Notes on the Financial Statements

1 Background of the Company

The Company was incorporated on 27 September 2002 with the approval of the Henan Provincial Government in accordance with document (Yu Gu Pi Zi) 2002 No. 25 as a joint stock company with limited liability in the People's Republic of China (the "PRC") to take over and operate the business of the mining, processing, smelting and sales of gold products (the "Relevant Business"). Prior to the incorporation of the Company, the Relevant Business was conducted by Lingbao State-owned Assets Operation Limited Liability Company, a state-owned enterprise in the PRC. Pursuant to the restructuring of the Company (the "Restructuring"), Lingbao State-owned Assets Operation Limited Liability Company transferred the Relevant Business together with relevant assets and liabilities into the Company and in return the Company allotted and issued 79,500,000 shares of RMB1 each to Lingbao State-owned Assets Operation Limited Liability Company.

In addition, on 27 September 2002, the Company allotted and issued 20,500,000 shares of a nominal value of RMB1 each, for cash at RMB1.33 per share, to certain third parties. Upon completion of the above allotment and issuance of shares, the Company was owned as to 79.5% by Lingbao State-owned Assets Operation Limited Liability Company.

At a board meeting of the Company held on 12 June 2005, it was resolved to sub-divide its shares from one Domestic share of a nominal value of RMB1.00 into five Domestic shares of a nominal value of RMB0.20 each. Such sub-division was approved by the China Securities Regulatory Commission ("CSRC") on 7 December 2005 and the number of shares in the then issued share capital of the Company was increased to 500,000,000 domestic shares of RMB0.20 each in connection with the Global Offering.

The Company's H Shares were successfully listed on the Stock Exchange on 12 January 2006.

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 of Hong Kong Limited.

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

2 Significant accounting policies (continued)

(a) Statement of compliance (continued)

The Group has early adopted HKFRSs that are effective from 1 January 2005 at 1 January 2004. As a result, such new and revised HKASs and HKFRS have no impact on the financial statements for the year ended 31 December 2005 and 2004. A summary of the significant accounting policies adopted by the Group is set out below.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 38), except for HKFRS 6, Exploration for and evaluation of mineral resources that has been early adopted at 1 January 2004.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2005 comprise the Company and its subsidiaries (together referred to as the "Group").

The consolidated financial statements are presented in Renminbi, rounded to the nearest thousand, and are prepared on the historical cost basis except that the property, plant and equipment and construction in progress 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.

Judgements made by management in the application of HKFRSs that have significant effects on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 36.

(c) Subsidiaries and controlled entities

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account.

Notes on the Financial Statements

2 Significant accounting policies (continued)

(c) Subsidiaries and controlled entities (continued)

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity 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 interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

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

(d) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 2(l)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

2 Significant accounting policies (continued)

(e) Other investments

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

Non-trading investments in securities, which are classified as available for sale securities and do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost less impairment losses (see note 2(l)).

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

(f) Property, plant and equipment

Property, plant and equipment are initially recognised in the balance sheet at cost. The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition and location for its intended use.

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.

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.

Notes on the Financial Statements

2 Significant accounting policies (continued)

(f) Property, plant and equipment (continued)

Subsequent to a revaluation, property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation, less subsequent accumulated depreciation and impairment losses (see note 2(l)). When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. When an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs is revalued simultaneously. When an asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to shareholder's equity as a component of the revaluation reserve. However, a revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense. When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised as an expense in the consolidated 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 the consolidated income statement on the date of retirement or disposal.

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	6 – 50 years
– Plant and machinery	8 – 12 years
– Transportation equipment	8 years
– Office and electronic equipment	5 years

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

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable 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.

2 Significant accounting policies (continued)

(g) Research and development expenses

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(l)). Other development expenditure is recognised as an expense in the period in which it is incurred.

(h) Mining rights

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

(i) Exploration rights

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

(j) Exploration and evaluation assets

Exploration and evaluation assets are stated at cost less accumulated amortisation and impairment losses (see note 2(l)). Exploration and evaluation assets include exploration and development costs.

Exploration and development costs include expenditure incurred to secure further mineralisation in existing ore bodies and to expand the capacity of a mine. Expenditure during the initial exploration stage is written off as incurred. When it can be reasonably ascertained that a mining property is capable of commercial production, exploration and development costs are capitalised and amortised using the units of production method based on the proven and probable mineral reserves.

(k) Lease prepayments

Lease prepayments represent purchase cost of land use rights in the PRC. Land use rights are carried at cost less impairment losses (see note 2(l)) and are charged to the consolidated income statement on a straight-line basis over the respective periods of the rights which range from 30 to 50 years.

Notes on the Financial Statements

2 Significant accounting policies (continued)

(l) Impairment of assets

(i) Impairment of other investments and trade and other receivables

Investments in equity securities, other than investments in subsidiaries, and trade and other receivables that are stated at cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities and current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses for equity securities are not reversed.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– construction in progress;

– pre-paid interests in leasehold land classified as being held under an operating lease;

– investment in subsidiaries;

– 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.

2 Significant accounting policies (continued)

(l) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– 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).

– 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.

Notes on the Financial Statements

2 Significant accounting policies (continued)

(m) Leased assets

(i) Classification of assets leased to the Group

Leases of assets under which do not transfer substantially all the risks and rewards of ownership are classified as operating leases.

(ii) Operating lease charges

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

(n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 2(l)).

(o) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

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

2 Significant accounting policies (continued)

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit and loss except to the extent that they relate to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

Notes on the Financial Statements

2 Significant accounting policies (continued)

(q) 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 profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

    – the same taxable entity; or

    – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2 Significant accounting policies (continued)

(r) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the profit or loss over the period of the borrowings using the effective interest method.

(s) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(t) Trade and other payables

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

(u) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sales of goods

Revenue in respect of sale of goods is recognised when the title to the goods and the related risks and rewards of ownership are passed to customers, the Group will not execute the right of supervision and control over the goods, either the proceeds are received or entitlement of proceeds is evidenced, and the cost of sale of goods can be estimated reliably. Revenue excludes value added tax and other sales tax and is after deduction of any trade discounts.

(ii) Service income

Service income is recognised when the related service is rendered.

Notes on the Financial Statements

2 Significant accounting policies (continued)

(u) Revenue recognition (continued)

(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 recognised in profit or loss as revenue on a systematic basis over the useful life of the asset.

(v) Employee benefits

(i) Salaries, annual bonuses and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to appropriate local retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in the consolidated income statement as incurred, except to the extent that they are included in the cost of inventories not yet recognised as an expense.

(w) Borrowing costs

Borrowing costs are expensed in the consolidated income statement in the period in which they are incurred.

(x) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the 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.

2 Significant accounting policies (continued)

(y) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(z) Segment reporting

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

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

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

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.

Business segments

The Group comprises the following main business segments:

Mining – The mining operations of the Group;

Smelting – The smelting and refinery operations of the Group.

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.

Notes on the Financial Statements

3 Turnover

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

Turnover represents the sales value of goods sold to customers net of sales tax and value added tax. The amount of each significant category of revenue recognised in turnover during the year is as follows:

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

4 Cost of sales

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

5 Other revenue

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

Note: The Group was awarded government grants totalling RMB1,800,000 on 26 May 2005 on the condition that the Group will utilise the grant for the exploration and development of a mine. The amount was recognised in the balance sheet as deferred income initially. The grants were recognised as revenue in the consolidated income statement as other revenue for the year ended 31 December 2005 upon satisfaction of the conditions attaching to the grants.

6 Other net loss

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

7 Staff costs

	2005 **RMB'000**	2004 RMB'000
Salaries, wages and bonus	**54,110**	46,155
Staff welfare	**7,762**	6,372
Contributions to retirement benefit schemes	**2,708**	2,198
	64,580	54,725

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 in Lingbao, Tongbai, Jiangxi, Urumqi and Habahe 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.

Notes on the Financial Statements

8 Profit before taxation

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

		2005	2004
		RMB'000	RMB'000
(a)	Finance costs:		
	Interest expense on bank advances wholly repayable within five years	**23,080**	14,763
	Interest on other loan	**5**	–
	Discounting charges	**–**	740
		23,085	15,503
(b)	Other items:		
	Amortisation of intangible assets	**10,938**	5,574
	Amortisation of lease prepayments	**254**	225
	Auditors' remuneration	**1,400**	200
	Depreciation	**31,057**	28,766
	Operating lease charges in respect of properties	**3,508**	3,632
	Research and development expenses	**335**	961
	(Write back of)/impairment losses on trade and other receivables	**(2,158)**	1,987
	Pollution discharge fee	**952**	465
	Environmental rehabilitation fee	**1,285**	880

9 Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

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

9 Income tax in the consolidated income statement (continued)

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

	2005	2004
	RMB'000	RMB'000
Profit before tax	**226,793**	178,849
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	**74,842**	59,020
Tax effect of non-deductible expenses	**1,330**	731
Tax effect of non-taxable revenue	**(1,360)**	(297)
Additional tax credit	**(2,135)**	–
Others	**(660)**	–
Actual tax expense	**72,017**	59,454

Pursuant to the income tax rules and regulations of the PRC, the Company and its subsidiaries are subject to the PRC income tax at a rate of 33% (2004: 33%).

Non-deductible expenses mainly comprise expenses beyond statutory deductible limits.

The Company was entitled to an additional tax credit in 2005 for the purchases of domestically produced plant and machinery.

Notes on the Financial Statements

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 2005

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit schemes RMB'000	Bonus RMB'000	Total RMB'000
Executive directors					
Mr Xu Gaoming	–	200	4	626	830
Mr Wang Jianguo	–	200	4	563	767
Mr Lu Xiaozhao	–	140	4	438	582
Mr Jin Guangcai	–	140	4	438	582
Non-executive directors					
Mr Di Qinghua	–	–	–	–	–
Mr Qi Guozhong	–	–	–	–	–
Mr Xu Wanmin	–	–	–	–	–
Independent non-executive directors					
Mr Ning Jincheng	–	35	–	–	35
Mr Wang Yanwu	–	35	–	–	35
Mr Zheng Jinqiao	–	12	–	–	12
Mr Niu Zhongjie	–	30	–	–	30
Mr Du Haibo	–	23	–	–	23
Supervisors					
Mr Gao Yang	–	140	3	438	581
Mr Meng Fanrui	–	–	–	–	–
Mr Guo Xuchang	–	–	–	–	–
Mr Guo Jizi	–	–	–	–	–
Mr Liu Hua	–	–	–	–	–
Mr Peng Jinzeng	–	60	1	–	61
Mr Lei Mingyang	–	19	1	–	20
Total	–	1,034	21	2,503	3,558

10 Directors' and supervisors' remuneration (continued)

Year ended 31 December 2004

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit schemes RMB'000	Bonus RMB'000	Total RMB'000
Executive directors					
Mr. Xu Gaoming	–	200	2	–	202
Mr. Wang Jianguo	–	200	3	–	203
Mr. Lu Xiaozhao	–	140	4	–	144
Mr. Jin Guangcai	–	140	2	–	142
Non-executive directors					
Mr. Di Qinghua	–	–	–	–	–
Mr. Qi Guozhong	–	–	–	–	–
Mr. Xu Wanmin	–	–	–	–	–
Independent non-executive directors					
Mr. Ning Jincheng	–	30	–	–	30
Mr. Wang Yanwu	–	30	–	–	30
Mr. Du Haibo	–	30	–	–	30
Supervisors					
Mr. Gao Yang	–	140	2	–	142
Mr. Meng Fanrui	–	–	–	–	–
Mr. Guo Xuchang	–	–	–	–	–
Mr. Guo Jizi	–	–	–	–	–
Mr. Liu Hua	–	–	–	–	–
Mr. Peng Jingzeng	–	26	2	55	83
Mr. Lei Mingyang	–	20	1	3	24
Total	–	956	16	58	1,030

Notes on the Financial Statements

11 Senior management remuneration

The five highest paid individuals of the Group for the year ended 31 December 2005 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 RMB155,069,000 (2004: RMB121,754,000) which has been dealt with in the financial statements of the Company (note 30(b)).

13 Dividends

Dividends attributable to the year

	2005 **RMB'000**	2004 RMB'000
Final dividend proposed after the balance sheet date of RMB0.08 per ordinary share (2004: Nil)	**61,620**	–

Pursuant to a resolution passed at the Directors' meeting on 12 April 2006, a final dividend in respect of the year ended 31 December 2005 of RMB0.08 (2004: Nil) per share totalling RMB61,620,000 (2004: Nil) was proposed for shareholders' approval at the Annual General Meeting. Final dividend of RMB61,620,000 (2004: Nil) proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

14 Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB154,584,000 (2004: RMB120,060,000) and 500,000,000 Domestic shares in issue (2004: 500,000,000 shares) following the sub-division of share capital of the Company from one Domestic share of a nominal value of RMB1.00 into five Domestic shares of a nominal value of RMB0.20 each, as if the shares had been outstanding since 1 January 2004.

There were no dilutive potential ordinary shares during the year and, therefore, diluted earnings per share are not presented.

15 Related party transactions

During the year, transactions with the following parties are considered as related party transactions.

Name of party	Relationship
Lingbao State-owned Assets Operation Limited Liability Company (靈寶市國有資產經營有限責任公司)	Ultimate holding company
Lingbao Huaxin Tongbo Company Limited (靈寶華鑫銅箔有限公司)	Fellow subsidiary
Lingbao Electric Company (靈寶市電業總公司)	Equity holder
Lingbao Shuangxin Mining Industry Limited Liability Company (靈寶雙鑫礦業有限責任公司)	An associate of Lingbao Guoshi Mining Limited Liability Company (靈寶郭氏礦業有限責任公司), an equity holder

Lingbao Huaxin Tongbo Company Limited ("Huaxin") ceased to be a related party of the Group effective from 29 May 2005, when Lingbao State-owned Assets Operation Limited Liability Company disposed of its entire 69.93% equity interest in Huaxin to an independent third party.

Notes on the Financial Statements

15 Related party transactions (continued)

Particulars of significant transactions between the Group and the above related parties during the year ended 31 December 2005 and 2004 are as follows:

(a) Recurring transactions

	2005 RMB'000	2004 RMB'000
Sales of goods to Lingbao Huaxin Tongbo Company Limited (靈寶華鑫銅箔有限公司)	**–**	43,258
Subcontracting fee to Lingbao Huaxin Tongbo Company Limited (靈寶華鑫銅箔有限公司)	**10,451**	–
Purchase of electricity from Lingbao Electric Company (靈寶市電業總公司)	**43,996**	37,343
Purchase of gold concentrates from Lingbao Shuangxin Mining Industry Limited Liability Company (靈寶雙鑫礦業有限責任公司)	**8,904**	–

The directors of the Company are of the opinion that the above related party transactions were conducted on normal commercial terms and were priced with reference to prevailing market prices, and in the ordinary course of business. The directors have confirmed that the above transactions will continue in the future after the listing of the Company's shares on the Stock Exchange on 12 January 2006.

(b) Non-recurring transactions

	2005 RMB'000	2004 RMB'000
Acquisition of a subsidiary from Lingbao State-owned Assets Operation Limited Liability Company (靈寶市國有資產經營有限責任公司)	**16,700**	–

The directors of the Company are of the opinion that the above related party transactions were conducted on normal commercial terms and in the ordinary course of business.

15 Related party transactions (continued)

(c) Amount due from a fellow subsidiary

	2005 RMB'000	2004 RMB'000
Lingbao Huaxin Tongbo Company Limited (靈寶華鑫銅箔有限公司)	–	15,751

The amount due from a fellow subsidiary is unsecured, interest free and are expected to be recovered within one year. There was no provision made against this amount as at 31 December 2004.

(d) Guarantees

In addition to the above, guarantees totalling RMB290,000,000 were given by Lingbao State-owned Assets Operation Limited Liability Company, the Company's holding company, against certain banking facilities granted to the Group as at 31 December 2004.

The directors have confirmed that all the above guarantees have been released on 17 September 2005.

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

The Group operates in an economic regime currently predominated by state-controlled entities. In addition, the Group is part of a larger group of companies under Lingbao State-owned Assets Operation Limited Liability Company, which itself is controlled by the PRC government. Apart from the transactions with Lingbao State-owned Assets Operation Limited Liability Company and fellow subsidiaries, the Group also conducts a majority of its business with entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). These transactions include sales and purchase of goods and ancillary materials, rendering and receiving services, purchase of property, plant and equipment, and obtaining finance. The directors consider that these transactions are conducted in the ordinary course of the Group's business on terms similar to those that would be entered into with non-state-controlled entities. Although the majority of the Group's activities are with the PRC government authorities and affiliates and other state-controlled enterprises, the Group believes that it has provided meaningful disclosure of related party transactions as disclosed above.

Notes on the Financial Statements

15 Related party transactions (continued)

(f) Key management personnel remuneration

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

	2005	2004
	RMB'000	RMB'000
Short-term employee benefits	**4,765**	1,214
Post-employment benefits	**21**	16
	4,786	1,230

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 2004	59,855	60,030	85,672	13,348	2,525	221,430
Additions	5,653	–	5,427	6,381	886	18,347
Transfer from construction in progress *(Note 17)*	4,696	11,816	16,557	–	521	33,590
Disposals	(392)	–	(1,127)	(542)	–	(2,061)
At 31 December 2004	69,812	71,846	106,529	19,187	3,932	271,306
Representing:						
Cost	51,533	20,975	92,973	17,193	3,515	186,189
Valuation – 2002	18,279	50,871	13,556	1,994	417	85,117
	69,812	71,846	106,529	19,187	3,932	271,306
Accumulated depreciation:						
At 1 January 2004	2,900	19,005	12,621	2,079	415	37,020
Charge for the year	3,098	10,037	12,728	2,271	632	28,766
Written back on disposal	(72)	–	(582)	(37)	–	(691)
At 31 December 2004	5,926	29,042	24,767	4,313	1,047	65,095
Net book value:						
At 31 December 2004	63,886	42,804	81,762	14,874	2,885	206,211

Notes on the Financial Statements

16 Property, plant and equipment (continued)

The Group (continued)

	Buildings RMB'000	Mining shafts RMB'000	Plant and machinery RMB'000	Transportation equipment RMB'000	Office and electronic equipment RMB'000	Total RMB'000
Cost or valuation:						
At 1 January 2005	69,812	71,846	106,529	19,187	3,932	271,306
Additions	6,447	–	6,838	6,577	500	20,362
Transfer from construction in progress *(Note 17)*	13,830	–	21,840	–	–	35,670
Acquisition through business combination *(Note 33)*	4,516	1,516	11,189	1,776	606	19,603
Revaluation	(6,462)	–	–	–	–	(6,462)
Disposals	(2,432)	–	(1,856)	(2,290)	–	(6,578)
At 31 December 2005	85,711	73,362	144,540	25,250	5,038	333,901
Representing:						
Cost	7,794	20,975	121,651	23,474	4,015	177,909
Valuation – 2002	15,847	50,871	11,700	–	417	78,835
Valuation – 2005	62,070	1,516	11,189	1,776	606	77,157
	85,711	73,362	144,540	25,250	5,038	333,901
Accumulated depreciation:						
At 1 January 2005	5,926	29,042	24,767	4,313	1,047	65,095
Charge for the year	4,316	8,094	14,924	2,867	856	31,057
Acquisition through business combination *(Note 33)*	437	54	1,919	134	119	2,663
Revaluation	(8,929)	–	–	–	–	(8,929)
Written back on disposal	(163)	–	(1,102)	(852)	–	(2,117)
At 31 December 2005	1,587	37,190	40,508	6,462	2,022	87,769
Net book value:						
At 31 December 2005	84,124	36,172	104,032	18,788	3,016	246,132

Note: Had property, plant and equipment been carried at cost less accumulated depreciation, the historical carrying amount as at 31 December 2004 and 2005 would have been as follows:

	2005 RMB'000	2004 RMB'000
Buildings	**83,189**	63,206
Mining shafts	**35,949**	42,899
Plant and machinery	**94,338**	74,778
Transportation equipment	**17,298**	13,801
Office and electronic equipment	**3,003**	2,876
	233,777	197,560

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 2004	59,855	60,030	85,672	13,348	2,525	221,430
Additions	4,449	–	5,427	5,970	748	16,594
Transfer from construction in progress *(Note 17)*	2,508	2,302	12,138	–	146	17,094
Disposals	(392)	–	(1,127)	(1,153)	–	(2,672)
At 31 December 2004	66,420	62,332	102,110	18,165	3,419	252,446
Representing:						
Cost	48,141	11,461	88,554	16,782	3,002	167,940
Valuation – 2002	18,279	50,871	13,556	1,383	417	84,506
	66,420	62,332	102,110	18,165	3,419	252,446
Accumulated depreciation:						
At 1 January 2004	2,900	19,005	12,621	2,079	415	37,020
Charge for the year	3,030	9,583	12,374	2,209	599	27,795
Written back on disposal	(72)	–	(582)	(37)	–	(691)
At 31 December 2004	5,858	28,588	24,413	4,251	1,014	64,124
Net book value:						
At 31 December 2004	60,562	33,744	77,697	13,914	2,405	188,322
Cost or valuation:						
At 1 January 2005	**66,420**	**62,332**	**102,110**	**18,165**	**3,419**	**252,446**
Additions	**4,555**	**–**	**5,859**	**4,651**	**323**	**15,388**
Transfer from construction in progress *(Note 17)*	**13,814**	**–**	**20,912**	**–**	**–**	**34,726**
Revaluation	**(6,462)**	**–**	**–**	**–**	**–**	**(6,462)**
Disposals	**(2,432)**	**–**	**(1,856)**	**(2,237)**	**–**	**(6,525)**
At 31 December 2005	**75,895**	**62,332**	**127,025**	**20,579**	**3,742**	**289,573**
Representing:						
Cost	**2,494**	**11,461**	**115,325**	**19,196**	**3,325**	**151,801**
Valuation – 2002	**15,847**	**50,871**	**11,700**	**1,383**	**417**	**80,218**
Valuation – 2005	**57,554**	**–**	**–**	**–**	**–**	**57,554**
	75,895	**62,332**	**127,025**	**20,579**	**3,742**	**289,573**
Accumulated depreciation:						
At 1 January 2005	**5,858**	**28,588**	**24,413**	**4,251**	**1,014**	**64,124**
Charge for the year	**3,742**	**6,654**	**13,152**	**2,555**	**689**	**26,792**
Revaluation	**(8,929)**	**–**	**–**	**–**	**–**	**(8,929)**
Written back on disposal	**(162)**	**–**	**(1,103)**	**(848)**	**–**	**(2,113)**
At 31 December 2005	**509**	**35,242**	**36,462**	**5,958**	**1,703**	**79,874**
Net book value:						
At 31 December 2005	**75,386**	**27,090**	**90,563**	**14,621**	**2,039**	**209,699**

Notes on the Financial Statements

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 for the year ended 31 December 2005.

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	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cost or valuation:				
At 1 January	**60,082**	8,222	**53,817**	8,222
Additions	**86,422**	85,450	**62,535**	62,689
Transfer to property, plant and equipment *(Note 16)*	**(35,670)**	(33,590)	**(34,726)**	(17,094)
At 31 December	**110,834**	60,082	**81,626**	53,817
Representing:				
Cost	**110,834**	60,082	**81,626**	53,817
Valuation – 2002	**–**	–	**–**	–
	110,834	60,082	**81,626**	53,817

18 Intangible assets

The Group

	Shanghai Gold Exchange trading rights RMB'000	Exploration and evaluation assets RMB'000	Mining rights RMB'000	Exploration rights RMB'000	Total RMB'000
Cost:					
At 1 January 2004	–	–	50,139	6	50,145
Additions	820	–	–	–	820
At 31 December 2004	820	–	50,139	6	50,965
Accumulated amortisation:					
At 1 January 2004	–	–	8,821	2	8,823
Charge for the year	–	–	5,571	3	5,574
At 31 December 2004	–	–	14,392	5	14,397
Net book value:					
At 31 December 2004	820	–	35,747	1	36,568
Cost:					
At 1 January 2005	**820**	**–**	**50,139**	**6**	**50,965**
Additions	**–**	**7,863**	**511**	**1,814**	**10,188**
Acquisition through business combination *(Note 33)*	**–**	**20,099**	**19,706**	**6,250**	**46,055**
At 31 December 2005	**820**	**27,962**	**70,356**	**8,070**	**107,208**
Accumulated amortisation:					
At 1 January 2005	**–**	**–**	**14,392**	**5**	**14,397**
Charge for the year	**–**	**2,062**	**5,682**	**3,194**	**10,938**
At 31 December 2005	**–**	**2,062**	**20,074**	**3,199**	**25,335**
Net book value:					
At 31 December 2005	**820**	**25,900**	**50,282**	**4,871**	**81,873**

Notes on the Financial Statements

18 Intangible assets (continued)

The Company

	Shanghai Gold Exchange trading rights RMB'000	Exploration and evaluation assets RMB'000	Mining rights RMB'000	Exploration rights RMB'000	Total RMB'000
Cost:					
At 1 January 2004	–	–	50,139	6	50,145
Additions	820	–	–	–	820
At 31 December 2004	820	–	50,139	6	50,965
Accumulated amortisation:					
At 1 January 2004	–	–	8,821	2	8,823
Charge for the year	–	–	5,571	3	5,574
At 31 December 2004	–	–	14,392	5	14,397
Net book value:					
At 31 December 2004	820	–	35,747	1	36,568
Cost:					
At 1 January 2005	**820**	**–**	**50,139**	**6**	**50,965**
Additions	**–**	**3,850**	**–**	**594**	**4,444**
At 31 December 2005	**820**	**3,850**	**50,139**	**600**	**55,409**
Accumulated amortisation:					
At 1 January 2005	**–**	**–**	**14,392**	**5**	**14,397**
Charge for the year	**–**	**–**	**5,097**	**253**	**5,350**
At 31 December 2005	**–**	**–**	**19,489**	**258**	**19,747**
Net book value:					
At 31 December 2005	**820**	**3,850**	**30,650**	**342**	**35,662**

Mining rights represent the rights for mining in the locations of Lingjin One Mine in Lingbao expiring in December 2021, Hongxin Gold Mine expiring in March 2007, and Duolanasayi and Tuokuzibayi Gold Mines in Hababe in June 2006. As at the date of this report, an extension of the mining rights in Habahe Huatai are yet to be obtained.

Exploration rights represent the rights for exploration in the location in Henan, Xinjiang and Jiangxi.

The amortisation charge for the year ended 31 December 2005 and 2004 is included in "cost of sales, and administrative expenses and other operating expenses" in the consolidated income statement of the Group.

19 Goodwill

	The Group RMB'000
Cost:	
At 1 January 2004 and 31 December 2004	–
At 1 January 2005	–
Additions	4,716
At 31 December 2005	**4,716**
Accumulated amortisation and impairment losses:	
At 1 January 2004 and 31 December 2004	–
At 1 January 2005 and 31 December 2005	–
Carrying amount:	
At 31 December 2005	**4,716**
At 31 December 2004	–

Impairment test for cash-generating units containing goodwill

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

	2005 RMB'000	2004 RMB'000
Mining	**4,716**	–

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimate rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Notes on the Financial Statements

19 Goodwill (continued)

Key assumptions used for value-in-use calculations:

	2005	2004
	%	%
– Gross margin	**20**	20
– Growth rate	**5**	5
– Discount rate	**5.58**	5.31

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**	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**9,634**	4,184	**9,634**	4,184
Additions	**178**	5,675	**–**	5,675
Less: Amortisation	**(254)**	(225)	**(253)**	(225)
At 31 December	**9,558**	9,634	**9,381**	9,634
Lease prepayments	**9,558**	9,634	**9,381**	9,634
Less: Current portion of lease prepayments included in other deposits and prepayments	**(329)**	(198)	**(253)**	(198)
	9,229	9,436	**9,128**	9,436

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

21 Investment in subsidiaries

	2005	2004
	RMB'000	RMB'000
Unlisted shares, at cost	**47,100**	9,400
Amounts due from subsidiaries	**94,170**	26,821
	141,270	36,221

Amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

Details of the subsidiaries at 31 December 2005 are as follows:

Name of company	**Type of legal entity**	**Place of incorporation**	**Percentage of equity attributable to the Company**		**Issued and fully paid-up/ registered capital**	**Principal activities**
			Direct	**Indirect**		
			%	%	RMB'000	
Xinjiang Baoxin Mining Company Limited	Limited liability company	The PRC	80	–	10,000	Sales of mineral products
Lingbao Hongxin Mining Limited Liability Company	Limited liability company	The PRC	80	–	3,000	Exploration and processing of gold; sales of mineral products
Akesu District Xindi Mining Company Limited	Limited liability company	The PRC	–	72	1,000	Mining and exploration of mineral reserves
Jiangxi Mingxin Mining Company Limited	Limited liability company	The PRC	80	–	5,000	Production and sales of precious metal products

Notes on the Financial Statements

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 RMB'000	Principal activities
Habahe Huatai Gold Limited Liability Company	Limited liability company	The PRC	83.3	–	12,000	Mining, processing and smelting of gold, production of gold products, sales of gold bullion products, machinery, equipment and components for gold processing
Tongbai Xingyuan Mining Company Limited	Limited liability company	The PRC	80	–	17,000	Geological exploration of mineral reserves

22 Other investments

	The Group and the Company 2005 RMB'000	2004 RMB'000
Investment securities		
Unlisted equity securities available-for-sale, at cost	**10,504**	10,504

Unlisted equity securities represent the Group's 5% equity interest in a PRC domiciled enterprise which is mainly engaged in geological exploration, mining, processing and sales of gold, as well as research, development, production and sale of artificial industrial diamonds. There is no quoted market price for such equity securities and accordingly a reasonable estimate of the fair value could not be made without incurring excessive costs.

23 Income tax in the balance sheets

(a) Current taxation in the balance sheets represents:

	The Group		The Company	
	2005 RMB'000	2004 RMB'000	**2005 RMB'000**	2004 RMB'000
PRC income tax (recoverable)/payable	**(1,559)**	(15,539)	**517**	(15,539)
Representing:				
Current tax recoverable	**517**	–	**517**	–
Current tax payable	**(2,076)**	(15,539)	**–**	(15,539)
	(1,559)	(15,539)	**517**	(15,539)

Notes on the Financial Statements

23 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	Timing difference relating to written off of pre-operating expenses	Timing difference on doubtful debt provisions/ impairments	Timing difference on provision for salary and other employee benefits	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 *Note (i)*	RMB'000
At 1 January 2004	3,486	830	1,166	3,875	–	9,357
Credited/(charged) to consolidated income statement	255	(221)	601	1,138	–	1,773
At 31 December 2004	3,741	609	1,767	5,013	–	11,130
At 1 January 2005	**3,741**	**609**	**1,767**	**5,013**	**–**	**11,130**
Credited/(charged) to consolidated income statement	**(1,411)**	**143**	**(747)**	**3,655**	**3,014**	**4,654**
Charged to reserves	**(157)**	**–**	**–**	**–**	**–**	**(157)**
Acquisition through business combination *(Note 33)*	**250**	**–**	**–**	**234**	**(3,038)**	**(2,554)**
At 31 December 2005	**2,423**	**752**	**1,020**	**8,902**	**(24)**	**13,073**

23 Income tax in the balance sheets (continued)

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

(ii) The Company

The components of deferred tax assets/(liabilities) recognised in the balance sheet and the movements during the year are as follows:

	Depreciation in excess of related depreciation allowances	Timing difference relating to written off of pre-operating expenses	Timing difference on doubtful debt provisions/ impairments	Timing difference on provision for salary and other employee benefits	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 *Note (i)*	RMB'000
At 1 January 2004	3,486	830	1,166	3,875	–	9,357
Credited/(charged) to income statement	255	(221)	601	1,138	–	1,773
At 31 December 2004	3,741	609	1,767	5,013	–	11,130
At 1 January 2005	**3,741**	**609**	**1,767**	**5,013**	**–**	**11,130**
Credited/(charged) to income statement	**(1,855)**	**(222)**	**(747)**	**3,066**	**988**	**1,230**
Charged to reserves	**(157)**	**–**	**–**	**–**	**–**	**(157)**
At 31 December 2005	**1,729**	**387**	**1,020**	**8,079**	**988**	**12,203**

Notes on the Financial Statements

23 Income tax in the balance sheets (continued)

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

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Net deferred tax asset recognised on the balance sheet	**15,627**	11,130	**12,203**	11,130
Net deferred tax liability recognised on the balance sheet	**(2,554)**	–	**–**	–
	13,073	11,130	**12,203**	11,130

Notes:

(i) Others mainly represent temporary differences arising from different expense recognition criteria between the accounting and tax basis and unused tax losses. The tax losses will be expired within 5 years.

(ii) There were no significant unrecognised deferred tax assets and liabilities as at 31 December 2004 and 2005.

24 Inventories

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**187,241**	113,745	**181,877**	113,243
Work in progress	**12,105**	2,934	**10,218**	2,934
Finished goods	**78,648**	58,667	**78,648**	58,667
Low-value consumables	**13,763**	12,648	**11,888**	12,475
	291,757	187,994	**282,631**	187,319

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

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Carrying amount of inventories sold	**1,235,479**	975,691	**1,212,857**	975,335

Notes on the Financial Statements

25 Trade and other receivables, deposits and prepayments

Trade and other receivables, deposits and prepayments comprise:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**14,571**	2,396	**14,571**	2,396
Bills receivables	**22,636**	8,378	**22,636**	8,378
Other receivables	**3,937**	22,796	**3,197**	10,958
Purchase deposits	**82,890**	120,081	**82,890**	120,081
Other deposits and prepayments	**42,378**	22,029	**32,312**	21,781
	166,412	175,680	**155,606**	163,594

Purchase deposits represent amounts paid by the Group in advance to approximately 40 suppliers (2004: 60) to secure timely and stable supplies of mineral sand for the purposes of refining in future periods. The directors of the Company consider that appropriate procedures have been taken by the Group to assess the capabilities of the suppliers to supply mineral sand and expect that the purchase deposits would be gradually recovered through future purchases of mineral sand from the respective suppliers.

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

The Group requests customers to pay cash or settle by bills in full prior to delivery of goods. Subject to negotiation, credit term of a maximum of 180 days is only available for certain major customers with well-established trading records.

An ageing analysis of trade receivables and bills receivable (net of impairment losses) is as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**19,922**	8,398	**19,922**	8,398
Over 3 months but less than 6 months	**14,309**	–	**14,309**	–
Over 6 months but less than 1 year	**2,976**	–	**2,976**	–
Over 1 year	**–**	2,376	**–**	2,376
	37,207	10,774	**37,207**	10,774

26 Cash and cash equivalents

All cash and bank balances, which are denominated in Renminbi, are placed with banks in the PRC.

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

27 Bank loans

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

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year or on demand	**292,150**	294,750	**292,150**	294,750
Over 1 year but within 2 years	**110,000**	–	**110,000**	–
	402,150	294,750	**402,150**	294,750

All the Group's and the Company's bank loans as at 31 December 2004 and 2005 were interest-bearing. The interest rates of the bank loans ranged from 5.58% to 5.76% for the year ended 31 December 2005 (2004: 5.31% to 5.58%).

Certain of the Group's and the Company's bank loans of RMB290,000,000 as at 31 December 2004 was guaranteed by Lingbao State-owned Assets Operation Limited Liability Company. The directors have confirmed that all the guarantees provided by Lingbao State-owned Assets Operation Limited Liability Company had been released on 17 September 2005.

At 31 December 2005, the bank loans were secured as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank loans				
– secured	**88,600**	–	**88,600**	–
– unsecured	**313,550**	294,750	**313,550**	294,750
	402,150	294,750	**402,150**	294,750

Bank loans of RMB88,600,000 (2004: Nil) were secured by pledges over the Group's and the Company's property, plant and equipment, trade receivables and inventories with an aggregate carrying value of RMB111,085,507, RMB12,000,000 and RMB100,000,000 respectively.

Notes on the Financial Statements

28 Other loan

The Finance Bureau of Lingbao (靈寶市財政局) granted the Company a fifteen-year loan for the construction of a new smelting plant in Lingbao, Henan for a period of 15 years. The loan was unsecured, interest-bearing and repayable in fixed instalments with the first instalment commencing from December 2009. Interest is charged with reference to the 1-year deposit rate of the People's Bank of China plus 0.3% margin.

29 Trade and other payables

Trade and other payables comprise:

	The Group		**The Company**	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**60,821**	56,429	**54,598**	55,036
Bills payables	**–**	40,000	**–**	40,000
Other payables	**22,436**	18,457	**21,301**	17,908
Salary and welfare payable	**42,883**	27,436	**40,264**	27,035
Accruals	**8,386**	11,075	**8,101**	10,911
Receipts in advance	**8,766**	6,571	**8,766**	6,571
	143,292	159,968	**133,030**	157,461

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

	The Group		**The Company**	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**55,933**	53,813	**51,435**	52,420
Over 3 months but less than 6 months	**2,908**	40,602	**1,183**	40,602
Over 6 months but less than 1 year	**1,245**	553	**1,245**	553
Over 1 year but less than 2 years	**735**	1,461	**735**	1,461
	60,821	96,429	**54,598**	95,036

The Group's and the Company's bills payable of RMB40,000,000 as at 31 December 2004 were secured by pledged deposits of RMB20,045,000.

30 Capital and reserves

(a) The Group

	Note	Share capital RMB'000	Retained profits RMB'000	Share premium RMB'000 (Note iv)	Statutory reserve RMB'000	Capital reserve RMB'000 (Note v)	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
		Attributable to equity shareholders of the Company							
At 1 January 2004		100,000	56,266	16,602	12,772	32,015	217,655	–	217,655
Profit for the year		–	120,060	–	–	–	120,060	(665)	119,395
Capital contributions from minority interests	*(ii)*	–	–	–	–	–	–	2,600	2,600
Transfer to reserves	*(i)*	–	(17,578)	–	17,578	–	–	–	–
At 31 December 2004 and 1 January 2005		100,000	158,748	16,602	30,350	32,015	337,715	1,935	339,650
Profit for the year		–	154,584	–	–	–	154,584	192	154,776
Capital contributions from minority interests	*(ii)*	–	–	–	–	–	–	1,100	1,100
Acquisition through business combination	*33*	–	–	–	–	–	–	6,275	6,275
Revaluation surplus, net of deferred tax		–	–	–	–	319	319	–	319
Transfer to reserves	*(i)*	–	(23,368)	–	23,368	–	–	–	–
At 31 December 2005		**100,000**	**289,964**	**16,602**	**53,718**	**32,334**	**492,618**	**9,502**	**502,120**

30 Capital and reserves (continued)

(b) The Company

	Note	**Share capital** RMB'000	**Retained profits** RMB'000	**Share premium** RMB'000 *(Note iv)*	**Statutory reserve** RMB'000	**Capital reserve** RMB'000 *(Note v)*	**Total equity** RMB'000
At 1 January 2004		100,000	56,266	16,602	12,772	32,015	217,655
Profit for the year		–	121,754	–	–	–	121,754
Transfer to reserves	*(i)*	–	(17,578)	–	17,578	–	–
At 31 December 2004 and 1 January 2005		100,000	160,442	16,602	30,350	32,015	339,409
Profit for the year		–	155,069	–	–	–	155,069
Revaluation surplus, net of deferred tax		–	–	–	–	319	319
Transfer to reserves	*(i)*	–	(22,717)	–	22,717	–	–
At 31 December 2005		**100,000**	**292,794**	**16,602**	**53,067**	**32,334**	**494,797**

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.

(b) *Statutory public welfare fund*
In accordance with the articles of association, the Company and the subsidiaries are required to transfer 5% to 10% of their net profit, as determined in accordance with the PRC accounting standards and regulations, to the statutory public welfare fund (the "PWF") which is a non-distributable reserve other than in the event of the liquidation of the Company and the subsidiaries. The PWF must be used for capital expenditure on staff welfare facilities and these facilities remain the property of the Group.

(ii) The contributions represented cash contributed by minority interests upon establishment of subsidiaries during the year.

(iii) Upon listing of the Company's shares on the Stock Exchange, the Company may not distribute dividends exceeding the lower of the Group's distributable reserves as determined under the PRC GAAP and HKFRSs.

In accordance with the Company Law of the PRC, profit after taxation can be distributed as dividends after appropriations to the statutory reserves as set out above.

(iv) The application of the share premium account is governed by sections 178 and 179 of the PRC Company Law.

(v) The capital reserve as at 31 December 2004 represents 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 as required by the relevant PRC rules and regulations with respect to the Restructuring of the Company on 31 May 2002.

30 Capital and reserves (continued)

(c) Share capital

The Company's Domestic shares are not currently listed on any stock exchange.

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 in connection with the Global Offering.

The Company's H Shares were successfully listed on the Stock Exchange on 12 January 2006.

The following table sets out the shareholding structure of the Company immediately following the Global Offering and the full exercise of the over-allotment option by BOC International Holdings Limited (the "Over-allotment Option") on 16 January 2006.

Class of shares	Number of shares	Percentage of the Company's issued share capital
Domestic shares	472,975,091	61.41%
H shares	297,274,000	38.59%
Total	770,249,091	100.00%

The holders of Domestic shares and H shares are entitled to receive dividends as and when declared by the Company. All Domestic shares and H shares carry one vote per share without restriction.

(d) Distributability of reserves

According to the Listing Rules of the Main Board of the Stock Exchange Limited, 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 2005, the amount of retained profits available for distribution was RMB292,794,000 (2004: RMB160,442,000), being the amount determined in accordance with the HKFRS. After the balance sheet date the directors proposed a final dividend of RMB0.08 per ordinary share (2004: Nil), amounting to RMB61,620,000 (2004: Nil). This dividend has not been recognised as a liability at the balance sheet date.

Notes on the Financial Statements

31 Commitments and contingencies

(a) Capital commitments, representing the construction costs not provided for in the financial statements were as follows:

	The Group and the Company	
	2005	2004
	RMB'000	RMB'000
Authorised but not contracted for	**282,642**	381,840

(b) The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**246**	470	**80**	460
After 1 year but within 5 years	**920**	–	**320**	–
After 5 years	**964**	–	**283**	–
	2,130	470	**683**	460

The Group and the Company lease 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. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

31 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 RMB1,285,000 for the year ended 31 December 2005 (2004: RMB880,000).

Notes on the Financial Statements

32 Financial instruments

The Group's financial assets comprise mainly cash and cash equivalents, trade receivables, other receivables, deposits and prepayments and amount due from a fellow subsidiary. The Group's financial liabilities comprise mainly trade and other payables, interest-bearing bank and other loans. The Group does not hold or issue financial instruments for trading purposes. Exposure to credit, business, and currency risks arises in the normal course of the Group's business.

(a) Interest rate risk

The Group's exposure to market risk for changes in interest rate relates primarily to the Group's cash and cash equivalents and banks and other loans. The interest rates and terms of repayment of the interest-bearing bank and other loan of the Group are disclosed in notes 27 and 28.

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice or the maturity dates, if earlier.

(i) The Group

	2005		2004	
	Effective interest rate %	**One year or less RMB'000**	Effective interest rate %	One year or less RMB'000
Repricing dates for assets/(liabilities) which reprice before maturity				
Pledged deposits	**–**	**–**	0.72	20,045
Cash and cash equivalents	**0.72**	**117,861**	0.72	76,506
Bank loans	**5.58**	**(230,000)**	5.41	(85,000)
Other loan	**2.55**	**(3,270)**	–	–
		(115,409)		11,551
Maturity dates for liabilities which do not reprice before maturity				
Bank loans	**5.58**	**(172,150)**	5.36	(209,750)

32 Financial instruments (continued)

(a) Interest rate risk (continued)

(ii) The Company

	2005		2004	
	Effective interest rate	**One year or less**	Effective interest rate	One year or less
	%	**RMB'000**	%	RMB'000
Repricing dates for assets/(liabilities) which reprice before maturity				
Pledged deposits	**–**	**–**	0.72	20,045
Cash and cash equivalents	**0.72**	**94,401**	0.72	74,452
Bank loans	**5.58**	**(230,000)**	5.41	(85,000)
Other loan	**2.55**	**(3,270)**	–	–
		(138,869)		9,497
Maturity dates for liabilities which do not reprice before maturity				
Bank loans	**5.58**	**(172,150)**	5.36	(209,750)

Notes on the Financial Statements

32 Financial instruments (continued)

(b) Credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The Group's major customers are Shanghai Gold Exchange and metallurgical companies in the PRC, which accounted for significant amounts of the Group's total turnover during the year. The Group has no significant credit risk with any of these customers since the Group maintains long-term and stable business relationships with these large customers in the gold bullion industries.

In addition, the Group made purchase deposits of RMB82,891,000 (2004: RMB120,081,000) at 31 December 2005 to suppliers to secure its supplies of mineral sand which is the major raw materials in the smelting process. The balance represented 14% (2004: 25%) of total current assets at 31 December 2005. 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.

(c) Foreign currency risk

All the revenue-generating operation of the Group are transacted in RMB, which is not freely convertible into foreign currencies. On 1 January 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted by the People's Bank of China (the "PBOC"). However, the unification of the exchange rate does not imply convertibility of RMB into Hong Kong dollars or other foreign currencies. All foreign exchange transactions must take place through the PBOC or other institutions authorised to buy and sell foreign exchange. Approval of foreign currency payments by the PBOC or other institutions requires submitting a payment application form together with relevant documents.

Pursuant to the foreign exchange policy announced by the PBOC in the Announcement No. 16 of 2005 on 21 July 2005, the PRC authorities has raised the level that RMB trades against USD by 2.1% to RMB8.11 and that the currency would fluctuate against a basket of currencies. While the said new policy does not imply any substantial immediate change and there is no indication of any timing of a further appreciation or widening of the trading band, it does give the PRC authorities a considerable discretion to allow the currency to appreciate further.

32 Financial instruments (continued)

(d) Fair value

Financial assets of the Group comprise cash and cash equivalents, trade and other receivables and other investments. Financial liabilities include trade and other payables, short and long term bank loans and other loan. The carrying amounts of significant financial assets and liabilities approximate to their respective fair values as at 31 December 2004 and 2005 due to the nature or short-term maturity of these instruments.

Fair value estimates are made at a specific point in time and based on relevant market information. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(e) Business risk

During the year ended 31 December 2005, the Group's supplies of direct materials from independent third parties represent 87.3% (2004: 92.8%) 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.

Notes on the Financial Statements

33 Business combination

In 2005, the Group has acquired an 83.3% equity interest in Habahe Huatai from Lingbao State-owned Assets Operation Limited Liability Company and an 80% interest in Tongbai Xingyuan Mining Company Limited from Mr. Zhou Yudao and Mr. Xu Zhongjian. The aggregate acquisition consideration was RMB32,700,000 satisfied in cash. The aggregate amounts recognised at the acquisition date of their assets and liabilities are RMB96,378,000 and RMB68,394,000 respectively. The acquired companies contributed an aggregate revenue of RMB28,403,000 and aggregate net profit of RMB4,862,000 since acquisition. If the acquisition had occurred on 1 January 2005, Group revenue would have been RMB1,558,832,000 and net profit would have been RMB153,381,000.

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

Acquiree's net assets at the acquisition date

	RMB'000
Property, plant and equipment	16,940
Intangible assets	46,055
Inventories	8,319
Trade and other receivable, deposits and prepayments	8,837
Cash and cash equivalents	16,227
Trade and other payables	(13,429)
Amount due to the Company	(29,600)
Amount due to Xinjiang Baoxin Mining Co. Ltd.	(15,610)
Amount due to Akesu District Xindi Mining Company Limited	(800)
Amount due to Mr Zhou Yudao	(10)
Tax payable	(116)
Deferred tax liabilities *(Note 23)*	(2,554)
Minority interests	(6,275)
Net identifiable assets	27,984
Goodwill arising on acquisition	4,716
Total purchase price consideration	32,700
Satisfied by	
Cash	32,700
Cash at bank and in hand acquired	16,227
Cash consideration paid	(32,700)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(16,473)

34 Segment information

Business segments

	Mining RMB'000	Smelting RMB'000	Inter-segment elimination RMB'000	Unallocated RMB'000	Consolidated RMB'000
Year ended 31 December 2005					
Revenue and expenses					
Revenue from external customers	112,095	1,443,609	–	–	1,555,704
Inter-segment revenue	136,810	–	(136,810)	–	–
Other revenue from external customers	–	7,237	–	4,540	11,777
Total	248,905	1,450,846	(136,810)	4,540	1,567,481
Segment results	70,906	261,755	(5,199)	4,540	332,002
Unallocated income and expenses					(84,115)
Profit from operations					247,887
Write back of deficit on revaluation of property, plant and equipment					1,991
Finance costs					(23,085)
Income tax					(72,017)
Profit for the year					154,776
Assets and liabilities					
Segment assets	357,138	515,681	–	–	872,819
Unallocated assets					182,643
Total assets					1,055,462
Segment liabilities	29,267	52,428	–	–	81,695
Unallocated liabilities					471,647
Total liabilities					553,342
Other segmental information					
Capital expenditure	81,553	29,520	–	6,077	117,150
Depreciation and amortisation	27,124	13,953	–	1,172	42,249

Notes on the Financial Statements

34 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 2004					
Revenue and expenses					
Revenue from external customers	137,717	1,085,712	–	–	1,223,429
Inter-segment revenue	71,288	–	(71,288)	–	–
Other revenue from external customers	2,853	7,986	–	1,528	12,367
Total	211,858	1,093,698	(71,288)	1,528	1,235,796
Segment results	45,398	213,179	–	1,528	260,105
Unallocated income and expenses					(65,753)
Profit from operations					194,352
Finance costs					(15,503)
Income tax					(59,454)
Profit for the year					119,395
Assets and liabilities					
Segment assets	247,127	464,043	–	–	711,170
Unallocated assets					98,737
Total assets					809,907
Segment liabilities	72,006	66,646	–	–	138,652
Unallocated liabilities					331,605
Total liabilities					470,257
Other segmental information					
Capital expenditure	77,084	33,208	–	–	110,292
Depreciation and amortisation	21,381	12,959	–	–	34,340

35 Ultimate holding company

The directors consider the ultimate holding company of the Company to be Lingbao State-owned Assets Operation Limited Liability Company, a stated-owned enterprise established in the PRC. The entity does not produce financial statements available for public use.

36 Accounting estimates and judgements

Key sources of estimation uncertainty

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

(i) Reserves estimates

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

The reserves data set forth in these financial statements represent estimates. Such estimates are judgements based on knowledge, experience and industry practice. Estimates which were valid when originally made may need to be updated when new information or techniques become available. By nature, reserves estimates depend to some extent on interpretations and deductions which may prove to be inaccurate. As further information becomes available, the estimates are likely to change. This may result in alterations to the Group's operations and development plans which may, in turn, adversely affect the Group's operations and performance.

The reserves estimates were reported in accordance with the Chinese system, which is the national standard set by the PRC Government.

Notes on the Financial Statements

36 Accounting estimates and judgements (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 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 prices 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.

37 Post balance sheet events

The following significant transactions took place subsequent to 31 December 2005:

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

(ii) On 12 January 2006, the Company's H shares were successfully listed on the Main Board of the Stock Exchange following the completion of the public offer and placing of 297,274,000 shares as described in the prospectus of the Company dated 30 December 2005. The shareholding structure of the Company immediately following the Global Offering and the Over-allotment Option on 16 January 2006 has been set out in note 30.

38 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 December 2005

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 period ended 31 December 2005 and which have not been adopted in these financial statements.

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

		Effective for accounting periods beginning on or after
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007
HK(IFRIC) 4	Determining whether an arrangement contains a lease	1 January 2006
HK(IFRIC) 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds	1 January 2006
HK(IFRIC) 7	Applying the restatement approach under HKAS 29 Financial Reporting in hyperinflationary economies	1 March 2006

In addition, the Hong Kong Companies (Amendment) Ordinance 2005 came into effect on 1 December 2005 and the Company Law of the People's Republic of China (revised) ("revised PRC Company Law") issued on 27 October 2005 would be first applicable to the Group's financial statements for the period beginning 1 January 2006.

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 the adoption of the new accounting policies, the Hong Kong Companies (Amendment) Ordinance 2005 and revised PRC Company Law is unlikely to have a significant impact on the Group's results of operations and financial position.

Notes on the Financial Statements

38 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 December 2005 (continued)

Prior to 1 January 2006, limited liabilities companies and joint stock companies incorporated in the PRC is required to transfer 5% to 10% of their net profit, as determined in accordance with the PRC accounting standards and regulation, to statutory public welfare fund. Such requirement is removed in the revised PRC Company Law which is effective from 1 January 2006.

The Group is continuing its assessment of the impact of the other new HKFRS and amendments to Hong Kong Companies Ordinance and revised PRC Company Law on the Group's financial statements.