1. Corporate Reorganisation and Information

The Company was incorporated as a joint stock limited liability company under the Company Law of the People's Republic of China (the "PRC") on 16 April 2004 to take over and operate certain businesses of mining, processing, smelting and selling gold and silver products (the "Relevant Businesses"). Prior to the incorporation of the Company, the Relevant Businesses were carried out by certain wholly-owned subsidiaries of Shandong Zhaojin Group Company Limited ("Zhaojin Group"), a state-owned enterprise in the PRC.

Pursuant to the restructuring of the Company:

(i) Zhaojin Group transferred the assets and liabilities of the Relevant Businesses to the Company and in return the Company allotted and issued 291,500,000 shares at par value of RMB1 each to Zhaojin Group.

(ii) Shanghai Fosun Industrial Investment Co., Ltd., Shanghai Yuyuan Tourist Mart Co., Ltd., Shenzhen Guanxin Industrial Investment Co., Ltd., and Shanghai Lao Miao Gold Co., Ltd. (collectively the "Other Promoters") injected cash into the Company in an aggregate amount of RMB361,517,600 as paid-up capital in consideration for 238,500,000 shares at par value of RMB1 each of the Company upon its incorporation.

As a result of the above, 55% and 45% of the share capital of the Company was owned by Zhaojin Group and the Other Promoters respectively.

On 8 December 2006, the Company issued 172,800,000 new H shares to the public at a price of HK$12.68 per share (equivalent to approximately RMB12.74 per share) and the H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "IPO").

On 19 December 2006, as a result of the over-allotment option as detailed in the Company's prospectus dated 24 November 2006, the Company issued 25,915,000 new H shares to the public at a price of HK$12.68 per share (equivalent to approximately RMB12.73 per share) and these H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited. In addition, 19,871,500 H shares converted from certain domestic shares held by Zhaojin Group were transferred to the National Council for the Social Security Fund.

During the year, the Company and its subsidiaries were principally engaged in the exploration, mining, processing and smelting and sale of gold products in the PRC. The registered office of the Company is located at 2 Wenhua Road, Zhaoyuan, Shandong, China.

Prior to the IPO, the parent and ultimate controlling party of the Company was Zhaojin Group, a state-owned enterprise in the PRC. Subsequent to the IPO, the Company does not have a parent or ultimate controlling party.

2. Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

As Zhaojin Group controlled the Relevant Businesses before the Reorganisation and continued to control the Company after the Reorganisation, the Reorganisation was accounted for as a reorganisation of entities under common control. The assets and liabilities transferred to the Company were stated at their historical amounts in the financial statements.

These financial statements are presented in Renminbi ("RMB"), and all other values are rounded to the nearest thousand and have been prepared under the historical cost convention.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

3. Impact of New and Revised Hong Kong Financial Reporting Standards

Issued and effective Hong Kong Financial Reporting Standards

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements:

HKAS 21 Amendment	Net investment in a Foreign Operation
HKAS 27 Amendment	Consolidated and Separate Financial Information: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 & HKFRS 4 Amendment	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKFRS 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration and Evaluation of Mineral Resources
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HKFRS 6	Exploration for and Evaluation of Mineral Resources

HKAS 39 & HKFRS 4 Amendments have revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

Other than as explained in the preceding paragraph, the adoption of other new and revised standards and interpretation has had no effect on these financial statements.

Issued but not yet effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

3. Impact of New and Revised Hong Kong Financial Reporting Standards (Continued)

Issued but not yet effective Hong Kong Financial Reporting Standards (Continued)

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objectives, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 *Segment Reporting*.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006 , 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

4. Principal Accounting Policies

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

4. Principal Accounting Policies (Continued)

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Property, plant and equipment and depreciation

Property, plant and equipment, except for construction in progress, are stated at cost less accumulated depreciation and any impairment loss. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5.

4. Principal Accounting Policies (Continued)

Property, plant and equipment and depreciation (Continued)

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in future economic benefits expected to be obtained from the use of an item and the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement of property, plant and equipment.

Depending on the nature of the item of property, plant and equipment, depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life, taking into account its estimated residual value or it is calculated using the Units of Production ("UOP") basis to write off the cost of the asset proportionate to the extraction of the proven and probable ore reserves.

The estimated useful lives of property, plant and equipment are as follows:

Buildings	mine life for mine specific, 15-30 years for non-mine specific
Plant and machinery	10 years
Office equipment	5 years
Motor vehicles	6 years

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

Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made in respect of these assets.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

4. Principal Accounting Policies (Continued)

Property, plant and equipment and depreciation (Continued)

Construction in progress represents property, plant and equipment under construction and pending installation including mining infrastructure, which is stated at cost less any impairment loss, and is not depreciated. Cost comprises direct costs of construction and interest charges on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Impairment of non-financial assets

The Group assesses at each balance sheet date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets (financial assets in this context do not include investments in subsidiaries and associate) and assets held for disposal), the Group makes an estimate of the asset's or cash-generating unit's recoverable amount. Recoverable amount is the higher of fair value less costs to sell and value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case it is determined for a cash generating unit to which the asset belongs.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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 the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount, provided that the increased amount cannot exceed the carrying amount that would have been determined, net of depreciation/amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statement.

After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful lives.

4. Principal Accounting Policies (Continued)

Leases

Operating lease

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the consolidated income statement on the straight-line basis over the lease terms.

Land lease prepayments

Land lease prepayments represent the purchase cost of land use rights in the PRC. Land use rights are stated at cost less accumulated amortisation and any accumulated impairment losses and are amortised on the straight-line basis over the shorter of the unexpired period of the rights or the mine lives.

Mining rights and reserves

Mining rights and reserves are stated at cost less accumulated amortisation and any impairment losses. Mining rights and reserves include the cost of acquiring mining licences, exploration and evaluation costs transferred from exploration rights and assets upon determination that an exploration property is capable of commercial production, and the cost of acquiring interests in the mining reserves of existing mining properties. The mining rights and reserves are amortised over the estimated useful lives of the mines, range from 3.9 years to 29.1 years, in accordance with the production plans of the entities concerned and the proven and probable reserves of the mines using the UOP method. Mining rights and reserves are written off to the consolidated income statement if the mining property is abandoned.

Exploration rights and assets

Exploration rights and assets are stated at cost less impairment losses. Exploration rights and assets include the cost of acquiring exploration rights, topographical and geological surveys, exploratory drilling, sampling and trenching and activities in relation to commercial and technical feasibility studies, and amortisation and depreciation charges in respect of assets consumed during the exploration activities.

Exploration rights are amortised over the term of the rights of two and a half (2.5) years. Equipment used in exploration is depreciated over its useful life of 5 years, or, if dedicated to a particular exploration project, over the life of the project, whichever is shorter. Amortisation and depreciation is included, in the first instance, in exploration rights and assets.

4. Principal Accounting Policies (Continued)

Exploration rights and assets (Continued)

Exploration and evaluation costs include expenditure incurred to secure further mineralisation in existing ore bodies as well as in new areas of interest. Expenditure incurred prior to accruing legal rights to explore an area is written off as incurred.

When it can be reasonably ascertained that an exploration property is capable of commercial production, exploration and evaluation costs capitalised are transferred to mining infrastructure and amortised on the UOP method based on the proven and probable mineral reserves. Exploration rights and assets are written off to the consolidated income statement if the exploration property is abandoned.

Investments and other financial assets

Financial assets within the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risk of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on investments held for trading are recognised in the consolidated income statement.

4. Principal Accounting Policies (Continued)

Investments and other financial assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other two categories. After initial recognitions, available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, a discounted cash flow analysis and option pricing models.

4. Principal Accounting Policies (Continued)

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the consolidated income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

4. Principal Accounting Policies (Continued)

Impairment of financial assets (Continued)

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated income statement, is transferred from equity to the consolidated income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through the consolidated income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

– the rights to receive cash flows from the asset have expired;

– the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

– the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

4. Principal Accounting Policies (Continued)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the consolidated income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Financial guarantee contracts

Financial guarantee contracts within the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provision, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

4. Principal Accounting Policies (Continued)

Derecognition of financial liabilities (Continued)

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference in the respective carrying amounts is recognised in the consolidated income statement.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, cost comprises direct materials, direct labour, and an appropriate proportion of overheads.

By-products arising during the course of production are allocated a share of production costs based on their net realizable value less costs to completion.

Net realisable value is based on estimated selling price less all further costs expected to be incurred to completion and disposal.

Trade and other payables

Liabilities for trade and other payables which are normally settled on credit terms ranging from 30 to 90 days are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

4. Principal Accounting Policies (Continued)

Trade and other payables (Continued)

The Company provides tolling services to process concentrates for third parties. The Company recognises a liability for the value of gold or silver which it contracts to deliver to the customer, at the market value of the product, in recognition of its obligations under the tolling contracts. A corresponding asset is included in inventories. Upon delivery of the processed product, the asset is offset against the liability. As the Company has no ownership interest in the concentrate processed, these transactions are not brought to account as sales and purchases. Instead, the Company recognises the processing fees earned.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognised in net profit or loss when liabilities are derecognised or impaired, as well as through the amortisation process.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost in the consolidated income statement.

Provisions for the Group's obligations for land reclamation are based on estimates of required expenditure at the mines in accordance with PRC rules and regulations. The Group estimates its liabilities for final reclamation and mine closure based upon detailed calculations of the amount and timing of the future cash expenditure to perform the required work. Spending estimates are escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability such that the amount of provision reflects the present value of the expenditures expected to be required to settle the obligation. The Group records a corresponding asset in the period in which the liability is incurred. The asset is depreciated using the UOP method over its expected life and the liability is accreted to the projected expenditure date. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation and asset are recognised at the appropriate discount rate.

4. Principal Accounting Policies (Continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) revenue from the sale of goods, when all conditions of sales have been met, the significant risks and rewards of ownership have been transferred to the buyer and title has passed, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) processing income, when the relevant services have been rendered; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred.

Government grants

Government grants are recognised at their fair values where there is reasonable assurance that the grant will be received and that all attaching conditions will be complied with. Where the grant relates to an expense item, it is recognised as income over the periods necessary to match it on a systematic basis to the costs which it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated income statement over the expected useful life of the relevant asset by equal annual instalments.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

PRC corporate income tax is provided at rates applicable to enterprises in the PRC on the Company's and its subsidiaries' income for financial reporting purposes, as adjusted for income and expense items which are not assessable or deductible for income tax purposes.

4. Principal Accounting Policies (Continued)

Income tax (Continued)

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

(a) where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(b) in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carryforward of unused tax assets and unused tax credits can be utilised except:

(a) where the deferred tax asset relates to deductible temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

(b) in respect of taxable temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

4. Principal Accounting Policies (Continued)

Income tax (Continued)

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Employee benefits

Pension obligations

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

Early retirement benefits

Termination benefits are payable whenever an employee's employment is terminated involuntarily before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for the benefits. The Group recognises the liability for termination benefits when it is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy.

4. Principal Accounting Policies (Continued)

Employee benefits (Continued)

Medical benefit costs

The Group participates in government-organised defined contribution medical benefit plans, under which it pays contributions to the plans at a fixed percentage of wages and salaries of the existing full time employees in the PRC and has no further legal or constructive obligations to pay additional contributions. The contributions are charged as an expense to the consolidated income statement as incurred.

Housing fund

The Group contributes on a monthly basis to defined contribution housing fund plans organised by the PRC government. Contributions to these plans by the Group are expensed as incurred.

Foreign currencies

These financial statements are presented in Renminbi, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below.

4. Principal Accounting Policies (Continued)

Estimation uncertainty (Continued)

(a) Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. Where the actual or expected tax positions of the relevant companies of the Group in future are different from the original estimate, such differences will impact the recognition of deferred tax assets and income tax charge in the period in which such estimate has been changed. The carrying value of deferred tax assets at 31 December 2006 was approximately RMB82,836,000 (2005: RMB111,385,000). Further details are contained in Note 20.

(b) Impairment of mining and exploration assets, including property, plant and equipment

The carrying value of mining and exploration assets, including property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed in the relevant part of this section. The recoverable amount of these assets, or, where appropriate, the cash generating unit to which they belong, is calculated as the higher of its fair value less costs to sell and value in use. Estimating the value in use requires the Group to estimate the expected future cash flows from the cash generating units and to choose a suitable discount rate in order to calculate the present value of those cash flows. The aggregate carrying value of mining and exploration assets, including property, plant and equipment was RMB1,728,667,000 (2005: RMB1,609,781,000).

Share-based payment transactions

The Group recognises the cost of goods purchased from or services rendered by third parties in a share-based payment transaction when the goods are delivered or the services are received. The cost of the goods or services purchased is measured at fair value at the date the third party delivers the goods or renders the services. The Group recognises a corresponding increase in equity if the goods or services were purchased for in an equity-settled share-based payment transaction, or a liability if the goods or services were purchased in a cash-settled share-based payment transaction.

5. Segment Information

As more than 90% of the turnover and profit from operating activities of the Group for the current year are generated from its gold mining and smelting operations in the PRC, and all the assets and the customers of the Group are located in the PRC, no further geographical segment information has been presented.

The mining business segment consists of the operations of five gold mines. Mining segment revenues are measured at the value at which gold is sold into the market. Mining cost of sales includes a processing fee from the smelting business segment.

The smelting business segment consists of the operations of a concentrator and smelter complex. Smelting revenues include: sales of gold, silver and by-products from concentrates purchased from third parties; processing fees earned from the mining business segment; and tolling fees earned from third parties on whose behalf the business segment processes concentrate. The source of gold produced in the current year was as follows:

	Year ended 31 December	
	2006	2005
	Kg	*Kg*
Own mines	**6,271**	6,188
Purchase and tolling	**9,377**	6,286
Total	**15,648**	12,474

Unallocated includes corporate activities, as well as assets, liabilities, revenue and expenses related to financing, investments (other than interests in an associate) and taxation.

Intersegment sales are transacted under negotiated terms.

5. Segment Information (Continued)

The Group's operation by business segment is as follows:

Group

Year ended 31 December 2006

	Mining *RMB'000*	Smelting *RMB'000*	Inter-segment elimination *RMB'000*	Unallocated *RMB'000*	Consolidated *RMB'000*
Revenue					
Revenues from external customers	949,886	214,529	–	–	1,164,415
Intersegment revenue	–	6,906	(6,906)	–	–
Other revenue	6,540	2,159	–	7,712	16,411
Total	956,426	223,594	(6,906)	7,712	1,180,826
Segment result	428,110	67,332	–	(18,526)	476,916
Share of loss of an associate	(1,935)	–	–	–	(1,935)
Interest income					7,712
Interest income arising from share application funds					89,403
Finance costs					(54,346)
Income tax expense					(168,099)
Net profit for the year					349,651
Assets and liabilities					
Segment assets	1,718,109	396,368	–	2,778,223	4,892,710
Interest in an associate	14,848	–	–	–	14,848
Total assets					4,907,558
Segment liabilities	289,853	199,441	–	953,840	1,443,134
Other segment information					
Capital expenditure	218,553	37,439	–	–	255,992
Depreciation and amortisation	108,450	11,599	–	–	120,049

5. Segment Information (Continued)

Group

Year ended 31 December 2005

	Mining RMB'000	Smelting RMB'000	Inter-segment elimination RMB'000	Unallocated RMB'000	Consolidated RMB'000
Revenue					
Revenues from external customers	720,967	146,720	–	–	867,687
Intersegment revenue	–	6,052	(6,052)	–	–
Other revenue	4,691	2,752	–	1,448	8,891
Total	725,658	155,524	(6,052)	1,448	876,578
Segment result	234,414	72,644	–	(21,706)	285,352
Share of loss of an associate	(717)	–	–	–	(717)
Interest income					1,448
Finance costs					(46,107)
Income tax expense					(80,283)
Net profit for the year					159,693
Assets and liabilities					
Segment assets	1,532,106	334,206	–	249,950	2,116,262
Interest in an associate	16,783	–	–	–	16,783
Total assets					2,133,045
Segment liabilities	245,758	88,047	–	994,200	1,328,005
Other segment information					
Capital expenditure	311,735	38,530	–	–	350,265
Acquisition of mining operations	1,179,272	–	–	–	1,179,272
Depreciation and amortisation	72,679	11,262	–	–	83,941

6. Revenue, Other Revenue and Gains

Revenue represents the net invoiced value of goods sold, net of trade discounts and returns and various type of government surcharges, where applicable:

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Revenue		
Sale of goods:		
Gold	**1,105,630**	808,136
Silver	**15,268**	19,669
Sulphur	**6,062**	20,686
Other by-products	**17,534**	8,971
Rendering of service		
Processing gold and silver	**31,640**	16,982
	1,176,134	874,444
Less: Government surcharges	**(11,719)**	(6,757)
	1,164,415	867,687
Other revenue and gains		
Interest income	**7,712**	1,448
Sale of raw materials	**3,927**	4,268
Lease of equipment	**–**	889
Government grants	**2,476**	1,116
Gain on disposal of property, plant and equipment	**166**	506
Other gains	**2,130**	664
Other revenue and gains	**16,411**	8,891

7. Profit Before Interest Income Arising from Share Application Funds and Tax

The Group's profit before interest income arising from share application funds and tax is arrived at after charging the following:

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Cost of inventories sold	**514,427**	418,080
Interest on bank and other borrowings	**44,869**	44,080
Incremental interest on provisions	**2,875**	1,959
Bank charges and other finance costs	**41**	68
Unrealised foreign exchange loss	**6,561**	–
Finance costs	**54,346**	46,107
Auditors' remuneration	**1,100**	849
Amortisation of land lease prepayments*	**3,456**	2,870
Amortisation of mining rights*	**21,954**	16,705
Depreciation	**94,639**	64,366
Loss on disposal of property, plant and equipment	**892**	11,434
Operating lease rentals in respect of:		
– Land	**3,611**	4,399
– Office	**221**	310
Impairment of other receivables	**1,750**	1,447
Write down of inventories to net realisable value	**–**	180
Staff costs (including directors' emoluments as set out in Note 8):		
Wages and salaries (including directors' remuneration)	**138,683**	108,255
Early retirement benefits	**3,464**	14,765
Defined contribution fund		
– Retirement costs	**21,992**	16,828
Other staff benefits	**19,431**	18,548
Total staff costs	**183,570**	158,396

* *The amortisation of land lease prepayments and mining rights for the year are included in "Cost of sales" on the face of the consolidated income statement.*

8. Directors' and Senior Executives' Emoluments

Details of the remuneration of directors and supervisors of the Company during the year are as follows:

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Fees		
– Non-executive directors	**320**	240
– Independent non-executive directors	**358**	300
– Supervisors	**50**	50
	728	590
Salaries, allowances and benefits in kind	**553**	483
Performance related bonuses	**435**	102
Pension scheme contributions	**49**	41
	1,037	626
	1,765	1,216

8. Directors' and Senior Executives' Emoluments (Continued)

(a) Executive directors, non-executive directors (excluding independent non-executive directors) and supervisors

	Fees	Salary, allowances & benefits in kind	Performance related bonuses	Pension scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December 2006					
Executive directors:					
– Lu Dong Shang*	–	152	238	12	402
– Wang Pei Fu	–	188	173	16	377
– Ma Yu Shan	–	155	24	12	191
	–	495	435	40	970
Non-executive directors:					
– Guo Guang Chang	80	–	–	–	80
– Wu Ping	80	–	–	–	80
– Liu Gen Dong	80	–	–	–	80
– Cong Jian Mao	80	–	–	–	80
	320	–	–	–	320
Supervisors:					
– Hou Wen Shan	30	–	–	–	30
– Cheng Bing Hai	10	–	–	–	10
– Chu Yu Shan	10	58	–	9	77
	50	58	–	9	117
	370	553	435	49	1,407

8. Directors' and Senior Executives' Emoluments (Continued)

(a) Executive directors, non-executive directors (excluding independent non-executive directors) and supervisors (Continued)

	Fees	Salary, allowances & benefits in kind	Performance related bonuses	Pension scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December 2005					
Executive directors:					
– Lu Dong Shang	–	–	–	–	–
– Wang Pei Fu	–	123	22	18	163
– Du Qin Ye	–	200	80	12	292
– Ma Yu Shan	–	160	–	11	171
	–	483	102	41	626
Non-executive directors:					
– Guo Guang Chang	80	–	–	–	80
– Wu Ping	80	–	–	–	80
– Liu Gen Dong	80	–	–	–	80
– Cong Jian Mao	–	–	–	–	–
	240	–	–	–	240
Supervisors:					
– Hou Wen Shan	30	–	–	–	30
– Cheng Bing Hai	10	–	–	–	10
– Chu Yu Shan	10	–	–	–	10
	50	–	–	–	50
	290	483	102	41	916

* Part of the director's emoluments have been paid by Zhaojin Group, of which the details have been disclosed in Note 34.

There was no arrangement under which a director or supervisor waived any remuneration during the year or in the previous year.

8. Directors' and Senior Executives' Emoluments (Continued)

(b) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Independent non-executive directors:		
– Yan Hong Bo	**100**	100
– Ng Ming Wah, Charles	**100**	100
– Zhai Yu Sheng	**100**	100
– Li Ding An	**58**	–
	358	300

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

(c) Five highest paid employees

The five highest paid employees during the year fall into the following categories:

	Year ended 31 December	
	2006	2005
Directors	**2**	3
Non-director and non-supervisory employees	**3**	2
	5	5

Details of directors' remuneration are set out in Note 8 (a) to the financial statements.

8. Directors' and Senior Executives' Emoluments (Continued)

(c) Five highest paid employees (Continued)

Details of the remuneration of the non-director and non-supervisor, highest paid employees during the year are as follows:

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Salaries, allowances and benefits in kind	**435**	265
Performance related bonuses	**192**	82
Pension scheme contribution	**28**	49
	655	396

The non-director and non-supervisor, highest paid employees fell within the following bands:

	Year ended 31 December	
	2006	2005
Nil – HK$1,000,000 (RMB1,060,000 equivalent)	**3**	2

During the year, no emoluments were paid by the Group to any of the persons who are directors of the Company, or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the persons who are directors of the Company waived or agreed to waive any emoluments during the year.

9. Interest Income Arising from Share Application Funds

Interest income arising from share application funds represent one-off interest income received from share application funds during the IPO exercise.

10. Income Tax Expense

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

10. Income Tax Expense (Continued)

PRC corporate income tax ("CIT") has been provided at a rate of 33% (2005: 33%) on the taxable income as reported in the statutory accounts of the companies comprising the Group, which are prepared in accordance with PRC GAAP, as adjusted for income and expense items which are not assessable or deductible for income tax purposes.

The major components of income tax expense for the year are as follows:

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Group:		
PRC corporate income tax		
– Charge for the year	**143,343**	82,582
Deferred tax *(Note 20)*	**24,756**	(2,299)
	168,099	80,283

A reconciliation of income tax expense applicable to profit before tax at the statutory income tax rate in the PRC to income tax expense at the Group's effective income tax rate for the year is as follows:

		Year ended 31 December			
		2006		2005	
	Note	**%**	***RMB'000***	%	*RMB'000*
Profit before tax			**517,750**		239,976
Statutory tax rate applied to profit before tax		**33**	**170,858**	33	79,192
Reconciling items:					
Expenses not deductible for tax		**0.3**	**1,803**	0.5	1,297
Amortisation of premium arising from acquisitions		**0.2**	**992**	0.3	794
Tax exempt income		**(0.1)**	**(620)**	–	–
Credit for capital expenditure	*(i)*	**(1.0)**	**(4,934)**	(0.4)	(1,000)
Total tax charge for the year		**32.4**	**168,099**	33.4	80,283

(i) The Company was entitled to an additional tax credit for the purchase of domestically produced plant and machinery.

11. Dividends

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Ordinary:		
2005 final dividend paid of RMB0.11 per share (2005: 2004 final dividend paid of RMB0.05 per share)	**57,735**	28,505
Proposed final – RMB0.15 per share	**109,307**	–
	167,042	28,505

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming general meeting.

12. Earnings Per Share

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year.

A diluted earnings per share for the year ended 31 December 2006 has not been disclosed as no diluting events existed during the year.

12. Earnings Per Share (Continued)

The calculation of basic earnings per share is based on:

	2006	2005
	RMB'000	*RMB'000*
Earnings:		
Profit attributable to equity holders of the Company used in the basic earnings per share calculation	**351,190**	162,891
Interest income arising from share application funds	**(89,403)**	–
Tax on interest income arising from share application funds	**28,883**	–
Profit before interest income arising from share application funds	**290,670**	162,891

	Year ended 31 December	
	2006	2005
	'000	*'000*
Shares:		
Weighted average number of shares in issue during the year used in basic earnings per share calculation	**542,214**	530,000

	Year ended 31 December	
	2006	2005
	RMB	*RMB*
Basic earnings per share attributable to ordinary equity holders of the Company:		
– After interest income arising from share application funds	**0.65**	0.31
– Before interest income arising from share application funds	**0.54**	0.31

13. Property, Plant and Equipment

Group

31 December 2006

	Buildings	Plant and machinery	Office equipment	Motor vehicles	Mining infrastructure	Construction in progress (CIP)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:							
At 1 January 2006	386,059	237,492	20,824	48,263	568,295	88,189	1,349,122
Additions	14,472	10,956	2,653	4,930	24,822	160,779	218,612
Transferred from CIP	16,665	47,965	416	756	131,454	(197,256)	–
Transferred from exploration assets	–	–	–	–	33,206	4,543	37,749
Disposals/written off	(4,656)	(3,365)	(10)	(1,735)	(46)	(110)	(9,922)
At 31 December 2006	**412,540**	**293,048**	**23,883**	**52,214**	**757,731**	**56,145**	**1,595,561**
Accumulated depreciation:							
At 1 January 2006	102,232	69,186	6,020	23,905	125,308	–	326,651
Charge for the year	25,292	23,567	4,130	6,225	35,425	–	94,639
Disposals/written off	(1,164)	(1,459)	(9)	(1,069)	(16)	–	(3,717)
At 31 December 2006	**126,360**	**91,294**	**10,141**	**29,061**	**160,717**	**–**	**417,573**
Net book value:							
At 31 December 2006	**286,180**	**201,754**	**13,742**	**23,153**	**597,014**	**56,145**	**1,177,988**

13. Property, Plant and Equipment (Continued)

Group

31 December 2005

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Mining infrastructure RMB'000	Construction in progress (CIP) RMB'000	Total RMB'000
Cost							
At 1 January 2005	130,310	134,640	11,930	31,372	116,350	30,347	454,949
Additions	19,419	27,424	7,445	4,287	8,942	258,547	326,064
Transferred from CIP	66,214	12,403	208	1,603	199,859	(280,287)	–
Acquisition of mining operations	178,180	73,852	2,366	13,142	246,635	84,984	599,159
Disposals/written off	(8,064)	(10,827)	(1,125)	(2,141)	(3,491)	(5,402)	(31,050)
At 31 December 2005	386,059	237,492	20,824	48,263	568,295	88,189	1,349,122
Accumulated depreciation:							
At 1 January 2005	59,696	40,805	3,409	15,658	40,094	–	159,662
Charge for the year	11,027	20,163	2,686	5,132	25,358	–	64,366
Acquisition of mining operations	35,317	17,845	974	5,151	61,669	–	120,956
Disposals/written off	(3,808)	(9,627)	(1,049)	(2,036)	(1,813)	–	(18,333)
At 31 December 2005	102,232	69,186	6,020	23,905	125,308	–	326,651
Net book value:							
At 31 December 2005	283,827	168,306	14,804	24,358	442,987	88,189	1,022,471

13. Property, Plant and Equipment (Continued)

Company

31 December 2006

	Buildings	Plant and machinery	Office equipment	Motor vehicles	Mining infrastructure	Construction in progress (CIP)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:							
At 1 January 2006	295,002	205,867	16,421	43,219	407,589	57,246	1,025,344
Additions	11,964	10,553	2,351	4,193	11,204	84,096	124,361
Transferred from CIP	13,289	47,350	416	756	27,818	(89,629)	–
Transferred from exploration assets	–	–	–	–	9,493	–	9,493
Disposals/written off	(3,292)	(3,365)	(10)	(1,735)	(46)	(110)	(8,558)
At 31 December 2006	**316,963**	**260,405**	**19,178**	**46,433**	**456,058**	**51,603**	**1,150,640**
Accumulated depreciation:							
At 1 January 2006	91,663	66,231	5,069	22,904	112,846	–	298,713
Charge for the year	15,072	20,709	3,412	5,321	25,154	–	69,668
Disposals/written off	(1,156)	(1,447)	(9)	(1,069)	(16)	–	(3,697)
At 31 December 2006	**105,579**	**85,493**	**8,472**	**27,156**	**137,984**	**–**	**364,684**
Net book value:							
At 31 December 2006	**211,384**	**174,912**	**10,706**	**19,277**	**318,074**	**51,603**	**785,956**

13. Property, Plant and Equipment (Continued)

Company

31 December 2005

	Buildings	Plant and machinery	Office equipment	Motor vehicles	Mining infrastructure	Construction in progress (CIP)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:							
At 1 January 2005	136,995	142,057	10,972	32,517	116,251	28,828	467,620
Additions	3,860	13,690	4,823	3,699	8,799	115,189	150,060
Transferred from CIP	19,894	11,457	208	1,603	51,135	(84,297)	–
Acquisition of mining operations	138,967	49,490	1,543	7,541	234,895	2,928	435,364
Disposals/written off	(4,714)	(10,827)	(1,125)	(2,141)	(3,491)	(5,402)	(27,700)
At 31 December 2005	295,002	205,867	16,421	43,219	407,589	57,246	1,025,344
Accumulated depreciation:							
At 1 January 2005	51,377	43,048	2,814	16,033	40,094	–	153,366
Charge for the year	9,177	16,521	2,437	4,395	17,997	–	50,527
Acquisition of mining operations	34,816	16,289	867	4,512	56,568	–	113,052
Disposals/written off	(3,707)	(9,627)	(1,049)	(2,036)	(1,813)	–	(18,232)
At 31 December 2005	91,663	66,231	5,069	22,904	112,846	–	298,713
Net book value:							
At 31 December 2005	203,339	139,636	11,352	20,315	294,743	57,246	726,631

14. Intangible Assets

Group

31 December 2006

	Exploration rights and assets *RMB'000*	Mining rights and reserves *RMB'000*	Total *RMB'000*
Cost:			
At 1 January 2006	53,952	561,442	615,394
Additions	28,501	–	28,501
Capitalisation of amortisation	5,307	–	5,307
Write off	(5,429)	–	(5,429)
Transfer out to Property, Plant and Equipment	(37,749)	–	(37,749)
At 31 December 2006	**44,582**	**561,442**	**606,024**
Accumulated amortisation:			
At 1 January 2006	10,602	17,482	28,084
Provided during the year	5,307	21,954	27,261
At 31 December 2006	**15,909**	**39,436**	**55,345**
Net book value:			
At 31 December 2006	**28,673**	**522,006**	**550,679**

14. Intangible Assets (Continued)

Group

31 December 2005

	Exploration rights and assets RMB'000	Mining rights and reserves RMB'000	Total RMB'000
Cost:			
At 1 January 2005	28,180	1,409	29,589
Additions	19,412	4,204	23,616
Capitalisation of amortisation	6,360	–	6,360
Acquisition of mining operations	–	555,829	555,829
At 31 December 2005	53,952	561,442	615,394
Accumulated amortisation:			
At 1 January 2005	4,242	777	5,019
Provided during the year	6,360	16,705	23,065
At 31 December 2005	10,602	17,482	28,084
Net book value:			
At 31 December 2005	43,350	543,960	587,310

14. Intangible Assets (Continued)

Company

31 December 2006

	Exploration rights and assets *RMB'000*	Mining rights and reserves *RMB'000*	Total *RMB'000*
Cost:			
At 1 January 2006	32,652	414,919	447,571
Additions	11,804	–	11,804
Capitalisation of amortisation	5,307	–	5,307
Write off	(5,429)	–	(5,429)
Transfer out to Property, Plant and Equipment	(9,493)	–	(9,493)
At 31 December 2006	**34,841**	**414,919**	**449,760**
Accumulated amortisation:			
At 1 January 2006	10,602	39,113	49,715
Provided during the year	5,307	23,876	29,183
At 31 December 2006	**15,909**	**62,989**	**78,898**
Net book value:			
At 31 December 2006	**18,932**	**351,930**	**370,862**

14. Intangible Assets (Continued)

Company

31 December 2005

	Exploration rights and assets *RMB'000*	Mining rights and reserves *RMB'000*	Total *RMB'000*
Cost:			
At 1 January 2005	21,992	293,626	315,618
Acquisition of mining operations	–	117,089	117,089
Additions	4,300	4,204	8,504
Capitalisation of amortisation	6,360	–	6,360
At 31 December 2005	32,652	414,919	447,571
Accumulated amortisation:			
At 1 January 2005	4,242	13,552	17,794
Provided during the year	6,360	25,561	31,921
At 31 December 2005	10,602	39,113	49,715
Net book value:			
At 31 December 2005	22,050	375,806	397,856

15. Interest in an Associate

Group

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Share of net assets	**14,848**	16,783

Company

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Unlisted shares, at cost	**17,500**	17,500

Particulars of the associate are as follows:

Company name	**Place and date of incorporation**	**Paid-up/ registered capital**	**Percentage of equity interest attributable to the Group Direct**	**Principal activity**
		RMB'000	%	
Aletai Zhengyuan International Mining Company Limited (阿勒泰正元國際礦業有限公司)	PRC 20 May 2005	50,000	35	Exploration of mineral reserves

The following table illustrates the summarised financial information of the Group's associate extracted from its management accounts:

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Assets	**49,816**	51,740
Liabilities	**7,393**	3,788
Revenue	**–**	–
Loss	**5,529**	2,048

16. Interests in Subsidiaries

Company

	2006	2005
	RMB'000	*RMB'000*
Unlisted shares, at cost		
– Hainan Dongfang Zhaojin Mining Industry Company Limited	**5,820**	5,820
– Zhaoyuan Jintingling Mining Industry Company Limited	**259,749**	259,749
	265,569	265,569

Particulars of the subsidiaries are as follows:

Company name	**Place and date of incorporation**	**Paid-up/ registered capital**	**Percentage of equity interest attributable to the Group Direct**	**Principal activities**
		RMB'000	%	
Zhaoyuan Jintingling Mining Industry Company Limited (招遠市金亭嶺礦業有限公司)	PRC 10 October 2002	60,000	75	Mining and processing of gold products
Hainan Dongfang Zhaojin Mining Industry Company Limited (海南東方招金礦業有限公司)	PRC 13 May 2004	5,800	95	Exploration of mineral reserves

Zhaoyuan Jintingling Mining Industry Company Limited ("JTL") and Hainan Dongfang Zhaojin Mining Industry Company Limited ("HMDF") are registered as a limited liability company under PRC law.

17. Long Term Loans Receivable

During the year ended 31 December 2006, the Company entered into entrustment loan agreements with its subsidiaries, JTL and HNDF, and Agriculture Bank of China, Zhaoyuan Branch (the "Bank"). Pursuant to the entrustment loan agreements, the Company extended loans to JTL and HNDF through the Bank. The loans are unsecured, bear fixed interest rates and have maturities as follows:

Maturity	Principal	Effective interest rate per annum	Amount as at 31 December 2006
	RMB'000	*(%)*	*RMB'000*
11 April 2008	4,700	6.633	4,700
24 April 2008	30,000	6.633	–
28 April 2008	161,000	6.633	161,000
5 July 2008	17,783	6.633	17,783
3 September 2008	3,500	6.930	3,500
4 September 2008	2,000	6.930	2,000
16 October 2008	2,000	6.930	2,000
14 November 2008	2,000	6.930	2,000
14 December 2008	2,000	7.245	2,000
28 December 2008	1,000	7.245	1,000
			195,983

The fair value of long term loans receivables with carrying value of RMB195,983,000 (2005: Nil) was RMB189,659,000 at the balance sheet date and has been calculated by discounting the expected future cash flows at prevailing interest rates.

18. Long Term Deposits

Long term deposits represent utilities and environmental rehabilitation deposits paid to service providers and the government respectively. The amounts are not expected to be refunded within the next twelve months.

19. Land Lease Prepayments

Group

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
At cost:		
At beginning of year	**53,154**	28,285
Additions during the year	**8,879**	585
Acquisition of mining operations	**–**	24,284
At end of year	**62,033**	53,154
Accumulated amortisation:		
At beginning of year	**4,402**	1,532
Amortisation for the year	**3,456**	2,870
At end of year	**7,858**	4,402
Net book value:		
At end of year	**54,175**	48,752

Company

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
At cost:		
At beginning of year	**41,845**	26,918
Additions during the year	**930**	486
Acquisition of mining operations	**–**	14,441
At end of year	**42,775**	41,845
Accumulated amortisation:		
At beginning of year	**2,206**	165
Amortisation for the year	**2,756**	2,041
At end of year	**4,962**	2,206
Net book value:		
At end of year	**37,813**	39,639

19. Land Lease Prepayments (Continued)

The Group's and the Company's leasehold lands are located in the PRC. In 2004 and 2005, the Group and the Company were formally granted certain rights to use the land on which the Group's factories and gold mines are erected, for periods generally ranging between 44 and 64 years from the grant date, by the relevant PRC authorities. Prior to that date, the Group occupied the land under the pleasure of the PRC authorities, at no cost.

20. Deferred Tax

The movements in deferred tax assets and liabilities are as follows:

Group

	At 1 January *RMB'000*	(Charged)/ credited to consolidated income statement *RMB'000*	Arising on acquisition *RMB'000*	At 31 December *RMB'000*
31 December 2006				
Deferred tax assets:				
Income received on share application funds	–	(21,700)	–	(21,700)
Excess tax depreciation over book value				
– Intangibles	80,669	(7,166)	–	73,503
– Property, plant and equipment	(5,370)	(2,569)	–	(7,939)
Provision for early retirement and rehabilitation	17,098	(996)	–	16,102
Other temporary differences	18,988	3,882	–	22,870
Deferred tax assets	111,385	(28,549)	–	82,836
Deferred tax liabilities:				
Non-deductible premium paid on acquisition – intangibles	(93,985)	3,793	–	(90,192)
Deferred tax liabilities	(93,985)	3,793	–	(90,192)
Total	17,400	(24,756)	–	(7,356)

20. Deferred Tax (Continued)

	At 1 January RMB'000	(Charged)/ credited to consolidated income statement RMB'000	Arising on acquisition RMB'000	At 31 December RMB'000
31 December 2005				
Deferred tax assets:				
Excess tax depreciation over book value				
– Intangibles	88,229	(7,560)	–	80,669
– Property, plant and equipment	(3,047)	(2,323)	–	(5,370)
Provision for early retirement and rehabilitation	12,617	2,300	2,181	17,098
Other temporary differences	11,971	7,017	–	18,988
Deferred tax assets	109,770	(566)	2,181	111,385
Deferred tax liabilities:				
Non-deductible premium paid on acquisition – intangibles	–	2,865	(96,850)	(93,985)
Deferred tax liabilities	–	2,865	(96,850)	(93,985)
Total	109,770	2,299	(94,669)	17,400

20. Deferred Tax (Continued)

The movements in deferred tax assets and liabilities are as follows (continued):

Company

	At 1 January *RMB'000*	(Charged)/ credited to Consolidated income statement *RMB'000*	At 31 December *RMB'000*
31 December 2006			
Deferred tax assets:			
Income received on share application funds	**–**	**(21,700)**	**(21,700)**
Excess tax depreciation over book value			
– Intangibles	**–**	**(1,119)**	**(1,119)**
– Property, plant and equipment	**(2,686)**	**(2,897)**	**(5,583)**
Provision for early retirement and rehabilitation	**14,910**	**(876)**	**14,034**
Other temporary differences	**11,533**	**4,233**	**15,766**
Deferred tax assets	**23,757**	**(22,359)**	**1,398**
31 December 2005			
Deferred tax assets:			
Excess tax depreciation over book value			
– Property, plant and equipment	4	(2,690)	(2,686)
Provision for early retirement and rehabilitation	12,617	2,293	14,910
Other temporary differences	8,120	3,413	11,533
Deferred tax assets	20,741	3,016	23,757

21. Cash and Cash Equivalents

Group

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Cash on hand	**40**	120
Cash in banks, unrestricted	**2,695,357**	138,445
	2,695,397	138,565

Company

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Cash on hand	**13**	93
Cash in banks, unrestricted	**2,689,746**	61,253
	2,689,759	61,346

At the balance sheet date, the cash and bank balances of the Group and Company denominated in Hong Kong Dollars amounted to RMB2,496,573,854 (2005: Nil). All other cash and cash equivalents held by the Company and the Group are denominated in Renminbi and are subject to PRC foreign exchange controls.

22. Trade and Notes Receivables

Group and Company

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Trade receivables	**893**	21,578
Notes receivable	**300**	115
	1,193	21,693

22. Trade and Notes Receivables (Continued)

The ageing analysis of trade and note receivables is as follows:

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Outstanding balances due within 90 days	**1,193**	21,693

Trade and notes receivables are non-interest bearing. The Group and Company have no significant credit risk with customers as all gold and silver sales are made through the Shanghai Gold Exchange, or through physical delivery of gold and silver in settlement of liabilities to concentrate suppliers, or for cash.

23. Prepayments, Deposits and Other Receivables

Group

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Prepayments	**29,438**	16,126
Other receivables	**17,658**	10,918
Amounts due from related parties:		
– Former parent/ultimate holding company	**2,908**	51
	50,004	27,095

Company

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Prepayments	**26,011**	12,346
Other receivables	**16,918**	4,344
Amounts due from related parties		
– Former parent/ultimate holding company	**2,908**	51
– Subsidiaries of the Company	**3,137**	10,432
	48,974	27,173

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

24. Inventories

Group

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Raw materials	**19,092**	19,007
Work in progress	**235,240**	124,607
Finished goods	**21,151**	10,248
	275,483	153,862
Included in the above balances are:		
Inventories processed for third parties *(Note 26)*	**119,385**	37,098

Company

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Raw materials	**16,121**	15,891
Work in progress	**231,096**	119,234
Finished goods	**13,514**	10,248
	260,731	145,373
Included in the above balances are:		
Inventories processed for third parties *(Note 26)*	**119,385**	37,098

25. Interest-bearing Bank and Other Borrowings

Group

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Unsecured:		
– Bank loans	**723,500**	824,500
– Other borrowings	**9,690**	1,900
	733,190	826,400
Repayable:		
– Within one year	**125,400**	267,400
– In the second year	**450,000**	439,000
– In the third to fifth years	**150,000**	120,000
– Over five years	**7,790**	–
	733,190	826,400
Portion classified as		
– Current	**125,400**	267,400
– Non-current	**607,790**	559,000

Notes:

(a) Effective interest rate and maturity date

Analysis of effective interest rate per annum and maturity date are as follows:

		Year ended 31 December	
		2006	2005
		RMB'000	*RMB'000*
(i)	Bank loans – fixed rate		
	– Effective interest (%)	**5.47**	5.65
	– Maturity (Year)	**2007-2009**	2006-2008
(ii)	Other borrowings – fixed rate		
	– Effective interest (%)	**2.76**	3.60
	– Maturity (Year)	**2007-2021**	2006

25. Interest-bearing Bank and Other Borrowings (Continued)

Notes: (Continued)

(b) Unutilised limit of bank loans

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Banking facilities:		
Available	**1,503,500**	1,324,500
Utilised	**(723,500)**	(824,500)
Unutilised	**780,000**	500,000

(c) Corporate guarantee

The following loans are guaranteed by Zhaojin Group (see Note 34(b)):

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Bank loans	**–**	336,000

Company

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Unsecured:		
– Bank loans	**570,000**	490,000
– Other borrowings	**9,690**	1,900
	579,690	491,900
Repayable:		
– Within one year	**51,900**	1,900
– In the second year	**370,000**	490,000
– In the third to fifth years	**150,000**	–
– Over five years	**7,790**	–
	579,690	491,900
Portion classified as		
– Current	**51,900**	1,900
– Non-current	**527,790**	490,000

25. Interest-bearing Bank and Other Borrowings (Continued)

Notes:

(a) Effective interest rate and maturity date

Analysis of effective interest rate per annum and maturity date are as follows:

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
(i) Bank loans – fixed rate		
– Effective interest (%)	**5.22**	5.18
– Maturity (Year)	**2007-2009**	2006-2007
(ii) Other borrowings – fixed rate		
– Effective interest (%)	**2.76**	3.60
– Maturity (Year)	**2007-2021**	2006

(b) Unutilised limit of bank loans

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Banking facilities		
Available	**1,350,000**	990,000
Utilised	**(570,000)**	(490,000)
Unutilised	**780,000**	500,000

(c) Corporate guarantee

The following loans are guaranteed by Zhaojin Group (see Note 34 (b)):

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Bank loans	**–**	130,000

All borrowings of the Group and of the Company are denominated in RMB.

26. Trade Payables

Group

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Trade payables	**44,211**	37,348
Payable under tolling arrangements	**119,385**	37,098
	163,596	74,446

An ageing analysis of trade payables, based on the invoice date, is as follows:

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Outstanding balances with ages:		
Within one year	**160,466**	71,876
Over one year but within two years	**1,484**	1,480
Over two years but within three years	**973**	111
Over three years	**673**	979
	163,596	74,446

Company

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Trade payables	**29,830**	33,008
Payable under tolling arrangements	**119,385**	37,098
	149,215	70,106

26. Trade Payables (Continued)

Company (Continued)

An ageing analysis of trade payables, based on invoice date, is as follows:

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Outstanding balances with ages:		
Within one year	**147,416**	68,163
Over one year but within two years	**221**	853
Over two years but within three years	**905**	111
Over three years	**673**	979
	149,215	70,106

The trade payables of the Group and of the Company are non-interest-bearing and have an average term of 30 to 60 days.

27. Other Payables and Accruals

Group

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Accrued taxes other than income tax	**14,207**	10,786
Accrued expenses and other payables	**143,935**	63,503
Capital expenditure payables	**79,124**	99,516
Amounts due to related parties:		
– Fellow subsidiaries	**–**	4,380
– Former ultimate holding company	**–**	6,610
	237,266	184,795

27. Other Payables and Accruals (Continued)

Company

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Accrued taxes other than income tax	**4,057**	3,576
Accrued expenses and other payables	**110,973**	34,427
Capital expenditure payables	**15,544**	18,769
Amounts due to related parties:		
– Fellow subsidiaries	**–**	184
– Former ultimate holding company	**–**	6,610
– Subsidiaries of the Company	**–**	11,757
	130,574	75,323

Fellow subsidiaries represent subsidiaries of the former ultimate holding company, Zhaojin Group.

Amounts due to related parties are unsecured, interest free and have no fixed terms of repayment.

Other payables are non-interest-bearing and have an average term of 30 to 60 days.

28. Provisions

Group

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Provision for rehabilitation		
At beginning of year	**5,416**	3,767
– Interest increment	**328**	236
– Additions	**644**	–
– Acquisition of mining operations	**–**	1,413
At end of year	**6,388**	5,416
Provision for early retirement		
At beginning of year	**50,944**	34,466
– Additional early retirees	**3,465**	14,765
– Interest increment	**2,547**	1,723
– Acquisition of mining operations	**–**	10,721
– Utilised during the year	**(9,019)**	(10,731)
At end of year	**47,937**	50,944
Total	**54,325**	56,360
Analysis of total provisions		
Current	**8,230**	8,904
Non-current	**46,095**	47,456
	54,325	56,360

28. Provisions (Continued)

Company

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Provision for rehabilitation		
At beginning of year	**4,960**	3,767
– Interest increment	**264**	236
– Acquisition of mining operations	**–**	957
At end of year	**5,224**	4,960
Provision for early retirement		
At beginning of year	**44,763**	34,466
– Additional early retirees	**3,465**	14,350
– Interest increment	**2,238**	1,414
– Acquisition of mining operations	**–**	4,548
– Utilised during the year	**(8,622)**	(10,015)
At end of year	**41,844**	44,763
Total	**47,068**	49,723
Analysis of total provisions		
Current	**7,485**	7,260
Non-current	**39,583**	42,463
	47,068	49,723

The provisions are based on estimates of future payments made by management and are discounted at rates in the range of 4.6% to 6.4%. Estimates used are subjective in nature and involve uncertainties and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The provision for rehabilitation is in relation to the estimated costs of complying with the Group's obligations for land reclamation. These costs are expected to be incurred on mine closure, which, based on current mineral reserve estimates, ranges from 4-29 years.

The provision for early retirement is in respect of future payments to be made by the Group to former employees who have accepted early retirement terms. These payments are made monthly based on the employees' pre-retirement salary level and age, and are due to be made until the former employees reach normal statutory retirement age, which extends up to 2026.

29. Deferred Income

Deferred income represents government grants received in respect of property, plant and equipment, geological exploration activities and the mining of low grade ore. The movements of deferred income during the year are as follows:

Group

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
At beginning of year	**18,204**	100
Received during the year	**18,379**	19,220
Recognised as income during the year	**(2,476)**	(1,116)
At end of year	**34,107**	18,204

Company

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
At beginning of year	**14,734**	100
Received during the year	**18,379**	15,750
Recognised as income during the year	**(2,129)**	(1,116)
At end of year	**30,984**	14,734

30. Share Capital

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Registered, issued and fully paid		
Domestic shares of RMB1.00 each	**510,128**	530,000
H shares of RMB1.00 each	**218,587**	–
	728,715	530,000

During the year, the movements in share capital were as follows:

		Year ended 31 December	
		2006	2005
	Notes	***RMB'000***	*RMB'000*
Domestic shares:			
At beginning of year		**530,000**	530,000
Conversion of domestic shares to H shares	*(i)*	**(19,872)**	–
	(ii)	**510,128**	530,000
H shares:			
Conversion of domestic shares to H shares	*(i)*	**19,872**	–
Issuance of new H shares	*(iii)*	**198,715**	–
		218,587	–
		728,715	530,000

Notes:

(i) In accordance with the Provisional Measures on the Administration of the Reduction of the State-Owned Shares for the Raising of Social Security Funds promulgated by the State Council, Zhaojin Group is required to transfer to the National Social Security Fund ("NSSF") the number of domestic shares as is equivalent to 10% of the number of offer shares i.e. 198,715,000 shares including over-allotment of shares. These domestic shares will be converted into H shares on a one-for-one basis and will be registered in the name of the NSSF Council.

(ii) The Company's domestic shares are currently not listed on the Hong Kong Stock Exchange.

30. Share Capital (Continued)

Notes: (Continued)

(iii) On 8 December 2006, 172,800,000 ordinary H shares of RMB1.00 each were issued to foreign investors at a price of HKD12.68 (equivalent to approximately RMB12.74). On 19 December 2006, 25,915,000 additional ordinary H Shares of RMB1.00 each were issued to foreign investors at a price of HKD12.68 (equivalent to RMB12.73) upon the exercise of the over-allotment option. The Company raised gross proceeds of RMB2,531,132,547 of which paid-up share capital amounted to RMB198,715,000 and share premium amounted to RMB2,332,417,547 (Note 1).

31. Reserves

(a) Capital reserve

During the year, share premium, which represents the difference between the nominal value and the issue price of the new H Shares issued to the public upon listing of the Company's H Shares on the Main Board of the Stock Exchange of Hong Kong Limited, amounting to RMB2,332,417,547 was recognised in the capital reserve. In addition, share issue expenses of RMB163,665,082 was set off against the share premium.

(b) Statutory and distributable reserves

The amount of the Group reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 74.

In accordance with the Articles of Association of the Company approved by the relevant government authorities on 16 April 2004, the net profit after tax of the Company for the purpose of profit distribution will be deemed to be the lesser of (i) the net profit determined in accordance with PRC GAAP and (ii) the net profit determined in accordance with HKFRS. Under the PRC Company Law and the Company's Articles of Association, net profit after tax can only be distributed as dividends after allowance has been made for the following:

(i) Making up prior years' cumulative losses, if any.

(ii) Allocations to the statutory common reserve fund of at least 10% of after-tax profit, until the fund aggregates 50% of the Company's share capital. For the purpose of calculating the transfer to reserves, the profit after tax shall be the amount determined under PRC GAAP. The transfer to this reserve must be made before any distribution of dividends to shareholders.

The statutory common reserve fund can be used to offset previous years' losses, if any, and part of the statutory common reserve fund can be capitalised as the Company's share capital provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the share capital of the Company.

(iii) Allocations to the discretionary common reserve if approved by the shareholders.

31. Reserves (Continued)

The above reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

For dividend purposes, the amount which the Company and its subsidiaries can legally distribute by way of a dividend is determined with reference to their profits available for distribution as reflected in the respective PRC statutory financial statements which are prepared in accordance with PRC GAAP. These profits differ from those reflected in this report which is prepared in accordance with HKFRS.

At 31 December 2006, the Company's reserves available for distribution were approximately RMB314,614,680 (2005: RMB115,469,633)

32. Commitments

(a) Capital commitments

Group

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Contracted, but not provided for:		
In respect of:		
– Land and buildings	**11,141**	2,558
– Plant and machinery	**6,914**	24,119
	18,055	26,677
Authorised, but not contracted for:		
In respect of		
– Land and buildings	**144,903**	258,070
– Plant and machinery	**51,437**	175,789
– Exploration and evaluation assets	**260,370**	279,313
	456,710	713,172

The Group's share of its associate's capital commitments which are not included in the above is as follows:

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Contracted, but not provided for	**14,085**	–

32. Commitments (Continued)

(a) Capital commitments (Continued)

Company

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Contracted, but not provided for:		
In respect of:		
– Land and buildings	**11,141**	2,558
– Plant and machinery	**6,914**	24,119
	18,055	26,677
Authorised, but not contracted for:		
In respect of		
– Land and buildings	**138,170**	236,325
– Plant and machinery	**47,170**	103,716
– Exploration and evaluation assets	**24,370**	34,390
	209,710	374,431

(b) Operating lease commitments

The Group leases certain of its land and offices under operating lease arrangements. Leases for properties are negotiated for terms ranging between two and ten years.

Future minimum lease payments of the Group and of the Company under non-cancellable operating leases are as follows:

Group and Company

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Within one year	**2,506**	–
In the second to fifth years, inclusive	**4,224**	–
Over five years	**790**	–
	7,520	–

33. Contingent Liabilities

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

(a) Guarantees

Group and Company

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Guarantees provided to bank for loan facilities granted to:		
– JTL, a subsidiary	**153,500**	128,500

(b) Indemnities from Zhaojin Group

The Group and the Company have received an indemnity from Zhaojin Group in respect of certain State levies for the periods from 24 December 1999 to 8 December 2006 (listing date), and in respect of certain government funding arrangements amounting to RMB49.3 million, which pre-dated the Company's formation on 16 April 2004. The Directors are of the opinion that the Group and the Company do not have any financial liability in respect of these arrangements. The cumulative State levies indemnified by Zhaojin Group since 1 January 2003 are as follows:

Group

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Mineral resource compensation levies	**45,629**	27,925

Company

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Mineral resource compensation levies	**33,439**	15,735

(c) Other

During the year, a third party has threatened to take legal proceedings against the Company in relation to a proposed transaction regarding an exploration joint venture. Based on legal advice received, the Directors believe that the outcome of any such lawsuit would not be material to the Group. In addition, the Group has obtained an indemnity from Zhaojin Group in respect of this matter. Accordingly, no provision has been made in the financial statements in respect of this matter.

34. Related Party Transactions

(a) During the year, the Group had the following material transactions with related parties:

	Year ended 31 December 2006 RMB'000	2005 RMB'000
Nature of relationships/transactions		
(a) Former parent/ultimate holding company, Zhaojin Group		
Recurring transactions		
Expenses:		
– Payment of rental	**221**	310
– Payment of ground rent	**3,611**	3,987
– Gold exchange commission fee	**292**	206
Non-recurring transactions		
Capital transactions:		
– Purchase of land use rights	**605**	–
– Purchase of property, plant and equipment	**3,120**	–
– Disposal of a long-term investment	**–**	5,850
– Disposal of items of property, plant and equipment	**3,020**	–
(b) Fellow subsidiaries, subsidiaries of Zhaojin Group		
Recurring transactions:		
Revenue:		
– Sales	**–**	40,008
Expenses:		
– Fees for refining services	**2,684**	2,188
– Fees for mining construction activities	**1,770**	6,332
Non-recurring transactions:		
Capital transactions:		
– Purchase of property, plant and equipment	**484**	–
– Purchase of software	**270**	392
(c) Minority interest holder of a subsidiary		
Non-recurring transactions:		
Expenses		
– Compensation arising from land usage	**2,567**	–
– Payment of ground rent	**2,818**	–

34. Related Party Transactions (Continued)

(a) During the year, the Group had the following material transactions with related parties: (Continued)

The above transactions were with Zhaojin Group and entities under the control of Zhaojin Group and they were conducted at commercial prices based on market rates, except for the following:

1. As disclosed in Note 35 to the financial statements, in January 2005, the Group acquired interests in an entity and a mining operation from Zhaojin Group, for a total consideration of RMB518.6 million. The acquisition prices were based on independent valuation reports and negotiations between the parties.

2. Part of the Company's chairman emoluments was paid by Zhaojin Group and the details are as follows:

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Director's emoluments:		
Salary, allowances and benefits in kind	**25**	–
Performance related bonus	**61**	–
	86	–

3. The Company holds an option from Zhaojin Group to purchase certain businesses, if and when certain defects in legal title are remedied. The Company did not pay any consideration for this option. The Directors are of the view that the option does not have any significant value.

(b) Guarantees granted by Zhaojin Group for securing the Group's bank loans are disclosed in Note 25 to the financial statements. These guarantees were provided free of charge. The guarantees were withdrawn prior to the initial public offering dated 8 December 2006. Indemnities granted by Zhaojin Group to the Company and the Group are disclosed in Note 33 to the financial statements. These indemnities are provided free of charge.

(c) Transactions with other state-owned enterprises in the PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly owned or controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "state-owned enterprises"). During the year, the Group had transactions with state-owned enterprises including, but not limited to, sales of products and purchase of raw materials.

34. Related Party Transactions (Continued)

(c) Transactions with other state-owned enterprises in the PRC (Continued)

The directors consider that transactions with other state-owned enterprises are activities in the ordinary course of the Group's business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and the state-owned enterprises are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for products and services, and such pricing policies do not depend on whether or not the customers are state-owned enterprises. Having due regard to the substance of the relationships, the directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(d) Outstanding balances with related parties:

As disclosed in Notes 23 and 27 to the financial statements, the Group had outstanding advances receivable/payable from/to related parties at the end of the year. The advances are unsecured, interest-free and have no fixed terms of repayment.

(e) Compensation of key management personnel of the Group:

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Short term employee benefits	**1,687**	2,159
Post-employment benefits	**–**	–
Total compensation paid to key management personnel	**1,687**	2,159

Further details of directors' emoluments are included in Note 8 to the financial statements.

(f) Connected transactions

The transactions disclosed above at items (a) through (e) also constitute connected transactions and/or continuing connected transactions as referred to in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

35. Acquisition

Acquisition of subsidiary and business unit

On 1 January 2005, the Group acquired a 75% interest in JTL and 100% of the mining operations of Dayingezhuang Mining Company Limited from Zhaojin Group for a total consideration of RMB518.6 million.

The fair values of the identifiable assets and liabilities of the above acquisitions as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	2005	
	Carrying amounts	**Fair values**
	RMB'000	*RMB'000*
Property, plant and equipment	471,160	478,203
Intangible assets	62,838	555,829
Land lease prepayments	16,850	24,284
Deferred tax assets	10,349	–
Cash and bank balances	8,485	8,485
Prepayments, deposits and other receivables	61,534	61,534
Inventories	19,113	19,113
Interest-bearing bank and other borrowings	(402,800)	(402,800)
Trade payables	(17,559)	(17,559)
Other payables and accruals	(40,296)	(40,296)
Provisions	(6,758)	(12,134)
Deferred tax liabilities	(5,906)	(94,669)
Minority interests	(13,965)	(61,372)
	163,045	518,618
Satisfied by:		
Cash		518,618

35. Acquisition (Continued)

Acquisition of subsidiary and business unit (Continued)

An analysis of the net outflow of cash and cash equivalents in respect of the above acquisitions is as follows:

	Year ended 31 December 2005 *RMB'000*
Cash consideration	518,618
Deposit paid in 2004	(100,000)
	418,618
Cash and cash equivalents acquired	(8,485)
Net outflow of cash and cash equivalents in respect of acquisition of subsidiary/mining operations	410,133

There was no acquisition of a subsidiary or business unit during 2006.

36. Financial Instruments

Financial assets of the Group mainly include cash and cash equivalents, trade and notes receivables, deposits and other receivables. Financial liabilities of the Group include bank and other borrowings, trade and note payables, and other payables. The Group did not enter into any contracts in respect of derivative instruments or hold any such instruments during the year.

The main risks arising from the Group's financial instruments are liquidity risk, interest rate risk, price risk, credit risk and foreign exchange risk. The directors review and agree policies for managing each of these risks and they are summarised below.

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed facilities from banks to meet its commitments over the foreseeable future in accordance with its strategic plan.

Interest rate risk

The Group's exposure to interest rate risk relates primarily to the Group's cash holdings and interest-bearing bank loans. Fluctuations of interest rates can affect the Group's results of operations.

36. Financial Instruments (Continued)

Price risk

The Group's exposure to price risk relates principally to the market price fluctuation on gold and silver which can affect the Group's results of operations. In addition, the Group enters into contracts for processing of gold and silver concentrate with the liabilities settled through physical delivery of predetermined quantities of gold and silver. Price fluctuations affect the RMB denominated amount of these liabilities.

Credit risk

Substantial amounts of the Group's cash and cash equivalents are held in major financial institutions located in the PRC and Hong Kong, which management believes are of high credit quality.

The Group has no significant credit risk with customers since all gold and silver sales are made through the Shanghai Gold Exchange ("SGE"), or through physical delivery of gold and silver in settlement of liabilities to concentrate suppliers, or for cash.

The Group's notes receivable are guaranteed by banks and the risk for default in payment is minimal. The carrying amount of cash, cash equivalents, trade and note receivables, and other receivables represent the Group's maximum exposure to credit risk attributable to its financial assets.

The Group has no significant concentration of credit risk with any single counterparty.

Foreign exchange risk

The Group's sales and purchases are transacted in RMB which is not freely convertible into foreign currencies. The market price of gold, silver and other by- products is denominated in US dollars. Fluctuations of the US dollar against the RMB can affect the Group's results of operations.

Following the Company's IPO, it has held HKD denominated cash deposits (refer Note 21). Subsequent to year end, the Group entered into foreign currency forward contract to mitigate the foreign currency exposure.

Fair values

Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial instrument. 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.

The carrying amounts of the Group's long term borrowings approximated to their fair values based on the prevailing borrowing rates available for loans with similar terms and maturities at each of the balance sheet dates.

The carrying amount of all other financial instruments approximated their fair values due to the short term to maturity.

37 EVENT SUBSEQUENT TO BALANCE SHEET DATE

Subsequent to balance sheet date, the Company entered into the following foreign currency forward contracts to sell HKD/USD:

Transaction date	Maturity date	Contractual foreign currency	Exchange rate	RMB
29 January 2007	30 March 2007	HKD242,700,000	0.9908	240,467,160
29 January 2007	30 March 2007	HKD230,000,000	0.9908	227,884,000
29 January 2007	30 March 2007	HKD130,820,000	0.9908	129,616,456
29 January 2007	30 March 2007	HKD113,410,000	0.9908	112,366,628
13 February 2007	13 May 2007	HKD38,650,000	0.9855	38,089,575
13 February 2007	14 May 2007	HKD33,480,000	0.9855	32,994,540
13 February 2007	14 May 2007	HKD40,000,000	0.9855	39,420,000
13 February 2007	13 August 2007	HKD33,480,000	0.9807	32,833,836
13 February 2007	13 August 2007	HKD38,650,000	0.9807	37,904,055
13 February 2007	14 August 2007	HKD40,000,000	0.9807	39,228,000
29 January 2007	30 January 2008	USD47,150,000	7.5567	356,298,405
29 January 2007	30 January 2008	USD44,805,735	7.5567	338,583,498
29 January 2007	30 January 2008	USD44,803,441	7.5566	338,561,682

Transaction date	Maturity date	Contractual foreign currency	Exchange rate	USD
29 January 2007	31 January 2007	HKD350,000,000	7.8119	44,803,441

38. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 22 March 2007.