Notes to the Financial Statements

1 Background of the Company

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

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

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

The Company's H shares were successfully listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 12 January 2006. Together with the full exercise of the over-allotment option by BOC International Holdings Limited on 16 January 2006, an aggregate of 270,249,091 shares of a nominal value of RMB0.20 each were issued at a price of HK$3.33 per share upon the listing of the Company's shares on the Main Board of the Stock Exchange. The Group raised RMB865,379,000 (net of related expenses) from the offer.

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

The principal activities of the Company are the mining, processing, smelting and sales of gold and other metallic products in the PRC as well as an investment holding company. The registered office of the Company is Xin Village, Yinzhuang Town, Daonan Industrial Area, Lingbao, Henan, the PRC.

Notes to the Financial Statements

2 Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

The HKICPA has issued certain new and revised HKFRSs that are first effective for the current accounting period of the Group and the Company. There are no significant impact on the results of operation of the Group and financial position of the Group and the Company for the year ended 31 December 2006.

The Group and the Company has not applied any new standard or interpretation that is not yet effective for the current accounting period (note 40).

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the "Group").

The consolidated financial statements are presented in Renminbi, rounded to the nearest thousand, and are prepared on the historical cost basis except that the property, plant and equipment is stated at fair value as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

2 Significant accounting policies (continued)

(b) Basis of preparation of the financial statements (continued)

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a risk of material adjustment in the next year are discussed in note 38.

(c) Subsidiaries and minority interests

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

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

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

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interests in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

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

Notes to the Financial Statements

2 Significant accounting policies (continued)

(d) Goodwill

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

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

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

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

(e) Other investments

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

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 2(l)). Cost includes all attributable transaction costs.

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

(f) Property, plant and equipment

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

Cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is initially recognised in the balance sheet at cost. Cost comprises direct cost at construction. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use, notwithstanding any delays in the issue of the relevant commissioning certificate by the relevant PRC authorities.

2 Significant accounting policies (continued)

(f) Property, plant and equipment (continued)

No depreciation is provided in respect of construction in progress. Upon completion and commissioning for operation, depreciation will be provided at the appropriate rates specified below.

Subsequent to a revaluation, property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation, less subsequent accumulated depreciation and impairment losses (see note 2(l)). When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. When an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs is revalued simultaneously. When an asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to shareholder's equity as a component of the revaluation reserve. However, a revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense. When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised as an expense in profit or loss. However, a revaluation decrease is charged directly against any related revaluation surplus to the extent that the decrease does not exceed the amount held in the revaluation reserve in respect of that same asset. Revaluations are to be performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the consolidated income statement on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Buildings	2 – 50 years
Plant and machinery	4 – 12 years
Transportation equipment	8 years
Office and electronic equipment	5 – 10 years

Notes to the Financial Statements

2 Significant accounting policies (continued)

(f) Property, plant and equipment (continued)

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

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basics between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(g) Intangible assets (other than goodwill)

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

Other intangible assets that are acquired by the Group are stated in the consolidated balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(l)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(h) Mining rights

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

(i) Exploration rights

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

2 Significant accounting policies (continued)

(j) Exploration and evaluation assets

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

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

(k) Lease prepayments

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

(l) Impairment of assets

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

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

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

Notes to the Financial Statements

2 Significant accounting policies (continued)

(l) Impairment of assets (continued)

(ii) Impairment of other assets

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

– property, plant and equipment;

– construction in progress;

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

– investments in subsidiaries;

– mining rights;

– exploration rights;

– exploration and evaluation assets;

– intangible assets; and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

2 Significant accounting policies (continued)

(l) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(m) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

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

Notes to the Financial Statements

2 Significant accounting policies (continued)

(m) Leased assets (continued)

(ii) Operating lease charges

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

(n) Trade and other receivables

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

(o) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

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

(p) Cash and cash equivalents

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

2 Significant accounting policies (continued)

(q) Income tax

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

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

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

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

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Notes to the Financial Statements

2 Significant accounting policies (continued)

(q) Income tax (continued)

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

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

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

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

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

  - the same taxable entity; or

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

2 Significant accounting policies (continued)

(r) Interest-bearing borrowings

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

(s) Provisions and contingent liabilities

(i) Contingent liabilities acquired in business combinations

Contingent liabilities acquired as part of a business combination are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 2(s)(ii). Contingent liabilities acquired in a business combination that cannot be reliably fair valued are disclosed in accordance with note 2(s)(ii).

(ii) Other provisions and contingent liabilities

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

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

(t) Trade and other payables

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

Notes to the Financial Statements

2 Significant accounting policies (continued)

(u) Revenue recognition

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

(i) Sales of goods

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

(ii) Service income

Service income is recognised when the related service is rendered.

(iii) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(v) Government grants

Government grants are recognised in the balance sheet initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in the profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted in arriving at the carrying amount of the asset and consequently recognised in the profit or loss over the useful life of the asset.

2 Significant accounting policies (continued)

(v) Employee benefits

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

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

(w) Borrowing costs

Borrowing costs are expensed in profit and loss in the period in which they are incurred.

(x) Translation of foreign currencies

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Renminbi at the exchange rate approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Renminbi at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is include din the calculation of the profit or loss on disposal.

Notes to the Financial Statements

2 Significant accounting policies (continued)

(y) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit or employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(z) Segment reporting

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

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

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

2 Significant accounting policies (continued)

(z) Segment reporting (continued)

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

3 Turnover

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

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

	2006	2005
	RMB'000	RMB'000
Sales of:		
– Gold	**1,640,064**	1,174,978
– Other metals	**569,351**	346,673
– Others	**32,862**	37,581
Less: Sales taxes and levies	**(7,302)**	(3,528)
	2,234,975	1,555,704

4 Cost of sales

	2006	2005
	RMB'000	RMB'000
Direct materials	**1,499,522**	1,009,501
Direct labour#	**42,801**	32,905
Electricity	**55,488**	49,582
Tunnelling/extraction expenses	**119,222**	85,111
Depreciation and amortisation#	**33,885**	37,690
Resources tax	**3,383**	1,110
Refinery expenses	**28,431**	22,013
Subcontracting expenses	**–**	20,008
Movements in inventories	**9,488**	(22,441)
	1,792,220	1,235,479

Cost of sales relating to staff costs, depreciation and amortisation expenses are included in the respective total amounts disclosed in notes 7 and 8 for each of these types of expenses.

Notes to the Financial Statements

5 Other revenue

	2006 RMB'000	2005 RMB'000
Scrap sales	**852**	1,492
Interest income	**64,708**	570
Delivery income	**10,426**	5,745
Government grants	**250**	1,800
Dividend income from unlisted securities	**–**	2,100
Sundry income	**54**	70
	76,290	11,777

6 Other net loss

	2006 RMB'000	2005 RMB'000
Insurance claims	**–**	81
Net loss on disposal of property, plant and equipment	**(941)**	(1,008)
Net foreign exchange loss	**(25,689)**	–
Others	**(88)**	(221)
	(26,718)	(1,148)

7 Staff costs

	2006 RMB'000	2005 RMB'000
Salaries, wages and bonuses	**68,066**	54,110
Staff welfare	**9,246**	7,762
Contributions to retirement benefit schemes	**3,419**	2,708
	80,731	64,580

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement benefit schemes (the "Schemes") organised by the relevant local government authorities whereby the Group is required to make contributions to the Schemes at the rate of 20% of the eligible employees' salaries. The local government authorities are responsible for the entire pension obligations payable to retired employees.

The Group has no other material obligation for the payment of pension benefits associated with those schemes beyond the annual contributions described above.

8 Profit before taxation

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

		2006 RMB'000	2005 RMB'000
(a)	Finance costs:		
	Interest expense on bank advances wholly repayable within five years	**30,726**	23,080
	Interest on other loan	**89**	5
	Other borrowing costs	**398**	–
		31,213	23,085
(b)	Other items:		
	Amortisation of lease prepayments	**329**	254
	Operating lease charges in respect of properties	**3,140**	3,508
	Research and development expenses	**2,500**	335
	Impairment losses on trade and other receivables made/(written back)	**22**	(2,158)
	Pollution discharge fee	**1,051**	952
	Environmental rehabilitation fee	**2,270**	1,285
	Auditors' remuneration		
	– audit services	**2,289**	1,400
	– other services	**750**	–
	Total amortisation of intangible assets	**17,510**	10,938
	Less: Amortisation capitalised into exploration and evaluation assets	**(6,699)**	–
		10,811	10,938
	Total depreciation	**31,522**	31,057
	Less: Depreciation capitalised into construction in progress	**(380)**	–
		31,142	31,057

Notes to the Financial Statements

9 Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2006	2005
	RMB'000	RMB'000
Current tax – PRC income tax		
Provision for the year	**114,067**	76,671
Underprovision in respect of prior year	**24**	–
	114,091	76,671
Deferred tax		
Origination and reversal of temporary differences	**2,418**	(4,654)
	116,509	72,017

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

	2006	2005
	RMB'000	RMB'000
Profit before taxation	**337,341**	226,793
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdiction concerned	**111,323**	74,842
Tax effect of non-deductible expenses	**2,858**	1,330
Tax effect of non-taxable income	**–**	(1,360)
Additional tax credit	**–**	(2,135)
Underprovision in respect of prior year	**24**	–
Others	**2,304**	(660)
Actual tax expense	**116,509**	72,017

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

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

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

10 Directors' and supervisors' remuneration

Directors' and supervisors' remuneration comprises payments to directors and supervisors by the Company and its subsidiaries. The remuneration of each of the directors and supervisors of the Company is as follows:

Year ended 31 December 2006

	Fees RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit schemes RMB'000	Bonus RMB'000	Total RMB'000
Executive directors					
Mr. Xu Gaoming	–	1,045	4	–	1,049
Mr. Wang Jianguo	–	940	4	–	944
Mr. Lu Xiaozhao	–	727	4	–	731
Mr. Jin Guangcai	–	727	4	–	731
Non-executive directors					
Mr. Di Qinghua	–	–	–	–	–
Mr. Qi Guozhong	–	–	–	–	–
Mr. Xu Wanmin	–	–	–	–	–
Independent non-executive directors					
Mr. Ning Jincheng	–	50	–	–	50
Mr. Wang Yanwu	–	50	–	–	50
Mr. Zheng Jinqiao	–	50	–	–	50
Mr. Niu Zhongjie	–	120	–	–	120
Mr. Du Haibo	–	–	–	–	–
Supervisors					
Mr. Gao Yang	–	727	4	–	731
Mr. Meng Fanrui	–	–	–	–	–
Mr. Guo Xuchang	–	–	–	–	–
Mr. Guo Jizi	–	–	–	–	–
Mr. Liu Hua	–	–	–	–	–
Mr. Peng Jinzeng	–	70	–	–	70
Mr. Lei Mingyang	–	36	–	–	36
Total	–	4,542	20	–	4,562

Notes to the Financial Statements

10 Directors' and supervisors' remuneration (continued)

Year ended 31 December 2005

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

11 Individuals with highest emoluments

The five highest paid individuals of the Group for the year ended 31 December 2006 are directors and supervisors of the Company whose remuneration is reflected in the analysis presented in note 10 above.

12 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB218,058,000 (2005: RMB155,069,000) which has been dealt with in the financial statements of the Company (note 31(b)).

13 Dividends

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2006	2005
	RMB'000	RMB'000
Final dividend proposed after the balance sheet date of RMB0.08 per ordinary share (2005: RMB0.08 per ordinary share)	**61,620**	61,620

Pursuant to a resolution passed at the directors' meeting on 24 April 2007, a final dividend in respect of the year ended 31 December 2006 of RMB0.08 (2005: RMB0.08) per share totalling RMB61,620,000 (2005: RMB61,620,000) was proposed for shareholders' approval at the annual general meeting. Final dividend of RMB61,620,000 (2005: RMB61,620,000) proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2006	2005
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.08 per ordinary share (2005: RMB Nil)	**61,620**	–

Notes to the Financial Statements

14 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB219,836,000 (2005: RMB154,584,000) and the weighted average of 761,718,000 ordinary shares, after adjusting for the shares issued in 2006, in issue during the year (2005: 500,000,000 ordinary shares), calculated as follows:

Weighted average number of ordinary shares

	Number of shares	
	2006	2005
	'000	'000
Issued ordinary shares at 1 January #	**500,000**	500,000
Effect of shares issued pursuant to the placing and public offering	**261,718**	–
Weighted average number of ordinary shares at 31 December	**761,718**	500,000

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

(b) Diluted earnings per share

There were no dilutive potential ordinary shares during the year and, therefore, the calculation of diluted earnings per share is the same as the calculation in (a) above.

15 Related party transactions

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

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

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

15 Related party transactions (continued)

Particulars of significant transactions between the Group and the above related parties during the year ended 31 December 2006 and 2005 are as follows:

(a) Recurring transactions

	2006 **RMB'000**	2005 RMB'000
Subcontracting fee to Lingbao Huaxin Tongbo Company Limited (靈寶華鑫銅箔有限公司)	**–**	10,451
Purchase of electricity from Lingbao Electric Company (靈寶市電業總公司)	**50,191**	43,996
Purchase of gold concentrates from Lingbao Shuangxin Mining Industry Limited Liability Company (靈寶雙鑫礦業有限責任公司)	**–**	8,904

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

(b) Non-recurring transaction

	2006 **RMB'000**	2005 RMB'000
Acquisition of a subsidiary from Lingbao State-owned Assets Operation Limited Liability Company (靈寶市國有資產經營有限責任公司)	**–**	16,700

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

Notes to the Financial Statements

15 Related party transactions (continued)

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

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

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

– sales and purchase of goods and ancillary materials;

– rendering and receiving of utilities and other services;

– purchase of property, plant and equipment; and

– obtaining finance.

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

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

(d) Key management personnel remuneration

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

	2006	2005
	RMB'000	RMB'000
Short-term employee benefits	**5,562**	4,765
Post-employment benefits	**20**	21
	5,582	4,786

Total remuneration is included in "staff costs" (see note 7).

16 Property, plant and equipment

The Group

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

Notes to the Financial Statements

16 Property, plant and equipment (continued)

The Group (continued)

	Buildings RMB'000	Mining shafts RMB'000	Plant and machinery RMB'000	Transportation equipment RMB'000	Office and electronic equipment RMB'000	Total RMB'000
Cost or valuation:						
At 1 January 2006	**85,711**	**73,362**	**144,540**	**25,250**	**5,038**	**333,901**
Additions	**14,987**	**2,931**	**17,256**	**14,468**	**2,303**	**51,945**
Transfer from construction in progress *(note 17)*	**749**	**21,525**	**1,904**	**–**	**561**	**24,739**
Purchase of net assets *(note 34)*	**235**	**–**	**1,098**	**1,371**	**246**	**2,950**
Disposals	**(277)**	**–**	**(817)**	**(2,668)**	**–**	**(3,762)**
At 31 December 2006	**101,405**	**97,818**	**163,981**	**38,421**	**8,148**	**409,773**
Representing:						
Cost	**23,765**	**45,431**	**141,092**	**36,645**	**7,125**	**254,058**
Valuation – 2002	**15,570**	**50,871**	**11,700**	**–**	**417**	**78,558**
Valuation – 2005	**62,070**	**1,516**	**11,189**	**1,776**	**606**	**77,157**
	101,405	**97,818**	**163,981**	**38,421**	**8,148**	**409,773**
Accumulated depreciation:						
At 1 January 2006	**1,587**	**37,190**	**40,508**	**6,462**	**2,022**	**87,769**
Charge for the year	**4,950**	**4,942**	**16,670**	**3,927**	**1,033**	**31,522**
Written back on disposals	**(68)**	**–**	**(503)**	**(1,062)**	**–**	**(1,633)**
At 31 December 2006	**6,469**	**42,132**	**56,675**	**9,327**	**3,055**	**117,658**
Net book value:						
At 31 December 2006	**94,936**	**55,686**	**107,306**	**29,094**	**5,093**	**292,115**

Note: Had property, plant and equipment been carried at cost less accumulated depreciation, the historical carrying amount as at 31 December 2006 and 2005 would have been as follows:

	2006 RMB'000	2005 RMB'000
Buildings	**93,729**	83,189
Mining shafts	**55,306**	35,949
Plant and machinery	**94,915**	94,338
Transportation equipment	**27,191**	17,298
Office and electronic equipment	**5,075**	3,003
	276,216	233,777

16 Property, plant and equipment (continued)

The Company

	Buildings RMB'000	Mining shafts RMB'000	Plant and machinery RMB'000	Transportation equipment RMB'000	Office and electronic equipment RMB'000	Total RMB'000
Cost or valuation:						
At 1 January 2005	66,420	62,332	102,110	18,165	3,419	252,446
Additions	4,555	–	5,859	4,651	323	15,388
Transfer from construction in progress *(note 17)*	13,814	–	20,912	–	–	34,726
Revaluation	(6,462)	–	–	–	–	(6,462)
Disposals	(2,432)	–	(1,856)	(2,237)	–	(6,525)
At 31 December 2005	75,895	62,332	127,025	20,579	3,742	289,573
Representing:						
Cost	2,494	11,461	115,325	19,196	3,325	151,801
Valuation – 2002	15,847	50,871	11,700	1,383	417	80,218
Valuation – 2005	57,554	–	–	–	–	57,554
	75,895	62,332	127,025	20,579	3,742	289,573
Accumulated depreciation:						
At 1 January 2005	5,858	28,588	24,413	4,251	1,014	64,124
Charge for the year	3,742	6,654	13,152	2,555	689	26,792
Revaluation	(8,929)	–	–	–	–	(8,929)
Written back on disposals	(162)	–	(1,103)	(848)	–	(2,113)
At 31 December 2005	509	35,242	36,462	5,958	1,703	79,874
Net book value:						
At 31 December 2005	75,386	27,090	90,563	14,621	2,039	209,699

Notes to the Financial Statements

16 Property, plant and equipment (continued)

The Company (continued)

	Buildings RMB'000	Mining shafts RMB'000	Plant and machinery RMB'000	Transportation equipment RMB'000	Office and electronic equipment RMB'000	Total RMB'000
Cost or valuation:						
At 1 January 2006	75,895	62,332	127,025	20,579	3,742	289,573
Additions	6,246	–	13,971	6,015	1,020	27,252
Transfer from construction in progress *(note 17)*	488	21,340	1,326	–	–	23,154
Disposals	–	–	(626)	(2,088)	–	(2,714)
At 31 December 2006	82,629	83,672	141,696	24,506	4,762	337,265
Representing:						
Cost	9,228	32,801	129,996	23,123	4,345	199,493
Valuation – 2002	15,847	50,871	11,700	1,383	417	80,218
Valuation – 2005	57,554	–	–	–	–	57,554
	82,629	83,672	141,696	24,506	4,762	337,265
Accumulated depreciation:						
At 1 January 2006	509	35,242	36,462	5,958	1,703	79,874
Charge for the year	4,129	4,099	13,546	2,920	757	25,451
Written back on disposals	–	–	(429)	(948)	–	(1,377)
At 31 December 2006	4,638	39,341	49,579	7,930	2,460	103,948
Net book value:						
At 31 December 2006	77,991	44,331	92,117	16,576	2,302	233,317

16 Property, plant and equipment (continued)

As required by the relevant PRC rules and regulations with respect to the Restructuring, the property, plant and equipment, and construction in progress as at 31 May 2002 were revalued for each asset class by 亞太(集團)會計師事務所有限公司, a firm of independent valuers registered in the PRC, on a depreciated replacement costs basis. The surpluses arising from the revaluation of certain property, plant and equipment, and construction in progress of RMB28,939,000 and RMB3,076,000 respectively were credited to capital reserve while deficit arising from the revaluation of certain property, plant and equipment of RMB17,833,000 was charged as an expense for the year ended 31 December 2002. The revalued amounts serve as the tax base for future years for such assets.

In connection with the acquisition of Habahe Huatai Gold Limited Liability Company ("Habahe Huatai"), the property, plant and equipment of Habahe Huatai were revalued at 28 June 2005, by a firm of independent valuers, 北京中盛聯盟資產評估有限公司 and approved by the Ministry of Finance of the PRC. The value of property, plant and equipment of Habahe Huatai pursuant to the valuation, based on a depreciated replacement cost basis, was determined at RMB16,940,000, resulting in a surplus on revaluation of RMB959,000, net of amounts allocated to minority interests.

For the purpose of the listing of the Company's shares on the Stock Exchange, the properties of the Group were revalued as at 30 September 2005 by Sallmanns (Far East) Limited, an independent firm of valuers. The valuation gave rise to a revaluation surplus of approximately RMB2,467,000 from the carrying amount of the buildings at that date. The revaluation surplus was incorporated in the Group's consolidated financial statements.

In accordance with HKAS 16, subsequent to these revaluations, which was based on depreciated replacement costs, property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. Revaluation will be performed periodically to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

17 Construction in progress

	The Group		**The Company**	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cost:				
At 1 January	**110,834**	60,082	**81,626**	53,817
Additions	**157,194**	86,422	**87,122**	62,535
Purchase of net assets *(note 34)*	**11,244**	–	**–**	–
Transfer to property, plant and equipment *(note 16)*	**(24,739)**	(35,670)	**(23,154)**	(34,726)
At 31 December	**254,533**	110,834	**145,594**	81,626

Notes to the Financial Statements

18 Intangible assets

The Group

	Shanghai Gold Exchange trading rights RMB'000	**Exploration and evaluation assets** *(note a)* RMB'000	**Mining rights** *(note b)* RMB'000	**Exploration rights** *(note b)* RMB'000	**Total** RMB'000
Cost:					
At 1 January 2005	820	–	50,139	6	50,965
Additions	–	7,863	511	1,814	10,188
Acquisition through business combination *(note 35)*	–	20,099	19,706	6,250	46,055
At 31 December 2005	820	27,962	70,356	8,070	107,208
Accumulated amortisation:					
At 1 January 2005	–	–	14,392	5	14,397
Charge for the year	–	2,062	5,682	3,194	10,938
At 31 December 2005	–	2,062	20,074	3,199	25,335
Net book value:					
At 31 December 2005	820	25,900	50,282	4,871	81,873
Cost:					
At 1 January 2006	**820**	**27,962**	**70,356**	**8,070**	**107,208**
Additions	**–**	**35,331**	**–**	**196**	**35,527**
Purchase of net assets *(note 34)*	**–**	**86,711**	**1,120**	**7,157**	**94,988**
At 31 December 2006	**820**	**150,004**	**71,476**	**15,423**	**237,723**
Accumulated amortisation:					
At 1 January 2006	**–**	**2,062**	**20,074**	**3,199**	**25,335**
Charge for the year	**–**	**3,234**	**7,281**	**6,995**	**17,510**
At 31 December 2006	**–**	**5,296**	**27,355**	**10,194**	**42,845**
Net book value:					
At 31 December 2006	**820**	**144,708**	**44,121**	**5,229**	**194,878**

18 Intangible assets (continued)

The Company

	Shanghai Gold Exchange trading rights RMB'000	Exploration and evaluation assets *(note a)* RMB'000	Mining rights *(note b)* RMB'000	Exploration rights *(note b)* RMB'000	Total RMB'000
Cost:					
At 1 January 2005	820	–	50,139	6	50,965
Additions	–	3,850	–	594	4,444
At 31 December 2005	820	3,850	50,139	600	55,409
Accumulated amortisation:					
At 1 January 2005	–	–	14,392	5	14,397
Charge for the year	–	–	5,097	253	5,350
At 31 December 2005	–	–	19,489	258	19,747
Net book value:					
At 31 December 2005	820	3,850	30,650	342	35,662
Cost:					
At 1 January 2006	**820**	**3,850**	**50,139**	**600**	**55,409**
Disposals	**–**	**(3,850)**	**–**	**(153)**	**(4,003)**
At 31 December 2006	**820**	**–**	**50,139**	**447**	**51,406**
Accumulated amortisation:					
At 1 January 2006	**–**	**–**	**19,489**	**258**	**19,747**
Charge for the year	**–**	**–**	**4,681**	**220**	**4,901**
Written back on disposal	**–**	**–**	**–**	**(57)**	**(57)**
At 31 December 2006	**–**	**–**	**24,170**	**421**	**24,591**
Net book value:					
At 31 December 2006	**820**	**–**	**25,969**	**26**	**26,815**

Notes to the Financial Statements

18 Intangible assets (continued)

(a) Included in intangible assets of the Group and the Company are assets related to mines which are not operative as at 31 December 2006 with an carrying value of RMB144,564,000 (2005: RMB22,007,000) and RMB Nil (2005: RMB3,850,000) respectively. These assets are not subject to amortisation until they are placed in use and are tested for impairment annually.

(b) The Group's mining rights and principal exploration rights are as follows:

Mine	**Location**	**Expiry date**
Mining rights:		
Lingjin One Mine	Lingbao, Henan	December 2021
Hongxin Gold Mine	Lingbao, Henan	March 2007 *(note i)*
Duolanasayi Gold Mine	Habahe, Xinjiang	August 2007
Tuokuzibayi Gold Mine	Habahe, Xinjiang	August 2007
Kaqia Gold Mine	Wushi, Xinjiang	September 2009
Shangrao County Jintian Industrial Company Limited Gold Mine	Shangrao, Jiangxi	November 2010
Shanzaoling Gold Mine	Shangrao, Jiangxi	April 2011 *(note ii)*
Exploration rights:		
In-depth deposit of Lingjin One Mine	Lingbao, Henan	October 2008
Fanjiacha Gold Mine	Lingbao, Henan	February 2006 *(note i)*
Harqin Banner Shijiaxiang Shuiquangou Gold Mine	Chifeng, Inner Mongolia	April 2007

Notes:

(i) As at the date of this report, the Group has applied for an extension of the relevant mining and exploration right but the extensions are yet to be obtained.

(ii) The mining right is acquired as part of the acquisition of 婺源縣金成礦業有限責任公司 from an independent third party. The Group has applied for the approval of the transfer of mining right but is yet to be obtained.

The amortisation charge for the year ended 31 December 2006 is included in "cost of sales" and "other operating expenses" in the consolidated income statement of the Group.

19 Goodwill

	The Group	
	2006	2005
	RMB'000	RMB'000
Cost:		
At 1 January	**4,716**	–
Additions	**108**	4,716
At 31 December	**4,824**	4,716

Impairment tests for cash-generating units containing goodwill

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

	2006	2005
	RMB'000	RMB'000
Mining	**4,824**	4,716

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

Key assumptions used for value-in-use calculations:

	2006	2005
	%	%
Gross margin	**20**	20
Growth rate	**5**	5
Discount rate	**7.5**	5.58

Management determined the budgeted gross margin based on past performance and its expectation for market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

Notes to the Financial Statements

20 Lease prepayments

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**9,558**	9,634	**9,381**	9,634
Additions	**–**	178	**–**	–
Less: Amortisation	**(329)**	(254)	**(253)**	(253)
At 31 December	**9,229**	9,558	**9,128**	9,381
Lease prepayments	**9,229**	9,558	**9,128**	9,381
Less: Current portion of lease prepayments included in other deposits and prepayments	**(253)**	(329)	**(253)**	(253)
	8,976	9,229	**8,875**	9,128

The Group's and the Company's leasehold land are located in the PRC. The Group and the Company was formally granted certain rights to use the land on which the Group's and the Company's factories and infrastructures are erected for a period of 50 years, with expiry through 2052, by the relevant PRC authorities.

21 Investments in subsidiaries

	The Company	
	2006	2005
	RMB'000	RMB'000
Unlisted shares, at cost	**223,930**	47,100
Amounts due from subsidiaries	**195,647**	94,170
Amounts due to subsidiaries	**(54,347)**	–
	365,230	141,270

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

21 Investments in subsidiaries (continued)

Details of the subsidiaries at 31 December 2006 are as follow:

Name of company	Type of legal entity	Place of incorporation	Percentage of equity attributable to the Company Direct %	Indirect %	Issued and fully paid-up/ registered capital '000	Principal activities
Xinjiang Baoxin Mining Company Limited	Limited liability company	The PRC	80	–	RMB10,000	Sales of mineral products
Lingbao Hongxin Mining Limited Liability Company	Limited liability company	The PRC	80	–	RMB3,000	Exploration and processing of gold, sales of mineral products
Akesu District Xindi Mining Company Limited	Limited liability company	The PRC	–	80	RMB10,000	Mining and exploration of mineral reserves
Jiangxi Mingxin Mining Company Limited	Limited liability company	The PRC	80	–	RMB5,000	Production and sales of precious metal products
Habahe Huatai Gold Limited Liability Company	Limited liability company	The PRC	83.3	–	RMB12,000	Mining, processing and smelting of gold, production of gold products, sales of gold bullion products, machinery, equipment and components for gold processing
Tongbai Xingyuan Mining Company Limited	Limited liability company	The PRC	80	–	RMB17,000	Geological exploration of mineral reserves

Notes to the Financial Statements

21 Investments in subsidiaries (continued)

Name of company	Type of legal entity	Place of incorporation	Percentage of equity attributable to the Company Direct %	Percentage of equity attributable to the Company Indirect %	Issued and fully paid-up/ registered capital '000	Principal activities
Shangrao County Jintian Industrial Company Limited	Limited liability company	The PRC	100	–	RMB38,000	Mining and exploration of mineral reserves, processing and smelting of gold, further processing and sales of gold products
Chi Feng City Zheng Ji Mining Limited Company	Limited liability company	The PRC	80	–	RMB5,000	Processing of metallurgy products, sales of mineral products
Lingbao Gold International Limited	Limited liability company	Hong Kong	100	–	HK$50,000	Dormant
Wuyuan County Jincheng Mining Company Limited	Limited liability company	The PRC	100	–	RMB500	Sales of mineral products

22 Other investments

	The Group and the Company 2006 RMB'000	The Group and the Company 2005 RMB'000
Unlisted available-for-sale equity securities, at cost	**10,504**	10,504

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

23 Deposits for long term investments

Deposits for long term investments represent deposits paid to certain independent third parties for obtaining exclusive rights to negotiate for the acquisition of companies with mining assets in Henan, Shanxi, Gansu and Hebei provinces. The amounts are unsecured, interest-free and repayable when the relative exclusive rights are expired. The directors of the Company consider that appropriate procedures have been taken by the Group to assess the viability of the potential new mines and expect that the deposit would be recovered through acquisition of new mines and relevant mining assets.

24 Income tax in the balance sheets

(a) Current taxation in the balance sheets represents:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC income tax recoverable/ (payable)	**(15,446)**	(1,559)	**(8,812)**	517
Representing:				
Current tax recoverable	**–**	517	**–**	517
Current tax payable	**(15,446)**	(2,076)	**(8,812)**	–
	(15,446)	(1,559)	**(8,812)**	517

Notes to the Financial Statements

24 Income tax in the balance sheets (continued)

(b) Deferred tax assets and liabilities recognised:

(i) The Group

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

	Depreciation in excess of related depreciation allowances RMB'000	Amortisation of other intangibles RMB'000	Timing difference relating to written off of pre-operating expenses RMB'000	Timing difference on doubtful debt provisions/ impairments RMB'000	Timing difference on provision for salary and other employee benefits RMB'000	Tax losses RMB'000 *Note (i)*	Revaluation of properties RMB'000	Total RMB'000
Deferred tax arising from:								
At 1 January 2005	3,741	–	609	1,767	5,013	–	–	11,130
(Charged)/credited to profit or loss	(1,411)	988	143	(747)	3,655	2,026	–	4,654
Charged to reserves	(157)	–	–	–	–	–	–	(157)
Acquisition through business combination *(note 35)*	250	–	–	–	234	489	(3,527)	(2,554)
At 31 December 2005	2,423	988	752	1,020	8,902	2,515	(3,527)	13,073
At 1 January 2006	**2,423**	**988**	**752**	**1,020**	**8,902**	**2,515**	**(3,527)**	**13,073**
(Charged)/credited to profit or loss	**(3,334)**	**2,477**	**(586)**	**(734)**	**(2,876)**	**2,293**	**342**	**(2,418)**
Purchase of net assets *(note 34)*	**-**	**-**	**-**	**-**	**-**	**842**	**-**	**842**
At 31 December 2006	**(911)**	**3,465**	**166**	**286**	**6,026**	**5,650**	**(3,185)**	**11,497**

24 Income tax in the balance sheets (continued)

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

(ii) The Company

	Depreciation in excess of related depreciation allowances RMB'000	Timing difference relating to written off of pre-operating expenses RMB'000	Timing difference on doubtful debt provisions/ impairments RMB'000	Timing difference on provision for salary and other employee benefits RMB'000	Amortisation of other intangibles RMB'000	Total RMB'000
At 1 January 2005	3,741	609	1,767	5,013	–	11,130
(Charged)/credited to profit or loss	(1,855)	(222)	(747)	3,066	988	1,230
Charged to reserves	(157)	–	–	–	–	(157)
At 31 December 2005	1,729	387	1,020	8,079	988	12,203
At 1 January 2006	**1,729**	**387**	**1,020**	**8,079**	**988**	**12,203**
(Charged)/credited to profit or loss	**(2,476)**	**(221)**	**(733)**	**(2,612)**	**851**	**(5,191)**
At 31 December 2006	**(747)**	**166**	**287**	**5,467**	**1,839**	**7,012**

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	**2006 RMB'000**	2005 RMB'000
Net deferred tax asset recognised on the balance sheet	**12,646**	15,627	**7,012**	12,203
Net deferred tax liability recognised on the balance sheet	**(1,149)**	(2,554)	**–**	–
	11,497	13,073	**7,012**	12,203

Notes:

(i) Tax losses will expire within 5 years.

(ii) There were no significant unrecognised deferred tax assets and liabilities as at 31 December 2006 and 2005.

Notes to the Financial Statements

25 Inventories

(a) Inventories in the balance sheet comprise:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**336,350**	187,241	**331,606**	181,877
Work in progress	**17,768**	12,105	**8,057**	10,218
Finished goods	**63,497**	78,648	**63,642**	78,648
Low-value consumables	**17,395**	13,763	**12,316**	11,888
	435,010	291,757	**415,621**	282,631

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

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Carrying amount of inventories sold	**1,792,220**	1,235,479	**1,812,143**	1,212,857

26 Trade and other receivables, deposits and prepayments

Trade and other receivables, deposits and prepayments comprise:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**26,732**	14,571	**26,732**	14,571
Bills receivable	**24,023**	22,636	**24,023**	22,636
Other receivables	**10,192**	3,937	**7,837**	3,197
Purchase deposits *(note)*	**97,824**	82,890	**97,824**	82,890
Interest receivable	**9,668**	–	**9,668**	–
Other deposits and prepayments	**59,134**	42,378	**39,103**	32,312
	227,573	166,412	**205,187**	155,606

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

Note: Purchase deposits represent the amounts paid by the Group in advance to approximately 50 suppliers (2005: 40) to secure timely and stable supply of mineral sand for the purposes of refining in future periods. The directors of the Company consider that appropriate procedures have been taken by the Group to assess the capabilities of the suppliers to supply mineral sand and expect that the purchase deposits would be gradually recovered through future purchases of mineral sand from the respective suppliers.

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

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

An ageing analysis of trade receivables and bills receivable (net of impairment losses for bad and doubtful debts) as of the balance sheet date is as follows:

	The Group		**The Company**	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**38,354**	19,922	**38,354**	19,922
Over 3 months but less than 6 months	**12,277**	14,309	**12,277**	14,309
Over 6 months but less than 1 year	**124**	2,976	**124**	2,976
	50,755	37,207	**50,755**	37,207

Included in trade and other receivables, deposits and prepayments are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		**The Company**	
	2006	2005	**2006**	2005
	'000	'000	**'000**	'000
Hong Kong Dollars	**HK$9,623**	HK$ –	**HK$9,623**	HK$ –

Notes to the Financial Statements

27 Cash and cash equivalents and deposits with banks

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and on hand	**431,647**	117,861	**390,471**	94,401
Bank deposits with maturity over 3 months	**442,057**	–	**442,057**	–
Cash and cash equivalents in the balance sheet	**873,704**	117,861	**832,528**	94,401
Restricted deposits#	**(526,439)**	–	**(526,439)**	–
Cash and cash equivalents in the consolidated cash flow statement	**347,265**	117,861	**306,089**	94,401

Included in cash and cash equivalents and deposits with banks in the balance sheets are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2006	2005	**2006**	2005
	'000	'000	**'000**	'000
Hong Kong Dollars	**HK$539,044**	HK$ –	**HK$539,044**	HK$ –

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

The Company's H shares were successfully listed on the Main Board of the Stock Exchange on 12 January 2006. The Group raised RMB865,379,000 (net of related expenses) from the offer. The proceeds from the offer is placed in designated bank saving and deposits accounts. The deposits can only be used for the specified purposes stipulated in the Prospectus dated 30 December 2005. As at 31 December 2006, the amount of cash and bank deposits placed in the designated accounts amounted to RMB526,439,000 (2005: RMB Nil). The balance will only be released after the approval from State Administration of Foreign Exchange was obtained.

28 Bank loans

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

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year or on demand	**935,000**	292,150	**935,000**	292,150
Over 1 year but within 2 years	**–**	110,000	**–**	110,000
	935,000	402,150	**935,000**	402,150

All the Group's and the Company's bank loans as at 31 December 2006 and 2005 are denominated in Renminbi and are interest-bearing. The interest rates of the bank loans ranged from 4.86% to 6.30% for the year ended 31 December 2006 (2005: 5.58% to 5.76%).

At 31 December 2006, the bank loans were secured as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank loans				
– secured	**50,000**	88,600	**50,000**	88,600
– unsecured	**885,000**	313,550	**885,000**	313,550
	935,000	402,150	**935,000**	402,150

Bank loans of RMB50,000,000 (2005: RMB88,600,000) were secured by pledges over the Group's and the Company's property, plant and equipment (2005: property, plant and equipment, trade receivables and inventories) with carrying value of RMB81,612,000 (2005: property, plant and equipment, trade receivables and inventories with carrying value of RMB111,086,000, RMB12,000,000 and RMB100,000,000).

29 Other loan

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

Notes to the Financial Statements

30 Trade and other payables

Trade and other payables comprise:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**81,681**	60,821	**60,214**	54,598
Other payables	**137,801**	22,436	**129,193**	21,301
Salary and welfare payable	**35,536**	42,883	**31,172**	40,264
Accruals	**12,928**	8,386	**9,965**	8,101
Interest payable	**1,643**	–	**1,643**	–
Receipts in advance	**6,600**	8,766	**6,600**	8,766
	276,189	143,292	**238,787**	133,030

All of the trade and other payables are expected to be settled within one year.

An ageing analysis of trade payables is as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**74,631**	55,933	**55,220**	51,435
Over 3 months but less than 6 months	**2,892**	2,908	**2,754**	1,183
Over 6 months but less than 1 year	**531**	1,245	**497**	1,245
Over 1 year but less than 2 years	**3,627**	735	**1,743**	735
	81,681	60,821	**60,214**	54,598

Included in other payables of the Group and the Company is an amount payable to the National Social Security Fund of RMB86,624,000 (2005: RMB Nil). In accordance with relevant PRC government regulations, Lingbao State-owned Assets Operation Limited Liability Company, Sanmenxia Jinqu Group Company Limited and Lingbao Electric Company ("Selling Shareholders") are required to dispose of a portion of its ordinary shares in the Global Offering and pay the net proceeds of the disposal to the National Social Security Fund. The Company received the net proceeds on behalf of the Selling Shareholders and is arranging for the payment to the National Social Security Fund.

30 Trade and other payables (continued)

Included in trade and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2006	2005	**2006**	2005
	'000	'000	**'000**	'000
Hong Kong Dollars	**HK$90,060**	HK$ –	**HK$90,060**	HK$ –

31 Capital and reserve

(a) The Group

	Note	Attributable to equity holders of the Company							
		Share capital	Retained profits	Share premium	Statutory reserve	Capital reserve	Total	Minority interests	Total equity
		RMB'000	RMB'000	RMB'000 (Note (iv))	RMB'000	RMB'000 (Note (v))	RMB'000	RMB'000	RMB'000
At 1 January 2005		100,000	158,748	16,602	30,350	32,015	337,715	1,935	339,650
Profit for the year		–	154,584	–	–	–	154,584	192	154,776
Capital contributions from minority interests	*(ii)*	–	–	–	–	–	–	1,100	1,100
Acquisition through business combination	*35*	–	–	–	–	–	–	6,275	6,275
Revaluation surplus, net of deferred tax		–	–	–	–	319	319	–	319
Transfer to reserves	*(i)*	–	(23,368)	–	23,368	–	–	–	–
At 31 December 2005		100,000	289,964	16,602	53,718	32,334	492,618	9,502	502,120
At 1 January 2006		100,000	289,964	16,602	53,718	32,334	492,618	9,502	502,120
Profit for the year		–	219,836	–	–	–	219,836	996	220,832
Dividend approved in respect of the previous year		–	(61,620)	–	–	–	(61,620)	–	(61,620)
Shares issued under the placing and public offering		54,050	–	882,687	–	–	936,737	–	936,737
Shares issuance costs		–	–	(71,358)	–	–	(71,358)	–	(71,358)
Purchase of net assets	*34*	–	–	–	–	–	–	17,160	17,160
Transfer to reserves	*(i)*	–	(21,227)	–	21,227	–	–	–	–
At 31 December 2006		154,050	426,953	827,931	74,945	32,334	1,516,213	27,658	1,543,871

Notes to the Financial Statements

31 Capital and reserve (continued)

(b) The Company

	Note	Share capital RMB'000	Retained profits RMB'000	Share premium RMB'000 (Note (iv))	Statutory reserve RMB'000	Capital reserve RMB'000 (Note (v))	Total equity RMB'000
At 1 January 2005		100,000	160,442	16,602	30,350	32,015	339,409
Profit for the year		–	155,069	–	–	–	155,069
Revaluation surplus, net of deferred tax		–	–	–	–	319	319
Transfer to reserves	*(i)*	–	(22,717)	–	22,717	–	–
At 31 December 2005		100,000	292,794	16,602	53,067	32,334	494,797
At 1 January 2006		100,000	292,794	16,602	53,067	32,334	494,797
Profit for the year		–	218,058	–	–	–	218,058
Dividend approved in respect of the previous year		–	(61,620)	–	–	–	(61,620)
Shares issued under the placing and public offer		54,050	–	882,687	–	–	936,737
Shares issuance costs		–	–	(71,358)	–	–	(71,358)
Transfer to reserves	*(i)*	–	(20,302)	–	20,302	–	–
At 31 December 2006		154,050	428,930	827,931	73,369	32,334	1,516,614

Notes:

(i) **PRC statutory reserves**

Transfers from retained profits to the PRC statutory reserves were made in accordance with the relevant PRC rules and regulations and articles of association of the Company and its subsidiaries incorporated in the PRC and were approved by the respective boards of directors.

(a) Statutory surplus reserve

The Company and the subsidiaries are required to transfer 10% of their net profit, as determined in accordance with the PRC accounting standards and regulations, to the statutory surplus reserve (the "SSR") until the reserve balance reaches 50% of the registered capital. Subject to certain restrictions set out in the relevant PRC regulations, the SSR may be converted to increase the share capital of the Company, provided that the remaining balance after the capitalisation is not less than 25% of the registered share capital.

31 Capital and reserve (continued)

(b) The Company (continued)

Notes: (continued)

(b) *Statutory public welfare fund*
The Company made an appropriation of RMB7,832,000 to statutory public welfare fund in 2005. Pursuant to the revised Company Law of the PRC, the Company is not required by law to make appropriations to statutory public welfare fund with effect from 1 January 2006. The balances of the statutory public welfare fund as at 1 January 2006 of RMB17,949,000 were transferred to statutory surplus reserve.

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

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

(iv) The share premium represents the difference between the total amount of the par value of shares issued and the amount of the net proceeds received upon the global initial public offering. The application of the share premium account is governed by sections 168 and 169 of the PRC Company Law.

(v) The capital reserve as at 31 December 2006, primarily represents the surpluses arising from the revaluation of certain property, plant and equipment, and construction in progress of as required by the relevant PRC rules and regulations with respect to the Restructuring of the Company on 31 May 2002.

Notes to the Financial Statements

31 Capital and reserve (continued)

(c) Share capital

The Group and the Company

		2006		2005	
	Notes	**Number of shares '000**	**RMB'000**	Number of shares '000	RMB'000
At 1 January		**500,000**	**100,000**	100,000	100,000
Subdivision of shares pursuant to the reorganisation of the Company	(i)	**–**	**–**	400,000	–
Shares issued under the placing and public offer	(ii)	**270,249**	**54,050**	–	–
At 31 December		**770,249**	**154,050**	500,000	100,000

	The Group and the Company	
	2006 RMB'000	2005 RMB'000
Registered, issued and fully paid:		
472,975,091 (2005: 500,000,000) domestic shares of RMB0.20 each	**94,595**	100,000
297,274,000 (2005: Nil) H shares of RMB0.20 each	**59,455**	–
	154,050	100,000

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

31 Capital and reserve (continued)

(c) Share capital (continued)

(ii) The Company's H shares were successfully listed on the Stock Exchange on 12 January 2006. Together with the full exercise of the over-allotment option by BOC International Holdings Limited on 16 January 2006, an aggregate of 270,249,091 shares of a nominal value of RMB0.20 each were issued at a price of HK$3.33 per share upon the listing of the Company's shares on the Main Board of the Stock Exchange. The Group raised RMB865,379,000 (net of related expenses) from the offer.

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

The holders of Domestic shares and H shares are entitled to receive dividends as and when declared by the Company. All Domestic shares and H shares are ordinary shares and rank pari passu with the same rights and benefits.

(d) Distributability of reserves

According to the Listing Rules of the Main Board of the Stock Exchange, the amount of retained profits available for distribution to shareholders of the Company is the lower of the amount determined in accordance with the PRC Accounting Rules and Regulations and the amount determined in accordance with HKFRSs. At 31 December 2006, the amount of retained profits available for distribution was RMB359,407,000, being the amount determined in accordance with the PRC Accounting Rules and Regulations (2005: RMB292,794,000 being the amount determined in accordance with the HKFRSs). After the balance sheet date, the directors proposed a final dividend of RMB0.08 per share (2005: RMB0.08 per share), amounting to RMB61,620,000 (2005: RMB61,620,000). This dividend has not been recognised as a liability at the balance sheet date.

Notes to the Financial Statements

32 Commitments and contingencies

(a) Capital commitments, representing purchase of property, plant and equipment outstanding at 31 December 2006 not provided for in the financial statements were as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Authorised and contracted for				
– Exploration rights	**8,820**	–	**–**	–
– Plant and machinery	**4,805**	–	**343**	–
– Mining right	**570**	–	**–**	–
	14,195	–	**343**	–
Authorised but not contracted for				
– Land and buildings	**41,690**	28,700	**14,856**	28,700
– Mining shafts	**164,264**	194,248	**164,264**	194,248
– Plant and machinery	**78,449**	49,694	**52,556**	49,694
– Office equipment	**10,000**	10,000	**10,000**	10,000
	294,403	282,642	**241,676**	282,642

(b) At 31 December 2006, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**695**	246	**432**	80
After 1 year but within 5 years	**1,064**	920	**144**	320
After 5 years	**728**	964	**–**	283
	2,487	2,130	**576**	683

The Group and the Company are the leasee in respect of a number of properties under operating leases. The leases typically run for an initial period of one to ten years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

32 Commitments and contingencies (continued)

(c) Environmental contingencies

To date, the Group has not incurred any significant expenditures for environment remediation, is currently not involved in any environmental remediation, and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, has moved and may move further towards more rigorous enforcement of applicable laws, and towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include: (i) the exact nature and extent of the contamination at various sites including, but not limited to mines, concentrators and smelting plants whether operating, closed and sold; (ii) the extent of required cleanup efforts; (iii) varying costs of alternative remediation strategies; (iv) changes in environmental remediation requirements; and (v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed or future environmental legislation cannot reasonably be estimated at present, and could be material. The Group paid normal routine pollutant discharge fee of RMB1,051,000 for the year ended 31 December 2006 (2005: RMB952,000).

33 Financial instruments

Exposure to credit, business, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Interest rate risk

The Group's exposure to market risk for changes in interest rate relates primarily to the Group's cash and cash equivalents and banks and other loans. The interest rates and terms of repayment of the interest-bearing bank and other loans of the Group are disclosed in notes 28 and 29.

Notes to the Financial Statements

33 Financial instruments (continued)

(a) Interest rate risk (continued)

Effective interest rates and repricing analysis

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

(i) The Group

	2006 Effective interest rate %	**2006** One year or less RMB'000	2005 Effective interest rate %	2005 One year or less RMB'000
Repricing dates for assets/(liabilities) which reprice before maturity				
Cash and cash equivalents	**1.52**	**431,647**	0.72	117,861
Bank loans	**5.82**	**(250,000)**	5.58	(230,000)
Other loan	**2.82**	**(3,270)**	2.55	(3,270)
		178,377		(115,409)
Maturing dates for assets/(liabilities) which do not reprice before maturity				
Deposits with banks	**4.48**	**442,057**	–	–
Bank loans	**5.32**	**(685,000)**	5.58	(172,150)
		(242,943)		(172,150)

33 Financial instruments (continued)

(a) Interest rate risk (continued)

(ii) The Company

	2006		2005	
	Effective interest rate %	**One year or less RMB'000**	Effective interest rate %	One year or less RMB'000
Repricing dates for assets/(liabilities) which reprice before maturity				
Cash and cash equivalents	**1.60**	**390,471**	0.72	94,401
Bank loans	**5.82**	**(250,000)**	5.58	(230,000)
Other loan	**2.82**	**(3,270)**	2.55	(3,270)
		137,201		(138,869)
Maturing dates for assets/(liabilities) which do not reprice before maturity				
Deposits with banks	**4.48**	**442,057**	–	–
Bank loans	**5.32**	**(685,000)**	5.58	(172,150)
		(242,943)		(172,150)

(b) Credit risk

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

In addition, the Group made purchase deposits of RMB97,824,000 (2005: RMB82,891,000) at 31 December 2006 to suppliers to secure its supplies of mineral sand which is the major raw materials in the smelting process. The balance represented 6% (2005: 14%) of total current assets at 31 December 2006. The Group believes that the purchase deposits will be recovered through purchases from these supplies in future periods. In the event that these suppliers ceased to provide mineral sand to the Group, the Group may expose itself to significant credit risk arising from the recoverability of the purchase deposits and hence the profitability will be adversely affected.

Notes to the Financial Statements

33 Financial instruments (continued)

(b) Credit risk (continued)

As at 31 December 2006, the Group made investments deposits of RMB460,162,000 (2005: RMB Nil) for obtaining exclusive rights to negotiate for the acquisition of companies with mining assets in Henan, Shanxi, Gansu and Hebei provinces. The balance represented 17% (2005: Nil) of total assets at 31 December 2006. The directors of the Company consider that appropriate procedures have been taken by the Group to assess the viability of the potential new mines and expect that the deposit would be recovered through acquisition of new mines and relevant mining assets.

(c) Foreign currency risk

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

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

Apart from the above, the Group is also exposed to foreign currency risk through the bank deposits denominated in Hong Kong dollars.

(d) Fair value

Financial assets of the Group comprise cash and cash equivalents, trade and other receivables and other investments. Financial liabilities include trade and other payables, short and long term bank loans and other loan. The carrying amounts of significant financial assets and liabilities approximate to their respective fair values as at 31 December 2006 and 2005 due to the nature or short-term maturity of these instruments.

(e) Business risk

During the year ended 31 December 2006, the Group's supplies of smelting's direct materials from independent third parties represent 86.7% (2005: 87.3%) of the Group's total direct materials, in which, the top five suppliers in 2006 represent 29.0% (2005: 40.5%) of the Group's total direct materials. Although the Group believes that it maintains good relationships with its suppliers, there can be no assurance that its suppliers will continue to sell to the Group on normal commercial terms as and when needed. In the event that these suppliers ceased to sell to the Group and the Group could not secure other sources of supply, the Group's turnover and profitability will be adversely affected.

34 Purchase of net assets

For the year ended 31 December 2006

In 2006, the Group acquired the entire equity interest in Shangrao County Jintian Industrial Company Limited from Mr. Pan Shaohua and Mr. Guo Fenlai, the entire equity interest in Wuyuan County Jincheng Mining Company Limited from Mr. Wang Ke Jin and an 80% equity interest in Chifeng City Zheng Ji Mining Limited Company from Mr. Yu Kexin.

These companies hold primarily mining rights and exploration right of unexploited natural rutile mines with no established infrastructure and no significant mining equipment at the date of acquisition. The underlying set of assets acquired was not integrated in forming a business to generate revenues. As such, the directors are of the opinion that the acquisition of these companies is a purchase of net assets which does not constitute a business combination for accounting purposes.

The aggregate acquisition consideration was RMB88,560,000 satisfied in cash and other payables. The aggregate amounts recognised at the acquisition date of their assets and liabilities are RMB123,584,000 and RMB17,864,000 respectively. The acquired companies did not generate any revenue since acquisition and have recorded an accumulated loss of RMB2,591,000 since acquisition. If the acquisition had occurred on 1 January 2006, the acquired companies would have recorded an accumulated loss of RMB4,302,000 for the year.

The directors considered that the total purchase consideration paid represented the fair value of net assets acquired and the fair value of exploration and evaluation assets, which is presented as intangible assets below, is considered as the excess of fair value of net assets acquired over the fair value of net tangible assets acquired.

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

Notes to the Financial Statements

34 Purchase of net assets (continued)

For the year ended 31 December 2006 (continued)

Acquiree's net assets at the acquisition date:

	Carrying values prior to purchase RMB'000	Fair value adjustments RMB'000	Carrying values upon purchase RMB'000
Property, plant and equipment *(note 16)*	2,950	–	2,950
Construction in progress *(note 17)*	11,244	–	11,244
Intangible assets *(note 18)*	10,238	84,750	94,988
Deferred tax assets *(note 24(b))*	842	–	842
Inventories	512	–	512
Trade and other receivable, deposits and prepayments	2,987	–	2,987
Cash at bank and in hand	3,061	–	3,061
Trade and other payables	(14,064)	–	(14,064)
Amount due to the Company	(3,800)	–	(3,800)
Amount due from Mr. Wang Ke Jin	7,000	–	7,000
Minority interests *(note 31(a))*	(3,586)	(13,574)	(17,160)
Net identifiable assets	17,384	71,176	88,560
Total purchase price consideration			88,560
Satisfied by			
Cash			85,260
Other payables			3,300
			88,560
Cash at bank and in hand acquired			3,061
Cash consideration paid			(85,260)
Net outflow of cash and cash equivalents in respect of the purchase of net assets			(82,199)

35 Business combination

For the year ended 31 December 2005

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

Acquiree's net assets at the acquisition date:

	Pre-acquisition carrying amount RMB'000	**Fair value adjustments** RMB'000	**Recognised values on acquisitions** RMB'000
Property, plant and equipment *(note 16)*	15,789	1,151	16,940
Intangible assets *(note 18)*	36,546	9,509	46,055
Inventories	8,291	28	8,319
Trade and other receivable, deposits and prepayments	8,837	–	8,837
Cash at bank and in hand	16,227	–	16,227
Trade and other payables	(13,429)	–	(13,429)
Amount due to the Company	(29,600)	–	(29,600)
Amount due to Xinjiang Baoxin Mining Co. Ltd.	(15,610)	–	(15,610)
Amount due to Akesu District Xindi Mining Company Limited	(800)	–	(800)
Amount due to Mr. Zhou Yudao	(10)	–	(10)
Tax payable	(116)	–	(116)
Deferred tax liabilities *(note 24(b))*	973	(3,527)	(2,554)
Minority interests *(note 31(a))*	(6,275)	–	(6,275)
Net identifiable assets	20,823	7,161	27,984
Goodwill arising on acquisition			4,716
Total purchase price consideration			32,700
Satisfied by			
Cash			32,700
Other payables			–
			32,700
Cash at bank and in hand acquired			16,227
Cash consideration paid			(32,700)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries			(16,473)

Notes to the Financial Statements

36 Segment information

Segment information is presented in respect of the Group's business segments. Business segment information is chosen as the primary format because this is more relevant to the Group's internal financial reporting.

Business segments

The Group comprises the following main business segments:

Mining – The mining operation of the Group;

Smelting – The smelting and refinery operation of the Group.

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

	Mining RMB'000	Smelting RMB'000	Inter-segment elimination RMB'000	Unallocated RMB'000	Consolidated RMB'000
Year ended 31 December 2006					
Revenue and expenses					
Revenue from external customers	22,877	2,212,098	–	–	2,234,975
Inter-segment revenue	283,733	–	(283,733)	–	–
Other revenue from external customers	1,155	10,426	–	64,709	76,290
Total	307,765	2,222,524	(283,733)	64,709	2,311,265
Segment result	66,670	316,873	(8,689)	64,709	439,563
Unallocated operating income and expenses					(71,009)
Profit from operations					368,554
Finance costs					(31,213)
Income tax					(116,509)
Profit for the year					220,832

34 Segment information (continued)

Business segments (continued)

	Mining RMB'000	Smelting RMB'000	Inter-segment elimination RMB'000	Unallocated RMB'000	Consolidated RMB'000
As at 31 December 2006					
Assets and liabilities					
Segment assets	760,933	776,939	–	–	1,537,872
Unallocated assets					1,237,053
Total assets					2,774,925
Segment liabilities	84,053	88,516	–	–	172,569
Unallocated liabilities					1,058,485
Total liabilities					1,231,054
Other segmental information					
Capital expenditure incurred during the year	303,442	45,318	–	5,088	353,848
Depreciation and amortisation for the year	33,201	14,721	–	1,439	49,361

Notes to the Financial Statements

36 Segment information (continued)

Business segments (continued)

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

36 Segment information (continued)

Geographical segments

The Group's turnover and operating profit are almost entirely derived from the gold mining and smelting business in the PRC. Accordingly, no analysis by geographical segment has been presented.

37 Immediate and ultimate holding company

At 31 December 2006, the directors consider the immediate parent and ultimate controlling party of the Group to be Lingbao State-owned Assets Operation Limited Liability Company, a stated-owned enterprise established in the PRC. This entity does not produce financial statements available for public use.

38 Accounting estimates and judgements

Key sources of estimation uncertainty

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

(i) Reserves estimates

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

Engineering estimates of the Group's gold reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. There is Chinese system, which is the national standard set by the PRC Government, regarding the engineering criteria that have to be met before estimated gold reserves can be designated as "proved" and "probable". Proved and probable gold reserve estimates are updated at regular basis and have taken into account recent production and technical information about each mine. In addition, as prices and cost levels change from year to year, the estimate of proved and probable gold reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation rates.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation expenses and impairment loss. Depreciation rates are determined based on estimated proved and probable gold reserve quantity (the denominator) and capitalised costs of mining shafts and mining rights (the numerator). The capitalised cost of mining shafts and mining rights are amortised based on the units of gold produced.

Notes to the Financial Statements

38 Accounting estimates and judgements (continued)

Key sources of estimation uncertainty (continued)

(ii) Impairments

In considering the impairment losses that may be required for certain of the Group's assets which include property, plant and equipment, construction in progress pre-paid interest in leasehold land, intangible assets, goodwill and investments in its subsidiaries, recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the assets are discounted to their present value, which requires significant judgement relating to items such as level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sale volume, selling price and amount of operating costs.

In considering the impairment losses that may be required for current receivables, future cashflows need to be determined. One of the key assumptions that has to be applied is about the ability of the debtors to settle the receivables. Despite that the Group has used all available information to make this estimation, inherent uncertainty exists and actual write-offs may be higher than the amount estimated.

(iii) Inventory provision

Inventories are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale. In estimating the net realisable value, future cashflows need to be determined. One of the key estimates that has to be made is about the future selling price, it is possible that the recent selling price is not indicative of the future selling price. Any increase or decrease in selling price would affect profit or loss in future years.

(iv) Depreciation

Other than the mining shafts, mining rights and evaluation and exploration assets, property, plant and equipment and intangible assets are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews annually the useful life of an asset and its residual value, if any. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimation.

38 Accounting estimates and judgements (continued)

Key sources of estimation uncertainty (continued)

(v) Recognition of deferred tax assets

Deferred tax assets carried forward are recognised and measured based on the expected manner of realisation or settlement of the carrying amount of the assets, using tax rates enacted or substantively enacted at the balance sheet date. In determining the carrying amounts of deferred tax assets, expected taxable profits are estimated which involves a number of assumptions relating to the operating environment of the Group and requires significant level of judgement exercised by the directors. Any change in such assumptions and judgement would affect the carrying amounts of deferred tax assets to be recognised and hence the net profit in future years.

39 Non-adjusting post balance sheet events

The following significant transactions took place subsequent to 31 December 2006:

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

(ii) On 27 March 2007, the Company entered into a sale and purchase agreement with Mr. Zhao Meiguang, Mr. Ren Yiguo and Mr. Gao Bo, to acquire the entire equity interest in Chifeng Jinchan Mining Company Limited ("Chifeng Jinchan") at a consideration of RMB146,000,000. The total consideration was satisfied by cash.

Chifeng Jinchan has one mining right and six exploration rights in Kalaqin Banner of the Inner Mongolia Autonomous Region, the PRC. The mining right which expires on January 2010 and the six exploration rights expiring from 23 February 2007 to 8 May 2007 were granted by the Department of Land and Resources of the Inner Mongolia Autonomous Region, the PRC. The Company has applied for an extension of the relevant exploration rights but the extensions are yet to be obtained.

The consideration has been agreed with reference to the valuation report prepared by Chifeng Daxin Accounting Company Limited. According to the valuation report, the net assets of Chifeng Jinchan was RMB146,493,000 as at 28 February 2007.

(iii) On 27 March 2007, the Company entered into a shareholders' agreement with Shenyang Jinlu Wu Zhi Company Limited ("Shenyang Jinlu") to set up a company, namely Chifeng Lingjin Mining Co. Ltd. ("Chifeng Lingjin") in Inner Mongolia. Shenyang Jinlu and the Company are to inject 20% interest in an exploration right - the exploration right of the Silver Multi-metal Minerals of Xiaobeigou Linxi County, and contribute cash of RMB 32,000,000 into Chifeng Lingjin respectively.

Notes to the Financial Statements

39 Non-adjusting post balance sheet events (continued)

Chifeng Lingjin will purchase the remaining interest in the exploration right of the Silver Multi-metal Minerals of Xiaobeigou Linxi County according to a consideration estimated by an independent professional valuer. The exploration right which expires on 1 April 2007 was granted by the Department of Land and Resources of the Inner Mongolia Autonomous Region, the PRC. Shenyang Jinlu has applied for an extension of the exploration right but the extension is yet to be obtained. Chifeng Lingjin was established on 2 April 2007.

(iv) On 29 December 2006, the Standing Committee of the Tenth National People's Congress ("NPC") passed a resolution to submit the draft corporate income tax law to the Tenth NPC plenary session for voting. According to the income tax law, that was passed by NPC on 16 March 2007, corporate income tax rate will be revised to 25% with effect from 1 January 2008. Since implementation measure on transitional policy of preferential tax rate granted according to current tax law and administrative regulations was not yet announced, financial impact of the new tax law cannot be reasonably estimated at this stage.

(v) Commencing from 1 January 2007, the Company has adopted the Accounting Standards for Business Enterprises (the "New PRC Accounting Standards") promulgated by the Ministry of Finance of the People's Republic of China (the "MOF") in 2006. The Company is on the process of assessing the impact on the Company's financial position, operating results and cash flow.

40 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2006

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2006 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far the Group has concluded that while the adoption of them may result in new or amended disclosures, it is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

		Effective for accounting periods beginning on or after
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007
HK(IFRIC) 10	Interim financial reporting and impairment	1 November 2006