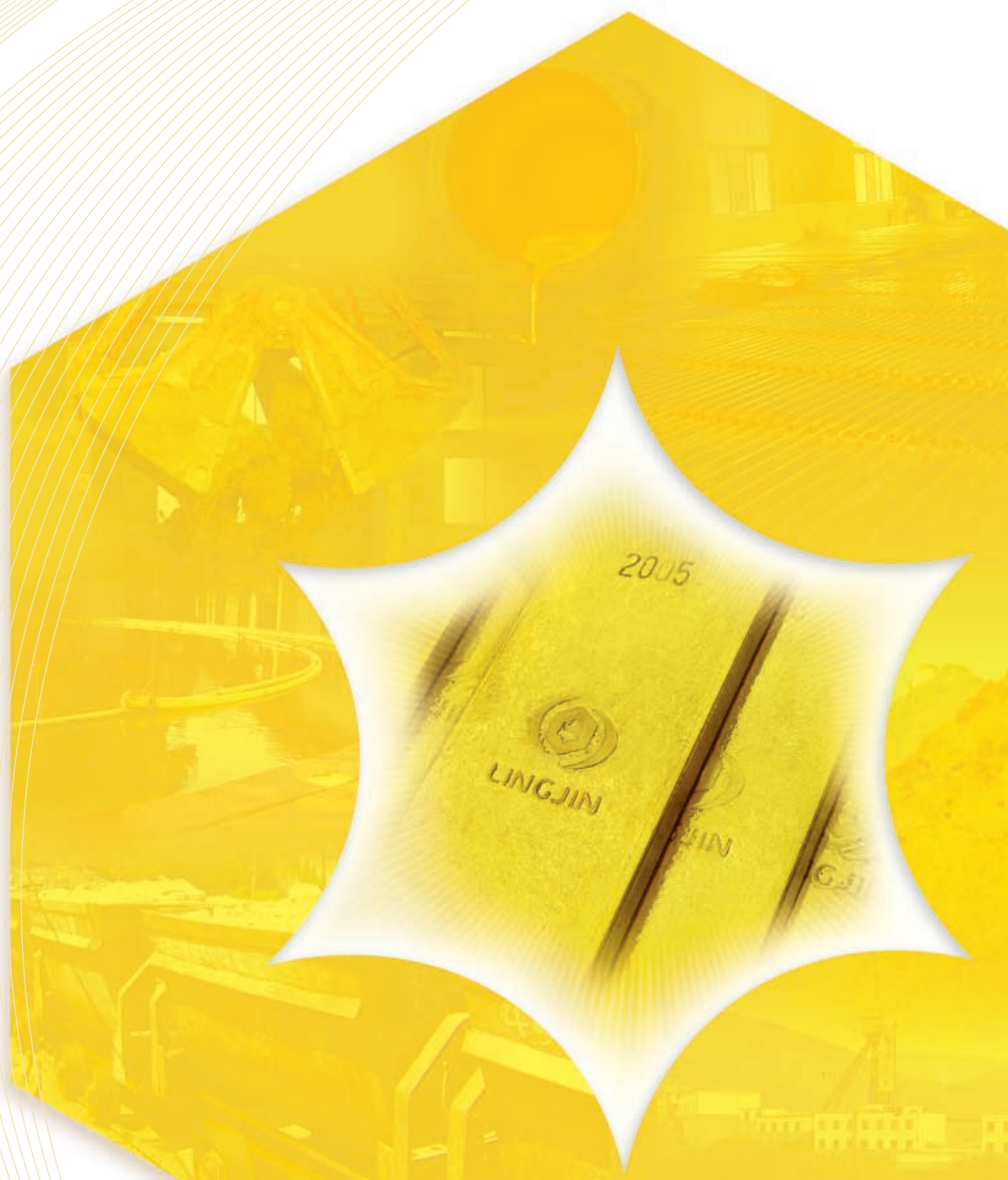




Lingbao Gold Company Ltd. 靈寶黃金股份有限公司

(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 3330)

Interim Report 2006



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Corporate Information

Directors

Executive Directors

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

Non-executive Directors

Xu Wanmin
Di Qinghua
Qi Guozhong

Independent Non-executive Directors

Ning Jincheng
Wang Yanwu
Niu Zhongjie
Zheng Jinqiao

Supervisors

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

Joint Company Secretary

Pang Chun Kit (*ACCA, HKICPA*)
Zhao Jugang

Qualified Accountant

Pang Chun Kit (*ACCA, HKICPA*)

Authorised Representatives

Jin Guangcai
Zhao Jugang

Alternate Authorised Representative

Pang Chun Kit (*ACCA, HKICPA*)

Audit Committee

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

International Auditors

KPMG

Compliance Adviser

BOCI Asia Limited

Legal Adviser

Mallesons Stephen Jaques

Principal Bankers

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

Hong Kong Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Registered Office

Xin Village, Yin Zhuang Town
Daonan Industrial Area
Lingbao
Henan
The PRC

Principal Place of Business in Hong Kong

Room 1902, 19th Floor, MassMutual Tower
38 Gloucester Road
Wanchai
Hong Kong

Stock Information

Stock code: 3330
Listing date: 12 January 2006
Issued shares: 297,274,000 shares (H Shares)
472,975,091 shares
(Domestic shares)
Nominal value: RMB0.20 per share
Stock name: Lingbao Gold

Investor Relations

The Company:

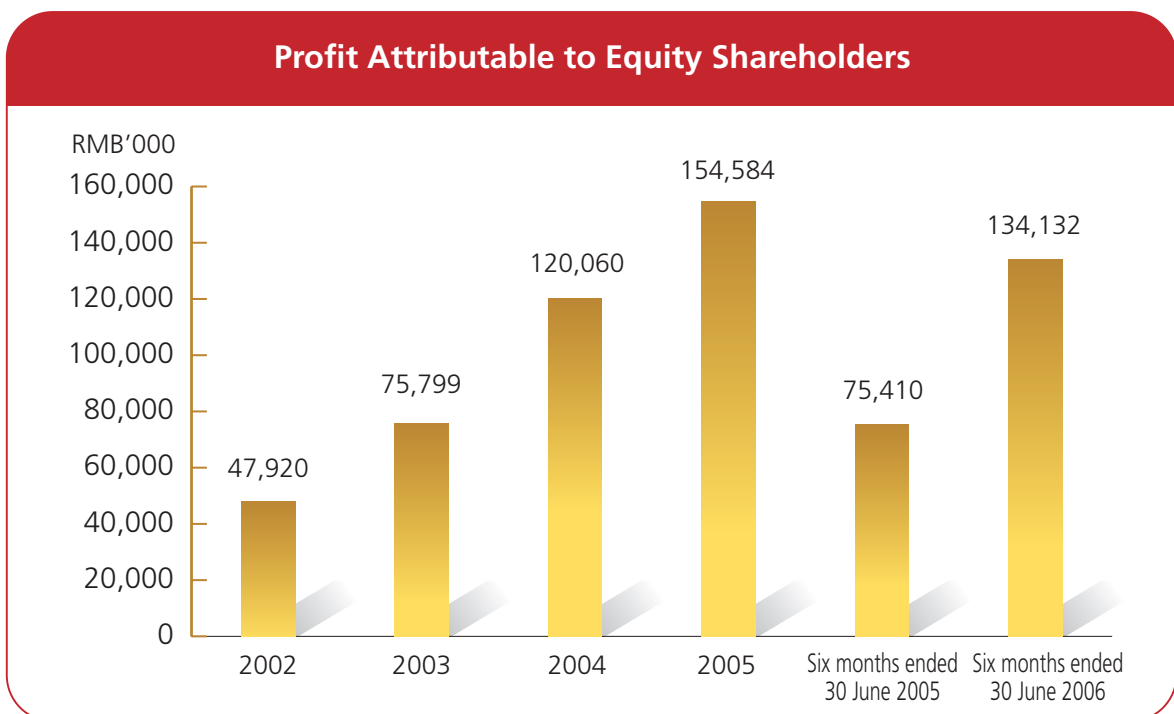
Mr. Pang Chun Kit
Hong Kong Office
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38 Gloucester Road
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Email : lingbaogold@vip.sina.com

Mr. Zhao Jugang/Ms. Qi Haihua
PRC Office
Xin Village, Yin Zhuang Town
Daonan Industrial Area
Lingbao
Henan
The People's Republic of China (Postcode: 472500)
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Email : lingbaogold@vip.sina.com

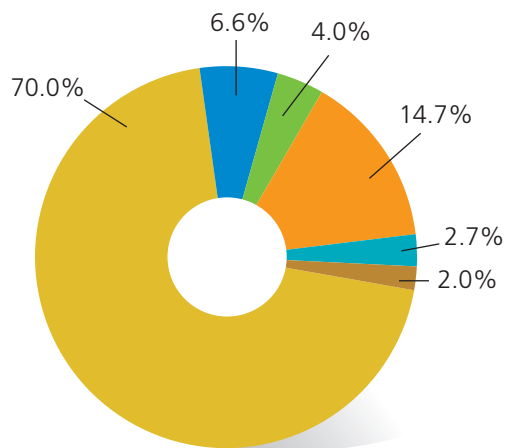
Financial Relation Adviser and Media Contacts

Porda International (Finance) PR Co., Ltd.
7th Floor, CMA Building
No. 64 Connaught Road Central
Hong Kong
Tel : (852) 2544-6388
Fax : (852) 2544-6126

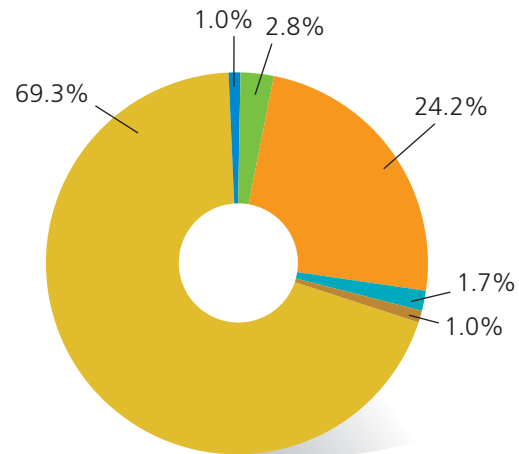
Financial Highlights



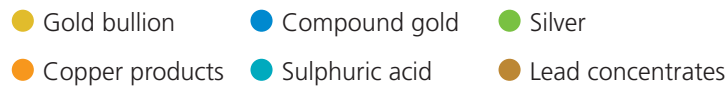
Sales Analysis by Products



Six months ended
30 June 2005



Six months ended
30 June 2006



Capital Resources

	31 December 2002	31 December 2003	31 December 2004	31 December 2005	30 June 2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	469,640	609,774	809,907	1,055,462	2,189,707
Cash and cash equivalents	35,012	87,872	76,506	117,861	1,083,752
Bank and other borrowings	131,800	224,750	294,750	405,420	448,270
Shareholders' equity	141,856	217,655	337,715	492,618	1,430,509

Management Discussion and Analysis

Corporate Profile

Lingbao Gold Company Ltd. (“Lingbao Gold” or the “Company”, together with its subsidiaries, the “Group”) was listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 12 January 2006. (Stock code: 3330)

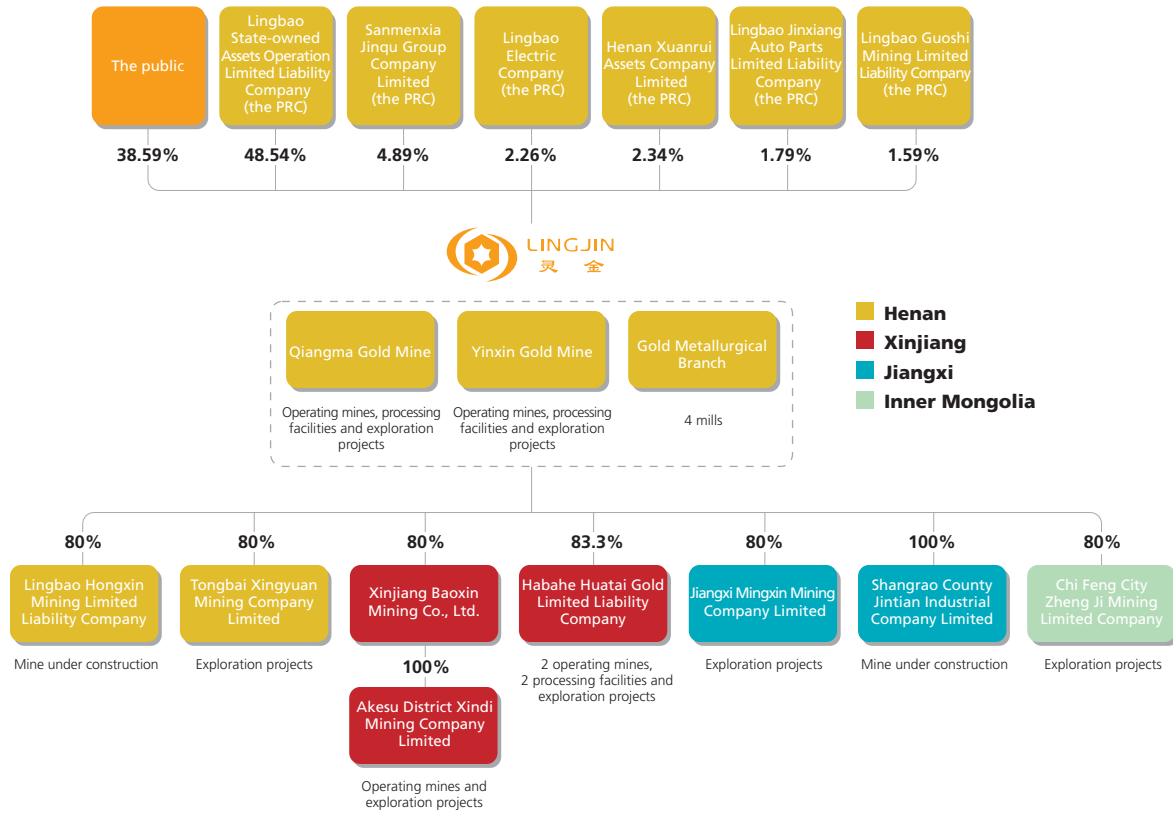
The Group is an integrated gold mining enterprise based in Henan Province, the second largest gold producing province in the People’s Republic of China (the “PRC”). The Group is mainly engaged in gold mining, smelting and refining. The principal product of the Group is gold and the principal byproducts of the Group are silver, copper products and sulphuric acid. The Shanghai Gold Exchange certified the Company as a standard gold bullion production enterprise. The Group’s mineral resources are mainly scattered in three provinces in the PRC, including Henan, Xinjiang and Jiangxi with 24 mining and exploration rights as at 30 June 2006. The total gold reserves and resources as at 30 June 2006 was approximately 106 tonnes. For the six months ended 30 June 2006, approximately 4,766 kg (equivalent to approximately 153,230 ounces) of gold was produced with the profit attributable to equity shareholders amounting to

approximately RMB134,132,000. For the six months ended 30 June 2006, according to the statistics published on the website of China Gold Association, the Company ranked second in gold production among the large-scale gold smelting enterprises nationwide.

The Group is committed to become the leading integrated gold mining enterprise in the PRC and gradually to promote our brand within the international market. The Group will focus on acquisition, consolidation merger, exploration and expansion of production scale in order to increase the self-produced gold and gold reserves and resources.

In the first half of 2006, the Group acquired a mining company in Jiangxi and the Group increased one mining right. On 2 August 2006, the Group entered into an agreement to acquire 80% equity interest of a limited company in Inner Mongolia Autonomous Region, thereby allowing the Group to tap into the Inner Mongolia region and expand its regional business development. The Group will continue to identify suitable opportunities for such acquisition in the second half of this year.

The diagram below sets out our corporate structure as at the date of this report:



Management Discussion and Analysis

Review of Business and Prospect

In the first half of 2006, the Group produced approximately 4,766 kg (equivalent to approximately 153,230 ounce) of gold including approximately 4,696 kg (equivalent to approximately 150,980 ounce) of gold bullion and approximately 70 kg (equivalent to approximately 2,250 ounce) of compound gold, representing a decrease of approximately 49 kg (equivalent to approximately 1,575 ounce) or 1.0% as compared with the corresponding period of the previous year. The turnover for the six months ended 30 June 2006 was approximately RMB951,837,000, representing an increase of approximately 31.5% as compared with the corresponding period of the previous year. For the six months ended 30 June 2006, the profit attributable to the Company's shareholders was approximately RMB134,132,000, representing an increase of approximately 77.9% as compared with the corresponding period of the previous year. For the six months ended 30 June 2006, the basic earnings per share was RMB0.18. In the first half of 2006, the Company has achieved positive growth in both turnover and profit attributable to shareholders. The increase in profit was due to the strong market demand as well as high product prices and effective control of production cost. The Company was listed on the

Main Board of the Stock Exchange in January 2006. As a result of the share offer, the Group received an one-off after tax profit of interest income net of exchange loss of approximately RMB16,909,000.

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

1. Mining Segment

Turnover and production

Our mining business comprises the sales of gold concentrates and other derivative products, such as compound gold and lead concentrates. All gold concentrates are sold to the Group's smelting plant as intra-group sales, while other derivative products are sold to third party customers.

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

	Unit	For the six months ended 30 June			
		Approximate Production volume	Approximate Sales volume	Approximate Production volume	Approximate Sales volume
		2006	2006	2005	2005
Gold concentrates	Kg	661	599	588	611
Compound gold	Kg	70	60	389	420
Total	Kg	731	659	977	1,031
Total	Ounce	23,502	21,187	31,411	33,147
Lead concentrates	Kg	72	72	125	125

The Group's total turnover of the mining segment for the first half of 2006 was approximately RMB95,280,000, representing a decrease of approximately 16.7% from approximately RMB114,392,000 for the same period in 2005. During the period, turnover of gold mines in Henan and Xinjiang represented approximately 89.9% and 10.1% of the total turnover of the mining segment respectively. The production of compound gold decreased by approximately 319 kg to approximately 70 kg while production of gold concentrates increased by approximately 73 kg to approximately 661 kg. Since July 2005, there has been a change in technology of the processing facilities of our gold mines in Henan. As a result of the change in technology, we increased our production in gold concentrates and decreased our production in compound gold. The change was aimed to increase the gold content of our gold concentrates and boosting internal sales of gold concentrates to our smelting plant. Apart from gold concentrates and compound gold, the Group's mining segment also produced lead concentrates. Lead concentrates are another type of gold concentrates which contain lead and are sold to third party customers. Production of lead concentrates in this period decreased by approximately 53 kg to approximately 72 kg.

Segment results

The Group's results of the mining segment for the first half of 2006 was approximately RMB25,055,000, representing an increase of approximately 1.8% from approximately RMB24,616,000 for the same period in 2005. Such increase was principally attributable to the increase of product selling price during the period which offset by an increase of approximately 8.3% in expenses paid to the construction teams of our operating mines. The segment result to segment turnover ratio of the Group's mining segment for the first half of 2006

was approximately 26.3%, an increase of approximately 4.8% from approximately 21.5% in 2005. During this period, gross profit margin for mines in Henan region was approximately 26.3%, and for mines in Xinjiang region was approximately 26.4%.

Prospect

The Group is expecting an increase in production capacity, gold reserves and resources through the commencement of production of Kaqia Gold Mine held by Akesu District Xindi Mining Company Limited, a subsidiary of the Company located in Xinjiang, in the second half of 2006 for the production of compound gold, together with the expansion of production in both Duolanasayi Gold Mine and Tuokuzibayi Gold Mine located in Xinjiang through improvement of production facilities.

With our continuous exploration and acquisitions of gold mines, our gold reserves and resources are increasing. Objective of the Group for 2006 is to increase the Company's gold reserves by continuing to explore the in-depth deposits of Qiangma Gold Mine and Yinxin Gold Mine in the Xiaoqinling Region and to continue to engage in mining and gold production process in the gold mines located in Henan Nanyang Xingyuan Gold Mine, Jiangxi Mingxin Gold Mine, Xinjiang Duolanasayi Gold Mine, Tuokuzibayi Gold Mine and Kaqia Gold Mine.

2. Smelting Segment

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

Management Discussion and Analysis

Product	Unit	For the six months ended 30 June			
		2006		2005	
		Approximate production volume	Approximate sales volume	Approximate production volume	Approximate sales volume
Gold bullion	Kg	4,696	4,363	4,426	4,440
	Ounce	150,980	140,274	142,299	142,749
Silver	Kg	14,115	10,288	16,952	16,815
	Ounce	453,807	330,767	454,019	540,614
Copper products	Tonne	4,619	4,980	3,451	3,323
Sulphuric acid	Tonne	79,671	82,532	72,371	70,139

Turnover and production

The Group's total turnover in the smelting segment for the first half of 2006 was approximately RMB939,192,000, representing an increase of approximately 41.2% from approximately RMB665,006,000 for the same period of 2005. Such increase was principally attributable to the 30.4% increase in the sales of gold bullion as a result of an approximate 32.7% increase in selling price of gold bullion. Also, the unit selling price, sales volume and total sales amount of copper products had increased by approximately 44.7%, 49.9% and 116.9% respectively.

In the first half of 2006, the Group's smelting plant processed approximately 676 tonnes of gold concentrates per day, and the utilisation rate for production was approximately 97%. This resulted in a slight increase in the Group's production volume. During the period, the gold recovery rate was approximately 96.4%, the silver recovery rate was approximately 76.3% and the copper recovery rate was approximately 93.4%. All recovery rates continued to remain at a high level.

Segment results

Our smelting segment results for the first half of 2006 was approximately RMB196,989,000, representing an approximate 50.4% increase from approximately RMB130,979,000 for the same period in 2005. The segment results to segment turnover ratio of our smelting business for the first half of 2006 was approximately 21.0%, increased by approximately 1.3% from approximately 19.7% for the same period in 2005. During the period, the average selling price of gold bullion increased by approximately 32.7% to approximately RMB151.8 per gram (equivalent to approximately USD588.0 per ounce). By using efficient cost control and production adjustment, profit margin of smelting segment was improved.

Prospect

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

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

Outlook for 2006

As a result of the influence of international politics, economy and other uncertain factors, the international gold price increased by 19% in the first half of 2006. The steady increase in investors' demand for spot gold, the consumers' demand for ornament, the rise in energy prices and the depreciation risk of US dollars, will bring more development opportunities for the Group.

According to the Group's business strategy, the Group will continue to strengthen its leading position in the gold industry in the PRC in the second half of 2006. Using the gold production base in Xiaoqinling as its foundation and leveraging on its geographical advantage in its mid-west location, the Group will continue to expand its business. It will also focus on

acquisition and integration of gold mines and thereby increasing the Group's gold reserve and resources. By using the proceeds from the initial public offering in January 2006, the Group will also work hard to maintain its capability to generate stable results and sustainable profits through further expansion of production capacity and gold volume by speeding up the geological exploration and construction of existing mines. One of the Group's gold mines, Kaqia Gold Mine, will commence production in the second half of 2006 for the production of compound gold. To ensure a sustainable development, the Group will strive to build up a high quality and highly efficient management and technician team through human resources strategy, technological innovation, training of technicians and expert introduction.

Financial Review

1. Combined Operating Results

Turnover

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

	For the six months ended 30 June					
	2006			2005		
	Amount	Sales volume	Unit price	Amount	Sales volume	Unit price
RMB'000	kg/tonne	RMB per kg/tonne	RMB'000	kg/tonne	RMB per kg/tonne	
Gold bullion	662,312	4,363 kg	151,802	507,813	4,440 kg	114,372
Compound gold	9,592	60 kg	159,867	47,923	420 kg	114,102
Silver	26,836	10,288 kg	2,608	29,387	16,815 kg	1,748
Copper products	231,319	4,980 tonnes	46,450	106,669	3,323 tonnes	32,100
Sulphuric acid	16,026	82,532 tonnes	194	19,405	70,139 tonnes	277
Lead concentrates	9,069	72 kg	125,958	14,267	125 kg	114,136
Turnover before sales tax	955,154			725,464		
Less: Sales tax	(3,317)			(1,779)		
	<u>951,837</u>			<u>723,685</u>		

Management Discussion and Analysis

The Group's turnover for the first half of 2006 was approximately RMB951,837,000, representing an approximate 31.5% increase compared with the corresponding period of the previous year. Such increase was principally attributable to the increase of approximately 30.4% in the sales of gold bullion, resulting from an increase of approximately 32.7% in our average selling price of gold bullion during the period.

The increase in turnover during the period was also due to the increase in the sale of copper product by approximately 116.9%, that is, from approximately RMB106,669,000 for the six months ended 30 June 2005 to approximately RMB231,319,000 for the six months ended 30 June 2006, of which the average price and sales volume of copper products increased by approximately 44.7% and 49.9% respectively compared to that of the same period in 2005.

Cost of sales

The Group's cost of sales for the six months ended 30 June 2006 was approximately RMB735,775,000, representing an increase of approximately 28.7% increase from approximately RMB571,585,000 for the same period of 2005. Such increase was mainly due to the increase of purchase cost as a result of increase of gold prices. The cost of raw materials consumed increased by approximately 46.5% to approximately RMB692,283,000.

Starting from 1 May 2006, resources of gold mines of the Company has been classified as grade two and the unit resource tax rate has been increased from RMB1.9 per tonne to RMB6.0 per tonne. The resource tax will not be levied on the reuse of tailing. The Duolanasayi Gold Mine and Tuokuzibayi Gold Mine, held by Habahe Huatai Gold Limited Liability

Company, a subsidiary of the Company, are located in Xinjiang Province and the respective resource tax rate would be determined by the provincial government. For the six months ended 30 June 2006, the Group has paid resource tax in total of approximately RMB977,000, an increase of approximately 99.6% as compared with the corresponding period of 2005.

Gross profit and gross profit margin

The Group's gross profit and gross profit margin for the six months ended 30 June 2006 were approximately RMB216,062,000 and approximately 22.7% respectively, representing an increase of approximately 42.1% and 1.7% respectively as compared with the corresponding period of 2005.

Other revenue

The Group's other revenue for the six months ended 30 June 2006 was approximately RMB55,061,000, representing a substantial increase of approximately RMB47,351,000 as compared with the corresponding period of the previous year. Such change was principally attributable to an increase in interest income from approximately RMB274,000 for the six months ended 30 June 2005 to approximately RMB48,994,000 for the six months ended 30 June 2006.

Other net loss

The Group's other net loss for the six months ended 30 June 2006 was approximately RMB9,813,000, representing an increase of approximately RMB9,071,000 as compared with that of the same period in the previous year. Such increase of other net loss was principally attributable to the foreign currency exchange loss of RMB9,155,000 associated with the initial public offering of the Company during the period.

Selling and distribution expenses

The Group's selling and distribution expenses for the six months ended 30 June 2006 was approximately RMB7,739,000, representing an increase of approximately 80.3% compared with that of the same period in the previous year. Such increase was principally attributable to the increase of transportation of byproducts of smelting segment. The transportation expense for the six months ended 30 June 2006 was approximately RMB5,657,000, representing an increase of approximately 136.8% from approximately RMB2,389,000 in the corresponding period of 2005.

Administrative expenses and other operating expenses

The Group's administrative expenses and other operating expenses for the six months ended 30 June 2006 was approximately RMB39,753,000, representing an approximate 34.1% increase from approximately RMB29,635,000 for the corresponding period of 2005. The increase was principally attributable to business development, including the expenses incurred by the new subsidiaries of Habahe Huatai Gold Limited Liability Company and Xinjiang Baoxin Mining Co, Ltd., leading to an increase of expense of approximately RMB6,345,000.

Finance costs

The Group's finance costs for the six months ended 30 June 2006 was approximately RMB10,966,000, representing an approximate 1.0% decrease from approximately RMB11,066,000 for the corresponding period of 2005. The average lending rate was down from approximately 5.58% in the six months ended 30 June 2005 to approximately 5.43% in the same period in 2006.

Income tax

The statutory income tax rate of the PRC is 33%. The Group's effective income tax rate (being total amount of income tax divided by the amount of profit before taxation) was approximately 34.3% for the six months ended 30 June 2006, representing a slight increase of approximately 0.2% from the effective income tax rate of 34.1% for the corresponding period of 2005.

Profit attributable to equity holders of the Company

The Group's profit attributable to our equity holders for the six months ended 30 June 2006 was approximately RMB134,132,000, representing an increase of approximately 77.9% from approximately RMB75,410,000 for the corresponding period of 2005. The net profit margin (being profit after taxation divided by turnover) for the six months ended 30 June 2006 was approximately 14.0%, representing an increase of approximately 3.6% from approximately 10.4% in the corresponding period of 2005. The Company's basic earnings per share was RMB0.18, and there is no recommendation for the payment of an interim dividend.

2. Liquidity and capital resources

The Group's primary sources of working capital and long-term funding needs have been cash flows from operation and financing activities. During the six months ended 30 June 2006, the Group's primary use of funds has been capital expenditures.

Management Discussion and Analysis

Net cash inflow/(outflow) from:

	For the six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Operating activities	78,840	(14,635)
Investing activities	(10,106)	(56,680)
Financing activities	897,157	115,329
Net cash inflow	965,891	44,014

Cash flows and working capital

The Group's cash and cash equivalents increased by approximately RMB965,891,000, that is, from approximately RMB117,861,000 as at 31 December 2005 to approximately RMB1,083,752,000 as at 30 June 2006. The increase in the cash and cash equivalents was primarily due to the cash outflow from investing activities being offset by cash inflow from operating and financing activities.

Net cash flows from operating activities

The Group's principal source of liquidity is cash generated from operating activities. Net cash inflow from operating activities increased from outflow of approximately RMB14,635,000 for the six months ended 30 June 2005 to inflow of approximately RMB78,840,000 for the six months ended 30 June 2006. This was mainly due to an increase of approximately 77.8% in profit before tax as a result of the increased selling price of our products.

Net cash flows from investing activities

The Group's net cash used in investing activities was primarily affected by interest income, purchase of mining companies,

property, plant and equipment and construction in progress. Net cash used in investing activities decreased by approximately 82.2%, that is, from approximately RMB56,680,000 for the six months ended 30 June 2005 to approximately RMB10,106,000 for the six months ended 30 June 2006. This was mainly due to the increase in interest received to approximately RMB48,214,000 in the first half of 2006, thus offsetting the cash paid for the acquisition of a subsidiary and purchase of intangible assets, assets under construction and property, plant and equipment.

Net cash flows from financing activities

The Group's net cash flows from financing activities was primarily attributable to the issuance of new shares in the period. Cash inflow from financing activities increased substantially from approximately RMB115,329,000 for the six months ended 30 June 2005 to approximately RMB897,157,000 for the same period in 2006. This was mainly due to the net proceeds of approximately RMB865,379,000 from the initial public offer in January 2006.

3. Borrowings

As at 30 June 2006, the Group had a total outstanding bank loans and other borrowings of approximately RMB448,270,000, of which approximately RMB395,000,000 was repayable within one year, approximately RMB50,000,000 was repayable after one year but not exceeding two years while approximately RMB3,270,000 was repayable after five years. Bank loan of approximately RMB50,000,000 was secured. The gearing ratio as at 30 June 2006 was 20.5% which was calculated by total borrowings divided by total assets value.

4. Acquisition and disposal

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

Except for the above, there were no material acquisitions and disposals for the Company and its subsidiaries for the six months ended 30 June 2006.

On 2 August 2006, the Group entered into an agreement to acquire 80% equity interests in Chi Feng City Zheng Ji Mining Limited Company, a mining company which owns an exploration right in Inner Mongolia Autonomous Region, at a cash consideration of RMB68,640,000. According to a valuation report issued by an independent certified mining rights valuer, approximately 16.8 tonnes of gold resource was identified in the area covered by the exploration right. The Group's geographical area of operation was thus expanded to Inner Mongolia Autonomous Region. For further details of this acquisition, please refer to the announcement of the Company dated 2 August 2006.

5. Market risks

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

Gold price and other commodities price risk

Fluctuations in the prices of gold and other commodities may have a significant effect on the Group's turnover and profit.

Management Discussion and Analysis

Interest rate

The Group is exposed to risks resulting from fluctuations in interest rates on our debt. The Group undertakes debt obligations for supporting general corporate purposes, including capital expenditure and working capital needs. Our bank loans bear interest rates that are subject to adjustment made by our lenders in accordance with changes of the relevant People's Bank of China ("PBOC") regulations. If the PBOC increases interest rates, our finance cost will be increased. In addition, to the extent that we may need to raise debt financing in the future, upward fluctuations in interest rates will increase the cost of new debt.

Exchange rate risk

The Group's transactions are all denominated in Renminbi. Fluctuations in exchange rates may affect the international and domestic gold price, which may impact our results of operation. The PRC government may take further actions and implement new measures on free trade of Renminbi. Fluctuations in exchange rates may adversely affect the value of our net assets, earnings and any dividends we declare when such are being converted to Hong Kong dollars.

6. Contractual obligations

As at 30 June 2006, capital commitments, including the construction costs not provided for in the interim financial report, were approximately RMB269,836,000, representing a decrease of approximately RMB12,806,000 from approximately RMB282,642,000 as at 31 December 2005.

7. Capital expenditures

Capital expenditures during the period was approximately RMB58,540,000, including a net capital expenditure of approximately RMB6,697,000 paid for the acquisition of a new subsidiary, capital expenditure of approximately RMB48,989,000 in relation to the acquisition of fixed assets and the construction of production equipment and approximately RMB2,854,000 for the purchase of intangible assets.

8. Contingent liabilities

As at 30 June 2006, the Group had no material contingent liabilities.

9. Human resources

For the six months ended 30 June 2006, the average number of employees of the Group was 2599. Being one of the largest integrated gold producing companies based in PRC, the Company highly treasures its human resources and offers competitive remuneration to employees and provides employees with training programs. In the first half of 2006, the Group has paid out cash bonus to most employees of the Group in recognition of their performance in 2005.

Details of Share Offering and Listing

Initial Public Offering

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

Share Capital

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

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

Details of the movements in share capital of the Company during the year are set out in note 15 to the interim financial report.

Purchase, Sale or Redemption of Shares of the Company

Apart from the initial public offering on 12 January 2006, there were no purchases, sales or redemptions of the Company's securities by the Company or any of its subsidiaries during the period under review.

Management Discussion and Analysis

Directors and Supervisors

The Directors and Supervisors of the Company for the period are as follows:

Directors

Executive Directors

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

Non-executive Directors

Xu Wanmin
Di Qinghua
Qi Guozhong

Independent Non-executive Directors

Ning Jincheng
Wang Yanwu
Niu Zhongjie
Zheng Jinqiao

Supervisors

Gao Yang
Meng Fanrui
Guo Xuchang
Peng Jinzeng
Lei Mingyang

Continuing Connected Transactions Lingbao Electric Company ("Lingbao Electric") supplies electricity to the Group

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

A total of seven electricity supply contracts have been entered into between Lingbao Electric and the Company for the supply of electricity to the Company. Three of such contracts were entered

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

Lingbao Electric is a company incorporated in the PRC and is a promoter of the Company. Lingbao Electric held approximately 2.26% shareholding in the Company as at the date of this report. Accordingly, Lingbao Electric is a connected person of the Company under the Listing Rules and the transactions with Lingbao Electric constitute continuing connected transactions.

For the period ended 30 June 2006, the electricity fee paid by the Group to Lingbao Electric amounted to approximately RMB23,798,000. It is estimated that the annual electricity fee payable by the Group to Lingbao Electric for the two financial years ending 31 December 2006 and 2007 will not exceed approximately RMB63,700,000 and RMB67,600,000 respectively.

The independent non-executive Directors of the Company have reviewed the continuing connected transactions and are of the opinion that: (1) these transactions are within the ordinary course of business of the Group; (2) these transactions are conducted on normal commercial terms, or where there was no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as applicable) independent third

parties; and (3) these transactions are conducted in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

Directors, Supervisors and Chief Executive

The Company became a listed company on 12 January 2006. As at the date of this report, the interest and short position of each Director,

Supervisor and chief executive of the Company in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange (for this purpose, the relevant provisions of the SFO will be interpreted as if applicable to Supervisors) were as follows:

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

Notes:

- Henan Xuanrui Assets Company Limited ("Henan Xuanrui") (河南軒瑞產業股份有限公司), a promoter of the Company, owns approximately 2.34% interest in the Company as at the date of this report. Mr. Meng Fanrui (孟凡瑞先生) owns approximately 61.6% interest in Henan Xuanrui and together with his wife Ms. Ma Xianting (馬仙婷小姐), hold approximately 96.1% of the shareholding in Henan Xuanrui. Under section 316 of the SFO, Mr. Meng Fanrui (孟凡瑞先生) is deemed to be interested in the Shares held by Henan Xuanrui.
- Lingbao Guoshi Mining Limited Liability Company ("Lingbao Guoshi Mining") (靈寶郭氏礦業有限責任公司) owns approximately 1.59% interest in the Company as at the date of this report. Mr. Guo Xuchang (郭續長先生) owns approximately 78.8% interest in Lingbao Guoshi Mining and together with his wife Ms. Yang Yuqin (楊玉琴小姐), hold 100% of the shareholding in Lingbao Guoshi Mining. Under section 316 of the SFO, Mr. Guo Xuchang (郭續長先生) is deemed to be interested in the Shares held by Lingbao Guoshi Mining.

Management Discussion and Analysis

Substantial Shareholders

The Company became a listed company on 12 January 2006. As at the date of this report, so far as it was known to the Directors, the following person, other than the Directors, Supervisors and chief executives of the Company,

had an interest in the shares of the Company as recorded in the register required to be kept under section 336 of the SFO and which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

	Number of domestic shares	Nature of interest	Approximate percentage of the total issued domestic share capital	Approximate percentage of the total share capital
Lingbao State-owned Assets Operation Limited Liability Company ("Lingbao State-owned Assets") (靈寶市國有資產經營有限責任公司) (Notes 1 and 2)	373,840,620	Beneficial	79.04%	48.54%
Sanmenxia Jinqu Group Company Limited ("Sanmenxia Jinqu") (Note 3) (三門峽金渠集團有限公司)	37,698,784	Beneficial	7.97%	4.89%
	Number of H shares	Nature of interest	Approximate percentage of the total issued H shares share capital	Approximate percentage of the total share capital
Mirae Asset Global Investment Management Limited	16,176,000	Investment manager	5.44%	2.10%
Ward Ferry Management (BVI) Limited	18,928,000	Investment manager	6.37%	2.46%

Notes:

- In addition to its direct interest in 373,840,620 domestic shares, Lingbao State-owned Assets has an indirect interest in the Company through its equity interest of approximately 43.4% in Lingbao Gold Machinery Limited Liability Company (靈寶市黃金機械有限責任公司), which in turn holds approximately 21.1% equity interest in Lingbao Jinxiang Auto Parts Limited Liability Company ("Lingbao Jinxiang Motors") (靈寶市金象汽車零部件有限責任公司). Lingbao Jinxiang Motors is a promoter of the Company, which held approximately 1.79% shareholding in the Company as at the date of this report.
- Mr. Xu Wanmin (許萬民先生), a non-executive Director of the Company, is the vice chairman and general manager of Lingbao State-owned Assets and Mr. Di Qinghua (狄清華先生), a non-executive Director of the Company, is the integrated office manager of Lingbao State-owned Assets. Lingbao State-owned Assets has an interest in the Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.
- Mr. Qi Guozhong (戚國忠先生), a non-executive Director of the Company, is the chairman and legal representative of Sanmenxia Jinqu. Sanmenxia Jinqu has an interest in the Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Directors' and Supervisors' Interests in Contracts

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

Directors' and Supervisors' Rights to Acquire Shares or Debentures

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

Interests of Directors in Competing Business

During the period under review, none of the Directors has any interest in business, which competes or may compete with the business of the Group under the Listing Rules.

Use of Proceeds

The total amount raised by the issue of H shares by the Group in January 2006 was approximately RMB865,379,000.

As at 30 June 2006, the Group did not use any proceeds.

In August 2006, the acquisition of 80% equity interests in Chi Feng City Zheng Ji Mining Limited Company in consideration of RMB68,640,000 was funded by the net proceeds.

Pre-emptive Rights

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

Corporate Governance

Being one of the largest integrated gold smelting companies based in PRC, the Company is committed to achieving high standards of corporate governance practices and has put in place a set of well-defined corporate governance processes to ensure the transparency of the Company and protect the overall interest and rights of shareholders as well as employees.

Management Discussion and Analysis

After our listing of H Shares on the Stock Exchange on 12 January 2006, the Company has complied with all Code Provisions under the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") save for the deviation discussed below:

- (i) **Code Provision A.2.1** (Division of responsibilities between the chairman and chief executive officer)

Code Provision A.2.1 of the Code states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The chairman is responsible for ensuring that the Directors are properly explained on matters discussed at Board meetings and complete with reliable information had been received by directors.

Mr. Xu Gaoming is the Chairman and Chief Executive Officer of the Company and has considerable industry experience. Thus, there is a derivation from the Code Provision A.2.1. The Board is of the view that it is in the best interests of the Group to have an executive chairman so that the Board can have the benefit of a chairman who is knowledgeable about the business of the Group and is capable to guide discussions and brief the Board (in particular, the non-executive Directors) in a timely manner on various issues and developments of the industry. In addition, the Board believes that this structure can assist the Group to implement decisions promptly and more efficiently.

- (ii) **Code Provision A.4.2** (Directors appointed to fill a casual vacancy be subject to election by shareholders at the first general meeting after appointment)

With respect to the re-election of newly appointed Director, the Company has complied with Paragraph 4(2) of Appendix 3 of the Listing Rules, which permits the Directors who has been appointed to fill a casual vacancy of the Board be subject to re-election at the next annual general meeting of the Company. As such, Code Provision A.4.2, which requires the re-election to take place in the next general meeting, were not adopted.

Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") as set out in Appendix 10 of the Listing Rules as the Company's code of conduct for dealings in securities of the Company by Directors. Based on specific enquiry of the Company's Directors, the Directors have complied with the required standard set out in the Model Code, throughout the period under review.

Audit Committee

The audit committee ("Audit Committee") of the Company, comprising four independent non-executive Directors and one non-executive Director, namely, Mr. Zheng Jinqiao, Mr. Ning Jincheng, Mr. Wang Yanwu, Mr. Niu Zhongjie and Mr. Xu Wanmin, has reviewed the accounting principles and practices adopted by the Group and have discussed and reviewed the internal control and financial report, including the unaudited interim financial report for the six months ended 30 June 2006, with the management, and external auditors of the Company. The Audit Committee is of the opinion that such report complies with applicable accounting standards, the Listing Rules and the legal requirements and that adequate disclosures have been made.

Policy on Income Tax & Taxation

Policy on Income Tax

The Company and its subsidiaries basically paid PRC corporate income tax at a rate of 33% of its assessable profits according to the relevant laws and regulations in the PRC. Details of the Group's income tax information is disclosed in note 6 to the interim financial report.

Taxation

Starting from 1 May 2006, resources of gold mines of the Company has been classified as grade two and the unit resource tax rate has been increased from RMB1.9 per tonne to RMB6.0 per tonne, the resource tax will not be levied on the reuse of tailing. The respective resources tax rate of Duolanasayi Gold Mine and Tuokuzibayi Gold Mine which are gold mines located in Xinjiang Province and held by Habahe Huatai Gold Limited Liability Company, would be determined by the provincial government. For the six months ended 30 June 2006, the Group has paid resource tax in total of RMB977,000, an increase of 99.6% as compared with the same period last year.

As at 30 June 2006, no foreign shareholder who is not resident of the PRC is liable for Individual or Enterprise Income Tax, Capital Gains Tax, Stamp Duty or Estate Duty of the PRC in relation to their holding of shares of the Company. Shareholders are urged to consult their tax advisers regarding the PRC, Hong Kong and other tax consequences of owning and disposing of H shares.

Litigation and Arbitration

As at 30 June 2006, as far as the Directors were aware, the Group was not involved in any material litigation or arbitration and no material litigation or claims was pending or threatened or made against the Group.

By order of the Board

Xu Gaoming

Chairman

Lingbao city, Henan Province, The PRC

28 August 2006

Interim Results for the six months ended 30 June 2006

The board of directors (the "Board") of Lingbao Gold Company Ltd. (the "Company") present herewith the unaudited consolidated income statement, unaudited consolidated statement of changes in equity and unaudited condensed consolidated cash flow statement of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2006 and the unaudited consolidated balance sheet of the Group at 30 June 2006, together with the comparative figures for the six months ended 30 June 2005 and at 31 December 2005 respectively.

Consolidated Income Statement

For the six months ended 30 June 2006

	Note	Six months ended 30 June	
		2006 RMB'000 (Unaudited)	2005 RMB'000 (Audited)
Turnover	3	951,837	723,685
Cost of sales	4	(735,775)	(571,585)
Gross profit		216,062	152,100
Other revenue		55,061	7,710
Other net loss		(9,813)	(742)
Selling and distribution expenses		(7,739)	(4,292)
Administrative expenses and other operating expenses		(39,753)	(29,635)
Profit from operations		213,818	125,141
Finance costs	5(a)	(10,966)	(11,066)
Profit before taxation	5	202,852	114,075
Income tax	6	(69,587)	(38,881)
Profit for the period		133,265	75,194
Attributable to:			
Equity shareholders of the Company		134,132	75,410
Minority interests		(867)	(216)
Profit for the period		133,265	75,194
Basic earnings per share (cents)	8	18	15

The notes on pages 30 to 47 form part of this interim financial report.

Consolidated Balance Sheet

At 30 June 2006

	Note	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	9	242,819	246,132
Construction in progress	9	147,909	110,834
Intangible assets		84,760	81,873
Goodwill		8,078	4,716
Lease prepayments		9,103	9,229
Other investments		10,504	10,504
Deferred tax assets		14,291	15,627
		517,464	478,915
Current assets			
Inventories	10	263,845	291,757
Trade and other receivables, deposits and prepayments	11	324,646	166,412
Tax recoverable		–	517
Cash and cash equivalents	12	1,083,752	117,861
		1,672,243	576,547
Current liabilities			
Bank loans	14	395,000	292,150
Trade and other payables	13	276,342	143,292
Tax payable		21,844	2,076
		693,186	437,518
Net current assets		979,057	139,029
Total assets less current liabilities		1,496,521	617,944

	Note	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Non-current liabilities			
Bank loans	14	50,000	110,000
Other loan		3,270	3,270
Deferred tax liabilities		4,107	2,554
		57,377	115,824
NET ASSETS			
		1,439,144	502,120
CAPITAL AND RESERVES			
Share capital	15	154,050	100,000
Reserves	16	1,276,459	392,618
Total equity attributable to equity shareholders of the Company		1,430,509	492,618
Minority interests	16	8,635	9,502
TOTAL EQUITY		1,439,144	502,120

Approved and authorised for issue by the board of directors on 28 August 2006

Xu Gaoming
Executive director and Chairman

Wang Jianguo
Executive director

The notes on pages 30 to 47 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2006

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Total equity at 1 January	502,120	339,650
Movements in equity arising from capital transactions:		
Capital contributions from minority interests	–	1,100
Acquisition through business combinations	–	2,888
Movements in share capital		
– Shares issued under the placing and public offer	54,050	–
– Net share premium received	811,329	–
	865,379	3,988
Net profit for the period:		
Attributable to:		
– Equity shareholders of the Company	134,132	75,410
– Minority interests	(867)	(216)
	133,265	75,194
Dividend declared and approved during the period	(61,620)	–
Total equity at 30 June	1,439,144	418,832

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2006

	Note	Six months ended 30 June	
		2006 RMB'000 (Unaudited)	2005 RMB'000 (Audited)
Cash generated from operations		126,857	29,400
PRC income tax paid		(48,017)	(44,035)
Net cash from/(used in) operating activities		78,840	(14,635)
Net cash used in investing activities		(10,106)	(56,680)
Net cash from financing activities		897,157	115,329
Net increase in cash and cash equivalents		965,891	44,014
Cash and cash equivalents at 1 January		117,861	76,506
Cash and cash equivalents at 30 June	12	1,083,752	120,520

The notes on pages 30 to 47 form part of this interim financial report.

Notes on the Unaudited Interim Financial Report

1 Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issuance on 28 August 2006.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2005 annual financial statements, except for derivative financial instruments, which are not applicable to the 2005 annual financial statements, as follows:

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

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2005 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

The interim financial report is unaudited, but has been reviewed by the Audit Committee of the Company and by the auditors, KPMG, in accordance with Statement of Auditing Standards 700, Engagements to review interim financial reports, issued by the HKICPA. KPMG’s independent review report to the board of directors is included on page 48.

The financial information relating to the financial year ended 31 December 2005 that is included in the interim financial report as being previously reported information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2005 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 12 April 2006.

2 Segment reporting

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

Business segments

	Mining RMB'000 (Unaudited)	Smelting RMB'000 (Unaudited)	Inter- segment elimination RMB'000 (Unaudited)	Unallocated RMB'000 (Unaudited)	Consolidated RMB'000 (Unaudited)
<i>For the six months ended 30 June 2006</i>					
Revenue from external customers	18,658	933,179	-	-	951,837
Inter-segment revenue	76,612	-	(76,612)	-	-
Other revenue from external customers	10	6,013	-	49,038	55,061
Total	95,280	939,192	(76,612)	49,038	1,006,898
Segment results	25,055	196,989	41	49,038	271,123
Unallocated operating income and expenses					(57,305)
Profit from operations					213,818
	Mining RMB'000 (Audited)	Smelting RMB'000 (Audited)	Inter- segment elimination RMB'000 (Audited)	Unallocated RMB'000 (Audited)	Consolidated RMB'000 (Audited)
<i>For the six months ended 30 June 2005</i>					
Revenue from external customers	62,158	661,527	-	-	723,685
Inter-segment revenue	52,218	-	(52,218)	-	-
Other revenue from external customers	16	3,479	-	4,215	7,710
Total	114,392	665,006	(52,218)	4,215	731,395
Segment results	24,616	130,979	-	4,215	159,810
Unallocated operating income and expenses					(34,669)
Profit from operations					125,141

Notes on the Unaudited Interim Financial Report

3 Turnover

The principal activities of the Group are mining, processing, smelting and sales of gold and other metallic products in the People's Republic of China (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 period is as follows:

	Six months ended 30 June	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Audited)
Sales of:		
– Gold	671,904	555,736
– Other metals	267,224	150,323
– Others	16,026	19,405
Less: Sales taxes and levies	(3,317)	(1,779)
	951,837	723,685

4 Cost of sales

	Six months ended 30 June	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Audited)
Direct materials	692,283	472,674
Direct labour	16,675	9,036
Electricity	25,477	18,297
Tunnelling/extraction expenses	34,898	32,218
Depreciation and amortisation	18,019	16,737
Refinery expenses	12,266	13,565
Subcontracting expenses	–	10,451
Movements in inventories	(63,843)	(1,393)
	735,775	571,585

5 Profit before taxation

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

		Six months ended 30 June	
		2006	2005
		RMB'000	RMB'000
		(Unaudited)	(Audited)
(a)	Finance costs:		
	Interest expense on bank advances wholly repayable within five years	10,749	11,066
	Interest on other loan	84	–
	Discounting charges	133	–
		10,966	11,066
(b)	Other items:		
	Interest income from bank deposits	(48,994)	(274)
	Dividend income from unlisted securities	–	(2,100)
	Amortisation of intangible assets	6,152	3,069
	Amortisation of lease prepayments	201	126
	Depreciation	17,300	15,415
	Net loss on disposal of property, plant and equipment	661	609
	Operating lease charges in respect of properties	820	864

Notes on the Unaudited Interim Financial Report

6 Income tax in the consolidated income statement

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Current tax		
PRC income tax for the period	68,302	39,907
Deferred tax		
Origination and reversal of temporary differences	1,285	(1,026)
	69,587	38,881

Pursuant to the income tax rules and regulations of the PRC, the Company and its subsidiaries are subject to the PRC income tax at a rate of 33% (2005: 33%).

7 Dividends

Dividend attributable to the previous financial year and approved during the interim period:

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Final dividend in respect of the financial year ended 31 December 2005 and approved during the following interim period, of RMB0.08 per ordinary share (year ended 31 December 2004: Nil)	61,620	–

Other than the above, the directors did not propose the payment of an interim dividend for the six months ended 30 June 2006 (six months ended 30 June 2005: Nil).

8 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2006 is based on the profit attributable to equity holders of the Company for the period of RMB134,132,000 (six months ended 30 June 2005: RMB75,410,000) and the weighted average number of shares in issue during the six months ended 30 June 2006 of 753,046,000 (six months ended 30 June 2005: 500,000,000), calculated as follows:

Weighted average number of ordinary shares

	Number of shares	
	2006 '000	2005 '000
Issued ordinary shares at 1 January [#]	500,000	500,000
Effect of shares issued pursuant to the placing and public offering	253,046	–
Weighted average number of ordinary shares at 30 June	753,046	500,000

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

(b) Diluted earnings per share

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

9 Property, plant and equipment

Acquisitions and disposals

During the six months ended 30 June 2006, the Group acquired items of property, plant and equipment with a cost of RMB51,943,000 (six months ended 30 June 2005: RMB58,830,000). Items of property, plant and equipment with a net book value of RMB881,000 were disposed of during the six months ended 30 June 2006 (six months ended 30 June 2005: RMB3,167,000), resulting in a loss on disposal of RMB661,000 (six months ended 30 June 2005: loss of RMB609,000).

Notes on the Unaudited Interim Financial Report

10 Inventories

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Raw materials	96,227	187,241
Work in progress	17,336	12,105
Finished goods	137,260	78,648
Low-value consumables	13,022	13,763
	263,845	291,757

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

	Six months ended 30 June 2006 RMB'000 (Unaudited)	2005 RMB'000 (Audited)
Carrying amount of inventories sold	735,775	571,585

11 Trade and other receivables, deposits and prepayments

Trade and other receivables, deposits and prepayments comprise:

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Trade receivables	50,873	14,571
Bills receivables	33,798	22,636
Other receivables	40,677	3,937
Purchase deposits	151,032	82,890
Interest receivable	780	–
Other deposits and prepayments	47,486	42,378
	324,646	166,412

The Group normally requests customers to pay cash or settle by bills in full prior to delivery of goods. Subject to prior approval of head of sales department, credit term of not more than 180 days is made available to certain major customers with well-established trading records.

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

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

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Within 3 months	54,776	19,922
Over 3 months but less than 6 months	23,735	14,309
Over 6 months but less than 1 year	4,409	2,976
Over 1 year	1,751	–
	84,671	37,207

12 Cash and cash equivalents

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Cash at bank and in hand	126,152	117,861
Deposits with banks maturity within 3 months	957,600	–
	1,083,752	117,861
Cash and cash equivalents denominated in:		
– RMB	121,819	117,861
– HKD	961,933	–
	1,083,752	117,861

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.

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13 Trade and other payables

Trade and other payables comprise:

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Trade payables	42,519	60,821
Other payables	119,258	22,436
Salary and welfare payable	36,995	42,883
Accruals	13,281	8,386
Dividend payable	61,620	–
Receipts in advance	2,669	8,766
	276,342	143,292

An ageing analysis of trade payables is as follows:

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Within 3 months	35,774	55,933
Over 3 months but less than 6 months	1,214	2,908
Over 6 months but less than 1 year	5,261	1,245
Over 1 year	270	735
	42,519	60,821

14 Bank loans

Bank loans are repayable as follows:

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Within 1 year or on demand	395,000	292,150
Over 1 year but within 2 years	50,000	110,000
	445,000	402,150
Representing:		
– secured	50,000	88,600
– unsecured	395,000	313,550
	445,000	402,150

Bank loans of RMB50,000,000 (31 December 2005: RMB88,600,000) were secured by pledges over the Group's and the Company's property, plant and equipment (31 December 2005: property, plant and equipment, trade receivables and inventories) with carrying value of RMB86,884,757 (31 December 2005: property, plant and equipment, trade receivables and inventories with carrying value of RMB111,085,507, RMB12,000,000 and RMB100,000,000 respectively).

15 Share capital

	Note	2006		2005	
		Number of shares '000	RMB'000	Number of shares '000	RMB'000
At 1 January		500,000	100,000	100,000	100,000
Subdivision of shares pursuant to the reorganisation of the Company	(i)	–	–	400,000	–
Shares issued under the placing and public offer	(ii)	270,249	54,050	–	–
At 30 June		770,249	154,050	500,000	100,000

Notes on the Unaudited Interim Financial Report

15 Share capital (continued)

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Registered, issued and fully paid:		
472,975,091 (31 December 2005: 500,000,000) Domestic shares of RMB 0.20 each	94,595	100,000
297,274,000 (31 December 2005: Nil) H shares of RMB 0.20 each	59,455	–
	154,050	100,000

- (i) At a board meeting of the Company held on 12 June 2005, it was resolved to sub-divide its shares from Domestic shares of a nominal value of RMB1.00 each into 5 Domestic shares of a nominal value of RMB0.20 each. Such sub-division was approved by the China Securities Regulatory Commission (“CSRC”) on 7 December 2005 and the number of shares in the then issued share capital of the Company was increased to 500,000,000 Domestic shares of a nominal value of RMB0.20 each in connection with the global initial public offering.
- (ii) The Company’s H shares were successfully listed on the Stock Exchange on 12 January 2006. Together with the full exercise of the over-allotment option by BOC International Holdings Limited on 16 January 2006, an aggregate of 270,249,091 shares of a nominal value of RMB 0.20 each were issued at a price of HK\$3.33 per share upon the listing of the Company’s shares on the Main Board of the Stock Exchange. The Group raised RMB865,379,000 (net of related expenses) from the offer.

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

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

16 Capital and reserves

	Attributable to equity shareholders of the Company							Total equity
	Share capital	Retained profits	Share premium	Statutory reserve	Capital reserve	Total	Minority interests	
	RMB'000 (Audited)	RMB'000 (Audited)	RMB'000 (Audited)	RMB'000 (Audited)	RMB'000 (Audited)	RMB'000 (Audited)	RMB'000 (Audited)	
At 1 January 2005	100,000	158,748	16,602	30,350	32,015	337,715	1,935	339,650
Profit for the period	-	75,410	-	-	-	75,410	(216)	75,194
Capital contributions from minority interests	-	-	-	-	-	-	1,100	1,100
Acquisition through business combination	-	-	-	-	-	-	2,888	2,888
Transfer to reserves	-	(11,548)	-	11,548	-	-	-	-
At 30 June 2005	100,000	222,610	16,602	41,898	32,015	413,125	5,707	418,832

	Note	Attributable to equity shareholders of the Company							Total equity
		Share capital	Retained profits	Share premium	Statutory reserve	Capital reserve	Total	Minority interests	
		RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	
At 1 January 2006		100,000	289,964	16,602	53,718	32,334	492,618	9,502	502,120
Profit for the period		-	134,132	-	-	-	134,132	(867)	133,265
Shares issued under the placing and public offering	15	54,050	-	-	-	-	54,050	-	54,050
Share premium from issuance of shares	15(ii)	-	-	882,687	-	-	882,687	-	882,687
Issuing costs	15(ii)	-	-	(71,358)	-	-	(71,358)	-	(71,358)
Dividend declared in respect of prior year		-	(61,620)	-	-	-	(61,620)	-	(61,620)
Transfer to reserves		-	(17,143)	-	17,143	-	-	-	-
At 30 June 2006		154,050	345,333	827,931	70,861	32,334	1,430,509	8,635	1,439,144

Notes on the Unaudited Interim Financial Report

17 Capital commitments and contingencies

(a) Capital commitments

Capital commitments, representing the construction costs not provided for in the financial report were as follows:

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Authorised but not contracted for	269,836	282,642

(b) Environmental contingencies

To date, the Group has not incurred any significant expenditure for environmental remediation, is currently not involved in any environmental remediation, and has not accrued any amounts for environmental remediation relating to its operations. Under the 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 fees of RMB546,000 for the six months ended 30 June 2006 (six months ended 30 June 2005: RMB321,000).

18 Related party transactions

During the period, 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 Unaudited Interim Financial Report

18 Related party transactions (continued)

Particulars of significant transactions between the Group and the above related parties during the period ended 30 June 2005 and 2006 are as follows:

(a) Recurring transactions

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Subcontracting fee to Lingbao Huaxin Tongbo Company Limited (靈寶華鑫銅箔有限公司)	–	10,451
Electricity charge payable to Lingbao Electric Company (靈寶市電業總公司)	23,798	21,933

The directors of the Company are of the opinion that the above related party transactions were conducted on normal commercial terms and were priced with reference to prevailing market prices, and in the ordinary course of business.

(b) Non-recurring transactions

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Audited)
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.

18 Related party transactions (continued)**(c) Transactions with other state-controlled entities in the PRC**

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

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

- sales and purchase of goods and ancillary materials;
- rendering and receiving of utilities and other services;
- purchase of property, plant and equipment; and
- obtaining finance.

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

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

(d) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company’s directors and supervisors is as follows:

	Six months ended 30 June	
	2006	2005
	RMB’000	RMB’000
	(Unaudited)	(Audited)
Short-term employee benefits	526	195
Post-employment benefits	13	7
	539	202

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19 Post balance sheet event

On 2 August 2006, the Company entered into a sale and purchase agreement with Mr. Yu Ke Xin to acquire an 80% equity interest in Chi Feng City Zheng Ji Mining Limited Company at a consideration of RMB 68,640,000. The total consideration was satisfied by cash.

Chi Feng City Zheng Ji Mining Limited Company has an exploration right in Kalaqin Banner of the Inner Mongolia Autonomous Region, the PRC. The exploration right which expires on 28 April 2007 was granted by the Department of Land and Resources of the Inner Mongolia Autonomous Region, the PRC.

The net assets of the Chi Feng City Zheng Ji Mining Limited Company as at 30 June 2006 amounted to approximately RMB70,904,000 prepared based on generally accepted accounting principles in the PRC.

20 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ending 31 December 2006

Up to the date of issue of this interim financial report, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the annual accounting period ending 31 December 2006:

	Effective for accounting periods beginning on or after
HK(IFRIC) 7, Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economics	1 March 2006
HK(IFRIC) 8, Scope of HKFRS 2	1 May 2006
HK(IFRIC) 9, Reassessment of embedded derivatives	1 June 2006
HKFRS 7, Financial instruments: Disclosures	1 January 2007
Amendment to HKAS 1, Presentation of financial statements: "Capital disclosures"	1 January 2007
Revised guidance on implementing HKFRS 4, Insurance contracts	1 January 2007

20 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ending 31 December 2006 (continued)

The above amendments, new standards and interpretations were not applied in this interim financial report because the directors expect the Group will not early apply them when preparing the Group's annual financial statements for the year ending 31 December 2006.

The Group is in the process of making an assessment of the impact of these amendments, new standards and new interpretations in the period of initial application and has so far concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

Independent Review Report

To the board of directors of Lingbao Gold Company Ltd.

*(Incorporated in the People's Republic of China
with limited liability)*

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 24 to 47.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review, which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

KPMG

Certified Public Accountants
Hong Kong, 28 August 2006