NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st December, 2006

1. GENERAL

The Company is incorporated and registered as an exempted company in the Cayman Islands under the Companies Law of the Cayman Islands with limited liability. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited. The Company's immediate holding company is Yue Da Group (H.K.) Co., Limited ("Yue Da HK"), a company incorporated in Hong Kong and its ultimate holding company is Jiangsu Yue Da Group Company Limited, which is a state-owned enterprise established with limited liability in the People's Republic of China (the "PRC"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information to the annual report.

The Company is an investment holding company. The principal activities of its subsidiaries are (1) refining, exploration, mining and processing of zinc, lead and iron; and (2) management and operation of highways in the PRC.

As the majority of the Group's operations are in the PRC, the consolidated financial statements are presented in Renminbi, which is the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The Group has adopted HKFRS 6 "Exploration for and Evaluation of Mineral Resources" in the preparation of the financial statements. As a result of the adoption of HKFRS 6, the Group has recognised the exploration and evaluation assets totalling RMB9,248,000 as at 31st December, 2006. Except for this, the adoption of the other new HKFRSs has had no material effect on how the results and financial position for the current or prior accounting years have been prepared and presented. Accordingly, no prior year adjustment has been required.

At the date of authorisation of the financial statements, the Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company have commenced considering the impact of these new standards, amendments or interpretations. Except for HK(IFRIC)-Int 12 Service Concession Arrangements, the directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and the financial position of the Group. The Company is not yet in a position to reasonably estimate the impact that may arise from HK(IFRIC)-Int 12.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC)-Int 8	Scope of HKFRS 2[4]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC)-Int 11	HKFRS 2 — Group and Treasury Share Transactions[7]
HK(IFRIC)-Int 12	Service Concession Arrangements[8]

1 Effective for annual periods beginning on or after January 1, 2007

2 Effective for annual periods beginning on or after January 1, 2009

3 Effective for annual periods beginning on or after March 1, 2006

4 Effective for annual periods beginning on or after May 1, 2006

5 Effective for annual periods beginning on or after June 1, 2006

6 Effective for annual periods beginning on or after November 1, 2006

7 Effective for annual periods beginning on or after March 1, 2007

8 Effective for annual periods beginning on or after January 1, 2008

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and by the Hong Kong Companies Ordinance.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under *HKFRS 3 Business Combinations* are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

Goodwill arising on acquisitions prior to 1st January, 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

For previously capitalised goodwill, the Group has discontinued amortisation from 1st January, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

Goodwill arising on acquisitions on or after 1st January, 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Revenue recognition

Revenue is measured at fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business.

Toll revenue is recognised on receipt.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the depreciation method as set out in note 14.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Exploration and evaluation assets

Exploration and evaluation assets are recognised at cost on initial recognition. Subsequent to initial recognition, exploration and evaluation assets are stated at cost less any accumulated impairment losses.

Exploration and evaluation assets include the cost of mining rights and the expenditures incurred in the search for mineral resources as well as the determination of the technical feasibility and commercial viability of extracting those resources.

When the technical feasibility and commercial viability of extracting a mineral resource become demonstrable, any previously recognised exploration and evaluation assets are reclassified as either intangible assets or property, plant and equipment. These assets are assessed for impairment, and any impairment loss recognised, before reclassification.

Mining rights

Mining rights are stated at cost less accumulated amortisation and impairment losses. The mining rights are amortised using the units of production method based on the proven and probable mineral reserves. Amortisation of mining rights commences once the mining rights start to be used.

Prepaid lease payments

Prepaid lease payments represent the purchase cost of land use rights in the PRC and are charged to the income statement on a straight-line basis over the term of the relevant leases.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and where applicable, cost of conversion and other costs that have been incurred in bringing the materials and supplies to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of exploration and evaluation assets

The carrying amount of the exploration and evaluation assets is reviewed annually and adjusted for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. The impairment loss is recognised in the consolidated income statement. The recoverable amount is measured as the higher of fair value less costs to sell and value in use which is the present value of estimated future cash flows to be derived from continuing use of the asset and from its ultimate disposal.

Other impairment losses

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement benefits costs

Payments to Mandatory Provident Fund Scheme and the state-managed retirement benefit schemes are charged as expenses when employees have rendered services entitling them to the contributions.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operation are translated into the presentation currency of the Company (i.e. Renminbi) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Operating leases

Leases where substantially all the rewards and risks of ownerships of assets remain with the lessors are accounted for as operating leases.

Rentals payable under operating leases are charged to the income statement on a straight line basis over the relevant lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets (including accounts and other receivables, amounts due from related companies, and bank balances) are classified as loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Convertible bonds

Convertible bonds that contain both the liability and conversion option components are classified separately into respective items on initial recognition. When the conversion options are not settled by the exchange of a fixed amount of cash for a fixed number of equity instruments, the issuer recognises the conversion option component as an embedded derivative. Derivatives embedded in a financial instrument are treated as separated derivatives when their economic risks and characteristics are not closely related to those of the host contract (the liability component) and the host contract is not carried at fair value through profit or loss. At the date of issue, both the conversion option derivatives and liability component are recognised at fair value.

Issue costs are apportioned between the liability component and the conversion option derivative of the convertible bonds based on their relative fair value at the date of issue. The portion relating to the conversion option derivative is charged directly to the profit or loss.

The liability component is subsequently measured at amortised cost, using the effective interest method. The interest charged on the liability component is calculated by applying the original effective interest rate. The difference between this amount and the interest paid is added to the carrying amount of the liability component. The conversion option derivative is subsequently measured at fair value at each balance sheet date.

Promissory notes

Promissory notes are regarded as liabilities and measured at their fair value on initial recognition. Such promissory notes are measured at amortised cost determined using the effective interest method at subsequent balance sheet dates.

Other financial liabilities

The Group's other financial liabilities (including accounts and other payables, amounts due to related companies, and bank and other borrowings) are subsequently measured at amortised cost using the effective interest method.

Derivative financial instrument

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

Borrowing costs

All borrowings costs are recognised in the income statement in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity-settled share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in the share options reserve.

At the time when the share options are exercised, the amount previously recognised in the share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share options reserve will continue to be held in the share options reserve.

The Group has applied HKFRS2 "Share-based Payments" to share options granted on or after 1st January, 2005. In relation to the Group's share options granted before 1st January, 2005, the Group chooses not to apply HKFRS2 with respect to share options granted after 7th November, 2002 and vested before 1st January, 2005. No amount has been recognised in the financial statements in respect of these equity-settled share-based payments.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 3, management has made the following estimates that have the most significant effect on the amounts recognised in the financial statements.

Depreciation of toll highways and bridges

As at 31st December, 2006, the carrying value of the Group's toll highways and bridges was RMB134 million. The Group depreciates the toll highways and bridges on an units-of-usage basis which requires an estimation of the projected total traffic volume over the existing operation periods of those highways and bridges. Any change to the projected total traffic volume will affect the amount of depreciation charge of those highways and bridges over the operation periods.

Useful lives of mining rights

The Group's management determines the estimated useful lives for its mining rights based on the expected lifespan of the mine reserves. However, the mining rights have a legal life of 3-8 years. The Directors of the Company are of the opinion that the Group will be able to renew the mining rights with the government continuously and at minimal charges. Management will reassess the useful lives whenever the ability to renew the mining rights is changed.

Mine reserves

The estimates of the Group's mine reserves represent only approximate amounts of proven and probable mine reserves and involve subjective judgements in developing such information. These estimates have taken into account the recent production and technical information about each mine. Depreciation rates are determined based on estimated proven and probable mine reserve quantities based on the independent technical assessment report. The capitalised cost of mining rights are amortised using the units of production method.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Fair value of embedded conversion option of convertible bonds

Embedded conversion option of convertible bonds are measured at fair value on initial recognition, and are re-measured to fair value at subsequent reporting dates.

The fair value of embedded derivatives portion of convertible bonds is subject to the limitation of the Black-Scholes Model that incorporates different variables of certain subjective assumptions, including the volatility of share prices. Any change in the variables so adopted may materially affect the estimation of the fair value of an option.

5. FINANCIAL INSTRUMENTS

Financial risk management objectives and policies

The Group's major financial instruments include accounts and other receivables, amounts due from related companies, bank balances and cash, accounts and other payables, amounts due to related companies, convertible bonds, promissory notes, and bank and other borrowings. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

Interest rate risk

The Group has no significant interest-bearing assets apart from balances with banks which are all short term in nature. The Group's fair value interest rate risk relates primarily to the fixed-rate unsecured borrowing from a minority shareholder, convertible bonds and promissory notes while the exposure to cash flow interest rate risk relates to its bank borrowings.

The Group currently does not have an interest rate hedging policy. However, the management closely monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31st December, 2006 in relation to each class of recognised financial assets is represented by the carrying amount of each financial asset in the consolidated balance sheet. The Group reviews the recoverable amount of each individual financial asset at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the company consider that the Group's credit risk is significantly reduced.

The credit risk on bank balances is limited because the counterparties are banks with high credit-ratings.

However, the Group is exposed to concentration of credit risk as at 31st December, 2006 with respect to the amounts due from and to related companies of RMB4,598,000 and RMB3,982,000, respectively. Apart from this, the Group does not have any other significant concentration of credit risk.

5. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management objectives and policies (continued)

Currency risk

Except for certain financial instruments (comprising bank borrowings, convertible bonds and promissory notes) which are denominated in Hong Kong dollars, the Group has no significant foreign exchange risk due to limited foreign currency transactions.

Liquidity risk

The Group finances its operations by its working capital. Adequate fundings are maintained to ensure the necessary liquidity is available when required.

Equity price risk

The conversion option component of convertible bonds exposes the Group to equity price risk on its equity instrument.

Fair value

The fair values of the Group's financial assets and financial liabilities are determined as follows:

— The fair values of the financial assets and financial liabilities (including accounts and other receivables, amounts due from related companies, bank balances and cash, accounts and other payables, and amounts due to related companies) approximate their corresponding fair values due to their immediate or short-term to maturity;

— The fair values of the liability portion of convertible bonds, promissory notes and short-term borrowings are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

— The fair value of embedded derivatives portion of convertible bonds is determined using Black-Scholes Option Pricing Model.

6. REVENUE

Revenue represents the aggregate of the net amounts received and receivable for toll revenue and the goods sold during the year and is analysed as follows:

	2006 **RMB'000**	2005 RMB'000
Toll revenue	**103,734**	102,392
Sale of zinc, lead and iron ore concentrates	**80,894**	—
	184,628	102,392

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into two operating divisions:

— management and operation of toll highways and bridges ("Toll Road Operations"); and

— refining, exploration, mining and processing of zinc, lead and iron ("Mining Operations").

Prior to 1st January, 2006, the Group was engaged in a single segment of Toll Road Operations. During the year, the Group commenced a new segment of the Mining Operations and accordingly, presents two segments in the financial statements.

These operating divisions are the basis on which the Group reports its primary segments as below:

Year ended 31st December, 2006

	Toll Road Operations RMB'000	Mining Operations RMB'000	Consolidated RMB'000
REVENUE			
External sales	103,734	80,894	184,628
Segment results	(6,644)	46,988	40,344
Other income			1,996
Discount on acquisition of subsidiaries			56,532
Loss from increase in fair value of convertible bonds			
— embedded derivatives			(39,873)
Loss on disposal of a subsidiary			(6,337)
Unallocated corporate expenses			(4,662)
Interest expense			(7,866)
Profit before tax			40,134
Income tax expense			(4,852)
Profit for the year			35,282

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Business segments (continued)

As at 31st December, 2006

	Toll Road Operations RMB'000	Mining Operations RMB'000	Consolidated RMB'000
ASSETS			
Segment assets	143,121	1,043,416	1,186,537
Unallocated corporate assets			102,094
Consolidated total assets			1,288,631
LIABILITIES			
Segment liabilities	7,367	17,120	24,487
Deferred tax liabilities	4,793	142,478	147,271
Unallocated corporate liabilities			274,840
Consolidated total liabilities			446,598

As at 31st December, 2006

	Toll Road Operations RMB'000	Mining Operations RMB'000	Others RMB'000	Consolidated RMB'000
OTHER INFORMATION				
Capital additions	1,558	13,301	—	14,859
Depreciation and amortisation	30,727	11,784	9	42,520
Impairment loss on property, plant and equipment recognised in the income statement	44,679	—	—	44,679
Gain on disposal of property, plant and equipment	58	295	—	353

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Business segments (continued)

Year ended 31st December, 2005

	Toll Road Operations RMB'000	Mining Operations RMB'000	Consolidated RMB'000
REVENUE			
External sales	102,392	—	102,392
Segment results	45,305	—	45,305
Other income			564
Unallocated corporate expenses			(10,564)
Interest expense			(3,399)
Profit before tax			31,906
Income tax expense			(6,224)
Profit for the year			25,682

As at 31st December, 2005

	Toll Road Operations RMB'000	Mining Operations RMB'000	Consolidated RMB'000
ASSETS			
Segment assets	342,327	—	342,327
Unallocated corporate assets			151,311
Consolidated total assets			493,638
LIABILITIES			
Segment liabilities	12,186	—	12,186
Deferred tax liabilities	9,986	—	9,986
Unallocated corporate liabilities			44,786
Consolidated total liabilities			66,958

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Business segments (continued)

As at 31st December, 2005

	Toll Road Operations RMB'000	Mining Operations RMB'000	Others RMB'000	Consolidated RMB'000
OTHER INFORMATION				
Capital additions	442	—	6	448
Depreciation and amortisation	27,138	—	15	27,153
Loss on disposal of held for trading investments/ other investments	—	—	352	352
Loss on disposal of property, plant and equipment	13	—	—	13

Geographical segments

The Group operates within one geographical segment because its revenues are primarily generated in the PRC and all identifiable assets of the Group are located in the PRC. Accordingly, no geographical segment data is presented.

8. DIRECTORS AND EMPLOYEES' REMUNERATION

The emoluments paid or payable to each of the eleven (2005: eleven) directors were as follows:

2006

	Mr. Hu You Lin RMB'000	Mr. Dong Li Yong RMB'000	Mr. Qian Jinbiao RMB'000	Mr. Gao Yi Shan RMB'000	Mr. Lu Wei Dong, David RMB'000	Ms. Wang Pei Ping RMB'000	Mr. Shen Xiao Zhong RMB'000	Mr. Pan Wan Qu RMB'0000	Mr. Cai Chuan Bing RMB'000	Ms. Yu Chor Woon, Carol RMB'000	Mr. Yu Zheng Hua RMB'000	Total RMB'000
Fees	—	—	—	—	—	—	—	—	100	300	50	450
Other emoluments												
Salaries and other benefits	1,613	460	60	259	285	53	—	—	—	—	—	2,730
Contributions to retirement benefits schemes	—	46	—	—	19	—	—	—	—	—	—	65
Total emoluments	1,613	506	60	259	304	53	—	—	100	300	50	3,245

8. DIRECTORS AND EMPLOYEES' REMUNERATION (CONTINUED)

2005

	Mr. Hu You Lin RMB'000	Mr. Dong Li Yong RMB'000	Mr. Qian Jinbiao RMB'000	Mr. Gao Yi Shan RMB'000	Mr. Lu Wei Dong, David RMB'000	Ms.Wang Pei Ping RMB'000	Mr. Shen Xiao Zhong RMB'000	Mr. Pan Wan Qu RMB'0000	Mr. Cai Chuan Bing RMB'000	Ms. Yu Chor Woon, Carol RMB'000	Mr. Yu Zheng Hua RMB'000	Total RMB'000
Fees	—	—	—	—	—	—	—	—	105	315	52	472
Other emoluments												
Salaries and other benefits	1,690	279	—	266	234	233	—	—	—	—	—	2,702
Contributions to retirement benefits schemes	—	17	—	—	23	—	—	—	—	—	—	40
Share-based payments	549	332	—	332	166	166	108	141	—	—	—	1,794
Total emoluments	2,239	628	—	598	423	399	108	141	105	315	52	5,008

The five individuals with the highest emoluments in the Group were all directors of the Company whose emoluments are included in the disclosures as above in both years.

During the year, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

9. INTEREST EXPENSE

	2006 RMB'000	2005 RMB'000
Interest on:		
— bank borrowings wholly repayable within five years	**—**	283
— a loan from a minority shareholder wholly repayable within five years	**507**	1,225
— promissory notes	**2,330**	—
— convertible bonds	**3,092**	—
Imputed interest expense on a non-current loan from a minority shareholder	**1,937**	1,891
	7,866	3,399

10. INCOME TAX EXPENSE

	2006	2005
	RMB'000	RMB'000
PRC income tax		
— current year	**6,618**	5,919
Deferred tax (note 27)	**(1,766)**	305
	4,852	6,224

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

Langfang Tongda Highway Co., Ltd. ("Langfang Tongda") is subject to PRC national income tax at the rate of 15%. In addition, Langfang Tongda is entitled to an exemption from local income tax of 3% during the five years ended 31st December, 2002, followed by a 50% tax relief for the next five years. The reduced local income tax rate for the relief period is 1.5%. Accordingly, Langfang Tongda was subject to income tax at the reduced rate of 16.5% during the year.

During the year, Yancheng Tongda Highway Co., Ltd. ("Yancheng Tongda") was subject to PRC national income tax at the rate of 15% but was not subject to local income tax.

Pursuant to the relevant regulations applicable to enterprises situated in the western region of the PRC, the Group's PRC mining subsidiaries enjoy a preferential tax rate of 15%. In addition, these PRC mining subsidiaries are entitled to an exemption from PRC national income tax for the two years starting from their first profit-making year, followed by a 50% tax reduction in the three years thereafter.

During the year, Baoshan Feilong Nonferrous Metal Co., Ltd. ("Feilong Nonferrous") and Yaoan Feilong Mining Co., Ltd. ("Yaoan Feilong") are within the tax exemption period and not subject to tax.

Pursuant to the approval from the relevant tax bureau in March 2007, Puer Feilong Mining Co., Ltd ("Puer Feilong") was granted the tax concession to pay the preferential tax rate of 15% from 2006.

Tengchong Ruitu Mining and Technology Company Limited ("Tengchong Ruitu"), a subsidiary acquired by the Group on 29 December 2006, was taxed at 33% for the year. Tax holiday was granted by the relevant tax authorities in February 2007 and Tengchong Ruitu will start the tax holiday from the first profit-making year.

10. INCOME TAX EXPENSE (CONTINUED)

The income tax expense for the year can be reconciled to the profit before tax per the consolidated income statement as follows:

	2006 RMB'000	2005 RMB'000
Profit before tax	**40,134**	31,906
Tax at the domestic income tax rate of 15% (Note)	**6,020**	4,786
Tax effect of expenses not deductible for tax purpose	**14,745**	2,363
Effect of tax exemption granted to a PRC subsidiary	**(9,084)**	(205)
Tax effect of income not taxable for tax purpose	**(7,132)**	(961)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**303**	241
Tax expense for the year	**4,852**	6,224

Note: The domestic income tax rate in the jurisdiction where a substantial portion of the Group's operation is based is used.

11. PROFIT FOR THE YEAR

	2006 RMB'000	2005 RMB'000
Profit before tax has been arrived at after charging:		
Amortisation of mining rights	**8,328**	—
Auditors' remuneration	**2,000**	966
Cost of inventories sold	**23,721**	—
Depreciation of property, plant and equipment	**34,192**	27,153
Employee benefit expense, including directors' remuneration (note 8) and share-based payment expense (note 30)	**23,515**	17,456
Loss on disposal of held for trading investments	**—**	352
Loss on disposal of property, plant and equipment	**—**	13
Release of prepaid lease payments to income statement	**11**	—
Repairs and maintenance charges	**16,703**	11,954
and after crediting:		
Bank interest income	**1,368**	519
Gain on disposal of property, plant and equipment	**353**	—

12. DIVIDEND

	2006 RMB'000	2005 RMB'000
Final dividend paid — HK$0.02 per share for the preceding year	—	4,200

No dividend was proposed during the year, nor has any dividend been proposed since the balance sheet date.

13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the equity holders of the parent is based on the following data:

	2006 RMB'000	2005 RMB'000
Earnings		
Profit for the year attributable to equity holders of the Company and earnings for the purpose of basic and diluted earnings per share	**10,332**	19,464

	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**210,027**	200,000
Effect of dilutive ordinary shares — share options	**10,761**	2,273
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**220,788**	202,273

The conversion of the Company's Convertible Bonds would result in an increase in the earnings per share for the year. Accordingly, the relevant diluted earnings per share have not been presented for 2006.

14. PROPERTY, PLANT AND EQUIPMENT

	Toll highways and bridges RMB'000	Buildings RMB'000	Mining shafts RMB'000	Plant and machinery RMB'000	Electricity generation plant RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST									
At 1st January, 2005	502,798	2,219	—	—	—	3,567	2,071	—	510,655
Additions	—	—	—	—	—	191	257	—	448
Disposals	—	—	—	—	—	(159)	(206)	—	(365)
At 31st December, 2005	502,798	2,219	—	—	—	3,599	2,122	—	510,738
Additions	—	95	—	6,079	—	491	1,356	6,838	14,859
Acquired on acquisition of subsidiaries	—	23,730	8,859	14,528	1,450	82	3,099	5,902	57,650
Disposals	—	(4,697)	—	—	—	(128)	(814)	(2,193)	(7,832)
Disposal of a subsidiary	(255,000)	—	—	—	—	(869)	(709)	—	(256,578)
Transfer	—	3,765	—	1,488	—	—	—	(5,253)	—
At 31st December, 2006	247,798	25,112	8,859	22,095	1,450	3,175	5,054	5,294	318,837
DEPRECIATION AND IMPAIRMENT									
At 1st January, 2005	140,498	672	—	—	—	2,368	975	—	144,513
Charge for the year	26,389	106	—	—	—	356	302	—	27,153
Eliminated on disposals	—	—	—	—	—	(133)	(196)	—	(329)
At 31st December, 2005	166,887	778	—	—	—	2,591	1,081	—	171,337
Charge for the year	29,683	1,710	209	1,114	211	606	659	—	34,192
Eliminated on disposals	—	(1,314)	—	—	—	(118)	(663)	—	(2,095)
Impairment recognised for the year	44,679	—	—	—	—	—	—	—	44,679
Disposal of a subsidiary	(127,453)	—	—	—	—	(682)	(98)	—	(128,233)
At 31st December, 2006	113,796	1,174	209	1,114	211	2,397	979	—	119,880
CARRYING VALUE									
At 31st December, 2006	134,002	23,938	8,650	20,981	1,239	778	4,075	5,294	198,957
At 31st December, 2005	335,911	1,441	—	—	—	1,008	1,041	—	339,401

The toll highways and bridges and the buildings are held in the PRC under medium-term leases.

Depreciation of toll highways and bridges is calculated to write off their carrying values on a units-of-usage basis based on the ratio of actual traffic volume for a particular period over the projected total traffic volume throughout the periods for which the Group is entitled to operate those highways and bridges.

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation is provided to write off the cost of other items of property, plant and equipment on a straight-line basis at the following estimated useful lives:

Buildings	Over the shorter of 20 years or the joint venture period of the relevant company
Mining shafts	5 years
Plant and machinery	5 years
Electricity generation plant	5 years
Furniture, fixtures and equipment	5 years
Motor vehicles	5 years

With reference to the traffic flow study report dated 10th November, 2006 in respect of the toll highways and bridges held by Yancheng Tongda, the directors consider that an impairment loss of approximately RMB44.7 million should be recognised in respect of these toll highways and bridges. Yancheng Tongda was subsequently disposed of on 29th December, 2006 (note 29).

As at 31st December, 2006, the Group owns the toll road of Wen An Section and has been granted the right to manage, operate and collect toll charges on the toll road for the duration of the joint venture term of 16 years to May, 2013 (note 36). Applications with the relevant governmental authorities to extend the operation period for further 10 years to May, 2023 are still in progress as at 31st December, 2006. Upon expiry of the operation period, the right to manage, operate and collect toll charges at the toll roads may be withdrawn and the toll roads will be delivered to the relevant government authorities at the end of the operation period.

15. MINING RIGHTS

	RMB'000
COST	
At 1st January, 2005, 31st December, 2005 and 1st January, 2006	—
Acquired upon acquisition of subsidiaries (note 28)	961,042
Transfer from exploration and evaluation assets	400
At 31st December, 2006	961,442
AMORTISATION	
At 1st January, 2005, 31st December, 2005 and 1st January, 2006	—
Charge for the year and balance at 31st December, 2006	8,328
CARRYING VALUE	
At 31st December, 2006	953,114
At 31st December, 2005	—

The mining rights represent the rights to conduct mining activities in the location of Changdong, Yaoan, Hetaoping and Tengchong in the PRC, and have legal lives of 3 to 8 years, expiring in August 2007, February, 2012, February, 2014 and December, 2014, respectively. In the opinion of the directors, the Group will be able to renew the mining rights with the relevant government authorities continuously and at minimal charges.

The mining rights are amortised using the units of production method based on the proven and probable mineral reserves.

16. EXPLORATION AND EVALUATION ASSETS

	RMB'000
COST	
At 1st January, 2005, 31st December, 2005 and 1st January, 2006	—
Acquired upon acquisition of subsidiaries (note 28)	4,800
Additions	4,848
Transfer to mining rights	(400)
At 31st December, 2006	9,248
CARRYING VALUE	
At 31st December, 2006	9,248
At 31st December, 2005	—

17. GOODWILL

	RMB'000
At 1st January, 2005, 31st December, 2005 and at 1st January, 2006	482
Acquisition of subsidiaries (note 28)	4,992
At 31st December, 2006	5,474

Goodwill acquired through the business combinations has been allocated to the cash-generating units ("CGUs") as follows:

	2006 **RMB'000**	2005 RMB'000
Toll Road Operations	**482**	482
Mining Operations	**4,992**	—
	5,474	482

Toll Road Operations

The recoverable amount of this CGU has been determined based on a value in use calculation. That calculation uses a 16-year period cash flow projections based on financial budgets approved by management using a discount rate of 18%. The key assumptions for the value in use calculation relate to the forecast traffic flows. Management of the Group determines that there are no impairment of any of the CGUs containing goodwill.

Mining Operations

The recoverable amount of this CGU have been determined on the basis of a value-in-use calculation. That calculation uses a 16-year to 25-year period cash flow projections based on financial budgets approved by management using a discount rate of 18%. The key assumptions for the value-in-use calculation relate to the mine reserves and the estimated prices of mineral resources. Management determines that there are no impairment of this CGUs containing goodwill.

18. PREPAID LEASE PAYMENTS

	2006 RMB'000	2005 RMB'000
The Group's prepaid lease payments comprise:		
Leasehold land outside Hong Kong:		
Medium-term lease	**870**	—
Analysed for reporting purposes as:		
Current asset	**97**	—
Non-current asset	**773**	—
	870	—

19. INVENTORIES

	2006 RMB'000	2005 RMB'000
Raw materials	**6,961**	—
Finished goods	**897**	—
	7,858	—

20. ACCOUNTS AND OTHER RECEIVABLES

	2006 RMB'000	2005 RMB'000
Trade receivables	**1,040**	—
Other receivables	**5,378**	2,444
Total trade and other receivables	**6,418**	2,444

The Group allows an average credit period of 30 days to its trade customers. The following is an aging analysis of trade receivables at the reporting date:

	2006 RMB'000	2005 RMB'000
0–30 days	**1,040**	—

21. AMOUNTS DUE FROM/TO RELATED COMPANIES

	Due from	
	2006	2005
	RMB'000	RMB'000
Mr. Yang Long and his affiliates (note i)	**4,598**	—

	Due to	
	2006	2005
	RMB'000	RMB'000
Mr. Yang Long and his affiliates (note i)	**3,982**	—
Langfang Municipal Communications Bureau and its affiliate (note ii)	**4,661**	2,040
Yancheng Xinfu Highway Company Limited (note iii)	**—**	737
	8,643	2,777

Notes:

(i) These entities are the minority shareholders of the Group's mining subsidiaries.

(ii) These entities are the minority shareholder of the Group's toll road subsidiary, Langfang Tongda.

(iii) This company was the minority shareholder of the Group's toll road subsidiary, Yancheng Tongda.

(iv) All the above amounts are unsecured, interest-free and repayable on demand.

22. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. The bank balances carry at prevailing market interest rate of 0.72% (2005: 0.72%) per annum.

23. CONVERTIBLE BONDS

On 23rd June, 2006, the Company issued 3.5% convertible bonds at a nominal value of HK$75 million. Interest will be payable annually. The convertible bonds have a maximum maturity period of three years from the issue date and are convertible into ordinary shares of HK$0.1 each in the Company at the holder's option as follows:

	Principal amount of convertible bonds	Conversion period(s) in which the convertible bonds are convertible into share		Conversion price
1st tranche convertible bonds	HK$40,000,000	1st conversion period	12th month after issue date	HK$1.2 per share
		2nd conversion period	24th month after issue date	HK$1.5 per share
		3rd conversion period	36th month after issue date	HK$1.8 per share
2nd tranche convertible bonds	HK$20,000,000	2nd conversion period	24th month after issue date	HK$1.5 per share
		3rd conversion period	36th month after issue date	HK$1.8 per share
3rd tranche convertible bonds	HK$15,000,000	3rd conversion period	36th month after issue date	HK$1.8 per share
Total	HK$75,000,000			

If agreed between the Company and the holders of convertible bonds, the Company may redeem in whole or in part any outstanding principal amount of the convertible bonds.

Any convertible bonds not converted, or redeemed, will be repaid by the Group on the maturity date at their principal amount.

The fair value of the liability portion and embedded derivatives portion of the convertible bonds were determined as of the date of issue by an independent professional valuer. The fair value of the convertible bonds at the date of issue was RMB81,245,000 comprising a liability portion of RMB63,752,000 and an embedded derivative portion of RMB17,493,000. As at 31st December, 2006, the fair value of the embedded derivatives portion of the convertible bonds was revalued by an independent professional valuer at RMB57,366,000. The increase in fair value of the embedded derivatives of RMB39,873,000 has been recognised in the consolidated income statement.

23. CONVERTIBLE BONDS (CONTINUED)

The movement of the convertible bonds is as follows:

	Liability portion RMB'000	Embedded derivatives portion RMB'000	Total RMB'000
Fair value of convertible bonds on the date of issue	63,752	17,493	81,245
Interest amortised	3,092	—	3,092
Increase in fair value	—	39,873	39,873
Carrying amount of convertible bonds as at 31st December, 2006	66,844	57,366	124,210

The fair value of the embedded derivatives portion of the convertible bonds are determined using the Black-Scholes Option Pricing Model, while the fair value of the liability component is calculated using cash flows discounted at interest rate of 9%.

Accrued interest on the convertible bonds is calculated using the effective interest method by applying the effective interest rate of 9% to the liability component.

24. PROMISSORY NOTES

The promissory notes are unsecured, interest-bearing at 3.5% per annum and are repayable on the following terms:

	2006 RMB'000
Carrying amount repayable:	
Within one year	**14,716**
More than one year, but not exceeding two years	**29,874**
More than two years, but not exceeding five years	**27,362**
	71,952
Less: Amounts due within one year shown under current liabilities	**(14,716)**
	57,236

The face value of the promissory notes amounted to RMB78,000,000. The effective interest rate is 6%. The fair value of the promissory notes on the date of issue and as at 31st December, 2006 amounted to RMB74,198,000 and RMB71,952,000 respectively, determined using cash flows discounted at the interest rate of 6%.

24. PROMISSORY NOTES (CONTINUED)

The movement of the promissory notes is as follows:

	2006 RMB'000
Fair value of promissory notes on date of issue	**71,446**
Shortfall of minimum guaranteed profit (note 28)	**(1,824)**
Interest amortised	**2,330**
Promissory notes at 31st December, 2006	**71,952**

25. BANK AND OTHER BORROWINGS

	2006 RMB'000	2005 RMB'000
Secured bank loan	**75,000**	—
Unsecured loans from minority shareholders:		
— bearing interest at 7.488% per annum	**—**	9,496
— contractually interest-free	**—**	32,369
Total borrowings	**75,000**	41,865
The above borrowings are repayable:		
On demand or within one year	**18,750**	6,729
Between one to two years	**56,250**	6,134
Between two to five years	**—**	10,832
After five years	**—**	18,170
	75,000	41,865
Less: Amount due within one year and included under current liabilities	**(18,750)**	(6,729)
	56,250	35,136

During the year, the Group obtained a 2 year term loan in the amount of HK$75,000,000 (equivalent to RMB75,000,000). The bank loan carries interest at Hong Kong Interbank Offered Rate plus 1% per annum. The bank loan was used to finance the acquisition of a subsidiary which engages in mining operation and for general working capital. The bank loan is secured by the Company's equity interests in certain subsidiaries.

An unsecured loan from a minority shareholder which carried a fixed interest rate of 7.488% per annum with an expected maturity date in 2007 was fully settled during the year.

Another unsecured loan related to a disposed subsidiary (note 29) which was contractually interest-free with an expected maturity date in 2012 was eliminated on disposal of the subsidiary. The effective interest rate for the year is 6% per annum.

The directors estimate the fair value of the Group's borrowings, by discounting their future cash flows at the market rate at the balance sheet date. The directors consider that the carrying amount of the borrowings approximates their fair value.

26. SHARE CAPITAL

	Number of shares	Amount HK$'000	Shown in the financial statement RMB'000
Ordinary shares of HK$0.10 each:			
Authorised			
At 1st January, 2005, 31st December, 2005 and 31st December, 2006	2,000,000,000	200,000	N/A
Issued and fully paid			
At 1st January, 2005 and 1st January, 2006	200,000,000	20,000	21,000
Exercise of share options	11,700,000	1,170	1,170
Placing of new shares (note 1)	40,000,000	4,000	4,000
Shares repurchased (note 2)	(1,938,000)	(194)	(194)
At 31st December, 2006	249,762,000	24,976	25,976

Notes:

(1) Pursuant to a placing and subscription agreement dated 13th October, 2006, Yue Da HK placed 45 million shares of the Company at a price of HK$3.80 per share. The placement was made to independent investors. In addition, Yue Da HK has agreed to grant a call option to the placing agents, pursuant to which Yue Da HK was required to sell to the placees of up to a total 10 million shares at a price of HK$3.80 per share. The placing price represented a discount of 4.76% to the closing price of HK$ 4.055 per share as quoted on the Stock Exchange on 12th October, 2006, being the date on which the terms of the placing and subscription were fixed.

Pursuant to the same placing and subscription agreement, Yue Da HK subscribed for 40 million new shares of HK$0.1 per share in the Company at HK$3.80 per share, resulting in net proceeds to the Company of approximately HK$146 million (equivalent to RMB152 million). The proceeds were used to finance the Group's 2nd Acquisition as set out in note 28.

(2) During the year, the Company repurchased its own shares through the Stock Exchange as follows:

Months of repurchase	Number of ordinary shares of HK$1 each	Price per share Highest HK$	Lowest HK$	Total consideration paid RMB$'000
November	828,000	3.85	3.50	2,470
December	1,110,000	3.90	3.46	4,684
	1,938,000			7,154

27. DEFERRED TAX LIABILITIES

The followings are the major deferred tax liabilities recognised and movements thereof during the current and prior years:

	Fair value adjustment on acquisition of mining rights RMB'000	Accelerated tax depreciation RMB'000	Total RMB'000
At 1st January, 2005	—	9,681	9,681
Charge to income statement for the year	—	305	305
At 1st January, 2006	—	9,986	9,986
Acquisition of subsidiaries (note 28)	143,641	—	143,641
Eliminated on disposal of a subsidiary (note 29)	—	(4,590)	(4,590)
Credit to income statement for the year	(1,163)	(603)	(1,766)
At 31st December, 2006	142,478	4,793	147,271

28. ACQUISITION OF SUBSIDIARIES

During the year, the Group completed the following acquisitions:

(a) On 30th March, 2006, the Company entered into a conditional agreement pursuant to which the Group agreed to acquire the entire issued share capital of Yuelong Limited, Yuelong (Puer) Limited and Yuelong (Yaoan) Limited together with the outstanding loans due to Feilong Holdings Limited, for a consideration in the sum of approximately RMB300 million. Yuelong Limited, Yuelong (Puer) Limited and Yuelong (Yaoan) Limited are limited liability companies incorporated in British Virgin Islands and hold the interest in mining rights of certain lead and zinc ores in the southern part of the PRC.

The consideration was satisfied (i) as to HK$75 million (approximately RMB78 million) by the issue of convertible bonds by the Company, (ii) as to HK$75 million (approximately RMB78 million) by the issue of promissory notes by a wholly-owned subsidiary of the Company, and (iii) as to the remaining balance of HK$138.5 million (approximately RMB144 million) in cash through internal resources.

This acquisition was completed on 23rd June, 2006 (the "1st Acquisition").

(b) On 12th September, 2006, the Company entered into a conditional agreement pursuant to which the Group agreed to acquire the entire issued share capital of Fly Ascent Group Limited together with the outstanding loans due to Feilong Holdings Limited, for a consideration in the sum of RMB250 million. Fly Ascent Group Limited is a limited liability company incorporated in British Virgin Islands and holds the interest in mining rights of certain iron and zinc ores in the southern part of the PRC. The consideration was satisfied in cash through internal resources.

This acquisition was completed on 29th December, 2006 (the "2nd Acquisition").

28. ACQUISITION OF SUBSIDIARIES (CONTINUED)

The fair value of the identifiable assets and liabilities of the subsidiaries assumed by the Group were as follows:

	1st Acquisition			2nd Acquisition			
	Acquirees' carrying amount before combination	Fair value adjustment	Fair value	Acquirees' carrying amount before combination	Fair value adjustment	Fair value	Total fair value
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Net assets acquired:							
Property, plant and equipment	46,332	—	46,332	11,318	—	11,318	57,650
Mining rights	3,335	604,758	608,093	8	352,941	352,949	961,042
Prepaid lease payments	203	—	203	678	—	678	881
Exploration and evaluation assets	4,800	—	4,800	—	—	—	4,800
Inventories	6,667	—	6,667	1	—	1	6,668
Accounts and other receivables	254	—	254	1,487	—	1,487	1,741
Bank balances and cash	6,832	—	6,832	2,342	—	2,342	9,174
Amounts due from related companies	—	—	—	3,743	—	3,743	3,743
Accounts and other payables	(7,657)	—	(7,657)	(3,115)	—	(3,115)	(10,772)
Amount due to vendor	(31,356)	—	(31,356)	(11,110)	—	(11,110)	(42,466)
Amount due to a related company	(273)	—	(273)	(2,488)	—	(2,488)	(2,761)
Taxation payable	—	—	—	(809)	—	(809)	(809)
Deferred tax liabilities	—	(90,700)	(90,700)	—	(52,941)	(52,941)	(143,641)
Fair value of net assets	29,137	514,058	543,195	2,055	300,000	302,055	845,250
Minority interests			(275,784)			—	(275,784)
Goodwill on acquisition			4,992			—	4,992
Discount on acquisition			—			(56,532)	(56,532)
Assignment of shareholders' loan			31,356			11,110	42,466
Shortfall of minimum guaranteed profit (note)			1,824			—	1,824
			305,583			256,633	562,216
Consideration:							
Cash paid			144,000			250,000	394,000
Convertible bonds — at fair value			81,245			—	81,245
Promissory notes — at fair value			71,446			—	71,446
			296,691			250,000	546,691
Transaction costs directly attributable to acquisition			8,892			6,633	15,525
			305,583			256,633	562,216
Net cash outflow arising on acquisition:							
Cash consideration paid			144,000			250,000	394,000
Bank balances and cash acquired			(6,832)			(2,342)	(9,174)
Net cash outflow			137,168			247,658	384,826

28. ACQUISITION OF SUBSIDIARIES (CONTINUED)

Note: Pursuant to the joint venture agreements of Baoshan Feilong Nonferrous Metal Co. Ltd. ("Feilong Nonferrous"), Puer Feilong Mining Co., Ltd. ("Puer Feilong") and Yaoan Feilong Mining Co., Ltd. ("Yaoan Feilong"), the vendor has warranted and guaranteed that for a period of two years from the date of acquisition, the profits distributable to the Group will not be less than RMB35 million, RMB5 million and RMB5 million, respectively. The Group shall have the right to reduce the total outstanding amount under the promissory notes to the extent of the shortfalls. The Group has reviewed the profit shortfalls for the period from the date of acquisition to 31st December, 2006 and accordingly made further adjustment totalling RMB1,824,000 to the purchase consideration, with a corresponding decrease in the outstanding amount of the promissory notes.

The goodwill arising on the 1st Acquisition is attributable to the anticipated profitability from the operations of the relevant mines. The acquisition consideration of RMB250 million for the 2nd Acquisition was agreed on an arm's length basis. The discount on acquisition arose as a result of an increase in value of the underlying mines after the consideration was agreed.

The subsidiaries acquired during the year contributed RMB80.9 million to the Group's revenue and a profit of RMB41.8 million to the Group's results for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1st January, 2006, total group revenue for the year would have been RMB257.4 million, and profit for the year would have been RMB58.1 million. This proforma information is for illustration purposes only and is not necessarily indicative of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2006, nor is it intended to be a projection of future results.

29. DISPOSAL OF A SUBSIDIARY

On 12th September, 2006, the Company entered into a disposal agreement with Yue Da HK to dispose of the Group's entire 66.67% interests in Yancheng Tongda for a cash consideration of RMB65,000,000 together with a waiver of intercompany debt. The disposal was completed on 29th December, 2006.

	RMB'000
NET ASSETS DISPOSED OF	
Property, plant and equipment	128,345
Accounts and other receivables	121
Amount due from immediate holding company	43,355
Amount due from a related company	5,092
Bank balances and cash	12,624
Accounts and other payables	(4,549)
Taxation payable	(241)
Deferred tax liabilities	(4,590)
Unsecured borrowings	(32,011)
Minority interests	(34,566)
	113,580
Loss on disposal of a subsidiary	(6,337)
Waiver of intercompany debt	(43,355)
Release of non-distributable reserve	1,112
	65,000
Satisfied by:	
Cash consideration	65,000
Net cash inflow arising on disposal:	
Cash consideration	65,000
Bank balances and cash disposed of	(12,624)
	52,376

29. DISPOSAL OF A SUBSIDIARY (CONTINUED)

During the year, Yanchang Tongda contributed approximately RMB49,837,000 to the Group's turnover and a loss of approximately RMB26,435,000 to the Group's profit for the year.

Yancheng Tongda contributed approximately RMB30,886,000 to the Group's net operating cash inflows, RMB796,000 to the Group's net cash outflows from financing activities and RMB33,918,000 to the Group's net cash outflows from investing activities.

30. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted by a written resolution passed on 12th November, 2001 for the purpose of providing incentives or rewards to selected participants for their contribution to the Group and will expire on 11th November, 2011. Under the Scheme, the directors of the Company may grant options to any director or employee of the Company and its subsidiaries or other eligible participants to subscribe for shares in the Company.

An option may be accepted by a participant upon payment of HK$1 per option and within such time as may be specified in the offer for grant of the option, which shall not be later than 21 days of the date of the offer. An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the directors at the time of such grant to each grantee, which period may commence on the date of acceptance of the offer for the grant of option but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof.

At 31st December, 2006, the number of shares in respect of which options had outstanding under the Scheme was 4,380,000 (2005: 16,080,000), representing 2% (2005: 8%) of the shares of the Company in issue at that date.

30. SHARE OPTION SCHEME (CONTINUED)

The following table discloses details of the Company's share options held by employees and movements in such holdings during the current and prior years:

	Date of grant	Exercise price per share HK$	Exercisable period	Outstanding at 1st January, 2006	Exercised during the year	Outstanding at 31st December, 2006
Directors of the Company	29th April, 2003	0.40	16th May 2003 to 28th April, 2013	5,250,000	(5,250,000)	—
	26th September, 2005	0.53	12th October, 2005 to 25th September, 2015	6,480,000	(3,390,000)	3,090,000
				11,730,000	(8,640,000)	3,090,000
Other employees of the Company	29th April, 2003	0.40	9th May, 2003 to 28th April, 2013	1,260,000	(1,260,000)	—
	26th September, 2005	0.53	12th October, 2005 to 25th September, 2015	1,140,000	(450,000)	690,000
				2,400,000	(1,710,000)	690,000
Other employees of the subsidiary	29th April, 2003	0.40	16th May, 2003 to 28th April, 2013	1,650,000	(1,050,000)	600,000
	26th September, 2005	0.53	12th October, 2005 to 25th September, 2015	300,000	(300,000)	—
				1,950,000	(1,350,000)	600,000
				16,080,000	(11,700,000)	4,380,000

Share options granted are vested immediately on the date of grant. During the year ended 31st December, 2006, no share options were granted and 11,700,000 shares were issued upon exercise of options granted in previous years. In respect of the share options exercised during the year, the weighted average share price at the dates of exercise is HK$3.48.

31. RETIREMENT BENEFITS SCHEMES

The relevant PRC subsidiaries are required to make contributions to the state retirement schemes in the PRC based on 20% (2005: 20%) of the monthly salaries of their current employees to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations. The PRC government is responsible for the pension liability to these retired staff.

In addition, the Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes either 5% or 10% (2005: 5% or 10%) of the relevant payroll costs to the scheme, which contribution is matched by employees.

The total cost charged to income of RMB1,551,000 (2005: RMB1,582,000) represents contributions payable to these schemes by the Group in respect of current year.

32. OPERATING LEASE COMMITMENTS

The minimum lease payments paid under operating leases in respect of rented premises during the year amounted to RMB928,000 (2005: RMB1,494,000).

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2006 **RMB'000**	2005 RMB'000
Within one year	**822**	905
In the second to fifth year inclusive	**300**	494
	1,122	1,399

Operating lease payments represent rentals payable to a fellow subsidiary by the Group for certain of its office premises and staff quarters. Leases are negotiated for an average term of three years and rentals are fixed for an average of three years.

33. CAPITAL COMMITMENTS

	2006 **RMB'000**	2005 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**6,324**	—

34. RELATED AND CONNECTED PARTY TRANSACTIONS AND BALANCES

(i) During the year, the Group paid rentals of RMB870,000 (2005: RMB914,000) to a fellow subsidiary in respect of office premises and staff quarters. The rentals were charged in accordance with the relevant tenancy agreement.

In addition, the Group had the following transactions with connected parties:

	Nature of transactions	2006 RMB'000	2005 RMB'000
Minority shareholders and their affiliates	Repairs and maintenance charges paid by the Group (Note a)	**8,510**	7,782
	Interest charged to the Group (Note b)	**2,444**	3,116
	Maintenance charges paid by the Group (Note c)	**1,801**	1,706
	Purchase of materials by the Group (Note d)	**7,284**	—
	Management fee paid by the Group (Note e)	**334**	403
	Rentals paid on office premises by the Group (Note f)	**80**	80
	Sale of finished goods by the Group (Note g)	**80,894**	—
	Purchases of property, plant and equipment by the Group (Note d)	**1,195**	—
	Acquisition of Fly Ascent Group Limited by the Group (note 28b)	**250,000**	—
An associate of ultimate holding company	Rentals paid on office premises by the Group (note f)	**466**	500

34. RELATED AND CONNECTED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(i) (continued)

Notes:

(a) The repairs and maintenance charges in respect of the relevant toll highway were charged at 15% of the total amount of gross toll collected.

(b) The interest was charged at 7.488% per annum on the outstanding principal. Included therein is imputed interest of RMB1,937,000 (2005: RMB1,891,000).

(c) The maintenance charges in respect of the relevant toll highway were RMB20,000 per kilometre each year starting from 1997, with annual increment of RMB2,000 per kilometre.

(d) Certain of the Group's subsidiaries, have each entered into a composite service agreement with their minority shareholder, pursuant to which the minority shareholder and its associates have agreed to supply materials and to provide construction and maintenance of fixed assets services to these subsidiaries. Mr. Yang Long is the guarantor for the due observance and performance of the composite service agreement by the minority shareholder.

(e) The management fee in respect of the relevant toll highway was charged at 1.5% of the total amount of gross toll collected.

(f) The rentals were charged in accordance with the relevant tenancy agreement.

(g) Certain of the Group's subsidiaries have each signed an ore supply agreement with the minority shareholders, pursuant to which these subsidiaries have agreed to provide zinc and lead ore concentrate and related products to the minority shareholder and its associates.

(ii) Details of the Group's outstanding balances with related parties are set out in note 21.

(iii) Details of operating lease commitments with a related party are set out in note 32.

(iv) In addition, pursuant to the agreements between the Group, the minority shareholders of the Group's toll road subsidiaries and the relevant government bureaus, the parties have agreed and confirmed that the Group has the right to use the land on which the toll highways and bridges are situated at no cost for the duration of the relevant joint venture term.

34. RELATED AND CONNECTED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(v) Transactions with other state-owned entities in the PRC:

The Group operates in an economic environment currently predominated by enterprises directly or indirectly controlled by the PRC government ("state-owned entities"). In addition, the Group itself is part of a larger group of companies under Jiangsu Yue Da Group Company Limited which is a state-owned company in the PRC and under the supervision of the Yancheng Municipal People's Government. Apart from the transactions with the related parties disclosed in (i) to (iv) above and the normal banking transactions with state-owned banks, the Group also conducts business with other state-owned entities. The directors consider those state-controlled entities are independent third parties so far as the Group's business transactions with them are concerned.

In establishing its pricing strategies and approval process for transactions with other state-owned entities, the Group does not differentiate whether the counter-party is a state-controlled entity or not.

In view of the nature of the Group's business of the management and operation of toll highways in the PRC, the directors are of the opinion that, except as disclosed below, it is impracticable to ascertain the identity of the counterparties and accordingly whether the transactions are with other state-controlled entities.

	Nature of transactions	2006 RMB'000	2005 RMB'000
Jiangsu Provincial People's Government	Contribution to the traffic construction works fund *	**13,115**	13,975
Jiangsu Province Finance Office	Administrative management fees	**525**	559

* The contribution to the traffic construction works fund is net off against the gross toll revenue. The net toll revenue is shown in note 6.

(vi) **Compensation of key management personnel**

The remuneration of directors and other members of key management during the year was as follows:

	2006 RMB'000	2005 RMB'000
Short-term benefits	**4,314**	3,891
Post-employment benefits	**169**	108
Share-based payments	**—**	1,877
	4,483	5,876

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

35. BALANCE SHEET OF THE COMPANY

The balance sheet of the Company as at 31st December, 2006 is as follows:

	2006 **RMB'000**	2005 RMB'000
Total assets		
Property, plant and equipment	**34**	25
Investments in subsidiaries	**220,994**	229,832
Other receivables	**—**	2,125
Amount due from a subsidiary	**461,561**	38,178
Bank balances and cash	**7,882**	5,211
	690,471	275,371
Total liabilities		
Accruals and other payables	**2,355**	1,092
Amounts due to subsidiaries	**132,169**	—
Convertible notes — embedded derivatives	**57,366**	—
Convertible notes — liabilities portion	**66,844**	—
Bank borrowings	**75,000**	—
	333,734	1,092
Net assets	**356,737**	274,279
Capital and reserves		
Share capital	**25,977**	21,000
Reserves	**330,760**	253,279
	356,737	274,279

36. PARTICULATES OF THE COMPANY'S SUBSIDIARIES

At 31st December, 2006:

Name of subsidiary	Country of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of share capital/ registered capital held by the Company Directly %	Indirectly %	Principal activities
Yue Da Infrastructure Limited	BVI	Shares — US$10,000	100	—	Investment holding
Yue Da Mining Limited	BVI	Shares — US$100	100	—	Investment holding
Yuelong Limited ("Yuelong (Baoshan") (note i)	BVI	Shares — US$100	—	100	Investment holding
Yuelong (Puer) Limited ("Yuelong (Puer") (note i)	BVI	Shares — US$100	—	100	Investment holding
Yuelong (Yaoan) Limited ("Yuelong (Yaoan)") (note i)	BVI	Shares — US$100	—	100	Investment holding
Fly Ascent Group Limited	BVI	Shares — US$100	—	100	Investment holding
Tengchong Ruitu Mining and Technology Company Limited ("Tengchong Ruitu")	PRC	Registered capital — RMB11,000,000	—	100	Refining, exploration, mining and processing iron and zinc
Feilong Nonferrous (note i)	PRC	Registered capital — RMB34,500,000	—	52	Refining, exploration, mining and processing lead and zinc
Puer Feilong (note i)	PRC	Registered capital — RMB5,500,000	—	52	Refining, exploration, mining and processing lead and zinc
Yaoan Feilong (note i)	PRC	Registered capital — RMB17,400,000	—	52	Refining, exploration, mining and processing lead and zinc
Langfang Tongda (note ii)	PRC	Registered capital — US$11,250,000	—	51	Management and operation of the Wen An section of National Highway 106

Notes:

i. Tengchong Ruitu is a wholly foreign-owned enterprise while Feilong Nonferrous, Puer Feilong and Yaoan Feilong are sino-foreign co-operative joint ventures.

Pursuant to the relevant joint venture agreements, the vendor from which the Group acquired these subsidiaries has warranted and guaranteed that, for a period of two years since the date of acquisition, the profits of Feilong Nonferrous, Puer Feilong and Yaoan Feilong distributable to the Group will not be less than RMB35 million, RMB5 million and RMB5 million, respectively. The Group shall have the right to reduce the outstanding amount under the promissory notes to the extent of the shortfalls. Distributable profits thereafter are to be shared according to the respective holding in the registered capital.

ii. Langfang Tongda is a sino-foreign co-operative joint venture. The term of the joint venture is 16 years (from 19th May, 1997 to 18th May, 2013). The distributable profits of Langfang Tongda are shared between the Group and the joint venture partner in accordance with their capital contribution ratio.

In August 2003, the Group and the joint venture partner agreed to extend Langfang Tongda's joint venture term for further ten years ending in May 2023, as a compensation for the reduction of revenue and for additional costs incurred by Langfang Tongda in 2002 and 2003 during the course of the relocation of a toll station required by the local governmental authority. As at the date of the annual report, applications with the relevant governmental authorities for toll collection during the extended joint venture term is still in progress.