Lingbao Gold Company Ltd.
靈寶黃金股份有限公司

LINGJIN
灵 金

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

(Stock Code: 3330)

Annual Report
2007

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Corporate Information

Directors

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

Non-executive Directors
Xu Wanmin
Di Qinghua
Qi Guozhong

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

Supervisors

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

Audit Committee

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

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)*

International Auditor

KPMG

PRC Auditor

Peking Certified Public Accountants

Compliance Adviser

BOCI Asia Limited

Legal Adviser

DLA Piper Hong Kong

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 of the Company

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 Name

Lingbao Gold Company Ltd.
(Lingbao Gold)

Stock Code

03330

Website of the Company

www.lbgold.com

Investor Relations

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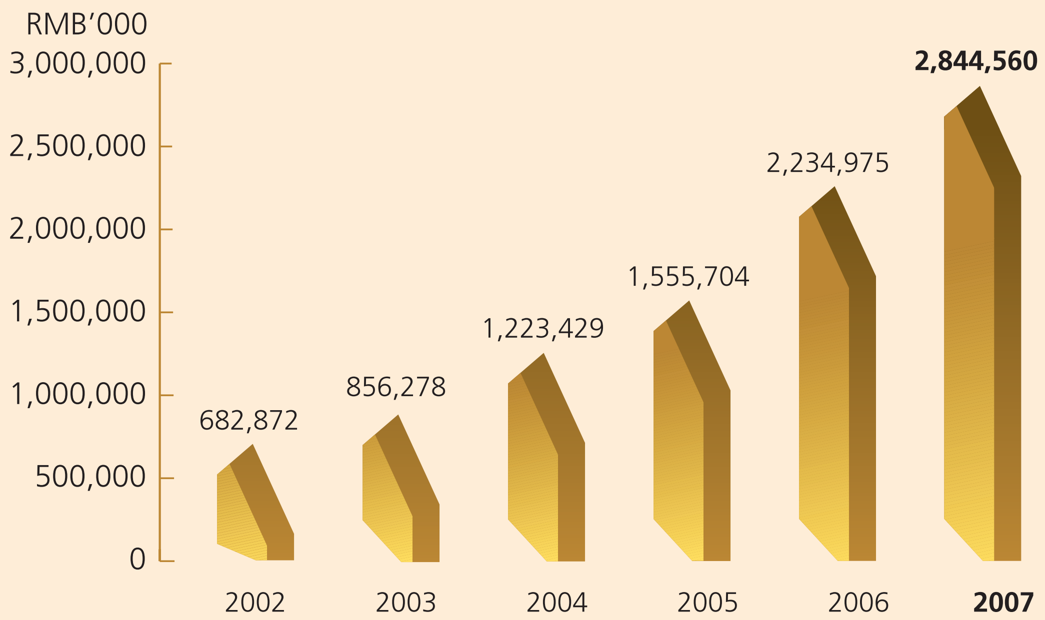
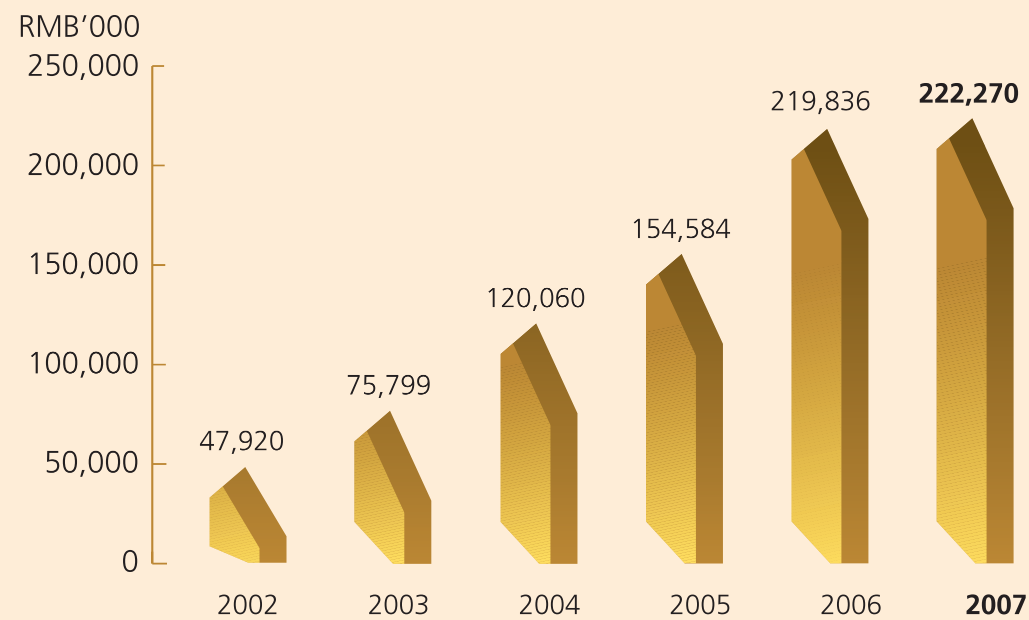
Email: lingbaogold@vip.sina.com

Financial Highlights

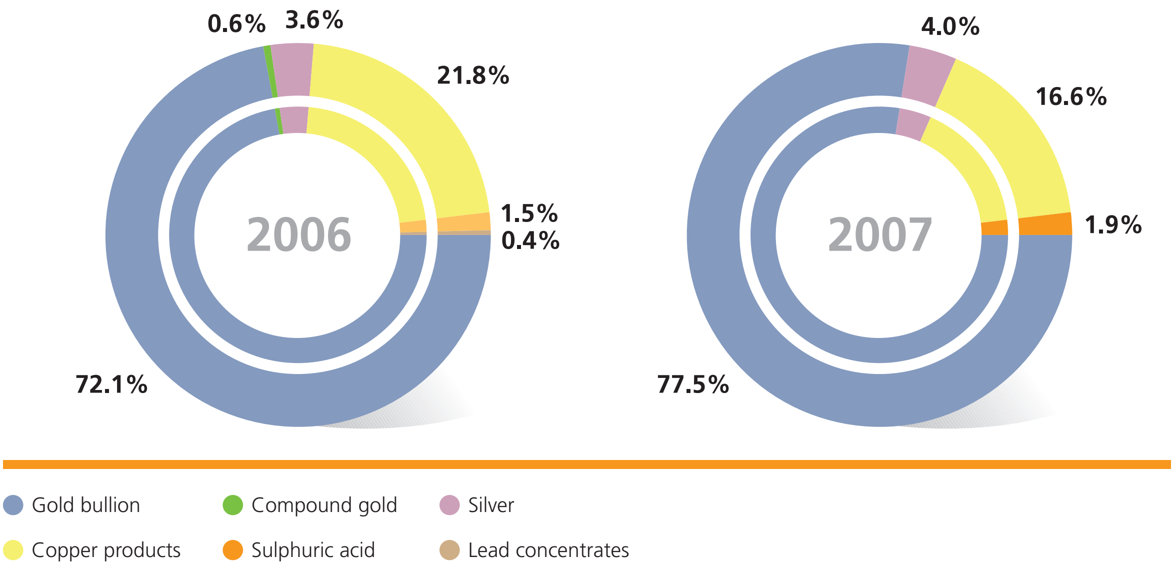
Turnover



Profit Attributable to Equity Shareholders



Sales Analysis by Products



Capital Resources

	2003 RMB'000	2004 RMB'000	2005 RMB'000	2006 RMB'000	**2007 RMB'000**
Total assets	609,774	809,907	1,055,462	2,774,925	**3,400,303**
Cash and cash equivalents	87,872	76,506	117,861	431,647	**389,651**
Bank and other borrowings	224,750	294,750	405,420	938,270	**1,303,131**
Shareholder equity	217,655	337,715	492,618	1,516,213	**1,672,046**

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.

The Group is an integrated gold mining enterprise 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 byproducts 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 the PRC Provinces of Henan, Xinjiang, Jiangxi, Inner Mongolia and Gansu with 49 mining and exploration rights with a total area of 1,253.05 sq.km. The total gold reserve and resources as at 31 December 2007 was approximately 119.84 tonnes (approximately 3,853,000 ounce). In 2007, approximately 12,992 kg (approximately 417,703 ounce) of gold was produced with the profit attributable to equity shareholders amounting to RMB222,270,000.

The objective of the Group's strategy 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 and continue to acquire gold resources with potential, in order to increase the self-produced gold and gold reserve and resources and enhance the Group's self-sufficiency rate.

Dear Shareholders,

I am pleased to report the profit before tax of the Group of approximately RMB338,998,000 for the year ended 31 December 2007, representing a year-on-year growth of 0.5%. Profit attributable to equity shareholders of the Group amounted to RMB222,270,000 representing a year-on-year growth of 1.1%. Earnings per share of the Group was RMB0.29. The increase in profit attributable to shareholders of the Group in 2007 was mainly attributed to the advantage of high selling price of the main products.

After discussion by the board (the "Board") of directors (the "Directors") of the Company, the Directors recommend the declaration of a final dividend of RMB0.10 per share, the dividend yield is 34.7%.

Review for the Year 2007

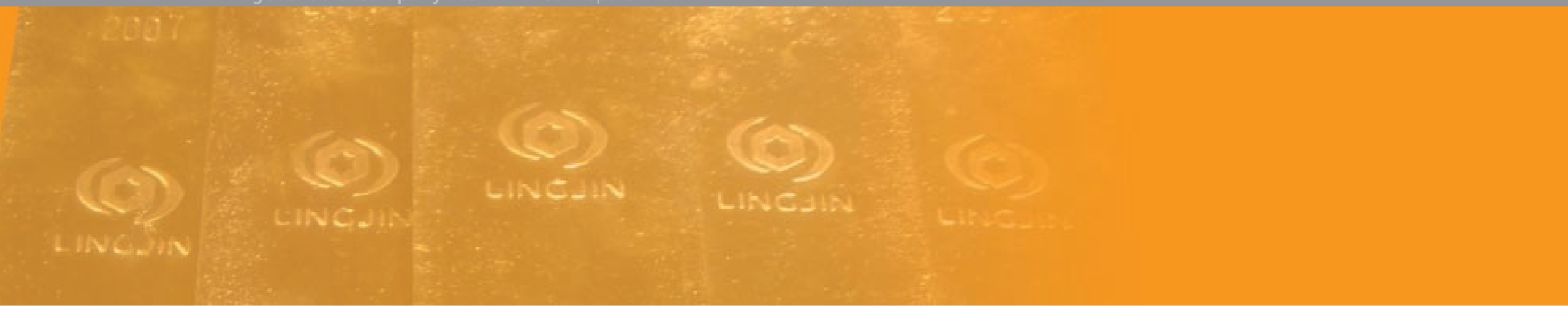
In 2007, the slowdown of the US economy, the continuing weakness of the US dollar, the increase in demand for gold and factors like international geographical politics and economic has led to a substantial increase in gold price. In 2007, the international gold price rose by approximately 30% to a closing price of US$834 per ounce, near the historic high, from an opening price of US$641 per ounce.

1. **Expansion of the Production Scale of the Mines Operated by the Group**

   In 2007, the smelting branch of the Company completed the expansion of its daily processing capacity for gold concentrates from 700 tonnes to 880 tonnes. Habahe Huatai Gold Limited Liability Company's ("Habahe Huatai") daily processing capacity for mineral ores also increased from 500 tonnes to 1,500 tonnes, the recovery rate has improved by 7%.

2. **Expansion of the Group's Resources Bank**

   In 2007, the Company carried out a rigorous inspection and research study of the Istanbul Gold Mine in the Kyrgyz Republic. Domestically, the Company acquired Gansu Tianshui Hongwu Mining Development Company Limited ("Tianshui Hongwu"), which holds 5 exploration rights and is currently engaged in related exploration work, and Inner Mongolia's Chifeng Jinchan Mining Company Limited ("Chifeng Jinchan"), which commenced production in the year. The Company completed the acquisition of minority interests in Henan's Tongbai Xingyuan Mining Company Limited ("Tongbai Xingyuan"), which has become a wholly-owned subsidiary of the Company. Tongbai Xingyuan began gold production by the end of August.



3. Continued the Efforts in Exploration to Increase the Group's Resources

In 2007, the Group mainly carried out its exploration activities in the neighbouring area of the Chifeng Jinchan in Inner Mongolia, Xinjiang Habahe Huatai Gold Mine in Xinjiang Region, the Gansu Region, the Jiangxi Region and the in-depth deposits of the Xiaoqinling Region in Lingbao, Henan.

4. Enhanced Management with a Range of Initiatives

Apart from its priority on production, the Company also emphasizes the improvement of its management standard. In accordance with the applicable laws and regulations, as well as the Company's Articles of Association, the Company has formulated several measures, including "scientific decision making", "standardisation of practices", "standardisation implementation procedures", "standardisation of management practices", "standardisation of operational practices" and "feedback information", with the focuses on the "expansion of resources, management innovation and optimal capital utilisation". As a team, the management of the Company worked together to successfully create a harmonious environment to motivate the contribution from all members of the staff and the total dedication of all officers tat the managerial rank, thereby lifting the overall management standard of the Company.

5. Environmental Protection

By sticking to the operational policy of "Safety First, Emphasis on Precaution and Integrated Management", the Company stepped up its safety training education and input in the safety aspect. In 2007, there was no significant liability issue against the Company.

Business Outlook of the Year 2008

In early 2008, gold prices climbed further and hit a record high, concern about the outlook of the US economy, the drastic depreciation of the US dollar and the sharp increases of global commodity prices. Looking ahead, these factors are expected to continue to support gold prices. The business strategies of the Company in 2008 include:

1. Further exploration of the mines of Habahe Huatai, Inner Mongolia and Chifeng Jinchan to maintain the steady growth of the Company's gold production; speeding up the construction of the dump leaching plant of Shangrao County Jintian Industrial Company Limited ("Shangrao Jintian"); to facilitate the plan of Jiangxi Wuyuan County Jincheng Mining Company Limited ("Wuyuan Jincheng") to complete the construction of its 300-tonne production plant in August 2008; having reached agreements with various parties, the Company intends to speed up the construction of new mines in the Kyrgyz Republic to increase the gold production of the mines operated by the Company;

2. Exploration and expansion of resources are the important ways for the Company to increase its gold reserves. Hence, the Company will keep up with its exploration activities in the Lingbao Nanshan Mine Region, Gansu Tianshui Hongwu, Tongbai Xingyuan, Shangrao Jintian and in the neighbouring area of the Chifeng Jinchan in Inner Mongolia. Efforts will be made to complete the in-depth deposits exploration system for the Nanshan Mine Region as soon as possible, while focus will be made on the western and northern regions, and branching out to the Eastern regions to head for the in-depth deposits;

3. Another major solution for the Company to increase its gold reserves is to seek potential acquisition of suitable resources projects continuously. The management for decision making of the Company will continue to carry out due-diligence investigations to make decisions in a scientific manner so as to ensure the quality of each project, thereby maximising the returns to shareholders;

4. Meticulously studying and implement safety and environmental policy. Pay attention to various measures for safety and environmental protection to achieve sustainable growth;

5. Strengthening the development of the Company's scientific technology team to leverage the strengths of天津地院研發中心, while make full use of preferential policies to carry out geological studies on specific mines and to introduce senior geological experts to join the Company.

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.

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
22 April 2008

Review of Business and Prospect

In 2007, the Group produced approximately 12,992 kg (equivalent to approximately 417,703 ounce) gold, representing an increase of approximately 2,619 kg (equivalent to approximately 84,203 ounce) or 25.2% as compared with the previous year. The Group's turnover for 2007 was approximately RMB2,844,560,000, representing an increase of approximately 27.3% as compared with the previous year. The profit attributable to the Company's shareholders was approximately RMB222,270,000, representing an increase of approximately 1.1% as compared with the previous year. The Company's basic earnings per share was RMB0.29. In 2007, as a result of continued strong demand and rising prices of its major products in 2007, the Group enjoyed the steady growth in its turnover.

Given that raw materials accounted for over 85% of total production cost, to minimize the reliance of purchase of raw materials from outsiders, the Group intends to increase its self-produced output of mineral sand through acquisition and expansion of mining 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 compound gold. Most of the gold concentrates and compound gold were sold to the Group's smelting plants as inter-segment sales.

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

	Unit	**2007** Approximate production volume	**2007** Approximate sales volume	2006 Approximate production volume	2006 Approximate sales volume
Gold concentrates	kg	**1,912**	**1,864**	1,728	1,712
Compound gold	kg	**1,039**	**1,039**	492	492
From: Henan region		**241**	**241**	96	96
Xinjiang region		**519**	**519**	396	396
Inter Mongolia region		**279**	**279**	–	–
Total	kg	**2,951**	**2,903**	2,220	2,204
Total	Ounce	**94,875**	**93,334**	71,375	70,861
Lead concentrates	kg	**–**	**–**	72	72

The Group's total turnover of the mining segment for 2007 was approximately RMB464,056,000, representing an increase of approximately 50.8% from approximately RMB307,765,000 in 2006. During the year, turnover of gold mines in Henan, Xinjiang and Inner Mongolia represented approximately 67.7%, 19.5% and 12.8% of the total turnover of the mining segment respectively. The production volume of compound gold increased by approximately 547 kg to approximately 1,039 kg while the production volume of gold concentrates increased by approximately 184 kg to approximately 1,912 kg. This was mainly due to the acquisition of Inner Mongolia's Chifeng Jinchan Mining Company Limited in March 2007 and the commencement of production of Henan's Tongbai Xingyuan Mining Company Limited in July 2007. Besides, the construction of the new processing plant in Xinjiang mining region with a capacity of 1,000 tonnes of mined ores per day was completed in November 2007, which is expected to bring more contribution to the Company's mining business in 2008 and lead to an increase in the gold production of the Group.

Segment results

The Group's results of the mining segment for 2007 was approximately RMB78,971,000, representing an increase of approximately 18.5% from approximately RMB66,670,000 in 2006. The segment result to segment turnover ratio of the Group's mining segment in 2007 was approximately 17.0%, resulting to a decrease of approximately 4.7% from approximately 21.7% in 2006.

Capital expenditure

During the year 2007, the Group's capital expenditure was approximately RMB617,378,000, representing an increase of approximately 103.5% from approximately RMB303,442,000 in 2006.

Our principal capital expenditure relates to the construction of mining shafts, purchase of exploration rights and acquisition of mining corporations.

Prospect

Expansion of the Group's resources and reserves – In 2008, the Group intends to continue to explore the in-depth deposits in the gold mines in the Xiaoqinling Region; scale up its exploration activities in the exploration regions in Gansu, Jiangxi, Inner Mongolia and Xinjiang; and actively explore resources in the Kyrgyz Republic in order to establish a resources hub in Central Asia.

Stabilisation of the Group's production efficiency – The Group will continue to reinforce the organisation and management of its existing operating mines in order to stabilise the production of its gold mines in the Xiaoqinling Region, Tongbai Xingyuan, Huatai in Xinjiang and Jinchan in 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:

		2007		2006	
Product	Unit	**Approximate production volume**	**Approximate sales volume**	Approximate production volume	Approximate sales volume
Gold bullion	kg	**12,992**	**12,803**	10,285	10,426
	Ounce	**417,703**	**411,626**	330,670	335,203
Silver	kg	**40,005**	**37,601**	29,175	28,151
	Ounce	**1,286,191**	**1,208,900**	937,997	905,074
Copper products	Tonne	**9,940**	**8,771**	8,991	9,543
Sulphuric acid	Tonne	**150,846**	**149,397**	158,016	160,799

Sales and production

The Group's total turnover from the smelting segment for 2007 was approximately RMB2,859,283,000, representing an increase of approximately 28.7% from approximately RMB2,222,524,000 in 2006. Such increase was principally attributable to the 36.6% increase in the sales of gold bullion as a result of an approximate 11.2% increase in selling price of gold bullion.

On July 2007, Phase II of the Integrated Smelting Development Project for the Henan Region ("Phase II") started to commence the production. As a result, the daily processing capacity of the Group's smelting plant increased from approximately 700 tonnes prior commencement of production of Phase II to currently 880 tonnes of gold concentrates, and the utilisation rate for production was approximately 97.7%. This resulted in an increase of approximately 26.3%, 37.1% and 10.6% in the Group's production volume for gold, silver and copper respectively. During the year, gold recovery rate was approximately 96.8%, silver recovery rate was approximately 77.5% and the copper recovery rate was approximately 94.6%. The Group continued to maintain the recovery rates at a high level.

Segment results

Our smelting segment results for 2007 was approximately RMB290,129,000, representing an approximate 8.4% decrease from approximately RMB316,873,000 in 2006. The segment results to segment turnover ratio of our smelting business in 2007 was approximately 10.1%, decreasing by approximately 4.2% from approximately 14.3% in 2006.

Capital expenditures

During the year 2007, the capital expenditure of the Group was approximately RMB155,827,000, an increase of approximately 243.9% from approximately RMB45,318,000 in 2006.

Our principal capital expenditure relates to the smelting plant's construction work, purchase of equipment with regard to its expansion projects, and upgrading of production equipment.

Prospect

The processing capacity of the Group's smelting plant has increased substantially to 880 tonnes of gold concentrates per day, resulting in a remarkable economies of scale. In particular, its technology in recovering lead and zinc has made significant breakthroughs. In 2008, the Group will continue to pursue more development projects in this area and strengthen its marketing management to create new profit growth points for the Group.

Financial Condition

1. Combined Operating Results

Turnover

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

	2007 Amount RMB'000	**2007 Sales volume kg/tonne**	**2007 Unit price RMB per kg/tonne**	2006 Amount RMB'000	2006 Sales volume kg/tonne	2006 Unit price RMB per kg/tonne
Gold bullion	**2,208,326**	**12,803 kg**	**172,485**	1,617,183	10,426 kg	155,111
Compound gold	**–**	**–**	**–**	13,812	88 kg	156,955
Silver	**113,937**	**37,601 kg**	**3,030**	80,846	28,151 kg	2,872
Copper products	**472,588**	**8,771 tonnes**	**53,881**	488,505	9,543 tonnes	51,190
Sulphuric acid	**55,637**	**149,397 tonnes**	**372**	32,862	160,799 tonnes	204
Lead concentrates	**–**	**–**	**–**	9,069	72 kg	125,958
Turnover before sales tax	**2,850,488**			2,242,277		
Less: Sales tax	**(5,928)**			(7,302)		
	2,844,560			2,234,975		

The Group's turnover for 2007 was approximately RMB2,844,560,000, representing an approximate 27.3% increase as compared with the previous year. Such increase was mainly attributable to the increase of approximately 36.5% in the sales of gold bullion, as a result of the increase in our average selling price and quantity of gold bullion sold of approximately 11.2% and 22.8% respectively during the year.

Cost of sales

The Group's cost of sales for 2007 was approximately RMB2,391,647,000, representing an approximate 33.4% increase from approximately RMB1,792,220,000 for 2006. Such increase was principally attributable to the increase of approximate 40.7% in the cost of raw materials, especially gold concentrates, to RMB2,109,213,000 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 11.3%, that is, from approximately RMB137,000 per kg in 2006 to RMB152,000 per kg in 2007.

Gross profit and gross profit margin

The Group's gross profit and gross profit margin for 2007 were approximately RMB452,913,000 and approximately 15.9% respectively, representing an increase of approximately 2.3% and a decrease of 3.9% respectively as compared to 2006.

Other revenue

The Group's other revenue for 2007 was approximately RMB142,861,000, representing an approximate 87.3% increase as compared with approximately RMB76,290,000 for 2006. Such change was principally attributable to the fact that the Group terminated the acquisition of Shaanxi Jiusheng on 4 December 2007 due to the failure of reaching a formal agreement. Due to the termination of the proposed acquisition, the Group received a compensation of RMB112,900,000. Besides, such change was also attributable to the decrease of the Group's bank interest income received (arising from the initial public offering of shares) by approximately RMB55,685,000.

Other net loss

The Group's other net loss for 2007 was approximately RMB4,494,000, representing a decrease of 83.2% as compared with the previous year. Such decrease was mainly attributable to the unrealized exchange loss of RMB25,689,000 arising from the initial public offering of shares by the Group in 2006.

Selling and distribution expenses

The Group's selling and distribution expenses for 2007 were approximately RMB14,340,000, representing a decrease of approximately 7.8% as compared with the previous year. Such decrease was principally attributable to the decline in transportation costs of sulphuric acid. Decrease in sales volume of sulphuric acid led to a decrease in transportation costs, despite rising of the oil prices.

Administrative expenses and other operating expenses

The Group's administrative expenses and other operating expenses in 2007 were approximately RMB136,329,000, representing an approximate 26.0% increase from approximately RMB108,228,000 in 2006. The increase was mainly attributable to the Group's acquisition of businesses. The acquisition of Chifeng Jinchan and the commencement of production in Tongbai Xingyuan in the year, has resulted in the increase in expenses.

Finance costs

The Group's finance costs in 2007 was approximately RMB101,613,000, representing an approximate 225.5% increase from approximately RMB31,213,000 for 2006. The increase was principally attributable to the bank and other borrowings which increased by approximately RMB364,861,000 in net amount, compared to the previous year, to approximately RMB1,303,131,000 (including approximately RMB174,861,000 gold loans) for the year ended 31 December 2007, as well as the increase in loan interest due to the higher lending rates charged by banks.

In order to avoid gold price volatility, the Group entered into gold loan agreements to borrow 1,300 kg (approximately 41,796 oz) gold during the year, where the Group suffered a loss of RMB6,730,000 as a result of returning 400 kg gold (approximately 12,860 oz) before year end and further recognized a loss of RMB22,585,000 when restated using the year end gold price.

Profit attributable to the Company's equity shareholders

The Group's profit attributable to our equity shareholders in 2007 was approximately RMB222,270,000 representing an approximate 1.1% increase from approximately RMB219,836,000 in 2006. The net profit margin for 2007 was approximately 7.9%, represent a decrease of 1.9% to that of approximately 9.8% in 2006. The Company's basic earning per share was RMB0.29. It was recommended for the payment of a dividend of RMB0.10 per share.

2. Liquidity and Financial Resources

The Group generally finances its acquisition and operations with internally generated funds and interest bearing borrowings. The cash and bank balances as at 31 December 2007 amounted to RMB389,651,000, of which 38.2% was denominated in Hong Kong dollars.

The shareholders' equity of the Group as at 31 December 2007 amounted to RMB1,672,046,000 (31 December 2006: RMB1,516,213,000). As at 31 December 2007, the Group had current assets of RMB1,866,436,000 (31 December 2006: RMB1,508,020,000) and current liabilities of RMB1,554,953,000 (31 December 2006: RMB1,226,635,000). The current ratio was 1.20 (31 December 2006: 1.23).

As at 31 December 2007, the Group had total outstanding bank loans and other borrowings of approximately RMB1,303,131,000 with interest rates ranged from 5.02% to 6.723% per annum, of which approximately RMB1,179,861,000 was repayable within one year, approximately RMB120,000,000 was repayable after one year but within two years while approximately RMB3,270,000 was repayable after two years. The gearing ratio as at 31 December 2007 was 38.3% (31 December 2006: 33.8%) which was calculated by total borrowings divided by total assets.

3. Security

As at 31 December 2007, the Group's bank deposits of RMB181,982,000 had been pledged for the securing of the gold loans.

4. Material Acquisition

On 27 March 2007, the Group acquired 100% equity interest in Chifeng Jinchan Mining Company Limited at a cash consideration of RMB146,000,000. For details in relation to the acquisition, please refer to the announcement of the Company dated 28 March 2007.

5. Market risks

The Group are exposed to various types of market risks, including fluctuations in gold price and other commodity prices, changes in interest rates and 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 the turnover and profit are generated within the PRC. We have not used and strictly prohibit the use of commodity derivative instruments or futures for speculation purpose, and all commodity derivative instruments are only used to minimize the potential price fluctuation of gold and other commodities.

Interest rate

The Group is exposed to risk resulting from the fluctuation in interest rates on our debt obligations. 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 the interest rates, our finance cost increases accordingly. 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. Renminbi is not freely convertible and the currency would fluctuate against a basket of currencies. The PRC government may take further actions and implement new measures on free trade of Renminbi. Fluctuations in exchange rates may adversely affect the value of our net assets, earnings and any dividends we declare when such are being converted to Hong Kong dollars.

6. Contractual obligations

As at 31 December 2007, capital commitments, including the construction costs not provided for in the financial statement, were approximately RMB222,364,000, representing a decrease of approximately RMB72,039,000 from approximately RMB294,403,000 as at 31 December 2006.

As at 31 December 2007, our total future minimum lease payments under non-cancellable operating leases amounted to approximately RMB1,833,000, of which approximately RMB402,000 was payable within one year, approximately RMB926,000 was payable after one year but within five years, and approximately RMB505,000 was payable after five years.

7. Contingent liabilities

As at 31 December 2007, the Group had no material contingent liabilities.

8. Human resources

In 2007, the average number of employees of the Group was 4,394. 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 2007, the Group has paid out cash bonus to most employees of the Group in recognition of their performance in 2006.

Directors

Executive Directors

Mr. Xu Gaoming (許高明先生), aged 49, 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 29 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 49, 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 26 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 45, 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 22 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 41, 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 ten 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 48, 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 39, 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 65, 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 52, 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 59, 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 40, 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.

Mr. Zheng Jinqiao（鄭錦橋先生）, aged 44, 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 53, a supervisor and chairman of the supervisory committee of the Company. Mr. Gao is a mining engineer with more than 17 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 53, 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 46, 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 55, 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 43, 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 55, 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 36, 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 33, joint company secretary, chief financial officer and qualified accountant of the Company, is responsible for company secretarial, financial and accounting management, and investor relations affairs of the Company. Mr. Poon graduated from Monash University, Australia, with a Bachelor degree of Commerce. 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.

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 annual 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 2007, the Board of Directors of the Company held ten 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.

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 nonexecutive 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 2007.

(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 2007	The number of meetings that Director attended	Attendance (%)
Zheng Jinqiao	2	2	100%
Xu Wanmin	2	2	100%
Ning Jincheng	2	2	100%
Wang Yanwu	2	2	100%
Niu Zhongjie	2	2	100%

In 2007, two meetings of the audit committee were held. On 24 April 2007, the Audit Committee met with the international auditors to discuss the general scope of their audit work. On 13 September 2007, the audit committee had reviewed the Company's interim report for the year 2007. In addition, the audit committee had reviewed the financial statements for the year ended 31 December 2007 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 2007, 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

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 2007, one meeting of the remuneration and review committee was held. Attendance of individual members of remuneration and review committee to the committee meeting in 2007 are as follows:

Director	The number of meetings of remuneration and review committee in 2007	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 2007.

Breakdown of the Directors' and the supervisors' remuneration for the year ended 31 December 2007 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 and Supervisors 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 2007.

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.

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 44 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

KPMG has been appointed by the shareholders annually as the Company's external auditors since 2005. During the year, the fees charged to the accounts of the Company for KPMG's statutory audit amounted to approximately HK$2.3 million. In addition, approximately HK$860,000 was charged for non-audit related services including agreed upon procedures and review of financial statements.

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.

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 2007 annual general meeting of the Company to be held on 12 June 2008, 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.

1. Meetings of the Supervisory Committee during the Reporting Period

In 2007, two supervisory committee meetings were held by the supervisory committee.

2. Independent Work Report of the Supervisory Committee

In 2007, aiming at protecting the interest of the Company and the shareholders, the supervisory committee seriously performed the duties in accordance with the Company Law, Securities Law, Listing Rules of Securities and the Articles of Association of the Company, comprehensively monitored aspects such as the Company's capital operation, operating management, financial position and the fulfillment of obligations by senior management. After a serious review, members of the committee unanimously agreed to the following:

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 approach, 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 2007, the Supervisory Committee reviewed the financial system and position of the Company and considered that the financial report for 2007 truly reflected its financial position and operating results. In 2007, Peking Certified Public Accountants, the local auditor, and KPMG, the international auditor, audited the Company's annual financial statements and issued unqualified auditor reports, which have been reviewed by the Supervisory Committee without any adverse opinion.

iii. Acquisition of Assets

In this reporting period, the Company acquired 100% equity interest in Chifeng Jinchan, 80% equity interest in Chifeng Lingjin Mining Company Limited ("Chifeng Lingjin"), 74% equity interest in Tianshui Hongwu, 80% equity interest in Lingbao Yixin Mining Limited Liability Company ("Lingbao Yixin"), 100% equity interest in Beijing Fushengda Investment Company Limited and 20% equity interest in Tongbai Xingyuan; terminated the acquisition of Shaanxi Jiusheng Mining Investment Co., Ltd.; and established Full Gold Mining Limited Liability Company in Kyrgyz Republic.

The supervisory committee considered that: behaviors constituting insider dealings have not been found in the acquisitions of assets by the Company, nor situations happened that would harm the interests of the Company and all 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" or "Lingbao Electric Bureau") (靈寶市電業總公司) 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 2007, the annual electricity fee paid by the Group to Lingbao Electric amounted to RMB51,903,000.

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.

v. External Guarantees

The Company had no external guarantees in 2007.

The Directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2007.

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	Percentage of the Group's total Purchases
The largest customer	77.4%	
Five largest customers in aggregate	88.7%	
The largest supplier		9.8%
Five largest suppliers in aggregate		28.0%

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 2007 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 46 to 137.

Transfer to Reserves

Profits attributable to shareholders, before dividends, of RMB222,270,000 (2006: RMB219,836,000) 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 2006 was paid during the year. At the board meeting held on 22 April 2008, the Directors declared a final dividend of RMB0.10 per share (2006: RMB0.08) in respect of the year ended 31 December 2007.

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(c) 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 2007.

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 on pages 19 to 22 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 report. 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 2007, the annual electricity fee paid by the Group to Lingbao Electric amounted to RMB51,903,000.

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, Supervisors and Chief Executive

As at 31 December 2007, 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

As at 31 December 2007, 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%	48.54%
Sanmenxia Jinqu Group Company Limited ("Sanmenxia Jinqu") *(Note 3)* (三門陝金渠集團有限公司)	37,698,784	Beneficial 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
BNP Paribas Asset Management	16,090,000	Investment manager	5.41%	2.09%

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 2007.

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 2007, 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 2007 are set out in notes 28 and 29 to the financial statements.

Charitable Donations

Charitable donations made by the Group during the year amounted to RMB425,000 (2006: 288,000).

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 13 May 2008 to 12 June 2008, (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 9 May 2008.

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.

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 page 138 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 2007, 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, 22 April 2008

KPMG

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 46 to 137, which comprise the consolidated and company balance sheets as at 31 December 2007, 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' responsibilities 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.

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 2007 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

22 April 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Turnover	4	**2,844,560**	2,234,975
Cost of sales		**(2,391,647)**	(1,792,220)
Gross profit		**452,913**	442,755
Other revenue	5	**142,861**	76,290
Other net loss	6	**(4,494)**	(26,718)
Selling and distribution expenses		**(14,340)**	(15,545)
Administrative expenses and other operating expenses		**(136,329)**	(108,228)
Profit from operations		**440,611**	368,554
Finance costs	8(a)	**(101,613)**	(31,213)
Profit before taxation	8	**338,998**	337,341
Income tax	9(a)	**(115,669)**	(116,509)
Profit for the year		**223,329**	220,832
Attributable to:			
Equity shareholders of the Company	31(a)	**222,270**	219,836
Minority interests	31(a)	**1,059**	996
Profit for the year		**223,329**	220,832
Dividends payable to equity shareholders of the Company attributable to the year:			
Final dividend proposed after the balance sheet date	13	**77,025**	61,620
Basic Earnings per share (cents)	14	**29**	29

The notes on pages 54 to 137 form part of these financial statements.

	Note	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	*16*	**634,551**	292,115
Construction in progress	*17*	**302,451**	254,533
Intangible assets	*18*	**362,112**	194,878
Goodwill	*19*	**38,882**	4,824
Lease prepayments	*20*	**36,940**	8,976
Other investments	*22*	**10,504**	10,504
Non-current prepayments		**36,212**	28,267
Investment deposits	*23*	**89,122**	460,162
Deferred tax assets	*24(b)*	**23,093**	12,646
		1,533,867	1,266,905
Current assets			
Inventories	*25*	**591,443**	435,010
Trade and other receivables, deposits and prepayments	*26*	**663,360**	199,306
Available-for-sale investment	*22*	**40,000**	–
Cash restricted for use	*29*	**181,982**	–
Deposits with banks	*27*	**–**	442,057
Cash and cash equivalents	*27*	**389,651**	431,647
		1,866,436	1,508,020
Current liabilities			
Bank loans	*29*	**599,861**	935,000
Unsecured debenture	*28*	**580,000**	–
Trade and other payables	*30*	**346,666**	276,189
Current tax payables	*24(a)*	**28,426**	15,446
		1,554,953	1,226,635
Net current assets		**311,483**	281,385
Total assets less current liabilities		**1,845,350**	1,548,290
Non-current liabilities			
Bank loans	*29*	**120,000**	–
Other loan	*28*	**3,270**	3,270
Deferred tax liabilities	*24(b)*	**23,697**	1,149
		146,967	4,419
NET ASSETS		**1,698,383**	1,543,871

Consolidated Balance Sheet

At 31 December 2007

	Note	**2007** **RMB'000**	2006 RMB'000
CAPITAL AND RESERVES			
Share capital	*31(a)*	**154,050**	154,050
Reserves		**1,517,996**	1,362,163
Total equity attributable to equity shareholders of the Company	*31(a)*	**1,672,046**	1,516,213
Minority interest	*31(a)*	**26,337**	27,658
TOTAL EQUITY		**1,698,383**	1,543,871

Approved and authorised for issue by the board of directors on 22 April 2008

Xu Gaoming
Executive director and chairman

Wang Jianguo
Executive director

The notes on pages 54 to 137 form part of these financial statements.

Balance Sheet

At 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	*16*	**439,496**	233,317
Construction in progress	*17*	**109,075**	145,594
Intangible assets	*18*	**22,778**	26,815
Lease prepayments	*20*	**8,623**	8,875
Investments in subsidiaries	*21*	**437,725**	223,930
Other investments	*22*	**10,504**	10,504
Non-current prepayments		**8,097**	8,959
Investment deposits	*23*	**80,000**	451,800
Deferred tax assets	*24(b)*	**14,824**	7,012
		1,131,122	1,116,806
Current assets			
Inventories	*25*	**553,604**	415,621
Trade and other receivables, deposits and prepayments	*26*	**655,579**	196,228
Amounts due from subsidiaries	*21*	**402,480**	195,647
Available-for-sale investment	*22*	**40,000**	–
Cash restricted for use	*29*	**181,982**	–
Deposits with banks	*27*	**–**	442,057
Cash and cash equivalents	*27*	**322,781**	390,471
		2,156,426	1,640,024
Current liabilities			
Bank loans	*29*	**599,861**	935,000
Unsecured debenture	*28*	**580,000**	–
Trade and other payables	*30*	**288,446**	238,787
Current tax payable	*24(a)*	**15,737**	8,812
Amounts due to subsidiaries	*21*	**8,531**	54,347
		1,492,575	1,236,946
Net current assets		**663,851**	403,078
Total assets less current liabilities		**1,794,973**	1,519,884
Non-current liabilities			
Bank loans	*29*	**120,000**	–
Other loan	*28*	**3,270**	3,270
		123,270	3,270
NET ASSETS		**1,671,703**	1,516,614

Balance Sheet

At 31 December 2007

	Note	**2007** **RMB'000**	2006 RMB'000
CAPITAL AND RESERVES			
Share capital	*31(b)*	**154,050**	154,050
Reserves		**1,517,653**	1,362,564
TOTAL EQUITY	*31(b)*	**1,671,703**	1,516,614

Approved and authorised for issue by the board of directors on 22 April 2008

Xu Gaoming
Executive director and chairman

Wang Jianguo
Executive director

The notes on pages 54 to 137 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Note	**2007 RMB'000**	2006 RMB'000
Total equity at 1 January		**1,543,871**	502,120
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	*31(a)*	**8,000**	–
Capital returned to minority shareholder	*31(a)*	**(367)**	–
Purchase of net assets	*34*	**–**	17,160
Exchange difference on translation of foreign financial statements of overseas subsidiaries	*31(a)*	**(3,959)**	–
Acquisition of minority interests	*31(a)*	**(10,871)**	–
		(7,197)	882,539
Net profit for the year:			
Attributable to:			
– Equity shareholders of the Company		**222,270**	219,836
– Minority interests		**1,059**	996
		223,329	220,832
Dividend declared and approved during the year	*13*	**(61,620)**	(61,620)
Total equity at 31 December		**1,698,383**	1,543,871

The notes on pages 54 to 137 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Operating activities			
Profit before taxation		**338,998**	337,341
Adjustments for:			
– Depreciation		**64,217**	31,142
– Finance costs		**101,613**	31,213
– Interest income		**(12,844)**	(64,708)
– Net impairment losses on trade and other receivables made		**8,991**	22
– Net (gain)/loss on disposal of property, plant and equipment		**(2,581)**	941
– Amortisation of lease prepayments		**724**	329
– Amortisation of intangible assets		**26,489**	10,811
– Compensation income		**(112,900)**	–
– Dividend income from unlisted securities		**(280)**	–
– Effect of foreign exchange rate		**10,211**	–
Operating profit before changes in working capital		**422,638**	347,091
Increase in inventories		**(138,250)**	(142,741)
Increase in trade and other receivables, deposits and prepayments		**(59,574)**	(32,646)
Increase in trade and other payables		**26,614**	110,672
Cash generated from operations		**251,428**	282,376
PRC income tax paid		**(124,071)**	(100,205)
Net cash generated from operating activities		**127,357**	182,171

	Note	2007 RMB'000	2006 RMB'000
Investing activities			
Interest received		**22,512**	55,041
Decrease/(increase) in restricted deposits		**414,416**	(526,439)
Payment for purchase of property, plant and equipment		**(88,236)**	(51,945)
Proceeds from disposal of property, plant and equipment		**14,617**	1,188
Payment for construction in progress		**(307,045)**	(156,814)
Payment for purchase of intangible assets		**(67,878)**	(28,828)
Payment for purchase of net assets	*34*	**(3,108)**	(82,199)
Payment for acquisition of a subsidiary	*35*	**(145,381)**	–
Payment for purchase of minority interests	*31(a)*	**(10,871)**	–
Payment for investments deposits		**(83,290)**	(460,162)
Return of investments deposits		**130,000**	–
Payment for available-for-sale investments		**(40,000)**	–
Payment for non-current prepayments		**(42,433)**	(8,959)
Placement of restricted cash		**(263,604)**	–
Release of restricted cash		**81,622**	–
Dividends received from other investments		**280**	–
Net cash used in investing activities		**(388,399)**	(1,259,117)
Financing activities			
Proceeds from issuance of shares by placing and public offer	*31(a)*	**–**	936,737
Listing expenses	*31(a)*	**–**	(71,358)
Proceeds from new bank loans		**1,261,893**	875,000
Repayment of bank loans		**(1,505,490)**	(342,150)
Proceeds from unsecured debenture		**580,000**	–
Interest paid		**(62,425)**	(30,259)
Other borrowing costs paid		**(2,320)**	–
Dividend paid to equity shareholders of the Company		**(60,180)**	(61,620)
Net cash from financing activities		**211,478**	1,306,350
Net (decrease)/increase in cash and cash equivalents		**(49,564)**	229,404
Cash and cash equivalents at 1 January		**347,265**	117,861
Effect of foreign exchange rate changes		**(3,009)**	–
Cash and cash equivalents at 31 December	*27*	**294,692**	347,265

The notes on pages 54 to 137 form part of these 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 activity of the Company is 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.

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. A summary of the significant accounting policies adopted by the Group in set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2007 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 financial instruments classified as available-for-sale (see note 2(e)); derivative financial instruments (see note 2(f)); property, plant and equipment and construction in progress (see note 2(g)) are stated at fair value as explained in the accounting policies set out below.

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

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

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 significant risk of material adjustment in the next year are discussed in note 38.

These consolidated financial statements are present in Renminbi, which is the Company's functional currency. All financial information presented in Renminbi has been rounded to the nearest thousand.

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power 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 are taken into account.

An investment in a 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.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with note 2(r).

2 Significant accounting policies (continued)

(c) Subsidiaries and minority interests (continued)

When the Group acquires any minority interests, no fair value adjustment is made to the identifiable net assets acquired. The excess of the purchase price over the carrying value of minority interests acquired is recognised as a component of equity. Where the Group's interest in a subsidiary is decreased without losing control, any gain or loss on the partial disposal or deemed disposal is recognised as a movement in equity.

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

(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(j)(ii)).

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 are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs. These investments are subsequently accounted for as follows, depending on their classification:

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(j)(i)).

2 Significant accounting policies (continued)

(e) Other investments (continued)

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 2(s)(iii) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 2(s)(iv). When these investments are derecognised or impaired (see note 2(j)(i)), the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

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

(f) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss.

(g) Property, plant and equipment

Property, plant and equipment are stated in the balance sheets at cost or revalued amount less accumulated depreciation and impairment losses (see note 2(j)(ii)). The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition and location for its intended use.

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

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

2 Significant accounting policies (continued)

(g) 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.

When proved and probable gold reserves have been determined, costs incurred to develop gold mines are capitalised as part of the cost of the mining structures. All other expenditures, including the cost of repairs and maintenance and major overhaul, are expensed as they are incurred. Mining exploration costs, such as expenditures related to locating gold deposits and determining the economic feasibility, and the costs of removing waste materials or "stripping costs" are expensed as incurred.

Subsequent to the revaluation pursuant to the PRC rules and regulations in connection with the Restructuring, which was determined based on depreciated replacement costs basis, 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(j)(ii)).

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 revaluation reserve. However, a revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense. When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised as an expense in the income statement. However, a revaluation decrease is charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation reserve in respect of that same asset. Revaluations are to be performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits.

2 Significant accounting policies (continued)

(g) Property, plant and equipment (continued)

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

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

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

(h) 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(j)(ii)). Other development expenditure 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.

2 Significant accounting policies (continued)

(h) Intangible assets (other than goodwill) (continued)

(i) Mining rights

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

The Group's mining rights are of sufficient duration (or convey a legal right to renew for sufficient duration) to enable all reserves to be mined in accordance with current production schedules.

(ii) Exploration rights

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

(iii) Exploration and evaluation assets

Exploration and evaluation assets are stated at cost less accumulated amortisation and impairment losses (see note 2(j)(ii)). 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 to profit or loss using the units of production method based on the proven and probable mineral reserves.

(i) Lease prepayments

Lease prepayments represent purchase cost of land use rights paid to the PRC's governmental authorities. Land use rights are carried at cost less impairment losses (see note 2(j)(ii)) and are charged to the profit or loss on a straight-line basis over the respective periods of the rights of 50 years.

2 Significant accounting policies (continued)

(j) Impairment of assets

(i) Impairment of investments in equity securities and trade and other receivables

Investments in equity securities (other than investments in subsidiaries: see note 2(j)(ii)) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

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

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities 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 equity securities are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

2 Significant accounting policies (continued)

(j) Impairment of assets (continued)

(i) Impairment of investments in equity securities and trade and other receivables (continued)

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

  Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

2 Significant accounting policies (continued)

(j) 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;
- investments in subsidiaries;
- pre-paid interests in leasehold land classified as being held under an operating lease;
- 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)

(j) 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.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(j)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

2 Significant accounting policies (continued)

(k) 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 of the Group are classified as operating leases.

(ii) Operating lease charges

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

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 2(j)(i)) 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 allowance for impairment of doubtful debts.

(m) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

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

2 Significant accounting policies (continued)

(n) 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.

(o) 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.

2 Significant accounting policies (continued)

(o) Income tax (continued)

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

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

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable 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.

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)

(p) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, all interest-bearing borrowings, except for commodity-linked 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.

Commodity-linked interest-bearing borrowings are subsequently remeasured at fair value. Changes in the fair value of such borrowings are recognised in profit or loss.

(q) 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(q)(ii). Contingent liabilities acquired in a business combination that cannot be reliably fair valued are disclosed in accordance with note 2(q)(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.

(r) Trade and other payables

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

2 Significant accounting policies (continued)

(s) 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 or 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 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 are recognised in profit or loss over the useful life of the asset.

(t) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans 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.

2 Significant accounting policies (continued)

(u) Borrowing costs

Borrowing costs are expensed in profit and loss in the period in which they are incurred.

(v) 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 included in the calculation of the profit or loss on disposal.

(w) 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 a subsidiary, an associate of the Group or a joint venture in which the Group is a venturer;

2 Significant accounting policies (continued)

(w) Related parties (continued)

(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.

(x) Segment reporting

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

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

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

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

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

3 Changes in accounting policies

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, *Financial instruments: Disclosures* and the amendment to HKAS 1, *Presentation of financial statements: Capital disclosures*, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, *Financial instruments: Disclosure and presentation*. These disclosures are provided throughout these financial statements, in particular in note 33.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in note 31(e).

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 41).

4 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:

	2007	2006
	RMB'000	RMB'000
Sales of:		
– Gold	**2,208,327**	1,640,064
– Other metals	**586,523**	569,351
– Others	**55,637**	32,862
Less: Sales taxes and levies	**(5,927)**	(7,302)
	2,844,560	2,234,975

5 Other revenue

	2007	2006
	RMB'000	RMB'000
Bank interest income	**9,023**	64,708
Other interest income	**3,821**	–
Total interest income on financial assets not at fair value through profit or loss	**12,844**	64,708
Compensation income *(note 26(e))*	**112,900**	–
Delivery income	**8,787**	10,426
Government grants	**4,470**	250
Scrap sales	**3,550**	852
Dividend income from unlisted securities	**280**	–
Sundry income	**30**	54
	142,861	76,290

6 Other net loss

	2007	2006
	RMB'000	RMB'000
Net gain/(loss) on disposal of property, plant and equipment	**2,581**	(941)
Net foreign exchange loss	**(7,371)**	(25,689)
Others	**296**	(88)
	(4,494)	(26,718)

7 Staff costs

	2007	2006
	RMB'000	RMB'000
Salaries, wages and bonuses	**81,714**	68,066
Staff welfare	**5,005**	9,246
Contributions to retirement benefit schemes	**4,570**	3,419
	91,289	80,731
Less: Staff costs capitalised into construction in progress	**(3,601)**	(697)
	87,688	80,034

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):

		2007 RMB'000	2006 RMB'000
(a)	Finance costs:		
	Net realised and unrealised loss on financial instruments at fair value	**28,458**	–
	Interest expense on bank advances wholly repayable within five years	**63,408**	30,726
	Interest on other loan	**115**	89
	Interest on unsecured debenture	**6,661**	-
	Other borrowing costs	**2,971**	398
		101,613	31,213
	Finance costs on financial liabilities measured at		
	– amortised cost	**70,108**	31,213
	– fair value	**31,505**	–
		101,613	31,213
(b)	Other items:		
	Amortisation of lease prepayments	**724**	329
	Operating lease charges in respect of properties	**5,139**	3,140
	Research and development expenses	**1,400**	2,500
	Net impairment losses on trade and other receivables made	**8,991**	22
	Pollution discharge fee	**1,877**	1,051
	Environmental rehabilitation fee	**5,584**	2,270
	Auditors' remuneration		
	– audit services	**3,928**	2,289
	– other services	**891**	750
	Amortisation of intangible assets	**97,884**	17,510
	Less: Amortisation capitalised into exploration and evaluation assets	**(71,395)**	(6,699)
		26,489	10,811
	Depreciation	**64,801**	31,522
	Less: Depreciation capitalised into construction in progress	**(584)**	(380)
		64,217	31,142

9 Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2007 RMB'000	2006 RMB'000
Current tax – PRC income tax		
Provision for the year	136,874	114,067
Underprovision in respect of prior year	–	24
	136,874	114,091
Deferred tax		
Origination and reversal of temporary differences	(21,205)	2,418
	115,669	116,509

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

	2007 RMB'000	2006 RMB'000
Profit before taxation	338,998	337,341
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdiction concerned	111,869	111,323
Tax effect of non-deductible expenses	1,235	2,858
Tax effect of non-taxable income	(1,279)	–
Effect of change in tax rate	7,442	–
Underprovision in respect of prior year	–	24
Others	(3,598)	2,304
Actual tax expense	115,669	116,509

The provision for PRC current income tax is based on a statutory rate of 33% of the assessable profit of the entities comprising the Group as determined in accordance with the relevant income tax rules and regulations of the PRC.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which has taken effect from 1 January 2008. As a result of the new tax law, the statutory income tax rate currently adopted by the Company and its subsidiaries has changed from 33% to 25% with effect from 1 January 2008.

The enactment of the New Tax Law is not expected to have any financial effect on the amounts accrued in the balance sheet in respect of current tax payable. The deferred tax assets and liabilities have been remeasured for the change in applicable tax rates as a result of the new tax law.

10 Directors' and supervisors' remuneration

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

Year ended 31 December 2007

	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	–	904	4	–	908
Mr Wang Jianguo	–	814	4	–	818
Mr Lu Xiaozhao	–	633	4	–	637
Mr Jin Guangcai	–	633	4	–	637
Non-executive directors					
Mr Di Qinghua	–	–	–	–	–
Mr Qi Guozhong	–	–	–	–	–
Mr Xu Wanmin	–	–	–	–	–
Independent non-executive directors					
Mr Ning Jincheng	–	100	–	–	100
Mr Wang Yanwu	–	100	–	–	100
Mr Zheng Jinqiao	–	100	–	–	100
Mr Niu Zhongjie	–	117	–	–	117
Supervisors					
Mr Gao Yang	–	633	4	–	637
Mr Meng Fanrui	–	–	–	–	–
Mr Guo Xuchang	–	–	–	–	–
Mr Peng Jinzeng	–	75	3	–	78
Mr Lei Mingyang	–	45	1	–	46
Total	–	4,154	24	–	4,178

10 Directors' and supervisors' remuneration (continued)

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
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

11 Individuals with highest emoluments

The five highest paid individuals of the Group for the year ended 31 December 2007 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 RMB216,709,000 (2006: RMB218,058,000) 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

	2007	2006
	RMB'000	RMB'000
Final dividend proposed after the balance sheet date of RMB0.10 (2006: RMB0.08) per ordinary share	**77,025**	61,620

Pursuant to a resolution passed at the directors' meeting on 22 April 2008, a final dividend in respect of the year ended 31 December 2007 of RMB0.10 (2006: RMB0.08) per share totalling RMB77,025,000 (2006: RMB61,620,000) was proposed for shareholders' approval at the annual general meeting. Final dividend of RMB77,025,000 (2006: 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

	2007	2006
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.08 (2006: RMB0.08) per ordinary share	**61,620**	61,620

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 RMB222,270,000 (2006: RMB219,836,000) and the weighted average of 770,249,000 ordinary shares (2006: 761,718,000 ordinary shares), in issue during the year calculated as follows:

Weighted average number of ordinary shares

	Number of shares	
	2007	2006
	'000	'000
Issued ordinary shares at 1 January	**770,249**	500,000
Effect of shares issued pursuant to the placing and public offering	**–**	261,718
Weighted average number of ordinary shares	**770,249**	761,718

(b) Diluted earnings per share

The diluted earnings per share for the current and previous years are not presented as there are no dilutive potential ordinary shares during the years.

15 Related party transactions

Particulars of significant transactions with related parties during the year ended 31 December 2007 and 2006 are as follows:

(a) Recurring transactions

	2007	2006
	RMB'000	RMB'000
Purchase of electricity from Lingbao Electric Company (靈寶市電業總公司), an equity holder of the Company	**51,903**	50,191

15 Related party transactions (continued)

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

The Group is a state-controlled entity and 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 intangible assets; 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.

(c) 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:

	2007	2006
	RMB'000	RMB'000
Short-term employee benefits	**5,564**	5,562
Post-employment benefits	**34**	20
	5,598	5,582

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 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 disposal	(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

16 Property, plant and equipment (continued)

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 2007	101,405	97,818	163,981	38,421	8,148	409,773
Additions	14,873	3,820	66,634	12,911	7,411	105,649
Transfer from construction in progress *(note 17)*	110,675	57,942	111,255	–	1,698	281,570
Through business combination *(note 35)*	18,966	16,665	9,072	299	81	45,083
Purchase of net assets *(note 34)*	627	–	–	336	304	1,267
Disposals	(739)	(5,150)	(3,408)	(5,502)	(1,517)	(16,316)
At 31 December 2007	245,807	171,095	347,534	46,465	16,125	827,026
Representing:						
Cost	149,201	102,137	318,097	44,390	15,465	629,290
Valuation – 2002	15,570	50,871	11,243	–	417	78,101
Valuation – 2005	62,070	1,422	9,256	1,776	162	74,686
Valuation – 2007	18,966	16,665	8,938	299	81	44,949
	245,807	171,095	347,534	46,465	16,125	827,026
Accumulated depreciation:						
At 1 January 2007	6,469	42,132	56,675	9,327	3,055	117,658
Charge for the year	10,294	18,419	28,896	5,323	1,869	64,801
Through business combination *(note 35)*	3,737	8,308	2,159	75	17	14,296
Written back on disposal	(29)	–	(2,103)	(1,822)	(326)	(4,280)
At 31 December 2007	20,471	68,859	85,627	12,903	4,615	192,475
Net book value:						
At 31 December 2007	225,336	102,236	261,907	33,562	11,510	634,551

Note: Had property, plant and equipment been carried at cost less accumulated depreciation, the historical carrying amount as at 31 December 2007 and 2006 would have been as follows:

	2007 RMB'000	2006 RMB'000
Buildings	**223,110**	93,729
Mining shafts	**99,379**	55,306
Plant and machinery	**245,380**	94,915
Transportation equipment	**31,393**	27,191
Office and electronic equipment	**11,452**	5,075
	610,714	276,216

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 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 disposal	–	–	(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)

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 2007	82,629	83,672	141,696	24,506	4,762	337,265
Additions	69	–	4,180	5,797	1,984	12,030
Transfer from construction in progress *(note 17)*	71,634	43,503	120,500	–	–	235,637
Disposals	–	–	(1,150)	(2,497)	–	(3,647)
At 31 December 2007	154,332	127,175	265,226	27,806	6,746	581,285
Representing:						
Cost	80,931	76,304	254,038	27,547	6,564	445,384
Valuation – 2002	15,847	50,871	11,188	259	182	78,347
Valuation – 2005	57,554	–	–	–	–	57,554
	154,332	127,175	265,226	27,806	6,746	581,285
Accumulated depreciation:						
At 1 January 2007	4,638	39,341	49,579	7,930	2,460	103,948
Charge for the year	6,500	6,843	22,174	3,329	1,117	39,963
Written back on disposal	–	–	(905)	(1,217)	–	(2,122)
At 31 December 2007	11,138	46,184	70,848	10,042	3,577	141,789
Net book value:						
At 31 December 2007	143,194	80,991	194,378	17,764	3,169	439,496

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**	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cost:				
At 1 January	**254,533**	110,834	**145,594**	81,626
Additions	**318,861**	157,194	**199,118**	87,122
Acquisition through business combination *(note 35)*	**14**	–	**–**	–
Purchase of net assets *(note 34)*	**10,613**	11,244	**–**	–
Transfer to property, plant and equipment *(note 16)*	**(281,570)**	(24,739)	**(235,637)**	(23,154)
At 31 December	**302,451**	254,533	**109,075**	145,594

18 Intangible assets

The Group

	Shanghai Gold Exchange trading rights RMB'000	Exploration and evaluation assets RMB'000	Mining rights *(note (b))* RMB'000	Exploration rights *(note (b))* RMB'000	Total RMB'000
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
Cost:					
At 1 January 2007	**820**	**150,004**	**71,476**	**15,423**	**237,723**
Additions	**–**	**95,395**	**8,171**	**51,852**	**155,418**
Through business combination *(note 35)*	**–**	**–**	**41,830**	**31,677**	**73,507**
Purchase of net assets *(note 34)*	**–**	**5,187**	**–**	**32,891**	**38,078**
At 31 December 2007	**820**	**250,586**	**121,477**	**131,843**	**504,726**
Accumulated amortisation:					
At 1 January 2007	**–**	**5,296**	**27,355**	**10,194**	**42,845**
Through business combination *(note 35)*	**–**	**–**	**1,155**	**730**	**1,885**
Charge for the year	**–**	**1,198**	**25,334**	**71,352**	**97,884**
At 31 December 2007	**–**	**6,494**	**53,844**	**82,276**	**142,614**
Net book value:					
At 31 December 2007	**820**	**244,092**	**67,633**	**49,567**	**362,112**

18 Intangible assets (continued)

The Company

	Shanghai Gold Exchange trading rights RMB'000	Exploration and evaluation assets RMB'000	Mining rights *(note (b))* RMB'000	Exploration rights *(note (b))* RMB'000	Total RMB'000
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
Cost:					
At 1 January 2007	**820**	**–**	**50,139**	**447**	**51,406**
Additions	**–**	**–**	**–**	**–**	**–**
At 31 December 2007	**820**	**–**	**50,139**	**447**	**51,406**
Accumulated amortisation:					
At 1 January 2007	**–**	**–**	**24,170**	**421**	**24,591**
Charge for the year	**–**	**–**	**4,011**	**26**	**4,037**
Written back on disposal	**–**	**–**	**–**	**–**	**–**
At 31 December 2007	**–**	**–**	**28,181**	**447**	**28,628**
Net book value:					
At 31 December 2007	**820**	**–**	**21,958**	**–**	**22,778**

18 Intangible assets (continued)

Notes:

(a) Included in intangible assets of the Group and the Company are assets related to mines which are not operative as at 31 December 2007 with a carrying value of RMB212,418,000 (2006: RMB144,564,000) and RMB Nil (2006: RMB Nil) respectively. These assets are not subject to amortisation until they are placed in use.

(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
Lingjin Two Mine	Lingbao, Henan	December 2014
Hongxin Gold Mine	Lingbao, Henan	August 2012
Duolanasayi Gold Mine	Habahe, Xinjiang	June 2008
Tuokuzibayi Gold Mine	Habahe, Xinjiang	August 2017
Kaqia Gold Mine	Wushi, Xinjiang	September 2009
Shangrao County Jintian Industrial Company Limited Gold Mine	Shangrao, Jiangxi	November 2010
Shanzaoling Gold Mine	Shangrao, Jiangxi	June 2011
Chifeng Jinchan Mining Company Limited Gold Mine	Chifeng, Inner Mongolia	January 2010
桐柏興業有限公司上上河金礦	Nanyang, Henan	October 2012 *(note (i))*
桐柏金地礦業有限公司	Nanyang, Henan	March 2011 *(note (i))*
Exploration rights:		
In-depth deposit of Lingjin One Mine	Lingbao, Henan	October 2008
Harqin Banner Shijiaxiang Shuiquangou Gold Mine	Chifeng, Inner Mongolia	April 2008
林西縣小北溝銀多金屬礦	Chifeng, Inner Mongolia	April 2008
甘肅省天水市麥積區橋礦金礦	Tianshui, Gansu	May 2008
喀喇沁旗十家鄉城南山金礦	Chifeng, Inner Mongolia	April 2008
喀喇沁旗龍山鄉達子營金礦點	Chifeng, Inner Mongolia	April 2008
甘露池金礦普查	Tianshui, Gansu	April 2008 *(note (i))*

Notes:

(i) Up to the date of this financial statements, the Group was in the process of applying for or changing registration of the title certificates of certain of its mining or exploration rights. The relevant rights and exploration and evaluation assets have an aggregate carrying value of approximately RMB20,672,000 as at 31 December 2007. The directors are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned intangible assets.

(ii) The amortisation charge for the year ended 31 December 2007 is included in "cost of sales" and "other operating expenses" in the consolidated income statement of the Group.

19 Goodwill

	The Group	
	2007	2006
	RMB'000	RMB'000
Cost:		
At 1 January	**4,824**	4,716
Additions	**34,058**	108
At 31 December	**38,882**	4,824

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:

	2007	2006
	RMB'000	RMB'000
Mining	**38,882**	4,824

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:

	2007	2006
	%	%
Gross margin	**30**	20
Growth rate	**5**	5
Discount rate	**13**	7.5

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

20 Lease prepayments

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**9,229**	9,558	**9,128**	9,381
Through business combination	**29,314**	–	**–**	–
Less: Amortisation	**(724)**	(329)	**(253)**	(253)
At 31 December	**37,819**	9,229	**8,875**	9,128
Lease prepayments	**37,819**	9,229	**8,875**	9,128
Less: Current portion of lease prepayments included in other deposits and prepayments	**(879)**	(253)	**(252)**	(253)
	36,940	8,976	**8,623**	8,875

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 by the relevant PRC authorities.

21 Investment in subsidiaries

	The Company	
	2007	2006
	RMB'000	RMB'000
Unlisted shares, at cost	**437,725**	223,930
Amounts due from subsidiaries	**402,480**	195,647
Amounts due to subsidiaries	**(8,531)**	(54,347)
	831,674	365,230

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

21 Investment in subsidiaries (continued)

Details of the subsidiaries at 31 December 2007 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 ("Xinjiang Baoxin")	Limited liability company	The PRC	80	20	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 ("Akesu Xindi")	Limited liability company	The PRC	–	100	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 ("Habahe Huatai")	Limited liability company	The PRC	83.3	16.7	RMB9,800	Mining, processing and smelting of gold, production of gold products, sales of gold bullion products, machinery, equipment and components for gold processing

21 Investment in subsidiaries (continued)

Name of company	Type of legal entity	Place of incorporation	Percentage of equity attributable to the Company Direct %	Indirect %	Issued and fully paid-up/ registered capital '000	Principal activities
Tongbai Xingyuan Mining Company Limited ("Tongbai Xingyuan")	Limited liability company	The PRC	100	–	RMB17,000	Geological exploration of mineral reserves
Shangrao County Jintian Industrial Company Limited ("Shangrao Jintian")	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 ("Chifeng Zheng Ji")	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	–	HKD50,000	Dormant
Wuyuan County Jincheng Mining Company Limited ("Wuyuan Jincheng")	Limited liability company	The PRC	100	–	RMB500	Sales of mineral products

21 Investment in subsidiaries (continued)

Name of company	Type of legal entity	Place of incorporation	Percentage of equity attributable to the Company Direct %	Indirect %	Issued and fully paid-up/ registered capital '000	Principal activities
Chifeng Jinchan Mining Company Limited ("Chifeng Jinchan")	Limited liability company	The PRC	100	–	RMB20,000	Mining and exploration of mineral reserves
Chifeng Lingjin Mining Company Limited	Limited liability company	The PRC	80	–	RMB40,000	Mining and exploration of mineral reserves
Lingbao Yixin Mining Limited Liability Company ("Lingbao Yixin")	Limited liability company	The PRC	80 *(note i)*	–	RMB3,670	Mining and exploration of mineral reserves
Full Gold Mining Limited Liability Company ("Full Gold")	Limited liability company	Kyrgyz Republic	100	–	SOM166	Mining and exploration of mineral reserves
Tianshui Hongwu Mining Development Company Limited ("Tianshui Hongwu")	Limited liability company	The PRC	74 *(note ii)*	–	RMB1,000	Mining and exploration of mineral reserves
Lanzhou Lingjin Mining Limited Liability Company ("Lanzhou Lingjin")	Limited liability company	The PRC	100	–	RMB1,000	Mining and exploration of mineral reserves
Beijing Fushengda Investment Company Limited ("Beijing Fushengda")	Limited liability company	The PRC	100	–	RMB10,000	Investment holding

Notes:

(i) Lingbao Yixin was acquired by the Group in June 2007. Pursuant to the sale and purchase agreement, the Group is entitled to an initial profit amount which is equivalent to the Group's investment cost in Lingbao Yixin. Profit generated thereafter is shared between the Group and the minority shareholder according to the ratio 55%: 45%.

(ii) Tianshui Hongwu was acquired by the Group in November 2007. Pursuant to the sale and purchase agreement, the Group is entitled to an initial profit amount which is equivalent to the Group's investment cost in Tianshui Hongwu. Profit generated thereafter is shared between the Group and the minority shareholder on a 60%: 40% basis.

21 Investment in subsidiaries (continued)

As at 1 January 2007, the Group held 83.3% equity interest in Habahe Huatai and 80% equity interest in Xinjiang Baoxin, which holds 100% equity interest in Akesu Xindi. On 27 November 2007, the Group acquired the entire interest in Beijing Fushengda which then held the remaining 16.7% equity interest in Habahe Huatai and 20% equity interest in Xinjiang Baoxin, for a consideration of RMB13,200,000, satisfied in cash. This led to an increase in the Group's equity interest in Habahe Huatai, Xinjiang Baoxin and Akesu Xindi to 100%.

As at 1 January 2007, the Group held 80% equity interest in Tongbai Xingyuan. On 20 September 2007, the Group acquired the remaining 20% equity interest from Mr Zhou Yudao and Mr Xu Zhongjian for a consideration of RMB4,000,000. After the transaction, Tongbai Xingyuan become a wholly-owned subsidiary of the Group.

The excess of the purchase consideration over the carrying value of minority interests acquired in the above transactions of RMB858,000 are charged to other reserve in consolidated equity (see note 2(c)).

22 Other investments

	The Group and the Company	
	2007	2006
	RMB'000	RMB'000
Non-current investment		
Unlisted available-for-sale equity securities, at cost	**10,504**	10,504
Current investments		
Unlisted available-for-sale equity securities, at fair value	**40,000**	–

Non-current 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 a reasonable estimate of the fair value could not be made without incurring excessive costs.

On 24 December 2007, the Group entered into a principal-protected fund management contract with financial institution in the PRC whereby principal amount of RMB40,000,000 (2006: RMB Nil) was placed with the financial institution for investment management at 31 December 2007. The estimated return from the investment was approximate 5.29% per annum. The contract expires on 19 April 2008 and cannot be early terminated.

23 Investment deposits

Investment deposits represent deposits paid to certain independent third parties for exclusive rights to review the acquisition proposals of companies with mining assets in Gansu and Xinjiang provinces. The amounts are unsecured, interest-free and repayable when the relevant exclusive rights expire. The directors of the Company consider that appropriate procedures have been taken by the Group to assess the viability of the potential mines and expect that the deposit would be recovered through acquisition of the mines and relevant mining assets or the conversion to relevant equity interest in the mining companies.

24 Income tax in the balance sheets

(a) Current taxation in the balance sheets represents:

	The Group		**The Company**	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC income tax payable	**28,426**	15,446	**15,737**	8,812

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 provision for doubtful debt, salary and other employee benefits	Tax losses *(note (i))*	Inventories	Financial instruments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax arising from:								
At 1 January 2006	2,042	(2,158)	752	9,922	2,515	–	–	13,073
(Charged)/credited to profit or loss	(3,334)	2,819	(586)	(3,610)	2,293	–	–	(2,418)
Purchase of net assets *(note 34)*	–	–	–	–	842	–	–	842
At 31 December 2006	(1,292)	661	166	6,312	5,650	–	–	11,497
At 1 January 2007	**(1,292)**	**661**	**166**	**6,312**	**5,650**	**–**	**–**	**11,497**
(Charged)/credited to profit or loss	**4,535**	**5,668**	**(166)**	**2,979**	**(3,328)**	**5,871**	**5,646**	**21,205**
Acquisition through business combination *(note 35)*	**(3,882)**	**(25,681)**	**–**	**–**	**–**	**(4,119)**	**–**	**(33,682)**
Purchase of net assets *(note 34)*	**–**	**–**	**–**	**–**	**376**	**–**	**–**	**376**
At 31 December 2007	**(639)**	**(19,352)**	**–**	**9,291**	**2,698**	**1,752**	**5,646**	**(604)**

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	Timing difference relating to written off of pre-operating expenses	Timing difference on provision for doubtful debt, salary and other employee benefits	Amortisation of other intangibles	Inventories	Financial instruments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2006	1,729	387	9,099	988	–	–	12,203
(Charged)/credited to profit or loss	(2,476)	(221)	(3,345)	851	–	–	(5,191)
At 31 December 2006	(747)	166	5,754	1,839	–	–	7,012
At 1 January 2007	**(747)**	**166**	**5,754**	**1,839**	**–**	**–**	**7,012**
(Charged)/credited to profit or loss	**955**	**(166)**	**968**	**31**	**378**	**5,646**	**7,812**
At 31 December 2007	**208**	**–**	**6,722**	**1,870**	**378**	**5,646**	**14,824**

	The Group		**The Company**	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Net deferred tax asset recognised on the balance sheet	**23,093**	12,646	**14,824**	7,012
Net deferred tax liability recognised on the balance sheet	**(23,697)**	(1,149)	**–**	–
	(604)	11,497	**14,824**	7,012

Notes:

(i) Tax losses expire within 5 years.

(ii) There were no significant unrecognised deferred tax assets and liabilities as at 31 December 2007 and 2006.

25 Inventories

(a) Inventories in the balance sheets comprise:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**353,567**	336,350	**352,837**	331,606
Work in progress	**35,600**	17,768	**7,030**	8,057
Finished goods	**162,279**	63,497	**163,990**	63,642
Low-value consumables	**39,997**	17,395	**29,747**	12,316
	591,443	435,010	**553,604**	415,621

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

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Carrying amount of inventories sold	**2,391,647**	1,792,220	**2,450,373**	1,812,143

26 Trade and other receivables, deposits and prepayments

Trade and other receivables, deposits and prepayments comprise:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**58,918**	27,734	**58,918**	27,734
Bills receivable	**34,050**	24,023	**34,050**	24,023
Less: Allowance for doubtful debts *(note 26(c))*	**–**	(1,002)	**–**	(1,002)
	92,968	50,755	**92,968**	50,755
Other receivables	**8,302**	12,313	**6,981**	9,951
Less: Allowance for doubtful receivables *(note 26(c))*	**(2,105)**	(2,121)	**(2,105)**	(2,114)
	6,197	10,192	**4,876**	7,837
Purchase deposits *(note 26(d))*	**119,510**	97,824	**119,510**	97,824
Less: Allowance for doubtful receivables *(note 26(c))*	**(8,367)**	–	**(8,367)**	–
	111,143	97,824	**111,143**	97,824
Interest receivable	**–**	9,668	**–**	9,668
Other deposits and prepayments	**34,352**	30,867	**27,892**	30,144
Amount due from Beijing Jiuyi *(note 26(e))*	**418,700**	–	**418,700**	–
	663,360	199,306	**655,579**	196,228

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

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

(a) Ageing analysis

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 and the Company	
	2007	2006
	RMB'000	RMB'000
Within 3 months	**66,933**	38,354
Over 3 months but less than 6 months	**26,035**	12,277
Over 6 months but less than 1 year	**–**	124
At 31 December	**92,968**	50,755

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.

(b) Trade debtors and bills receivable that are not impaired

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	The Group and the Company	
	2007	2006
	RMB'000	RMB'000
Neither past due nor impaired	**91,910**	50,631
Less than 1 year past due	**1,058**	124
	92,968	50,755

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

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

(c) Impairment of trade and other receivables

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off trade and other receivables directly (see note 2(j)(i)).

Movement in the allowance for doubtful debts during the year, including both specific and collective loss components, are as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**3,123**	3,265	**3,116**	3,265
Impairment loss recognised	**9,007**	270	**9,007**	263
Impairment loss written back	**(16)**	(248)	**(9)**	(248)
Uncollectible amounts written off	**(1,642)**	(164)	**(1,642)**	(164)
At 31 December	**10,472**	3,123	**10,472**	3,116

At 31 December 2007, the Group's and the Company's trade debtors and bills receivable of RMB10,472,000 (2006: RMB3,123,000) and RMB10,472,000 (2006: RMB3,116,000) respectively were individually determined to be fully impaired.

(d) Purchase deposits

Purchase deposits represent the amounts paid by the Group in advance to suppliers 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.

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

(e) On 4 December 2007, the Company has entered into a termination agreement with Beijing Jiuyi Investment Company Limited ("Beijing Jiuyi") to terminate the proposed Shaanxi Jiusheng Mining Investment Management Company Limited ("Shaanxi Jiusheng") Acquisition. Pursuant to the termination agreement, Beijing Jiuyi shall repay the investments deposit of RMB305,800,000 and pay a compensation fee of RMB112,900,000 (see note 5) to the Company for the failure to reach a definitive agreement for the Shaanxi Jiusheng Acquisition. The aggregate amount of RMB418,700,000 shall be paid/repaid by Beijing Jiuyi to the Company in three instalments. The first instalment in an amount of RMB100,000,000 shall be paid before 31 January 2008. The second instalment in an amount of RMB200,000,000 shall be paid before 28 February 2008. The last instalment in an amount of RMB118,700,000 shall be paid before 31 March 2008. An amount of RMB300,000,000 was subsequently received by the Company up to the date of this financial statements.

27 Cash and cash equivalents and deposits with banks

	The Group		**The Company**	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and on hand	**389,651**	431,647	**322,781**	390,471
Bank deposits with maturity over 3 months	**–**	442,057	**–**	442,057
Cash and cash equivalents in the balance sheet	**389,651**	873,704	**322,781**	832,528
Restricted deposits#	**(94,959)**	(526,439)	**(94,959)**	(526,439)
Cash and cash equivalents in the consolidated cash flow statement	**294,692**	347,265	**227,822**	306,089

\# 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. Proceeds from the offer are placed in designated bank savings 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 2007, the amount of cash and bank deposits placed in the designated accounts amounted to RMB94,959,000 (2006: RMB526,439,000). The balance can only be released after having obtained the prior approval of the State Administration of Foreign Exchange.

28 Interest-bearing borrowings

(a) The analysis of the carrying amount of interest-bearing borrowings is as follows:

	The Group and the Company	
	2007	2006
	RMB'000	RMB'000
Bank loans *(note 29)*	**599,861**	935,000
Unsecured debenture 5.44% 2008 *(note 28(b)(i))*	**580,000**	–
	1,179,861	935,000
Non-current portion:		
Bank loans *(note 29)*	**120,000**	–
Other loan *(note 28(b)(ii))*	**3,270**	3,270
	123,270	3,270

(b) Significant terms and repayment schedule of non-bank borrowings

(i) Unsecured debenture

The debenture is denominated in Renminbi, bears fixed interest rate at 5.44% per annum, is unsecured and repayable on 16 October 2008.

(ii) 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 is unsecured, interest-bearing and repayable in fixed instalments with the first instalment commencing from December 2009. Interest is charged with reference to the 1-year deposit rate of the People's Bank of China plus 0.3% margin.

29 Bank loans

At 31 December 2007, the bank loans were repayable as follows:

	The Group and the Company	
	2007	2006
	RMB'000	RMB'000
Within 1 year or on demand	**599,861**	935,000
Over 1 year but within 2 years	**120,000**	–
	719,861	935,000

At 31 December 2007, the bank loans were secured as follows:

	The Group and the Company	
	2007	2006
	RMB'000	RMB'000
Bank loans		
– secured	**174,861**	50,000
– unsecured	**545,000**	885,000
	719,861	935,000

In September 2007, the Group obtained commodity-linked interest-bearing bank loans from a bank, the repayment of which is determined with reference to the gold price quoted by the Shanghai Gold Exchange on the date of repayment. The bank loan is stated at fair value and changes in the fair value are recognised immediately in profit or loss.

At 31 December 2007, a bank loan of RMB174,861,000 was secured by pledges over the Group's bank deposits totalled RMB181,982,000. At 31 December 2006, bank loans of RMB50,000,000 were secured by pledges over the Group's and the Company's property, plant and equipment with an aggregate carrying value of RMB81,612,000.

30 Trade and other payables

Trade and other payables comprise:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**162,237**	81,681	**130,290**	60,214
Other payables	**114,146**	137,801	**100,874**	129,193
Salary and welfare payable	**34,441**	35,536	**23,585**	31,172
Accruals	**16,064**	12,928	**13,919**	9,965
Interest payable	**10,053**	1,643	**10,053**	1,643
Receipts in advance	**9,725**	6,600	**9,725**	6,600
	346,666	276,189	**288,446**	238,787

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

Included to trade and other payables are trade creditors with the following ageing analysis as of the balance sheet date:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**152,745**	74,631	**122,732**	55,220
Over 3 months but less than 6 months	**4,689**	2,892	**4,094**	2,754
Over 6 months but less than 1 year	**1,410**	531	**1,318**	497
Over 1 year but less than 2 years	**1,467**	3,627	**1,305**	1,743
Over 2 years	**1,926**	–	**841**	–
	162,237	81,681	**130,290**	60,214

Included in other payables of the Group and the Company is an amount payable to the National Social Security Fund of RMB80,942,000 (2006: RMB86,624,000). In accordance with the 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.

31 Capital and reserve

(a) The Group

		Attributable to equity holders of the Company									
	Note	Share capital RMB'000	Retained profits RMB'000	Share premium *(Note (iv))* RMB'000	Statutory reserve RMB'000	Capital reserve *(Note (v))* RMB'000	Exchange reserve *(Note (vi))* RMB'000	Other reserve *(Note (vii))* RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
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)
Share 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
At 1 January 2007		154,050	426,953	827,931	74,945	32,334	–	–	1,516,213	27,658	1,543,871
Profit for the year		–	222,270	–	–	–	–	–	222,270	1,059	223,329
Dividend approved in respect of the previous year		–	(61,620)	–	–	–	–	–	(61,620)	–	(61,620)
Exchange difference on translation of foreign financial statements of overseas subsidiaries		–	–	–	–	–	(3,959)	–	(3,959)	–	(3,959)
Acquisition of minority interests		–	–	–	–	–	–	(858)	(858)	(10,013)	(10,871)
Restatement of profit appropriations for prior years	*(iii)*	–	335	–	(335)	–	–	–	–	–	–
Capital contributions from minority shareholder	*(ii)*	–	–	–	–	–	–	–	–	8,000	8,000
Capital returned to minority shareholder		–	–	–	–	–	–	–	–	(367)	(367)
Transfer to reserves	*(i)*	–	(23,326)	–	23,326	–	–	–	–	–	–
At 31 December 2007		154,050	564,612	827,931	97,936	32,334	(3,959)	(858)	1,672,046	26,337	1,698,383

31 Capital and reserve (continued)

(b) The Company

	Note	Share capital RMB'000	Retained profits RMB'000	Share premium *(Note (iv))* RMB'000	Statutory reserve RMB'000	Capital reserve *(Note (v))* RMB'000	Total equity RMB'000
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
At 1 January 2007		154,050	428,930	827,931	73,369	32,334	1,516,614
Profit for the year		–	216,709	–	–	–	216,709
Dividend approved in respect of the previous year		–	(61,620)	–	–	–	(61,620)
Restatement of profit appropriations for prior years	*(iii)*	–	345	–	(345)	–	–
Transfer to reserves	*(i)*	–	(19,605)	–	19,605	–	–
At 31 December 2007		154,050	564,759	827,931	92,629	32,334	1,671,703

Notes:

(i) PRC statutory reserves

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

(a) *Statutory surplus reserve*

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

31 Capital and reserve (continued)

(b) The Company (continued)

Notes: (continued)

(i) PRC statutory reserves (continued)

(b) Statutory public welfare fund

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 assets contributed by minority shareholder upon establishment of a subsidiary during the year.

(iii) The Group adopted the Accounting Standards for Business Enterprise (2006) ("new PRC Accounting Standards") and other regulations promulgated by the Ministry of Finance on 15 February 2006 effective 1 January 2007. Appropriations to statutory surplus reserves for prior years were restated due to the change in net profit arising from the prior year adjustments following the adoption of the new PRC Accounting Standards.

(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 2007, 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.

(vi) The exchange reserve comprises all foreign exchange difference arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 2(v).

(vii) The excess of purchase consideration on acquisition of minority interests over the carrying value of share of net assets acquired and are charged/credited to other reserve.

31 Capital and reserve (continued)

(c) Share capital

The Group and the Company

	2007 Number of shares '000	2007 RMB'000	2006 Number of shares '000	2006 RMB'000
At 1 January	**770,249**	**154,050**	500,000	100,000
Shares issued under the placing and public offer	**–**	**–**	270,249	54,050
At 31 December	**770,249**	**154,050**	770,249	154,050

	2007 RMB'000	2006 RMB'000
Registered, issued and fully paid:		
472,975,091 (2006: 472,975,091) Domestic state-owned shares of RMB0.20 each	**94,595**	94,595
297,274,000 (2006: 297,274,000) H shares of RMB0.20 each	**59,455**	59,455
	154,050	154,050

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 received 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.

31 Capital and reserve (continued)

(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 HKFRS. At 31 December 2007, the amount of retained profits available for distribution was RMB468,002,000, being the amount determined in accordance with the PRC Accounting Rules and Regulations (2006: RMB359,407,000). After the balance sheet date, the directors proposed a final dividend of RMB0.10 per share (2006: RMB0.08 per share), amounting to RMB77,025,000 (2006: RMB61,620,000). This dividend has not been recognised as a liability at the balance sheet date.

(e) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in the light of changes in economic conditions.

Consistent with industry practice, the Group monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. For this purpose the Group defines net debt as total debt (which includes interest-bearing loans and borrowings, trade and other payables plus unaccrued proposed dividends, less cash and cash equivalents). Adjusted capital comprises all components of equity less unaccrued proposed dividends.

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

31 Capital and reserve (continued)

(e) Capital management (continued)

The net debt-to-adjusted capital ratio at 31 December 2007 and 2006 was as follows:

		The Group		The Company	
		2007	2006	**2007**	2006
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Current liabilities:					
– Trade and other payables	*30*	**346,666**	276,189	**288,446**	238,787
– Bank loans	*28*	**599,861**	935,000	**599,861**	935,000
– Unsecured debenture	*28*	**580,000**	–	**580,000**	–
		1,526,527	1,211,189	**1,468,307**	1,173,787
Non-current liabilities:					
– Interest-bearing borrowings	*28*	**123,270**	3,270	**123,270**	3,270
Total debt		**1,649,797**	1,214,459	**1,591,577**	1,177,057
Add: Proposed dividends	*13(a)*	**77,025**	61,620	**77,025**	61,620
Less: Cash and cash equivalents	*27*	**(389,651)**	(431,647)	**(322,781)**	(390,471)
Cash restricted for use	*29*	**(181,982)**	–	**(181,982)**	–
Deposits with banks	*27*	**–**	(442,057)	**–**	(442,057)
Net debt		**1,155,189**	402,375	**1,163,839**	406,149
Total equity	*31*	**1,698,383**	1,543,871	**1,671,703**	1,516,614
Less: Proposed dividends	*13(a)*	**(77,025)**	(61,620)	**(77,025)**	(61,620)
Adjusted capital		**1,621,358**	1,482,251	**1,594,678**	1,454,994
Net debt-to-adjusted capital ratio		**71%**	27%	**73%**	28%

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

32 Commitments and contingencies

(a) Capital commitments, representing purchase of property, plant and equipment outstanding at 31 December 2007 not provided for in the financial statements were as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Authorised and contracted for	**23,482**	14,195	**–**	343
Authorised but not contracted for	**222,364**	294,403	**147,373**	241,676
	245,846	308,598	**147,373**	242,019

(b) At 31 December 2007, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**402**	695	**–**	432
After 1 year but within 5 years	**926**	1,064	**–**	144
After 5 years	**505**	728	**–**	–
	1,833	2,487	**–**	576

The Group and the Company is 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 RMB1,877,000 for the year ended 31 December 2007 (2006: RMB1,051,000).

33 Financial instruments

Exposure to gold price, other commodity price, interest rate, credit, currency, liquidity and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities or financial product. These risks are limited by the Group's financial management policies and practices described below.

(a) Interest rate risk

The Group's interest rate risk arises primarily from long-term borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The management monitors interest rate exposures and will consider hedging significant interest rate risk should the need arise. The Group's interest rate profile as monitored by management is set out in below.

33 Financial instruments (continued)

(a) Interest rate risk (continued)

(i) Interest rate profile

The following table details the interest rate profile of the Group's and the Company's interest-bearing financial instruments at the balance sheet date.

	The Group				The Company			
	2007		2006		2007		2006	
	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000
Fixed rate instruments:								
Bank loans	5.40	389,861	5.32	685,000	5.40	389,861	5.32	685,000
Unsecured debenture	5.44	580,000	–	–	5.44	580,000	–	–
Less: Deposits with bank	3.00	(46,704)	4.48	(442,057)	–	–	4.48	(442,057)
		923,157		242,943		969,861		242,943
Variable rate instruments:								
Bank loans	6.05	330,000	5.82	250,000	6.05	330,000	5.82	250,000
Other loan	4.17	3,270	2.82	3,270	4.17	3,270	2.82	3,270
Less: Cash restricted for use	0.72	(181,982)	–	–	0.72	(181,982)	–	–
Less: Cash and cash equivalents	0.89	(342,947)	1.52	(431,647)	0.91	(322,781)	1.60	(390,471)
Less: Interest-bearing accounts receivables	7.47	(35,639)	–	–	7.47	(35,639)	–	–
		(227,298)		(178,377)		(207,132)		(137,201)
Total net borrowings		695,859		64,566		762,729		105,742
Net fixed rate borrowings as a percentage of total net borrowings		133%		376%		127%		230%

33 Financial instruments (continued)

(a) Interest rate risk (continued)

(ii) Sensitivity analysis

At 31 December 2007, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax and retained profits by approximately RMB2,238,000 (2006: increase/decrease of RMB1,607,000). Other components of consolidated equity would not be affected (2006: RMB Nil) by the changes in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

(b) Credit risk

The carrying amounts of cash and cash equivalents, deposits, available-for-sale investments, trade and other receivables, prepayment and deposits represent the Group's and the Company's maximum exposure to credit risk in relation to these financial assets. Substantially all of the Group's and the Company's cash and cash equivalents are held in major financial institutions located in Hong Kong and the PRC, which management believes are of high credit quality.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent.

The Group's and the Company's major customers are Shanghai Gold Exchange and metallurgical companies in the PRC, which accounted for significant amounts of the Group's and the Company's total operating revenues during the year. The Group and the Company have no significant credit risk with any of these customers since the Group and the Company maintain long-term and stable business relationships with these customers in the commodity. Normally, the Group does not obtain collateral from customers.

33 Financial instruments (continued)

(b) Credit risk (continued)

At the balance sheet date, the Group has a certain concentration of credit risk of trade receivables as 60% (2006: 96%) and 99% (2006: 99%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

In addition, the Group made purchase deposits of RMB111,143,000 (net of provision) (2006: RMB97,824,000) at 31 December 2007 to suppliers to secure its supplies of mineral sand which is the major raw materials in the smelting process. The balance represented 6% (2006: 6%) of total current assets at 31 December 2007. The Group believes that the purchase deposits will be recovered through purchases from these suppliers in future periods. In the event that these suppliers ceased to provide mineral sand to the Group, the Group may expose itself to significant credit risk arising from the recoverability of the purchase deposits and hence the profitability will be adversely affected.

As at 31 December 2007, the Group made investment deposits of RMB89,122,000 (2006: RMB460,162,000) for exclusive rights to review the acquisition proposals of companies with mining assets in the PRC. The balance represented 3% (2006: 17%) of total assets at 31 December 2007. 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 the mines and relevant mining assets.

At 31 December 2007, the Group was also exposed to credit risk in respect of other receivables of RMB418,700,000 due from Beijing Jiuyi (see note 26(e)). This exposure to credit risk is monitored continuously by the management and an amount of RMB300,000,000 was subsequently received after year end.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. The Group does not provide any other guarantees which would expose the Group or the Company to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 26.

33 Financial instruments (continued)

(c) Gold price and foreign currency risk

Gold price risk arises from the risk of an adverse effect on current or future earnings resulting from fluctuations in the price of gold. The international gold market is predominately priced in US dollars which exposes the Group to the risk that fluctuations in RMB/US dollar exchange rates may also have an adverse effect on current or future earnings. The Group is also exposed to certain byproduct commodity price risk.

A number of products, including derivatives, are used to manage the gold and copper price risks that arise out of the Group's core business activities. Forward sales contracts, commodity-linked financial assets and liabilities and call and put options are used by the Group to manage these risks. At 31 December 2007, the volume of outstanding gold loan contract was 900kg (2006: Nil).

(i) Forecast transactions

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.

With the authorisation from the PRC government, the PBOC announced that the PRC government reformed the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies on 21 July 2005.

Apart from the above, the Group is exposed to currency risk primarily through bank deposits and other payable that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Hong Kong dollars ("HKD"), United States dollars ("USD") and Kyrgyz Som ("SOM").

33 Financial instruments (continued)

(c) Gold price and foreign currency risk (continued)

(ii) Exposure to currency risk

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from forecast transactions or recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

The Group

		2007		2006
	USD	**HKD**	**SOM**	HKD
	'000	**'000**	**'000**	'000
Trade and other receivables	**–**	**–**	**–**	9,623
Cash and cash equivalents	**630**	**101,411**	**–**	539,044
Trade and other payables	**–**	**(89,942)**	**–**	(90,060)
Overall net exposure	**630**	**11,469**	**–**	458,607

The Company

		2007		2006
	USD	**HKD**	**SOM**	HKD
	'000	**'000**	**'000**	'000
Trade and other receivables	**–**	**–**	**–**	9,623
Cash and cash equivalents	**–**	**101,411**	**–**	539,044
Amounts due (to)/from subsidiaries	**–**	**(150)**	**50,582**	(50,000)
Trade and other payables	**–**	**(89,942)**	**–**	(90,060)
Overall net exposure	**–**	**11,319**	**50,582**	408,607

33 Financial instruments (continued)

(c) Gold price and foreign currency risk (continued)

(iii) Sensitivity analysis

The following table indicates the approximate change in the Group's profit after tax (and retained profits) and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date. The sensitivity analysis includes balances between Group companies where the denomination of the balances is in a currency other than the functional currencies of the lender or the borrower.

The Group

	2007			2006		
	Increase/ (decrease) in foreign exchange rates %	**Effect on profit after tax and retained profits RMB'000**	**Effect on other components of equity RMB'000**	Increase/ (decrease) in foreign exchange rates %	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
USD	**10%**	**(276)**	**–**	–	–	–
HKD	**10%**	**(833)**	**(3,762)**	7%	(21,798)	(3,554)
SOM	**2%**	**(157)**	**46**	–	–	–

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the Group entities' exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2006.

33 Financial instruments (continued)

(d) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligation as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk damage to the Group's reputation.

The Group closely monitors cash flow requirements and optimising its cash return. The Group prepares cash flow forecasts and ensures it has sufficient cash for the servicing of operation, financial, and capital obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

The Group

	2007						2006					
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000
Unsecured debenture	580,000	604,891	604,891	-	-	-	-	-	-	-	-	-
Bank loans	719,861	738,051	617,135	120,916	-	-	935,000	959,520	959,520	-	-	-
Other loan	3,270	4,292	136	409	1,158	2,589	3,270	4,429	136	136	1,192	2,965
Current tax payable	28,426	28,426	28,426	-	-	-	15,446	15,446	15,446	-	-	-
Trade and other payables	346,666	346,666	346,666	-	-	-	276,189	276,189	276,189	-	-	-
	1,678,223	1,722,326	1,597,254	121,325	1,158	2,589	1,229,905	1,255,584	1,251,291	136	1,192	2,965

33 Financial instruments (continued)

(d) Liquidity risk (continued)

The Company

	2007						2006					
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years but less than 5 years RMB'000	More than 5 years RMB'000
Unsecured debenture	580,000	604,891	604,891	-	-	-	-	-	-	-	-	-
Bank loans	719,861	738,051	617,135	120,916	-	-	935,000	959,520	959,520	-	-	-
Other loan	3,270	4,292	136	409	1,158	2,589	3,270	4,429	136	136	1,192	2,965
Current tax payable	15,737	15,737	15,737	-	-	-	8,812	8,812	8,812	-	-	-
Amounts due to subsidiaries	8,531	8,531	8,531	-	-	-	54,347	54,347	54,347	-	-	-
Trade and other payables	288,446	288,446	288,446	-	-	-	238,787	238,787	238,787	-	-	-
	1,615,845	1,659,948	1,534,876	121,325	1,158	2,589	1,240,216	1,265,895	1,261,602	136	1,192	2,965

(e) Fair value

Financial assets of the Group and the Company comprise cash and cash equivalents, deposits, trade and other receivables, other investments and amounts due from subsidiaries. Financial liabilities include trade and other payables, short and long term bank loans, other interest-bearing borrowings and amounts due to subsidiaries. The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment. Given these terms, it is not meaningful to disclose its fair value. All other significant financial assets and liabilities are carried at amounts not materially different from their respective fair values as at 31 December 2007 and 2006 due to the nature or short-term maturity of these instruments.

The fair value of commodity-linked interest-bearing borrowings is determined based on the gold price quoted by the Shanghai Gold Exchange at the reporting date.

The fair value of available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date.

The fair value of non-derivative financial liabilities, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

33 Financial instruments (continued)

(f) Business risk

During the year ended 31 December 2007, the Group's supplies of smelting's direct materials from independent third parties represent 88.2% (2006: 86.7%) of the Group's total direct materials, in which, the top five suppliers in 2007 represent 24.3% (2006: 29.0%) 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.

(g) Equity risk

Equity risk is the risk that changes in market prices will affect the Group's income or the value of financial instruments. The objective of equity risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Equity risk arises from available-for-sale equity securities and other investments held. Unquoted investments are held for long-term strategic purposes. Their performance is assessed at least annually based on the information available to the Group and the Company, together with an assessment of their relevance to the Group's long-term strategic plans.

34 Purchase of net assets

For the year ended 31 December 2007

In 2007, the Group acquired 80% equity interest in Lingbao Yixin from Mr Liu Kuanliang and Mr Ma Bin, the entire equity interest in Beijing Fushengda from Mr Chu Yan and Ms Zhao Li, an 74% equity interest in Tianshui Hongwu from Mr Liu Zhiwu, Mr Liu Hairong and Ms Liu Haimei, and entire equity interest in Lanzhou Lingjin from Tianshui Hongwu.

These companies hold primarily exploration rights of unexploited natural rutile mines and had no established infrastructure or 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 RMB26,724,000 satisfied in cash. The aggregate amount recognised at the acquisition date of their assets and liabilities are RMB62,117,000 and RMB35,393,000 respectively. The acquired companies did not generate any revenue since acquisition and have recorded an accumulated loss of RMB1,560,000 since acquisition. If the acquisition had occurred on 1 January 2007, the acquired companies would have recorded an accumulated loss of RMB2,237,000 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 rights, 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.

34 Purchase of net assets (continued)

For the year ended 31 December 2007 (continued)

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

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)*	1,267	–	1,267
Construction in progress *(note 17)*	10,613	–	10,613
Intangible assets *(note 18)*	21,211	16,867	38,078
Deferred tax assets *(note 24(b))*	376	–	376
Inventories	48	–	48
Trade and other receivables, deposits and prepayments	3,752	–	3,752
Amount due from Habahe Huatai	367	–	367
Cash at bank and in hand	7,616	–	7,616
Trade and other payables	(11,876)	–	(11,876)
Amount due to shareholders	(23,517)	–	(23,517)
Net identifiable assets	9,857	16,867	26,724
Total purchase price consideration			26,724
Satisfied by:			
Cash			10,724
Investment deposits			16,000
			26,724
Cash at bank and in hand acquired			7,616
Cash consideration paid			(10,724)
Net outflow of cash and cash equivalents in respect of the purchase of net assets			(3,108)

34 Purchase of net assets (continued)

For the year ended 31 December 2006

In 2006, the Group acquired the entire equity interest in Shangrao Jintian from Mr Pan Shaohua and Mr Guo Fenlai, the entire equity interest in Wuyuan Jincheng from Mr Wang Kejin and an 80% equity interest in Chifeng Zheng Ji from Mr Yu Kexin.

The aggregate acquisition consideration was RMB88,560,000 satisfied in cash and other payables. The aggregate amount recognised at the acquisition date of their assets and liabilities are RMB123,584,000 and RMB17,864,000 respectively.

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

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 Kejin	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 2007

During the year, the Group has acquired the entire equity interest in Chifeng Jinchan from Mr. Zhao Meiguang, Mr. Ren Yiguo and Mr. Gao Bo at a consideration of RMB146,000,000 satisfied in cash. The aggregate amount recognised at the acquisition date of its assets and liabilities are RMB150,552,000 and RMB38,610,000 respectively. The acquired company contributed revenue of RMB58,641,000 and loss before tax of RMB9,860,000 since acquisition. If the acquisition had occurred on 1 January 2007, the Group's revenue would have been RMB2,854,518,000 and net profit would have been RMB217,710,000.

Acquiree's net assets at the acquisition date:

	Pre-acquisition carrying amount RMB'000	Fair value adjustments RMB'000	Recognised values on acquisition RMB'000
Property, plant and equipment *(note 16)*	**16,302**	**14,485**	**30,787**
Construction in progress *(note 17)*	**14**	**–**	**14**
Intangible assets *(note 18)*	**1,981**	**69,641**	**71,622**
Lease prepayments	**1,279**	**27,409**	**28,688**
Inventories	**5,653**	**12,482**	**18,135**
Trade and other receivable, deposits and prepayments	**98**	**589**	**687**
Cash at bank and in hand	**619**	**–**	**619**
Trade and other payables	**(4,928)**	**–**	**(4,928)**
Deferred tax liabilities *(note 24(b))*	**–**	**(33,682)**	**(33,682)**
Net identifiable assets	**21,018**	**90,924**	**111,942**
Goodwill arising on acquisition *(note 19)*			**34,058**
Total purchase price consideration			**146,000**
Satisfied by:			
Cash			**146,000**
Cash at bank and in hand acquired			**619**
Cash consideration paid			**(146,000)**
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiary			**(145,381)**

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 2007					
Revenue and expenses					
Revenue from external customers	107	2,844,453	–	–	2,844,560
Inter-segment revenue	461,942	–	(461,942)	–	–
Other revenue from external customers	2,007	14,830	–	126,024	142,861
Total	464,056	2,859,283	(461,942)	126,024	2,987,421
Segment result	78,971	290,129	(4,700)	126,024	490,424
Unallocated operating income and expenses					(49,813)
Profit from operations					440,611
Finance costs					(101,613)
Income tax					(115,669)
Profit for the year					223,329

36 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 2007					
Assets and liabilities					
Segment assets	1,274,426	1,049,836	(44,463)	–	2,279,799
Unallocated assets					1,120,504
Total assets					3,400,303
Segment liabilities	97,979	227,332	(44,463)	–	280,848
Unallocated liabilities					1,421,072
Total liabilities					1,701,920
Other segmental information					
Capital expenditure incurred during the year	617,378	155,827	–	4,599	777,804
Depreciation and amortisation for the year	136,997	24,247	–	2,165	163,409

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 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

36 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

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 controlling party

At 31 December 2007, the directors consider the immediate parent and the ultimate controlling party of the Group to be Lingbao State-owned Assets Operation Limited Liability Company, a state-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(g) and 2(h), mining shafts, mining rights and exploration and evaluation assets are amortised using the 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.

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.

38 Accounting estimates and judgements (continued)

Key sources of estimation uncertainty (continued)

(iv) Depreciation

Other than the mining shafts, mining rights and evaluation of 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.

(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 2007:

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

(ii) On 27 February 2008, the Company and Full Gold, a subsidiary of the Company have entered into a co-operation agreement with the Government of Kyrgyz Republic, China Road & Bridge Corporation ("CRB"), China Development Bank and Xinjiang Lingxi Investment Company Limited ("Lingxi"). Pursuant to the cooperation agreement, in consideration of payment of restoration fee of a public road within the territory of the Kyrgyz Republic, KM190-KM240, with total length of 50 kilometres of US$25,300,000 by Full Gold to CRB, Full Gold will acquire the mining right of the Istanbul Gold Mine, a gold mine located within the territory of Kyrgyz Republic from CRB.

39 Non-adjusting post balance sheet events (continued)

(iii) On 17 May 2007, the Company has signed a co-operation agreement with CRB and Lingxi to set up Full Gold for the acquisition of the mining right of Istanbul Gold Mine as mentioned in (ii) above. Pursuant to the agreement, the Company, CRB and Lingxi are to contribute an initial share capital of SOM27,306,000, SOM3,330,000 and SOM2,664,000 to Full Gold respectively. The Company has contributed part of the agreed share capital of SOM166,000 on 7 June 2007 and since that day, Full Gold is included in the consolidated financial statements as a wholly-owned subsidiary. The remaining agreed capital will be injected into Full Gold in 2008 and the Company's interest in Full Gold will be diluted from 100% to 82% after the further injection.

(iv) On 19 March 2008, the Company has signed a sale and purchase agreement with 靈寶市金城財經投資中心 to acquire the entire interest in Lingbao Wason Copper-Foil Co., Ltd. for a consideration of RMB27,900,000. Lingbao Wason Copper-Foil Co., Ltd. is principally engaged in the further processing of copper products and is the major customer of the Group. The acquisition was completed on 24 March 2008.

(v) After the balance sheet date, as a result of the rise in gold price quoted at the Shanghai Gold Exchange, there has been an increase in the fair value of the Company's commodity-linked interest-bearing bank loan, which the change in fair value is recognised in accordance with the accounting policy disclosed in note 2(f). This non-adjusting post balance sheet event has no impact on the measurement of assets and liabilities as at 31 December 2007. The commodity-linked interest-bearing bank loans were matured on or before 19 March 2008, a further loss on the change in fair value of RMB17,909,000 was resulted upon settlement.

40 Comparative information

As a result of adopting HKFRS 7, "Financial instruments: Disclosures" and the amendments to HKAS 1, "Presentation of financial statements: Capital disclosures", certain comparative figures have been adjusted to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2007. Further details of these developments are disclosed in note 3.

41 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2007

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting year ended 31 December 2007 and which have not been adopted in the financial statements.

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

		Effective for accounting periods beginning on or after
HKFRS 8	Operating segments	1 January 2009
HKAS 23 (revised)	Borrowing costs	1 January 2009

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that 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.

Five Years Summary

	Year ended 31 December				
	2007	2006	2005	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets and liabilities					
Non-current assets	**1,533,867**	1,266,905	478,915	333,931	257,915
Net current assets/(liabilities)	**311,483**	281,385	139,029	5,719	(40,260)
Total assets less current liabilities	**1,845,350**	1,548,290	617,944	339,650	217,655
Non-current liabilities	**146,967**	4,419	115,824	–	–
NET ASSETS	**1,698,383**	1,543,871	501,120	339,650	217,655
Share capital	**154,050**	154,050	100,000	100,000	100,000
Reserves	**1,517,996**	1,362,163	392,618	237,715	117,655
Total equity attributable to equity shareholders of the Company	**1,672,046**	1,516,213	492,618	337,715	217,655
Minority interests	**26,337**	27,658	9,502	1,935	–
TOTAL EQUITY	**1,698,383**	1,543,871	502,120	339,650	217,655
Operating results					
Turnover	**2,844,560**	2,234,975	1,555,704	1,223,429	856,278
Profit from operations	**440,611**	368,554	247,887	194,352	122,788
Deficit on revaluation of property, plant and equipment written back/(made)	**–**	–	1,991	–	–
Finance costs	**(101,613)**	(31,213)	(23,085)	(15,503)	(11,391)
Profit before taxation	**338,998**	337,341	226,793	178,849	111,397
Income tax	**(115,669)**	(116,509)	(72,017)	(59,454)	(35,598)
Profit for the year	**223,329**	220,832	154,776	119,395	75,799
Attributable to:					
Equity shareholders of the Company	**222,270**	219,836	154,584	120,060	75,799
Minority interests	**1,059**	996	192	(665)	–
Profit for the year	**223,329**	220,832	154,776	119,395	75,799