

Directors' Report

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

Principal Place of Business

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

Principal Activities

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

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

Major Customers and Suppliers

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

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

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

Financial Statements

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

Transfer to Reserves

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

Dividend

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

Fixed Assets

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

Details of Share Offering and Listing

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

Share Capital

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

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

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

Purchase, Sale or Redemption of Shares of the Company

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

Directors and Supervisors

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

Directors

Executive Directors

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

Non-executive Directors

Xu Wanmin
Di Qinghua
Qi Guozhong

Independent Non-executive Directors

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

Supervisors

Gao Yang
Meng Fanrui
Guo Xuchang
Peng Jinzeng
Lei Mingyang

Biographical Details of Directors, Supervisors and Senior Management

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

Directors' Report

Highest Paid Individuals

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

Remuneration

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

Directors' and Supervisors' Service Contracts

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

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

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

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

Each of Mr. Meng Fanrui, Mr. Guo Xuchang, Mr. Peng Jinzeng and Mr. Lei Mingyang has entered into a supervisor service deed with the Company for a term of three years commencing on 21

December 2005. Each of these deeds may be terminated by either party with not less than six months' prior written notice. Under these deeds, no remuneration is payable to the supervisors.

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

Connected Transactions

Lingbao Shuangxin supplied gold concentrates to our Company

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

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

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

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

Continuing Connected Transactions

Lingbao Electric supplies electricity to the Group

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

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

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

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

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

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

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

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

Directors' Report

Directors, Supervisors and Chief Executive

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

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

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

Notes:

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

Substantial Shareholders

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

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

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

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

Directors' Report

Notes:

1. In addition to its direct interest in 373,840,620 domestic shares, Lingbao State-owned Assets has an indirect interest in the Company through its equity interest of approximately 43.4% in Lingbao Gold Machinery Limited Liability Company (靈寶市黃機械有限責任公司), which in turn holds approximately 21.1% equity interest in Lingbao Jinxiang Motors. Lingbao Jinxiang Motors is a promoter of the Company, which held approximately 1.7% shareholding in the Company as at the date of this report.
2. Mr. Xu Wanmin (許萬民先生), a non-executive Director, is the vice chairman and general manager of Lingbao State-owned Assets and Mr. Di Qinghua (狄清華先生), a non-executive Director, is the integrated office manager of Lingbao State-owned Assets. Lingbao State-owned Assets has an interest in the Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.
3. Mr. Qi Guozhong (戚國忠先生), a non-executive Director, is the chairman and legal representative of Sanmenxia Jinqu. Sanmenxia Jinqu has an interest in the Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Directors' and Supervisors' Interests in Contracts

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

Directors' and Supervisors' Rights to Acquire Shares or Debentures

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

Interests of Directors in Competing Business

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

Bank Loans and Other Borrowings

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

Use of Proceeds

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

- approximately RMB595,900,000, for our focused exploration and development of our mining activities, of which (i) approximately RMB270,700,000, will be applied to our focused exploration works at Qiangma Gold Mine and Yinxin Gold Mine situated on the southern side of Xiaoqinling region; (ii) approximately RMB53,400,000, will be applied to the development of other exploration projects and mines under construction in the Xiaoqinling region of Henan province; (iii) approximately RMB203,600,000, will be applied to the development of our Xinjiang mining area; and (iv) approximately RMB68,200,000, will be applied to the development of our Jiangxi mining area.
- approximately RMB135,400,000, for the acquisitions of additional mines and mining rights and integration of mines in the Xiaoqinling region.
- approximately RMB79,900,000, for the expansion of our smelting operation.
- the remaining net proceeds of approximately RMB25,600,000, from the Global Offering to the Company would be applied as our general working capital.

Pre-emptive Rights

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

Policy on Income Tax

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

Closure of Register of Members

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

Litigation and Arbitration

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

Public Float

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

Four Years Summary

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

Directors' Report

Confirmation of Independence

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.

Auditors

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

Taxation

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

By order of the board

Xu Gaoming

Chairman

Hong Kong, 12 April 2006