of gold was produced with the profit attributable to equity shareholders amounting to RMB219,836,000. 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 2006.

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 2006, the Group had approximately 108.73 tonnes of remained gold reserves and resources. The Group has acquired 15 exploration rights and 2 mining rights in Jiangxi and Inner Mongolia during the period from 2006 to early 2007. The acquisition of resources and mining rights has increased the Group's gold reserves. The Group will continue to identify suitable acquisition opportunities in 2007.

Corporate Structure

The diagram below sets out our Corporate Structure as at the date of this report:

Chairman's Statement

Dear Shareholders,

I am pleased to announce the profit before tax of the Company of approximately RMB337,341,000 for the year ended 31 December 2006, representing a year-on-year growth of 48.7%. Profit attributable to equity shareholders of the Company amounted to RMB219,836,000 representing a year-on-year growth of 42.2%. Earnings per share of the Company was RMB0.29. The expected increase in profit attributable to shareholders of the Group in 2006 was mainly attributed to the advantage over the high selling price of the main products, the increase of production for mines in Xinjiang region and the improvement in technical index 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 RMB0.08 per share, the dividend yield is 28%.

Review for the Year 2006

Factors like international geographical politics and economy in 2006 aggregately improved and affected the gold market. The global economy also recorded a relatively steady growth. The international gold price has reached a new record high in the first half of the year, and remained high in the second half of the year. Benefited from (i) the high price of gold, and (ii) the advanced smelting technology and a better indicative control, the Group has recorded a steady successive growth in its results. According to the research conducted by China Gold Association, for the year 2006, the Company's production volume of gold represented approximately 5.8% of the total gold production in the PRC, the Company's production volume of smelted gold represented approximately 14.9% of the total production volume in the PRC, and the profit of the Company represented approximately 3.6% of the total profit earned in the gold industry in the PRC.

1. Focus on Acquisition and Expansion of Resources

During the year 2006, the Company completed the acquisition of various mines in Jiangxi and Inner Mongolia, resulting in an addition of 9 exploration rights covering an area of 144.72 sq.km. and 1 mining right covering an area of 1.68 sq.km. As at 31 December 2006, the Group had an aggregate of 33 exploration and mining rights covering an area of 841.25 sq.km., with remained gold reserves and resources of approximately 108.73 tonnes. Through acquisitions and integration, the Group successfully expanded its mining business to Xinjiang, Jiangxi and Inner Mongolia, where rich gold resources are available and which has further strengthened and reinforced the resource foundation of the Company for its future development.

2. Improved Technologies for Outstanding Results

Such problems as rock tensiled pressure and groundwater leakage at ore veins encountered with the mining works and exploration project have already been resolved, which is an valuable experience for the Company in developing deeper resources. The heap-leaching production in the Xinjiang mine enabled the Company to develop a new line of developing low grade ores while the newly completed waste water treatment facility in the Metallurgical Branch was a new trial for the Company in respect of recycling economy. Besides, the setup of 靈寶黃金天津地院研發中心 (Lingbao Gold Tianjin Geological Research and Development Centre), together with the research on mineralization across the region, has marked the Company's great success in integrating production and research and developing new technologies.

3. **Key Construction Projects on a Steady Move**

   A series of exploration and construction projects were implemented in 2006, including the Yinxin Mining Shaft Project - Phase II (崟鑫二期竪井工程), Qiangma Tunnel 14 Mining Shaft Project (槍馬西十四坑竪井工程) and Hongxin's 630 deeper Exploration Project (630深部探礦工程). Hahabe Huatai Gold Limited Liability Company in Xinjiang implemented four exploration shaft projects and an expansion project regarding processing facilities with a capacity of 1,000 tonnes. The expansion of the waste water facility and phase II of the smelter complex project of Gold Metallurgical Branch have also met with success. The implementation of the above projects has reinforced the development potential of the Company and prepared us for a steady improvement in terms of economic efficiency in 2007 as well as the couple years afterwards.

4. **Strengthening Cultural Cultivation and Fostering Corporate Solidarity**

   With our mission "to set foot on the mining industry and to produce quality gold", "harmony within the company, society and among staff" as our core value, and "stability, diligence, creation and efficiency" as keynote, the cultivation of our corporate culture in the second half of 2006 has achieved initial success and fostered our solidarity. In the past, smelting accounted for a higher proportion in the Company's businesses. However, with the acquired exploration projects gradually submitting exploration results, together with the facilities and commencement of production of the acquired mines, the proportion of mining business is to increase correspondingly in the coming year.

Business Outlook of the Year 2007

In the first quarter of 2007, the price of gold hovered at high level. Various reasons together will contribute a high price of gold. With the support of the market and price, the business of the Company has been given more room for further expansion. After the acquisition of resources in 2006, the business strategies of the Company in 2007 include:

1. Continuous concern in seeking mineral resources suitable for acquisition, further enhance gold reserves and production of the Company;

2. Streamline of corporate management, continuous dedication in improving operation and enhancing cost control;

3. More employment and training of expertise to be in line with growing scale of the Company, ensuring skilled expertise and various professionals can satisfy the Company's need of development;

4. More scientific strategy, regulated operations, systematic execution, institutionalized management, standard workflow and construction of information reflection, reinforce the execution of the decisions of the Company, and ensure a strategic development of the Company while at the process of the expansion.

The Company will continue to explore more business opportunities proactively and prudently, and by virtue of (i) high gold price; (ii) advanced processing and refining technology and equipment and (iii) highly effective integrated capability of recovering gold, silver, copper and sulphur, the Group believe that the Company will continue to bring stable benefit through investment in the coming years.

Chairman's Statement

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
24 April 2007

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 404 kg (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 earnings 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

Management Discussion and Analysis

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 tonnes per day currently to 3,000 tonnes 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** Approximate production volume	**2006** Approximate sales volume	2005 Approximate production volume	2005 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.

Management Discussion and Analysis

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
Turnover before sales tax	**2,242,277**			1,559,232		
Less: Sales tax	**(7,302)**			(3,528)		
	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.

Management Discussion and Analysis

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
	RMB'000	RMB'000
Operating activities	**173,212**	63,379
Investing activities	**(1,250,158)**	(126,600)
Financing activities	**1,306,350**	104,576
Net cash inflow	**229,404**	41,355

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 issurance 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 approximatley 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. Acquisition

On 30 June 2006, the Group completed the acquisition of 100% equity interests in Shangrao County Jintian Industrial Company Limited, a mining company which owns an exploration right in Jiangxi Province, at a cash consideration of RMB7,120,000. On the same date, the Group has further injected capital of RMB37,500,000 to the company.

On 2 August 2006, the Group entered into an agreement to acquire 80% equity interests in Chi Feng City Zheng Ji Mining Limited Company, a mining company which owns an exploration right in Inner Mongolia Autonomous Region, at a cash consideration of RMB68,640,000.

Management Discussion and Analysis

According to a valuation report issued by an independent certified mining rights valuer, approximately 16.8 tonnes of gold resource was identified in the area covered by the exploration right. The Group's geographical area of operation was thus expanded to Inner Mongolia Autonomous Region.

On 12 December 2006, the Group completed the acquisition of 100% equity interest in Wuyuan Country Jincheng Mining Company Limited at a consideration of RMB12,800,000.

6. 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.

7. 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 a 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.

8. Contingent liabilities

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

9. 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.

Profile of Directors, Supervisors and Senior Management

Directors

Executive Directors

Mr. Xu Gaoming（許高明先生）, aged 48, 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 28 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 48, 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 25 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 44, 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 21 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 40, 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 nine 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 47, 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.

Mr. Di Qinghua (狄清華先生), aged 38, 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 64, 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 51, 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 58, 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), Henan Province Entrepreneurs' Association (河南省企業家協會), and 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 39, an independent non-executive director. He is an executive director of Vision Finance (Capital Limited) a license Corporate under the Securities and Futures Ordinance which is engaged in advising on merger and acquisition and 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.

Profile of Directors, Supervisors and Senior Management

Mr. Zheng Jinqiao（鄭錦橋先生）, aged 43, 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 52, 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 52, 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 45, 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 54, 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.

Mr. Lei Mingyang（雷明陽先生）, aged 42, 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 54, 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 35, 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. Poon, Lawrence Chi Leung（潘之亮先生）, aged 32, 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. Poon graduated from Monash University, Australia, with a Bachelor degree in Business. He is a Certified Practising Accountant of CPA Australia and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Poon has over 10 years' experience in auditing, accounting and finance. Mr. Poon was appointed as the qualified accountant and the joint company secretary of the Company in March 2007.

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 procedures 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 the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") except for the code provisions 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 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 appointment of the Directors (including the non-executive Directors and independent non-executive 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 business for years with rich experience. They are 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.

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, there is not any financial, business, family or other material relationships amongst members of the Board.

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 Directors 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 joint company secretaries, 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 joint company secretaries that they have an obligation to provide the Board and its committees with adequate, complete and reliable information in a timely manner. All Directors have access to board papers and related materials which will enable the Board to make an informed decision on matters placed before it. Steps are taken to respond to enquires raised by Directors as fully as possible.

For the year ended 31 December 2006, the Board of Directors of the Company held 10 meetings to discuss and approve various important matters. All such meetings were convened in accordance with the Articles of Association. The table below lists the attendance of each Director at the Board 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 Board meetings that the Director was entitled to attend	The number of Board meetings that the Director attended	Attendance (%)
Mr. Xu Gaoming	10	10	100
Mr. Wang Jianguo	10	10	100
Mr. Lu Xiaozhao	10	10	100
Mr. Jin Guangcai	10	10	100
Mr. Xu Wanmin	10	10	100
Mr. Di Qinghua	10	10	100
Mr. Qi Guozhong	10	10	100
Mr. Ning Jincheng	10	10	100
Mr. Wang Yanwu	10	10	100
Mr. Niu Zhongjie	10	10	100
Mr. Zheng Jinqiao	10	10	100

Prior to each regular Board meeting, the management of the Company shall submit materials relevant to the affairs to be 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.

Corporate Governance Report

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 have been appointed to fill a casual vacancy of the Board be eligible for 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 at the next general meeting, was 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 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)

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 2006.

(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 Rule 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

Corporate Governance Report

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 provision 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.

Details of audit committee meetings held during the year are as follows:–

Director	Number of meetings of audit committee in 2006	The number of meetings that Director attended	Attendance (%)
Zheng Jinqiao	2	1	50%
Xu Wanmin	2	2	100%
Ning Jincheng	2	2	100%
Wang Yanwu	2	2	100%
Niu Zhongjie	2	2	100%

In 2006, two meetings of the audit committee were held. On 11 April 2006, the Audit Committee met with the international auditors to discuss the general scope of their audit work. On 25 August 2006, the audit committee had reviewed the Company's interim report for the year 2006. In addition, the audit committee had reviewed the financial statements for the year ended 31 December 2006 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 internal control policies.

(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.

The nomination committee comprises of the following members, a majority of which are independent non-executive Directors:

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 for selection 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.

In 2006, no meeting of the nomination committee was held.

(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

Corporate Governance Report

The main duties of the remuneration and review committee include: (a) formulating and making recommendation to the Board policy and structure for 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 and review 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.

The remuneration and review committee will also ensure that none of the Directors or any of their 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.

In 2006, one meeting of the remuneration and review committee was held. Attendence of individual members of remuneration and review committee to the committee meeting in 2006 are as follows:

Director	The number of meetings of remuneration and review committee in 2006	The number of meetings that member of committee attended	Attendance (%)
Mr. Wang Yanwu	1	1	100
Mr. Zheng Jinqiao	1	1	100
Mr. Ning Jincheng	1	1	100
Mr. Xu Wanmin	1	1	100
Mr. Niu Zhongjie	1	1	100

The remuneration and review committee had considered the annual salary review as well as bonus plan of Directors and senior management of the Company for 2006.

Breakdown of the Directors' and the supervisors' remuneration for the year ended 31 December 2006 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 has made specific enquiry of all Directors to ensure that Directors and supervisors of the Company who have conformed that they have complied with the Model Code in trading the Company's securities in 2006.

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 discussed at Board meetings complete with reliable information having 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.

Corporate Governance Report

Joint company secretaries

The joint company secretaries shall directly be responsible to the Board of Directors. They are 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 joint company secretaries act as the principal channel of communication between the Company and the Stock Exchange. They also assist 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 which 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 45 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 of the Company.

Auditors' Remuneration

The Company's international auditors are KPMG. As considered and approved at the meeting of the audit committee held by the Company on 23 April 2007, the audit fee of the Company for the year ended 31 December 2006 was approximately RMB2.8 million.

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 its 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 performed internal control assessment in the second half of 2006. The Board has concluded that the Company should strengthen its internal control policies especially in the area of investment management.

Investor relations and communications with shareholders

The Company highly values its relationship with its investors and shareholders. It maintains amicable 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 better understanding of the Company's financial position, production operations, management decisions, overall strategic directions and latest development.

Voting by Poll

At the upcoming 2006 annual general meeting of the Company to be held on 15 June 2007, the Chairman will demand a poll on all resolutions and explain the procedures for conducting the poll. The procedures for demanding a poll by the shareholders are incorporated in the circular accompanying this report.

Each substantially separate issue will 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 2006, two supervisory committee meetings were held by the supervisory committee. The supervisory committee of the Company aimed at protecting the interest of shareholders and the Company, strictly complied with the requirements of Company Act, Articles of Association and related laws and regulations when fulfilling duties.

2. Independent Work Report of the Supervisory Committee

In 2006, the supervisory committee aimed at protecting the interest of the Company and the rights of medium and small shareholders in a down-to-earth manner, duly performed the duties of the supervisory committee, monitored aspects such as capital operations, operating management, financial status and fulfillment of obligations by senior management and expressed opinion comprehensively.

i. Legal Compliance of the Company's Operations

The Board of the Company conscientiously carried out various resolutions according to the relevant resolutions in general meetings, during which its decision-making procedures were in compliance with the relevant requirements of the Company Act and the Articles and Association. It also set up rules and systems for internal control, project investment management, connected transactions, resources purchase and project tendering management. None of the officers, including directors and managers, were aware of any violations of the laws, regulations and articles of association or any act which would prejudice the Company's interests.

ii. Inspection of the Financial Status of the Company

In 2006, the Supervisory Committee reviewed the financial system and position of the Company and considered that the financial report for 2006 truly reflected its financial position and operating results. At the interim and end of 2006, Peking Certified Public Accountants in the PRC and KPMG outside of the PRC audited the Company's interim and year-end financial statements and issued unqualified auditor reports, which have been reviewed by the Supervisory Committee without opinion.

iii. Acquisition of Assets

For the year 2006, the Supervisory Committee deemed the consideration paid by the Company for the acquisition of assets as reasonable and was not aware of any insider dealing or any act which would prejudice the interests of the Company and the Shareholders.

iv. 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.

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 2006, the annual electricity fee paid by the Group to Lingbao Electric amounted to RMB50,191,000. It is estimated that the annual electricity fee payable by the Group to Lingbao Electric for the financial year ended 31 December 2007 will not exceed approximately RMB67,600,000.

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.

Supervisors' Report

v. External Guarantees

The Company had no external guarantees in 2006.

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

In 2006, 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 2006.

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, 19th Floor, 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 1 and 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	71.7%	
Five largest customers in aggregate	86.7%	
The largest supplier		16.2%
Five largest suppliers in aggregate		29.0%

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 2006 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 47 to 120.

Transfer to Reserves

Profits attributable to shareholders, before dividends, of RMB219,836,000 (2005: RMB154,584,000) have been transferred to reserves. Other movements in reserves are set out in note 31 to the financial statements.

Dividend

A dividend of RMB0.08 for 2005 was paid during the year. At the board meeting held on 24 April 2007, the Directors declared a final dividend of RMB0.08 per share (2005: RMB0.08) in respect of the year ended 31 December 2006.

Directors' Report

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

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 31 to the financial statements.

Purchase, Sale or Redemption of Shares of the Company
There were no purchase, sale or redemption of the Company's securities by the Company or any of its subsidiaries for the year ended 31 December 2006.

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
Zheng Jinqiao

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 20 to 23 of the annual report.

Highest Paid Individuals
During the year, the relevant information of the five individuals with the highest remuneration in the Group is disclosed 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 Directors and senior management with reference to their duties, responsibilities, performance and results of the Group.

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.

Continuing Connected Transactions

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 2006, the annual electricity fee paid by the Group to Lingbao Electric amounted to RMB50,191,000. It is estimated that the annual electricity fee payable by the Group to Lingbao Electric for the two financial years ending 31 December 2007 will not exceed approximately RMB67,600,000.

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

The Company became a listed company on 12 January 2006. As at 31 December 2006, 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 Securities and Futures Ordinance ("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 as set out in Appendix 10 of the Listing Rules, 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:

Name of Director/ Supervisor	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	Interest of controlled corporation *(Note 1)*	18,000,000	3.80%	2.33%
Mr. Guo Xuchang (郭續長先生)	the Company	Interest of controlled corporation *(Note 2)*	12,250,000	2.58%	1.59%

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

The Company became a listed company on 12 January 2006. As at 31 December 2006, 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:

Name	Number of Domestic Shares	Capacity	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 owner	79.04%	48.53%
Sanmenxia Jinqu Group Company Limited ("Sanmenxia Jinqu") *(Note 3)* (三門陝金渠集團有限公司)	37,698,784	Beneficial owner	7.97%	4.89%

Name	Number of H shares	Capacity	Approximate percentage of the total issued H shares share capital	Approximate percentage of the total share capital
Ward Ferry Management (BVI) Limited	18,928,000	Investment manager	6.36%	2.45%

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 31 December 2006.

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.

3. Mr. Qi Guozhong（戚國忠先生）, a non-executive Director, is the chairman and legal representative of Sanmenxia Jinqu.

Save as disclosed above, as at 31 December 2006, so far as the Directors are aware, there are no other persons, other than the Directors, supervisors and chief executive of the Company, who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 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 Directors 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 "Directors, Supervisors and Chief Executive" above, 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 2006 are set out in note 28 and 29 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. As at 31 December 2006, the proceeds used by the Company amounted to HKD442,194,000 for the following main purposes:

In July 2006, an amount of HKD36,457,000 of the proceeds was used by the Company as injected capital to Shangrao County Jintian Industrial Company Limited in Jiangxi; HKD55,414,000 as an addition to the general working capital; and HKD51,929,000 for acquiring equity interests in Chi Feng City Zheng Ji Mining Limited Company.

In September 2006, an amount of HKD79,126,000 was paid by the Company for expanding phase two of the smelter project; HKD82,345,000 for acquiring equity interests in Shaanxi Jiusheng Mining Limited Company (陝西久盛礦業有限公司); and HKD41,314,000 for deep underground exploration in the advanced exploration areas of Xiaoqinling, namely Qiangma Gold Mine and Yinxin Gold Mine.

In November 2006, an amount of HKD30,680,000 of the proceeds was used by the Company for the construction of a new plant for Shangrao County Jintian Industrial Company Limited in Jiangxi.

In December 2006, an interest of HKD10,980,000 from the bank deposits of the proceeds was used as an addition to 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 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 the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's H share 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 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 14 May 2007.

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 issue of this report.

Directors' Report

Five Years Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 121 and 122 of the annual 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 2006, 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, 24 April 2007

Independent Auditor's Report

To the shareholders of
Lingbao Gold Company Ltd.
(Incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Lingbao Gold Company Ltd. (the "Company") set out on pages 47 to 120, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

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

Independent Auditor's Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

24 April 2007

Consolidated Income Statement

For the year ended 31 December 2006

	Note	**2006** **RMB'000**	2005 RMB'000
Turnover	*3*	**2,234,975**	1,555,704
Cost of sales	*4*	**(1,792,220)**	(1,235,479)
Gross profit		**442,755**	320,225
Other revenue	*5*	**76,290**	11,777
Other net loss	*6*	**(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	*8(a)*	**(31,213)**	(23,085)
Profit before taxation	*8*	**337,341**	226,793
Income tax	*9(a)*	**(116,509)**	(72,017)
Profit for the year		**220,832**	154,776
Attributable to:			
Equity shareholders of the Company	*31(a)*	**219,836**	154,584
Minority interests	*31(a)*	**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	*13*	**61,620**	61,620
Earnings per share (cents)	*14*		
Basic		**29**	31
Diluted		**29**	31

The notes on pages 55 to 120 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2006

	Note	**2006 RMB'000**	2005 RMB'000
Non-current assets			
Property, plant and equipment	*16*	**292,115**	246,132
Construction in progress	*17*	**254,533**	110,834
Intangible assets	*18*	**194,878**	81,873
Goodwill	*19*	**4,824**	4,716
Lease prepayments	*20*	**8,976**	9,229
Other investments	*22*	**10,504**	10,504
Deposits for long term investments	*23*	**460,162**	–
Deferred tax assets	*24(b)*	**12,646**	15,627
		1,238,638	478,915
Current assets			
Inventories	*25*	**435,010**	291,757
Trade and other receivables, deposits and prepayments	*26*	**227,573**	166,412
Current tax recoverable	*24(a)*	**–**	517
Deposits with banks	*27*	**442,057**	–
Cash and cash equivalents	*27*	**431,647**	117,861
		1,536,287	576,547
Current liabilities			
Bank loans	*28*	**935,000**	292,150
Trade and other payables	*30*	**276,189**	143,292
Current tax payable	*24(a)*	**15,446**	2,076
		1,226,635	437,518
Net current assets		**309,652**	139,029
Total assets less current liabilities		**1,548,290**	617,944
Non-current liabilities			
Bank loans	*28*	**–**	110,000
Other loan	*29*	**3,270**	3,270
Deferred tax liabilities	*24(b)*	**1,149**	2,554
		4,419	115,824
NET ASSETS		**1,543,871**	502,120

	Note	**2006** **RMB'000**	2005 RMB'000
CAPITAL AND RESERVES			
Share capital	*31(a)*	**154,050**	100,000
Reserves		**1,362,163**	392,618
Total equity attributable to equity shareholders of the Company	*31(a)*	**1,516,213**	492,618
Minority interests	*31(a)*	**27,658**	9,502
TOTAL EQUITY		**1,543,871**	502,120

Approved and authorised for issue by the board of directors on 24 April 2007.

Xu Gaoming
Executive director and chairman

Wang Jianguo
Executive director

The notes on pages 55 to 120 form part of these financial statements.

Balance Sheet

At 31 December 2006

	Note	2006 RMB'000	2005 RMB'000
Non-current assets			
Property, plant and equipment	*16*	**233,317**	209,699
Construction in progress	*17*	**145,594**	81,626
Intangible assets	*18*	**26,815**	35,662
Lease prepayments	*20*	**8,875**	9,128
Investments in subsidiaries	*21*	**223,930**	47,100
Other investments	*22*	**10,504**	10,504
Deposits for long term investments	*23*	**451,800**	–
Deferred tax assets	*24(b)*	**7,012**	12,203
		1,107,847	405,922
Current assets			
Inventories	*25*	**415,621**	282,631
Trade and other receivables, deposits and prepayments	*26*	**205,187**	155,606
Amounts due from subsidiaries	*21*	**195,647**	94,170
Current tax recoverable	*24(a)*	**–**	517
Deposits with banks	*27*	**442,057**	–
Cash and cash equivalents	*27*	**390,471**	94,401
		1,648,983	627,325
Current liabilities			
Bank loans	*28*	**935,000**	292,150
Trade and other payables	*30*	**238,787**	133,030
Current tax payable	*24(a)*	**8,812**	–
Amounts due to subsidiaries	*21*	**54,347**	–
		1,236,946	425,180
Net current assets		**412,037**	202,145
Total assets less current liabilities		**1,519,884**	608,067
Non-current liabilities			
Bank loans	*28*	**–**	110,000
Other loan	*29*	**3,270**	3,270
		3,270	113,270
NET ASSETS		**1,516,614**	494,797

	Note	**2006** **RMB'000**	2005 RMB'000
CAPITAL AND RESERVES			
Share capital	*31(b)*	**154,050**	100,000
Reserves		**1,362,564**	394,797
TOTAL EQUITY	*31(b)*	**1,516,614**	494,797

Approved and authorised for issue by the board of directors on 24 April 2007

Xu Gaoming
Executive director and chairman

Wang Jianguo
Executive director

The notes on pages 55 to 120 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Note	2006 RMB'000	2005 RMB'000
Total equity at 1 January		**502,120**	339,650
Movements in equity arising from capital transactions:			
Movements in share capital			
– Shares issued under the placing and public offer		**54,050**	–
– Net share premium received		**811,329**	–
Capital contributions from minority interests		**–**	1,100
Purchase of net assets	*34*	**17,160**	–
Acquisition through business combination	*35*	**–**	6,275
Surplus on revaluation of land and buildings held for own use, net of deferred tax		**–**	319
		882,539	7,694
Net profit for the year:			
Attributable to:			
– Equity shareholders of the Company		**219,836**	154,584
– Minority interests		**996**	192
		220,832	154,776
Dividend declared and approved during the year	*13*	**(61,620)**	–
Total equity at 31 December		**1,543,871**	502,120

The notes on pages 55 to 120 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	2006 RMB'000	2005 RMB'000
Operating activities		
Profit before taxation	**337,341**	226,793
Adjustments for:		
– Write back of deficit on revaluation of property, plant and equipment	**–**	(1,991)
– Depreciation	**31,142**	31,057
– Finance costs	**31,213**	23,085
– Interest income from bank deposits	**(64,708)**	(570)
– Impairment losses on trade and other receivables made/(written back)	**22**	(2,158)
– Loss on disposal of property, plant and equipment	**941**	1,008
– Amortisation of lease prepayments	**329**	254
– Amortisation of intangible assets	**10,811**	10,938
– Dividend income from unlisted securities	**–**	(2,100)
Operating profit before changes in working capital	**347,091**	286,316
Increase in inventories	**(142,741)**	(95,444)
Increase in trade and other receivables, deposits and prepayments	**(41,605)**	(10,101)
Decrease in amount due from a fellow subsidiary	**–**	15,751
Increase/(decrease) in trade and other payables	**110,672**	(42,376)
Cash generated from operations	**273,417**	154,146
PRC income tax paid	**(100,205)**	(90,767)
Net cash generated from operating activities	**173,212**	63,379

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Note	**2006 RMB'000**	2005 RMB'000
Investing activities			
Interest received		**55,041**	570
Increase in restricted deposits		**(526,439)**	–
Payment for purchase of property, plant and equipment		**(51,945)**	(20,362)
Proceeds from sales of property, plant and equipment		**1,188**	3,453
Payment for construction in progress		**(156,814)**	(86,422)
Payment for purchase of net assets	*34*	**(82,199)**	–
Payment for acquisition of subsidiaries	*35*	**–**	(16,473)
Payment for purchase of land use rights		**–**	(178)
Payment for purchase of intangible assets		**(28,828)**	(10,188)
Payment for investments deposits		**(460,162)**	–
Dividends received from other investments		**–**	3,000
Net cash used in investing activities		**(1,250,158)**	(126,600)
Financing activities			
Proceeds from issuance of shares by placing and public offer	*31(a)*	**936,737**	–
Listing expenses	*31(a)*	**(71,358)**	–
Decrease in pledged deposits		**–**	20,045
Proceeds from new bank loans		**875,000**	687,150
Repayment of bank loans		**(342,150)**	(579,750)
Proceeds from other loan		**–**	3,270
Interest paid		**(30,259)**	(27,239)
Dividends paid		**(61,620)**	–
Capital contributions from minority interests		**–**	1,100
Net cash from financing activities		**1,306,350**	104,576
Net increase in cash and cash equivalents		**229,404**	41,355
Cash and cash equivalents at 1 January		**117,861**	76,506
Cash and cash equivalents at 31 December	*27*	**347,265**	117,861

The notes on pages 55 to 120 form part of these financial statements.

Notes to 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.

The Company's H shares were successfully listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 January 2006. Together with the full exercise of the over-allotment option by BOC International Holdings Limited on 16 January 2006, an aggregate of 270,249,091 shares of a nominal value of RMB0.20 each were issued at a price of HK$3.33 per share upon the listing of the Company's shares on the Main Board of the Stock Exchange. The Group raised RMB865,379,000 (net of related expenses) from the offer.

As part of the global initial public offering, 27,024,909 Domestic shares of RMB0.20 each owned by Lingbao State-owned Assets Operation Limited Liability Company and two other state-owned entities were converted into 27,024,909 H shares.

The principal activities of the Company are the mining, processing, smelting and sales of gold and other metallic products in the PRC as well as an investment holding company. The registered office of the Company is Xin Village, Yinzhuang Town, Daonan Industrial Area, Lingbao, Henan, the PRC.

Notes to the Financial Statements

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.

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 (note 40).

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2006 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 is 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.

2 Significant accounting policies (continued)

(b) Basis of preparation of the financial statements (continued)

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a risk of material adjustment in the next year are discussed in note 38.

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group 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.

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 represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet 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 interests 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)).

Notes to the Financial Statements

2 Significant accounting policies (continued)

(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.

(e) Other investments

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

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 2(l)). Cost includes all attributable transaction costs.

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

(f) Property, plant and equipment

Property, plant and equipment are initially recognised in the balance sheets 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.

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.

2 Significant accounting policies (continued)

(f) Property, plant and equipment (continued)

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.

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 profit or loss. 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. Any related revaluation surplus is transferred from the revaluation reserve to retained profits.

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	2 – 50 years
Plant and machinery	4 – 12 years
Transportation equipment	8 years
Office and electronic equipment	5 – 10 years

Notes to the Financial Statements

2 Significant accounting policies (continued)

(f) Property, plant and equipment (continued)

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 basics 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.

(g) Intangible assets (other than goodwill)

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.

Other intangible assets that are acquired by the Group are stated in the consolidated balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(l)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(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.

2 Significant accounting policies (continued)

(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 capitalised are 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 profit or loss on a straight-line basis over the respective periods of the rights which range from 30 to 50 years.

(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 other 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 at discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised. Impairment losses for equity securities are not reversed.

Notes to the Financial Statements

2 Significant accounting policies (continued)

(l) Impairment of assets (continued)

(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;
- investments in subsidiaries;
- mining rights;
- exploration rights;
- exploration and evaluation assets;
- 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.

- 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).

2 Significant accounting policies (continued)

(l) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– 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.

(m) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(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.

Notes to the Financial Statements

2 Significant accounting policies (continued)

(m) Leased assets (continued)

(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.

(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.

2 Significant accounting policies (continued)

(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.

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.

Notes to the Financial Statements

2 Significant accounting policies (continued)

(q) Income tax (continued)

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 profits 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 the amount initially recognised and redemption value being recognised in the profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(s) Provisions and contingent liabilities

(i) Contingent liabilities acquired in business combinations

Contingent liabilities acquired as part of a business combination are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 2(s)(ii). Contingent liabilities acquired in a business combination that cannot be reliably fair valued are disclosed in accordance with note 2(s)(ii).

(ii) Other 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 subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

Notes to the Financial Statements

2 Significant accounting policies (continued)

(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 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.

(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 the 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 deducted in arriving at the carrying amount of the asset and consequently recognised in the profit or loss over the useful life of the asset.

2 Significant accounting policies (continued)

(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 profit or loss 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 profit and loss 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 foreign 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.

The results of foreign operations are translated into Renminbi at the exchange rate approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Renminbi at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is include din the calculation of the profit or loss on disposal.

Notes to the Financial Statements

2 Significant accounting policies (continued)

(y) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit or employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(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.

2 Significant accounting policies (continued)

(z) Segment reporting (continued)

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.

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:

	2006 **RMB'000**	2005 RMB'000
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)
	2,234,975	1,555,704

4 Cost of sales

	2006 **RMB'000**	2005 RMB'000
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)
	1,792,220	1,235,479

Cost of sales relating to staff costs, depreciation and amortisation expenses are included in the respective total amounts disclosed in notes 7 and 8 for each of these types of expenses.

Notes to the Financial Statements

5 Other revenue

	2006	2005
	RMB'000	RMB'000
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
	76,290	11,777

6 Other net loss

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

7 Staff costs

	2006	2005
	RMB'000	RMB'000
Salaries, wages and bonuses	**68,066**	54,110
Staff welfare	**9,246**	7,762
Contributions to retirement benefit schemes	**3,419**	2,708
	80,731	64,580

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 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.

8 Profit before taxation

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

		2006 RMB'000	2005 RMB'000
(a)	Finance costs:		
	Interest expense on bank advances wholly repayable within five years	**30,726**	23,080
	Interest on other loan	**89**	5
	Other borrowing costs	**398**	–
		31,213	23,085
(b)	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
	Auditors' remuneration		
	– audit services	**2,289**	1,400
	– other services	**750**	–
	Total amortisation of intangible assets	**17,510**	10,938
	Less: Amortisation capitalised into exploration and evaluation assets	**(6,699)**	–
		10,811	10,938
	Total depreciation	**31,522**	31,057
	Less: Depreciation capitalised into construction in progress	**(380)**	–
		31,142	31,057

Notes to the Financial Statements

9 Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

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

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

	2006 RMB'000	2005 RMB'000
Profit before taxation	**337,341**	226,793
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdiction concerned	**111,323**	74,842
Tax effect of non-deductible expenses	**2,858**	1,330
Tax effect of non-taxable income	**–**	(1,360)
Additional tax credit	**–**	(2,135)
Underprovision in respect of prior year	**24**	–
Others	**2,304**	(660)
Actual tax expense	**116,509**	72,017

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% (2005: 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.

10 Directors' and supervisors' remuneration

Directors' and supervisors' remuneration comprises 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 2006

	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	–	1,045	4	–	1,049
Mr. Wang Jianguo	–	940	4	–	944
Mr. Lu Xiaozhao	–	727	4	–	731
Mr. Jin Guangcai	–	727	4	–	731
Non-executive directors					
Mr. Di Qinghua	–	–	–	–	–
Mr. Qi Guozhong	–	–	–	–	–
Mr. Xu Wanmin	–	–	–	–	–
Independent non-executive directors					
Mr. Ning Jincheng	–	50	–	–	50
Mr. Wang Yanwu	–	50	–	–	50
Mr. Zheng Jinqiao	–	50	–	–	50
Mr. Niu Zhongjie	–	120	–	–	120
Mr. Du Haibo	–	–	–	–	–
Supervisors					
Mr. Gao Yang	–	727	4	–	731
Mr. Meng Fanrui	–	–	–	–	–
Mr. Guo Xuchang	–	–	–	–	–
Mr. Guo Jizi	–	–	–	–	–
Mr. Liu Hua	–	–	–	–	–
Mr. Peng Jinzeng	–	70	–	–	70
Mr. Lei Mingyang	–	36	–	–	36
Total	–	4,542	20	–	4,562

Notes to the Financial Statements

10 Directors' and supervisors' remuneration (continued)

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

11 Individuals with highest emoluments

The five highest paid individuals of the Group for the year ended 31 December 2006 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 RMB218,058,000 (2005: RMB155,069,000) which has been dealt with in the financial statements of the Company (note 31(b)).

13 Dividends

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2006	2005
	RMB'000	RMB'000
Final dividend proposed after the balance sheet date of RMB0.08 per ordinary share (2005: RMB0.08 per ordinary share)	**61,620**	61,620

Pursuant to a resolution passed at the directors' meeting on 24 April 2007, a final dividend in respect of the year ended 31 December 2006 of RMB0.08 (2005: RMB0.08) per share totalling RMB61,620,000 (2005: RMB61,620,000) was proposed for shareholders' approval at the annual general meeting. Final dividend of RMB61,620,000 (2005: RMB61,620,000) proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2006	2005
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.08 per ordinary share (2005: RMB Nil)	**61,620**	–

Notes to the Financial Statements

14 Earnings per share

(a) Basic 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	2005
	'000	'000
Issued ordinary shares at 1 January #	**500,000**	500,000
Effect of shares issued pursuant to the placing and public offering	**261,718**	–
Weighted average number of ordinary shares at 31 December	**761,718**	500,000

Share capital of the Company was sub-divided from one Domestic share of a nominal value of RMB1.00 into five Domestic shares of a nominal value of RMB0.20 each on 12 June 2005. Issued share capital at 1 January 2005 represented shares of the Company in issue after the sub-division, as if the shares had been outstanding since 1 January 2005.

(b) Diluted earnings per share

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 in (a) above.

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.

15 Related party transactions (continued)

Particulars of significant transactions between the Group and the above related parties during the year ended 31 December 2006 and 2005 are as follows:

(a) Recurring transactions

	2006 **RMB'000**	2005 RMB'000
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)	**50,191**	43,996
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.

(b) Non-recurring transaction

	2006 **RMB'000**	2005 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 transaction was conducted on normal commercial terms and in the ordinary course of business.

Notes to the Financial Statements

15 Related party transactions (continued)

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

The Group operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC government ("state-controlled entities") through its government authorities, agencies, affiliations and other organisations.

Transactions with other state-controlled entities include but are not limited to the following:

– sales and purchase of goods and ancillary materials;

– rendering and receiving of utilities and other services;

– purchase of property, plant and equipment; and

– obtaining finance.

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state-controlled. The Group has established its buying, pricing strategy and approval process for purchases and sales of products and services. Such buying, pricing strategy and approval processes do not depend on whether the counterparties are state-controlled entities or not.

Having considered the potential for transactions to be impacted by related party relationships, the entity's pricing strategy, buying and approval processes, and what information would be necessary for an understanding of the potential effect of the relationship on the financial statements; the directors are of the opinion that there are no transactions that require disclosure as related party transactions.

(d) Key management personnel remuneration

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

	2006	2005
	RMB'000	RMB'000
Short-term employee benefits	**5,562**	4,765
Post-employment benefits	**20**	21
	5,582	4,786

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 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 35)*	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 35)*	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

Notes to the Financial Statements

16 Property, plant and equipment (continued)

The Group (continued)

	Buildings	Mining shafts	Plant and machinery	Transportation equipment	Office and electronic equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost or valuation:						
At 1 January 2006	**85,711**	**73,362**	**144,540**	**25,250**	**5,038**	**333,901**
Additions	**14,987**	**2,931**	**17,256**	**14,468**	**2,303**	**51,945**
Transfer from construction in progress *(note 17)*	**749**	**21,525**	**1,904**	**–**	**561**	**24,739**
Purchase of net assets *(note 34)*	**235**	**–**	**1,098**	**1,371**	**246**	**2,950**
Disposals	**(277)**	**–**	**(817)**	**(2,668)**	**–**	**(3,762)**
At 31 December 2006	**101,405**	**97,818**	**163,981**	**38,421**	**8,148**	**409,773**
Representing:						
Cost	**23,765**	**45,431**	**141,092**	**36,645**	**7,125**	**254,058**
Valuation – 2002	**15,570**	**50,871**	**11,700**	**–**	**417**	**78,558**
Valuation – 2005	**62,070**	**1,516**	**11,189**	**1,776**	**606**	**77,157**
	101,405	**97,818**	**163,981**	**38,421**	**8,148**	**409,773**
Accumulated depreciation:						
At 1 January 2006	**1,587**	**37,190**	**40,508**	**6,462**	**2,022**	**87,769**
Charge for the year	**4,950**	**4,942**	**16,670**	**3,927**	**1,033**	**31,522**
Written back on disposals	**(68)**	**–**	**(503)**	**(1,062)**	**–**	**(1,633)**
At 31 December 2006	**6,469**	**42,132**	**56,675**	**9,327**	**3,055**	**117,658**
Net book value:						
At 31 December 2006	**94,936**	**55,686**	**107,306**	**29,094**	**5,093**	**292,115**

Note: Had property, plant and equipment been carried at cost less accumulated depreciation, the historical carrying amount as at 31 December 2006 and 2005 would have been as follows:

	2006	2005
	RMB'000	RMB'000
Buildings	**93,729**	83,189
Mining shafts	**55,306**	35,949
Plant and machinery	**94,915**	94,338
Transportation equipment	**27,191**	17,298
Office and electronic equipment	**5,075**	3,003
	276,216	233,777

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 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 disposals	(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 to the Financial Statements

16 Property, plant and equipment (continued)

The Company (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 2006	75,895	62,332	127,025	20,579	3,742	289,573
Additions	6,246	–	13,971	6,015	1,020	27,252
Transfer from construction in progress *(note 17)*	488	21,340	1,326	–	–	23,154
Disposals	–	–	(626)	(2,088)	–	(2,714)
At 31 December 2006	82,629	83,672	141,696	24,506	4,762	337,265
Representing:						
Cost	9,228	32,801	129,996	23,123	4,345	199,493
Valuation – 2002	15,847	50,871	11,700	1,383	417	80,218
Valuation – 2005	57,554	–	–	–	–	57,554
	82,629	83,672	141,696	24,506	4,762	337,265
Accumulated depreciation:						
At 1 January 2006	509	35,242	36,462	5,958	1,703	79,874
Charge for the year	4,129	4,099	13,546	2,920	757	25,451
Written back on disposals	–	–	(429)	(948)	–	(1,377)
At 31 December 2006	4,638	39,341	49,579	7,930	2,460	103,948
Net book value:						
At 31 December 2006	77,991	44,331	92,117	16,576	2,302	233,317

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.

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	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cost:				
At 1 January	**110,834**	60,082	**81,626**	53,817
Additions	**157,194**	86,422	**87,122**	62,535
Purchase of net assets *(note 34)*	**11,244**	–	**–**	–
Transfer to property, plant and equipment *(note 16)*	**(24,739)**	(35,670)	**(23,154)**	(34,726)
At 31 December	**254,533**	110,834	**145,594**	81,626

Notes to the Financial Statements

18 Intangible assets

The Group

	Shanghai Gold Exchange trading rights RMB'000	Exploration and evaluation assets *(note a)* RMB'000	Mining rights *(note b)* RMB'000	Exploration rights *(note b)* RMB'000	Total RMB'000
Cost:					
At 1 January 2005	820	–	50,139	6	50,965
Additions	–	7,863	511	1,814	10,188
Acquisition through business combination *(note 35)*	–	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
Cost:					
At 1 January 2006	**820**	**27,962**	**70,356**	**8,070**	**107,208**
Additions	**–**	**35,331**	**–**	**196**	**35,527**
Purchase of net assets *(note 34)*	**–**	**86,711**	**1,120**	**7,157**	**94,988**
At 31 December 2006	**820**	**150,004**	**71,476**	**15,423**	**237,723**
Accumulated amortisation:					
At 1 January 2006	**–**	**2,062**	**20,074**	**3,199**	**25,335**
Charge for the year	**–**	**3,234**	**7,281**	**6,995**	**17,510**
At 31 December 2006	**–**	**5,296**	**27,355**	**10,194**	**42,845**
Net book value:					
At 31 December 2006	**820**	**144,708**	**44,121**	**5,229**	**194,878**

18 Intangible assets (continued)

The Company

	Shanghai Gold Exchange trading rights	Exploration and evaluation assets *(note a)*	Mining rights *(note b)*	Exploration rights *(note b)*	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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
Cost:					
At 1 January 2006	**820**	**3,850**	**50,139**	**600**	**55,409**
Disposals	**–**	**(3,850)**	**–**	**(153)**	**(4,003)**
At 31 December 2006	**820**	**–**	**50,139**	**447**	**51,406**
Accumulated amortisation:					
At 1 January 2006	**–**	**–**	**19,489**	**258**	**19,747**
Charge for the year	**–**	**–**	**4,681**	**220**	**4,901**
Written back on disposal	**–**	**–**	**–**	**(57)**	**(57)**
At 31 December 2006	**–**	**–**	**24,170**	**421**	**24,591**
Net book value:					
At 31 December 2006	**820**	**–**	**25,969**	**26**	**26,815**

Notes to the Financial Statements

18 Intangible assets (continued)

(a) Included in intangible assets of the Group and the Company are assets related to mines which are not operative as at 31 December 2006 with an carrying value of RMB144,564,000 (2005: RMB22,007,000) and RMB Nil (2005: RMB3,850,000) respectively. These assets are not subject to amortisation until they are placed in use and are tested for impairment annually.

(b) The Group's mining rights and principal exploration rights are as follows:

Mine	Location	Expiry date
Mining rights:		
Lingjin One Mine	Lingbao, Henan	December 2021
Hongxin Gold Mine	Lingbao, Henan	March 2007 *(note i)*
Duolanasayi Gold Mine	Habahe, Xinjiang	August 2007
Tuokuzibayi Gold Mine	Habahe, Xinjiang	August 2007
Kaqia Gold Mine	Wushi, Xinjiang	September 2009
Shangrao County Jintian Industrial Company Limited Gold Mine	Shangrao, Jiangxi	November 2010
Shanzaoling Gold Mine	Shangrao, Jiangxi	April 2011 *(note ii)*
Exploration rights:		
In-depth deposit of Lingjin One Mine	Lingbao, Henan	October 2008
Fanjiacha Gold Mine	Lingbao, Henan	February 2006 *(note i)*
Harqin Banner Shijiaxiang Shuiquangou Gold Mine	Chifeng, Inner Mongolia	April 2007

Notes:

(i) As at the date of this report, the Group has applied for an extension of the relevant mining and exploration right but the extensions are yet to be obtained.

(ii) The mining right is acquired as part of the acquisition of 婺源縣金成礦業有限責任公司 from an independent third party. The Group has applied for the approval of the transfer of mining right but is yet to be obtained.

The amortisation charge for the year ended 31 December 2006 is included in "cost of sales" and "other operating expenses" in the consolidated income statement of the Group.

19 Goodwill

	The Group	
	2006	2005
	RMB'000	RMB'000
Cost:		
At 1 January	**4,716**	–
Additions	**108**	4,716
At 31 December	**4,824**	4,716

Impairment tests for cash-generating units containing goodwill

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

	2006	2005
	RMB'000	RMB'000
Mining	**4,824**	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 estimated rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Key assumptions used for value-in-use calculations:

	2006	2005
	%	%
Gross margin	**20**	20
Growth rate	**5**	5
Discount rate	**7.5**	5.58

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.

Notes to the Financial Statements

20 Lease prepayments

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**9,558**	9,634	**9,381**	9,634
Additions	**–**	178	**–**	–
Less: Amortisation	**(329)**	(254)	**(253)**	(253)
At 31 December	**9,229**	9,558	**9,128**	9,381
Lease prepayments	**9,229**	9,558	**9,128**	9,381
Less: Current portion of lease prepayments included in other deposits and prepayments	**(253)**	(329)	**(253)**	(253)
	8,976	9,229	**8,875**	9,128

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 infrastructures are erected for a period of 50 years, with expiry through 2052, by the relevant PRC authorities.

21 Investments in subsidiaries

	The Company	
	2006	2005
	RMB'000	RMB'000
Unlisted shares, at cost	**223,930**	47,100
Amounts due from subsidiaries	**195,647**	94,170
Amounts due to subsidiaries	**(54,347)**	–
	365,230	141,270

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

21 Investments in subsidiaries (continued)

Details of the subsidiaries at 31 December 2006 are as follow:

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 '000	Principal activities
Xinjiang Baoxin Mining Company Limited	Limited liability company	The PRC	80	–	RMB10,000	Sales of mineral products
Lingbao Hongxin Mining Limited Liability Company	Limited liability company	The PRC	80	–	RMB3,000	Exploration and processing of gold, sales of mineral products
Akesu District Xindi Mining Company Limited	Limited liability company	The PRC	–	80	RMB10,000	Mining and exploration of mineral reserves
Jiangxi Mingxin Mining Company Limited	Limited liability company	The PRC	80	–	RMB5,000	Production and sales of precious metal products
Habahe Huatai Gold Limited Liability Company	Limited liability company	The PRC	83.3	–	RMB12,000	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	–	RMB17,000	Geological exploration of mineral reserves

Notes to the Financial Statements

21 Investments 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 '000	Principal activities
Shangrao County Jintian Industrial Company Limited	Limited liability company	The PRC	100	–	RMB38,000	Mining and exploration of mineral reserves, processing and smelting of gold, further processing and sales of gold products
Chi Feng City Zheng Ji Mining Limited Company	Limited liability company	The PRC	80	–	RMB5,000	Processing of metallurgy products, sales of mineral products
Lingbao Gold International Limited	Limited liability company	Hong Kong	100	–	HK$50,000	Dormant
Wuyuan County Jincheng Mining Company Limited	Limited liability company	The PRC	100	–	RMB500	Sales of mineral products

22 Other investments

	The Group and the Company	
	2006	2005
	RMB'000	RMB'000
Unlisted available-for-sale equity securities, 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 Deposits for long term investments

Deposits for long term investments represent deposits paid to certain independent third parties for obtaining exclusive rights to negotiate for the acquisition of companies with mining assets in Henan, Shanxi, Gansu and Hebei provinces. The amounts are unsecured, interest-free and repayable when the relative exclusive rights are expired. The directors of the Company consider that appropriate procedures have been taken by the Group to assess the viability of the potential new mines and expect that the deposit would be recovered through acquisition of new mines and relevant mining assets.

24 Income tax in the balance sheets

(a) Current taxation in the balance sheets represents:

	The Group		**The Company**	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC income tax recoverable/ (payable)	**(15,446)**	(1,559)	**(8,812)**	517
Representing:				
Current tax recoverable	**–**	517	**–**	517
Current tax payable	**(15,446)**	(2,076)	**(8,812)**	–
	(15,446)	(1,559)	**(8,812)**	517

Notes to the Financial Statements

24 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	Amortisation of other intangibles	Timing difference relating to written off of pre-operating expenses	Timing difference on doubtful debt provisions/ impairments	Timing difference on provision for salary and other employee benefits	Tax losses	Revaluation of properties	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 *Note (i)*	RMB'000	RMB'000
Deferred tax arising from:								
At 1 January 2005	3,741	–	609	1,767	5,013	–	–	11,130
(Charged)/credited to profit or loss	(1,411)	988	143	(747)	3,655	2,026	–	4,654
Charged to reserves	(157)	–	–	–	–	–	–	(157)
Acquisition through business combination *(note 35)*	250	–	–	–	234	489	(3,527)	(2,554)
At 31 December 2005	2,423	988	752	1,020	8,902	2,515	(3,527)	13,073
At 1 January 2006	**2,423**	**988**	**752**	**1,020**	**8,902**	**2,515**	**(3,527)**	**13,073**
(Charged)/credited to profit or loss	**(3,334)**	**2,477**	**(586)**	**(734)**	**(2,876)**	**2,293**	**342**	**(2,418)**
Purchase of net assets *(note 34)*	**–**	**–**	**–**	**–**	**–**	**842**	**–**	**842**
At 31 December 2006	**(911)**	**3,465**	**166**	**286**	**6,026**	**5,650**	**(3,185)**	**11,497**

24 Income tax in the balance sheets (continued)

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

(ii) The Company

	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	Amortisation of other intangibles RMB'000	Total RMB'000
At 1 January 2005	3,741	609	1,767	5,013	–	11,130
(Charged)/credited to profit or loss	(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
At 1 January 2006	**1,729**	**387**	**1,020**	**8,079**	**988**	**12,203**
(Charged)/credited to profit or loss	**(2,476)**	**(221)**	**(733)**	**(2,612)**	**851**	**(5,191)**
At 31 December 2006	**(747)**	**166**	**287**	**5,467**	**1,839**	**7,012**

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	**2006 RMB'000**	2005 RMB'000
Net deferred tax asset recognised on the balance sheet	**12,646**	15,627	**7,012**	12,203
Net deferred tax liability recognised on the balance sheet	**(1,149)**	(2,554)	**–**	–
	11,497	13,073	**7,012**	12,203

Notes:

(i) Tax losses will expire within 5 years.

(ii) There were no significant unrecognised deferred tax assets and liabilities as at 31 December 2006 and 2005.

Notes to the Financial Statements

25 Inventories

(a) Inventories in the balance sheet comprise:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**336,350**	187,241	**331,606**	181,877
Work in progress	**17,768**	12,105	**8,057**	10,218
Finished goods	**63,497**	78,648	**63,642**	78,648
Low-value consumables	**17,395**	13,763	**12,316**	11,888
	435,010	291,757	**415,621**	282,631

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

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Carrying amount of inventories sold	**1,792,220**	1,235,479	**1,812,143**	1,212,857

26 Trade and other receivables, deposits and prepayments

Trade and other receivables, deposits and prepayments comprise:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**26,732**	14,571	**26,732**	14,571
Bills receivable	**24,023**	22,636	**24,023**	22,636
Other receivables	**10,192**	3,937	**7,837**	3,197
Purchase deposits *(note)*	**97,824**	82,890	**97,824**	82,890
Interest receivable	**9,668**	–	**9,668**	–
Other deposits and prepayments	**59,134**	42,378	**39,103**	32,312
	227,573	166,412	**205,187**	155,606

26 Trade and other receivables, deposits and prepayments (continued)

Note: Purchase deposits represent the amounts paid by the Group in advance to approximately 50 suppliers (2005: 40) to secure timely and stable supply 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 for bad and doubtful debts) as of the balance sheet date is as follows:

	The Group		**The Company**	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**38,354**	19,922	**38,354**	19,922
Over 3 months but less than 6 months	**12,277**	14,309	**12,277**	14,309
Over 6 months but less than 1 year	**124**	2,976	**124**	2,976
	50,755	37,207	**50,755**	37,207

Included in trade and other receivables, deposits and prepayments are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		**The Company**	
	2006	2005	**2006**	2005
	'000	'000	**'000**	'000
Hong Kong Dollars	**HK$9,623**	HK$ –	**HK$9,623**	HK$ –

Notes to the Financial Statements

27 Cash and cash equivalents and deposits with banks

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and on hand	**431,647**	117,861	**390,471**	94,401
Bank deposits with maturity over 3 months	**442,057**	–	**442,057**	–
Cash and cash equivalents in the balance sheet	**873,704**	117,861	**832,528**	94,401
Restricted deposits#	**(526,439)**	–	**(526,439)**	–
Cash and cash equivalents in the consolidated cash flow statement	**347,265**	117,861	**306,089**	94,401

Included in cash and cash equivalents and deposits with banks in the balance sheets are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2006	2005	**2006**	2005
	'000	'000	**'000**	'000
Hong Kong Dollars	**HK$539,044**	HK$ –	**HK$539,044**	HK$ –

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

The Company's H shares were successfully listed on the Main Board of the Stock Exchange on 12 January 2006. The Group raised RMB865,379,000 (net of related expenses) from the offer. The proceeds from the offer is placed in designated bank saving and deposits accounts. The deposits can only be used for the specified purposes stipulated in the Prospectus dated 30 December 2005. As at 31 December 2006, the amount of cash and bank deposits placed in the designated accounts amounted to RMB526,439,000 (2005: RMB Nil). The balance will only be released after the approval from State Administration of Foreign Exchange was obtained.

28 Bank loans

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

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year or on demand	**935,000**	292,150	**935,000**	292,150
Over 1 year but within 2 years	**–**	110,000	**–**	110,000
	935,000	402,150	**935,000**	402,150

All the Group's and the Company's bank loans as at 31 December 2006 and 2005 are denominated in Renminbi and are interest-bearing. The interest rates of the bank loans ranged from 4.86% to 6.30% for the year ended 31 December 2006 (2005: 5.58% to 5.76%).

At 31 December 2006, the bank loans were secured as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank loans				
– secured	**50,000**	88,600	**50,000**	88,600
– unsecured	**885,000**	313,550	**885,000**	313,550
	935,000	402,150	**935,000**	402,150

Bank loans of RMB50,000,000 (2005: RMB88,600,000) were secured by pledges over the Group's and the Company's property, plant and equipment (2005: property, plant and equipment, trade receivables and inventories) with carrying value of RMB81,612,000 (2005: property, plant and equipment, trade receivables and inventories with carrying value of RMB111,086,000, RMB12,000,000 and RMB100,000,000).

29 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.

Notes to the Financial Statements

30 Trade and other payables

Trade and other payables comprise:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**81,681**	60,821	**60,214**	54,598
Other payables	**137,801**	22,436	**129,193**	21,301
Salary and welfare payable	**35,536**	42,883	**31,172**	40,264
Accruals	**12,928**	8,386	**9,965**	8,101
Interest payable	**1,643**	–	**1,643**	–
Receipts in advance	**6,600**	8,766	**6,600**	8,766
	276,189	143,292	**238,787**	133,030

All of the trade and other payables are expected to be settled within one year.

An ageing analysis of trade payables is as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**74,631**	55,933	**55,220**	51,435
Over 3 months but less than 6 months	**2,892**	2,908	**2,754**	1,183
Over 6 months but less than 1 year	**531**	1,245	**497**	1,245
Over 1 year but less than 2 years	**3,627**	735	**1,743**	735
	81,681	60,821	**60,214**	54,598

Included in other payables of the Group and the Company is an amount payable to the National Social Security Fund of RMB86,624,000 (2005: RMB Nil). In accordance with relevant PRC government regulations, Lingbao State-owned Assets Operation Limited Liability Company, Sanmenxia Jinqu Group Company Limited and Lingbao Electric Company ("Selling Shareholders") are required to dispose of a portion of its ordinary shares in the Global Offering and pay the net proceeds of the disposal to the National Social Security Fund. The Company received the net proceeds on behalf of the Selling Shareholders and is arranging for the payment to the National Social Security Fund.

30 Trade and other payables (continued)

Included in trade and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2006	2005	**2006**	2005
	'000	'000	**'000**	'000
Hong Kong Dollars	**HK$90,060**	HK$ –	**HK$90,060**	HK$ –

31 Capital and reserve

(a) The Group

	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
		Attributable to equity holders of the Company							
At 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	*35*	–	–	–	–	–	–	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
At 1 January 2006		100,000	289,964	16,602	53,718	32,334	492,618	9,502	502,120
Profit for the year		–	219,836	–	–	–	219,836	996	220,832
Dividend approved in respect of the previous year		–	(61,620)	–	–	–	(61,620)	–	(61,620)
Shares issued under the placing and public offering		54,050	–	882,687	–	–	936,737	–	936,737
Shares issuance costs		–	–	(71,358)	–	–	(71,358)	–	(71,358)
Purchase of net assets	*34*	–	–	–	–	–	–	17,160	17,160
Transfer to reserves	*(i)*	–	(21,227)	–	21,227	–	–	–	–
At 31 December 2006		154,050	426,953	827,931	74,945	32,334	1,516,213	27,658	1,543,871

Notes to the Financial Statements

31 Capital and reserve (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 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
At 1 January 2006		100,000	292,794	16,602	53,067	32,334	494,797
Profit for the year		–	218,058	–	–	–	218,058
Dividend approved in respect of the previous year		–	(61,620)	–	–	–	(61,620)
Shares issued under the placing and public offer		54,050	–	882,687	–	–	936,737
Shares issuance costs		–	–	(71,358)	–	–	(71,358)
Transfer to reserves	*(i)*	–	(20,302)	–	20,302	–	–
At 31 December 2006		154,050	428,930	827,931	73,369	32,334	1,516,614

Notes:

(i) **PRC statutory reserves**

Transfers from retained profits 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.

31 Capital and reserve (continued)

(b) The Company (continued)

Notes: (continued)

(b) *Statutory public welfare fund*

The Company made an appropriation of RMB7,832,000 to statutory public welfare fund in 2005. Pursuant to the revised Company Law of the PRC, the Company is not required by law to make appropriations to statutory public welfare fund with effect from 1 January 2006. The balances of the statutory public welfare fund as at 1 January 2006 of RMB17,949,000 were transferred to statutory surplus reserve.

(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.

(iv) The share premium represents the difference between the total amount of the par value of shares issued and the amount of the net proceeds received upon the global initial public offering. The application of the share premium account is governed by sections 168 and 169 of the PRC Company Law.

(v) The capital reserve as at 31 December 2006, primarily represents the surpluses arising from the revaluation of certain property, plant and equipment, and construction in progress of as required by the relevant PRC rules and regulations with respect to the Restructuring of the Company on 31 May 2002.

Notes to the Financial Statements

31 Capital and reserve (continued)

(c) Share capital

The Group and the Company

	Notes	2006 Number of shares '000	2006 RMB'000	2005 Number of shares '000	2005 RMB'000
At 1 January		**500,000**	**100,000**	100,000	100,000
Subdivision of shares pursuant to the reorganisation of the Company	(i)	**–**	**–**	400,000	–
Shares issued under the placing and public offer	(ii)	**270,249**	**54,050**	–	–
At 31 December		**770,249**	**154,050**	500,000	100,000

	The Group and the Company 2006 RMB'000	2005 RMB'000
Registered, issued and fully paid:		
472,975,091 (2005: 500,000,000) domestic shares of RMB0.20 each	**94,595**	100,000
297,274,000 (2005: Nil) H shares of RMB0.20 each	**59,455**	–
	154,050	100,000

(i) At a board meeting of the Company held on 12 June 2005, it was resolved to sub-divide its shares from one Domestic shares of a nominal value of RMB1.00 each 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 a nominal value of RMB0.20 each.

31 Capital and reserve (continued)

(c) Share capital (continued)

(ii) The Company's H shares were successfully listed on the Stock Exchange on 12 January 2006. Together with the full exercise of the over-allotment option by BOC International Holdings Limited on 16 January 2006, an aggregate of 270,249,091 shares of a nominal value of RMB0.20 each were issued at a price of HK$3.33 per share upon the listing of the Company's shares on the Main Board of the Stock Exchange. The Group raised RMB865,379,000 (net of related expenses) from the offer.

As part of the global initial public offering, 27,024,909 domestic shares of RMB0.20 each owned by Lingbao State-owned Assets Operation Limited Liability Company and two other stated-owned entities were converted into 27,024,909 H shares.

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 are ordinary shares and rank pari passu with the same rights and benefits.

(d) Distributability of reserves

According to the Listing Rules of the Main Board of the Stock Exchange, 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 HKFRSs. At 31 December 2006, the amount of retained profits available for distribution was RMB359,407,000, being the amount determined in accordance with the PRC Accounting Rules and Regulations (2005: RMB292,794,000 being the amount determined in accordance with the HKFRSs). After the balance sheet date, the directors proposed a final dividend of RMB0.08 per share (2005: RMB0.08 per share), amounting to RMB61,620,000 (2005: RMB61,620,000). This dividend has not been recognised as a liability at the balance sheet date.

Notes to the Financial Statements

32 Commitments and contingencies

(a) Capital commitments, representing purchase of property, plant and equipment outstanding at 31 December 2006 not provided for in the financial statements were as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Authorised and contracted for				
– Exploration rights	**8,820**	–	**–**	–
– Plant and machinery	**4,805**	–	**343**	–
– Mining right	**570**	–	**–**	–
	14,195	–	**343**	–
Authorised but not contracted for				
– Land and buildings	**41,690**	28,700	**14,856**	28,700
– Mining shafts	**164,264**	194,248	**164,264**	194,248
– Plant and machinery	**78,449**	49,694	**52,556**	49,694
– Office equipment	**10,000**	10,000	**10,000**	10,000
	294,403	282,642	**241,676**	282,642

(b) At 31 December 2006, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**695**	246	**432**	80
After 1 year but within 5 years	**1,064**	920	**144**	320
After 5 years	**728**	964	**–**	283
	2,487	2,130	**576**	683

The Group and the Company are the leasee in respect of 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. None of the leases includes contingent rentals.

32 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 RMB1,051,000 for the year ended 31 December 2006 (2005: RMB952,000).

33 Financial instruments

Exposure to credit, business, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(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 loans of the Group are disclosed in notes 28 and 29.

Notes to the Financial Statements

33 Financial instruments (continued)

(a) Interest rate risk (continued)

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

	2006		2005	
	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				
Cash and cash equivalents	**1.52**	**431,647**	0.72	117,861
Bank loans	**5.82**	**(250,000)**	5.58	(230,000)
Other loan	**2.82**	**(3,270)**	2.55	(3,270)
		178,377		(115,409)
Maturing dates for assets/(liabilities) which do not reprice before maturity				
Deposits with banks	**4.48**	**442,057**	–	–
Bank loans	**5.32**	**(685,000)**	5.58	(172,150)
		(242,943)		(172,150)

33 Financial instruments (continued)

(a) Interest rate risk (continued)

(ii) The Company

	2006 Effective interest rate %	**2006** One year or less RMB'000	2005 Effective interest rate %	2005 One year or less RMB'000
Repricing dates for assets/(liabilities) which reprice before maturity				
Cash and cash equivalents	**1.60**	**390,471**	0.72	94,401
Bank loans	**5.82**	**(250,000)**	5.58	(230,000)
Other loan	**2.82**	**(3,270)**	2.55	(3,270)
		137,201		(138,869)
Maturing dates for assets/(liabilities) which do not reprice before maturity				
Deposits with banks	**4.48**	**442,057**	–	–
Bank loans	**5.32**	**(685,000)**	5.58	(172,150)
		(242,943)		(172,150)

(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 RMB97,824,000 (2005: RMB82,891,000) at 31 December 2006 to suppliers to secure its supplies of mineral sand which is the major raw materials in the smelting process. The balance represented 6% (2005: 14%) of total current assets at 31 December 2006. The Group believes that the purchase deposits will be recovered through purchases from these supplies 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.

Notes to the Financial Statements

33 Financial instruments (continued)

(b) Credit risk (continued)

As at 31 December 2006, the Group made investments deposits of RMB460,162,000 (2005: RMB Nil) for obtaining exclusive rights to negotiate for the acquisition of companies with mining assets in Henan, Shanxi, Gansu and Hebei provinces. The balance represented 17% (2005: Nil) of total assets at 31 December 2006. The directors of the Company consider that appropriate procedures have been taken by the Group to assess the viability of the potential new mines and expect that the deposit would be recovered through acquisition of new mines and relevant mining assets.

(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.

Apart from the above, the Group is also exposed to foreign currency risk through the bank deposits denominated in Hong Kong dollars.

(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 2006 and 2005 due to the nature or short-term maturity of these instruments.

(e) Business risk

During the year ended 31 December 2006, the Group's supplies of smelting's direct materials from independent third parties represent 86.7% (2005: 87.3%) of the Group's total direct materials, in which, the top five suppliers in 2006 represent 29.0% (2005: 40.5%) 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.

34 Purchase of net assets

For the year ended 31 December 2006

In 2006, the Group acquired the entire equity interest in Shangrao County Jintian Industrial Company Limited from Mr. Pan Shaohua and Mr. Guo Fenlai, the entire equity interest in Wuyuan County Jincheng Mining Company Limited from Mr. Wang Ke Jin and an 80% equity interest in Chifeng City Zheng Ji Mining Limited Company from Mr. Yu Kexin.

These companies hold primarily mining rights and exploration right of unexploited natural rutile mines with no established infrastructure and no significant mining equipment at the date of acquisition. The underlying set of assets acquired was not integrated in forming a business to generate revenues. As such, the directors are of the opinion that the acquisition of these companies is a purchase of net assets which does not constitute a business combination for accounting purposes.

The aggregate acquisition consideration was RMB88,560,000 satisfied in cash and other payables. The aggregate amounts recognised at the acquisition date of their assets and liabilities are RMB123,584,000 and RMB17,864,000 respectively. The acquired companies did not generate any revenue since acquisition and have recorded an accumulated loss of RMB2,591,000 since acquisition. If the acquisition had occurred on 1 January 2006, the acquired companies would have recorded an accumulated loss of RMB4,302,000 for the year.

The directors considered that the total purchase consideration paid represented the fair value of net assets acquired and the fair value of exploration and evaluation assets, which is presented as intangible assets below, is considered as the excess of fair value of net assets acquired over the fair value of net tangible assets acquired.

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

Notes to the Financial Statements

34 Purchase of net assets (continued)

For the year ended 31 December 2006 (continued)

Acquiree's net assets at the acquisition date:

	Carrying values prior to purchase RMB'000	Fair value adjustments RMB'000	Carrying values upon purchase RMB'000
Property, plant and equipment *(note 16)*	2,950	–	2,950
Construction in progress *(note 17)*	11,244	–	11,244
Intangible assets *(note 18)*	10,238	84,750	94,988
Deferred tax assets *(note 24(b))*	842	–	842
Inventories	512	–	512
Trade and other receivable, deposits and prepayments	2,987	–	2,987
Cash at bank and in hand	3,061	–	3,061
Trade and other payables	(14,064)	–	(14,064)
Amount due to the Company	(3,800)	–	(3,800)
Amount due from Mr. Wang Ke Jin	7,000	–	7,000
Minority interests *(note 31(a))*	(3,586)	(13,574)	(17,160)
Net identifiable assets	17,384	71,176	88,560
Total purchase price consideration			88,560
Satisfied by			
Cash			85,260
Other payables			3,300
			88,560
Cash at bank and in hand acquired			3,061
Cash consideration paid			(85,260)
Net outflow of cash and cash equivalents in respect of the purchase of net assets			(82,199)

35 Business combination

For the year ended 31 December 2005

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.

Acquiree's net assets at the acquisition date:

	Pre-acquisition carrying amount RMB'000	**Fair value adjustments** RMB'000	**Recognised values on acquisitions** RMB'000
Property, plant and equipment *(note 16)*	15,789	1,151	16,940
Intangible assets *(note 18)*	36,546	9,509	46,055
Inventories	8,291	28	8,319
Trade and other receivable, deposits and prepayments	8,837	–	8,837
Cash at bank and in hand	16,227	–	16,227
Trade and other payables	(13,429)	–	(13,429)
Amount due to the Company	(29,600)	–	(29,600)
Amount due to Xinjiang Baoxin Mining Co. Ltd.	(15,610)	–	(15,610)
Amount due to Akesu District Xindi Mining Company Limited	(800)	–	(800)
Amount due to Mr. Zhou Yudao	(10)	–	(10)
Tax payable	(116)	–	(116)
Deferred tax liabilities *(note 24(b))*	973	(3,527)	(2,554)
Minority interests *(note 31(a))*	(6,275)	–	(6,275)
Net identifiable assets	20,823	7,161	27,984
Goodwill arising on acquisition			4,716
Total purchase price consideration			32,700
Satisfied by			
Cash			32,700
Other payables			–
			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)

Notes to the Financial Statements

36 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 RMB'000	Smelting RMB'000	Inter-segment elimination RMB'000	Unallocated RMB'000	Consolidated RMB'000
Year ended 31 December 2006					
Revenue and expenses					
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	307,765	2,222,524	(283,733)	64,709	2,311,265
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					220,832

34 Segment information (continued)

Business segments (continued)

	Mining RMB'000	Smelting RMB'000	Inter-segment elimination RMB'000	Unallocated RMB'000	Consolidated RMB'000
As at 31 December 2006					
Assets and liabilities					
Segment assets	760,933	776,939	–	–	1,537,872
Unallocated assets					1,237,053
Total assets					2,774,925
Segment liabilities	84,053	88,516	–	–	172,569
Unallocated liabilities					1,058,485
Total liabilities					1,231,054
Other segmental information					
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

Notes to the Financial Statements

36 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 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 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					
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 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

36 Segment information (continued)

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.

37 Immediate and ultimate holding company

At 31 December 2006, the directors consider the immediate parent and ultimate controlling party of the Group to be Lingbao State-owned Assets Operation Limited Liability Company, a stated-owned enterprise established in the PRC. This entity does not produce financial statements available for public use.

38 Accounting estimates and judgements

Key sources of estimation uncertainty

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

(i) Reserves estimates

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

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

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation expenses and impairment loss. Depreciation rates are determined based on estimated proved and probable gold reserve quantity (the denominator) and capitalised costs of mining shafts and mining rights (the numerator). The capitalised cost of mining shafts and mining rights are amortised based on the units of gold produced.

Notes to the Financial Statements

38 Accounting estimates and judgements (continued)

Key sources of estimation uncertainty (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 pre-paid interest in leasehold land, intangible assets, goodwill 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 price 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.

(iv) Depreciation

Other than the mining shafts, mining rights and evaluation and exploration assets, property, plant and equipment and intangible assets are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews annually the useful life of an asset and its residual value, if any. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimation.

38 Accounting estimates and judgements (continued)

Key sources of estimation uncertainty (continued)

(v) Recognition of deferred tax assets

Deferred tax assets carried forward are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the balance sheet date. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involves a number of assumptions relating to the operating environment of the Group and requires significant level of judgement exercised by the directors. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised and hence the net profit in future years.

39 Non-adjusting post balance sheet events

The following significant transactions took place subsequent to 31 December 2006:

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

(ii) On 27 March 2007, the Company entered into a sale and purchase agreement with Mr. Zhao Meiguang, Mr. Ren Yiguo and Mr. Gao Bo, to acquire the entire equity interest in Chifeng Jinchan Mining Company Limited ("Chifeng Jinchan") at a consideration of RMB146,000,000. The total consideration was satisfied by cash.

Chifeng Jinchan has one mining right and six exploration rights in Kalaqin Banner of the Inner Mongolia Autonomous Region, the PRC. The mining right which expires on January 2010 and the six exploration rights expiring from 23 February 2007 to 8 May 2007 were granted by the Department of Land and Resources of the Inner Mongolia Autonomous Region, the PRC. The Company has applied for an extension of the relevant exploration rights but the extensions are yet to be obtained.

The consideration has been agreed with reference to the valuation report prepared by Chifeng Daxin Accounting Company Limited. According to the valuation report, the net assets of Chifeng Jinchan was RMB146,493,000 as at 28 February 2007.

(iii) On 27 March 2007, the Company entered into a shareholders' agreement with Shenyang Jinlu Wu Zhi Company Limited ("Shenyang Jinlu") to set up a company, namely Chifeng Lingjin Mining Co. Ltd. ("Chifeng Lingjin") in Inner Mongolia. Shenyang Jinlu and the Company are to inject 20% interest in an exploration right - the exploration right of the Silver Multi-metal Minerals of Xiaobeigou Linxi County, and contribute cash of RMB 32,000,000 into Chifeng Lingjin respectively.

Notes to the Financial Statements

39 Non-adjusting post balance sheet events (continued)

Chifeng Lingjin will purchase the remaining interest in the exploration right of the Silver Multi-metal Minerals of Xiaobeigou Linxi County according to a consideration estimated by an independent professional valuer. The exploration right which expires on 1 April 2007 was granted by the Department of Land and Resources of the Inner Mongolia Autonomous Region, the PRC. Shenyang Jinlu has applied for an extension of the exploration right but the extension is yet to be obtained. Chifeng Lingjin was established on 2 April 2007.

(iv) On 29 December 2006, the Standing Committee of the Tenth National People's Congress ("NPC") passed a resolution to submit the draft corporate income tax law to the Tenth NPC plenary session for voting. According to the income tax law, that was passed by NPC on 16 March 2007, corporate income tax rate will be revised to 25% with effect from 1 January 2008. Since implementation measure on transitional policy of preferential tax rate granted according to current tax law and administrative regulations was not yet announced, financial impact of the new tax law cannot be reasonably estimated at this stage.

(v) Commencing from 1 January 2007, the Company has adopted the Accounting Standards for Business Enterprises (the "New PRC Accounting Standards") promulgated by the Ministry of Finance of the People's Republic of China (the "MOF") in 2006. The Company is on the process of assessing the impact on the Company's financial position, operating results and cash flow.

40 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2006

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 year ended 31 December 2006 and which have not been adopted in these financial statements.

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 the Group has concluded that while the adoption of them may result in new or amended disclosures, it is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the 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) 10	Interim financial reporting and impairment	1 November 2006

Five Years Summary

	Year ended 31 December				
	2006	2005	2004	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets and liabilities					
Non-current assets	**1,238,638**	478,915	333,931	257,915	196,544
Net current assets/(liabilities)	**309,652**	139,029	5,719	(40,260)	(54,688)
Total assets less current liabilities	**1,548,290**	617,944	339,650	217,655	141,856
Non-current liabilities	**4,419**	115,824	–	–	–
NET ASSETS	**1,543,871**	502,120	339,650	217,655	141,856
Share capital	**154,050**	100,000	100,000	100,000	100,000
Reserves	**1,362,163**	392,618	237,715	117,655	41,856
Total equity attributable to equity shareholders of the Company	**1,516,213**	492,618	337,715	217,655	141,856
Minority interests	**27,658**	9,502	1,935	–	–
TOTAL EQUITY	**1,543,871**	502,120	339,650	217,655	141,856
Operating results					
Turnover	**2,234,975**	1,555,704	1,223,429	856,278	682,872
Profit from operations	**368,554**	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	**(31,213)**	(23,085)	(15,503)	(11,391)	(10,113)
Profit before taxation	**337,341**	226,793	178,849	111,397	77,453
Income tax	**(116,509)**	(72,017)	(59,454)	(35,598)	(29,533)
Profit for the year	**220,832**	154,776	119,395	75,799	47,920
Attributable to:					
Equity shareholders of the Company	**219,836**	154,584	120,060	75,799	47,920
Minority interests	**996**	192	(665)	–	–
Profit for the year	**220,832**	154,776	119,395	75,799	47,920

Five 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 financial statements, except for property, plant and equipment, and construction in progress which 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, Tongbai Xingyuan Mining Company Limited, Shangrao County Jintian Industrial Company Limited, Chi Feng City Zheng Ji Mining Limited Company and Wuyuan County Jincheng Mining Company Limited by the Company was accounted for under the acquisition accounting.

The consolidated results of the Group for the five years ended 31 December 2006 have been prepared as if the Group structure immediately after the Restructuring had been in existence since 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, 2005 and 2006 are the combination of the balance sheets of the Company and its subsidiaries at 31 December 2002, 2003, 2004, 2005 and 2006. 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.