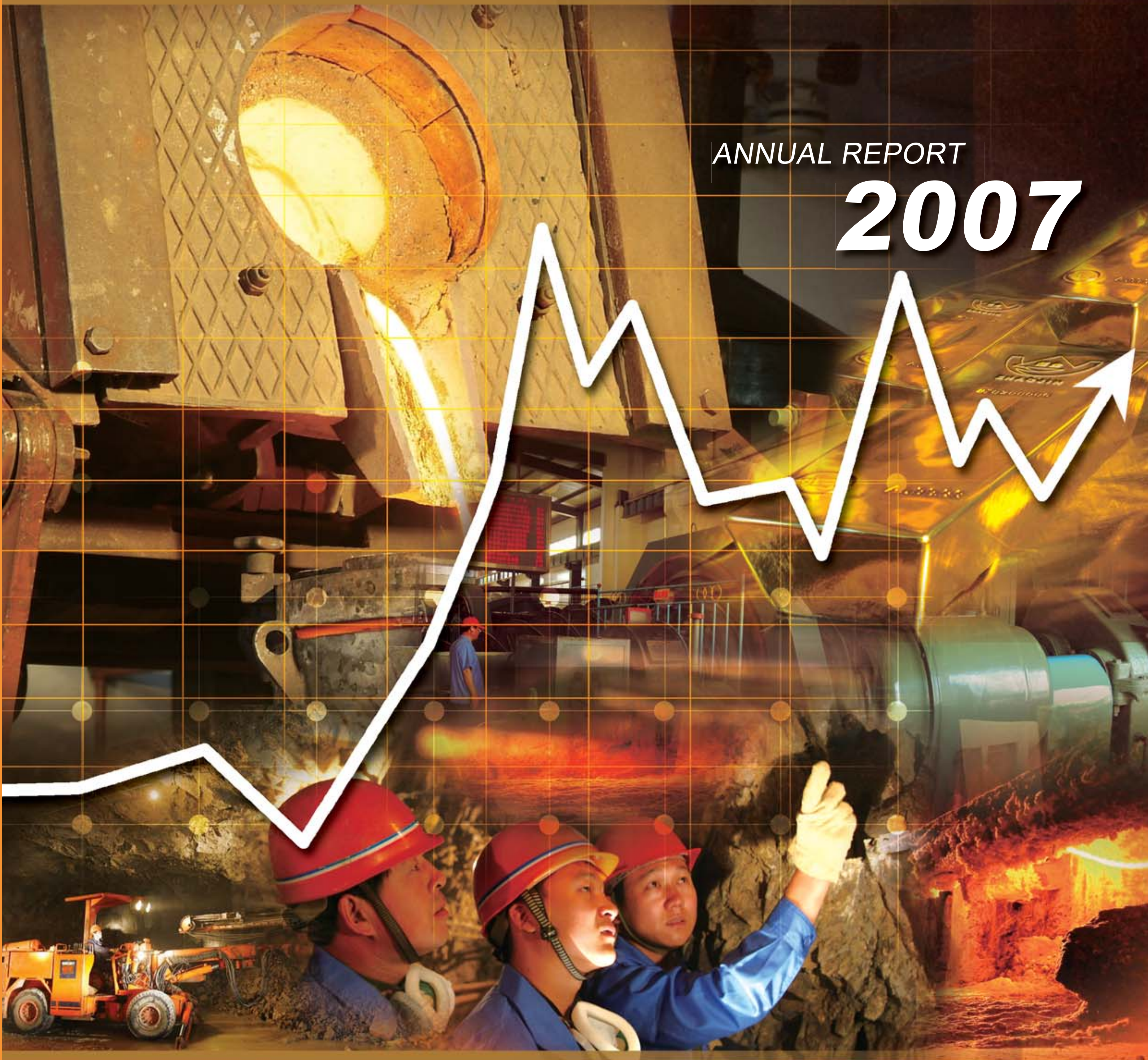
招金

ZHAOJIN



ANNUAL REPORT 2007

ZHAOJIN MINING INDUSTRY COMPANY LIMITED*

招金礦業股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1818)

* For identification purposes only

Zhaojin Mining Industry Company Limited
Annual Report 2007

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Corporate Information

Name of the Company

招金礦業股份有限公司

English Name of the Company

Zhaojin Mining Industry Company Limited

Legal Representative

Mr. Lu Dongshang

Executive Directors

Mr. Lu Dongshang *(Chairman)*
Mr. Wang Peifu *(Chief Executive Officer) (CEO)*
Mr. Ma Yushan

Non-executive Directors

Mr. Liang Xinjun *(Vice Chairman)*
Mr. Wu Ping
Mr. Liu Gendong
Mr. Cong Jianmao

Independent non-executive Directors

Mr. Yan Hongbo
Mr. Ye Tianzhu
Ms. Chen Jinrong
Mr. Choy Sze Chung Jojo

Supervisors and Members of the Supervisory Committee

Mr. Wang Xiaojie *(Chairman)*
Mr. Cheng Binghai
Mr. Chu Yushan

Secretary to the Board

Mr. Wang Ligang

Company Secretary

Mr. Ngai Wai Fung

Qualified Accountant

Mr. Nelson Ving Lung Ma

Authorised Representatives

Mr. Lu Dongshang *(Chairman)*
Mr. Wang Peifu

Audit Committee Members

Ms. Chen Jinrong *(Chairman)*
Mr. Liu Gendong
Mr. Yan Hongbo
Mr. Choy Sze Chung Jojo

Auditors

International Auditors:
Ernst & Young
18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

PRC Auditors:
Beijing Tin Wha Certified Public Accountants
14/F, Wu Dong Building
No. 9 Chegongzhuang Avenue
Xicheng District, Beijing
PRC

Legal Advisers

PRC Law:
King & Wood PRC Lawyers
28-29/F
Huai Hai Plaza
1045 Huaihai Road (M)
Shanghai 200031
China

Hong Kong Law:
Huen Wong & Co.
in association with Fried, Frank, Harris,
Shriver & Jacobson LLP
9/F Gloucester Tower
The Landmark
15 Queen's Road Central
Central, Hong Kong

Registered Office

2 Wenhua Road
Zhaoyuan City
Shandong, PRC

Principal Place of Business in Hong Kong

8th Floor
Gloucester Tower
The Landmark
15 Queen's Road Central
Central, Hong Kong

Hong Kong Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Rooms 1712-16, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal Bankers

Bank of China
78 Fuqian Road
Zhaoyuan City
Shandong
PRC

Agricultural Bank of China
298 Wenquan Road
Zhaoyuan City
Shandong
PRC

Website of the Company

www.zhaojin.com.cn

Stock Code

1818

Corporate Profile

Zhaojin Mining Industry Company Limited (the "Company") (stock code: 1818) and its subsidiaries (the "Group") were jointly established by Shandong Zhaojin Group Company Limited (the "Zhaojin Group"), Shanghai Fosun Industrial Investment Co., Ltd. (the "Shanghai Fosun"), Shanghai Yuyuan Tourist Mart Co., Ltd. (the "Shanghai Yuyuan"), Shenzhen Guangxin Investments Co., Ltd. (the "Guangxin Investments") and Shanghai Laomiao Gold Co., Ltd. (the "Laomiao Gold") as its promoters with the approval from Shandong Province People's Government. The Company was incorporated as a joint stock limited company in the People's Republic of China (the "PRC") on 16 April 2004 and listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 8 December 2006.

We are an integrated enterprise combining exploration, mining, ore processing and smelting operations who has focused on the gold production business. We are one of the leading gold producers and one of the biggest enterprises of gold smelting in PRC.

We are strategically based in the Zhaoyuan district of Shandong province in Jiaodong peninsula of the PRC, which has a long history of gold exploration and production. According to the statistics from China Gold Association as of 31 December 2005, its gold resources represented approximately 10% of the PRC's total remaining gold resources. Zhaoyuan district, which is named by China Gold Association as the "Gold Capital of China", is the largest gold production base and the first gold production city in the PRC.

We are the leading gold producer in the PRC, with a complete and professional gold production chain including exploration, mining, ore processing and smelting operations. Our principal products are Au9999 and Au9995 standard gold bullion. Our main technologies and equipment are of advanced both in the PRC and internationally. We have five operating mines in the Zhaoyuan district, namely Dayingezhuang Gold Mine, Jinchiling Gold Mine, Xiadian Gold Mine, Hedong Gold Mine and Jintingling Gold Mine. According to the Behre Dolbear Report, as at 31 December 2007, our remaining gold resource under the Code of The Joint Ore Reserves Committee in Australia (the "JORC") were approximately 6,769 kozs (as at 30 June 2006: 5,795 kozs) and our remaining gold reserves were approximately 4,834 kozs (as at 30 June 2006: 4,196 kozs). Our mines in Zhaoyuan district are well integrated with resourceful reserves.

We are committed to innovation and have achieved remarkable results with increasing gold reserves and gold production. Outside Zhaoyuan City ("Outside Zhaoyuan"), Shandong Province, besides our mines under construction located in Hainan and Xinjiang, during the year, we have acquired several exploration rights covering an area of 659.55 sq.km· and mining rights covering an area of 12.18 sq.km, with gold resources of 5.422 tons (approximately 174 kozs, according to Behre Dolbear Report) in Xinjiang, Sichuan, Gansu, Hunan, Inner Mongolia, Heilongjiang and Yunnan, which have paved the path for our persistent and steady development.

With excellent location, abundant resources, advanced technologies and innovative management, we proactively participate in the consolidation and development of domestic and overseas gold resources, strive to attain continuous growth in our results and profits and become one of the top and leading gold production enterprises in the PRC and the world.

Financial Summary

Financial Summary

Summary of Operating Results

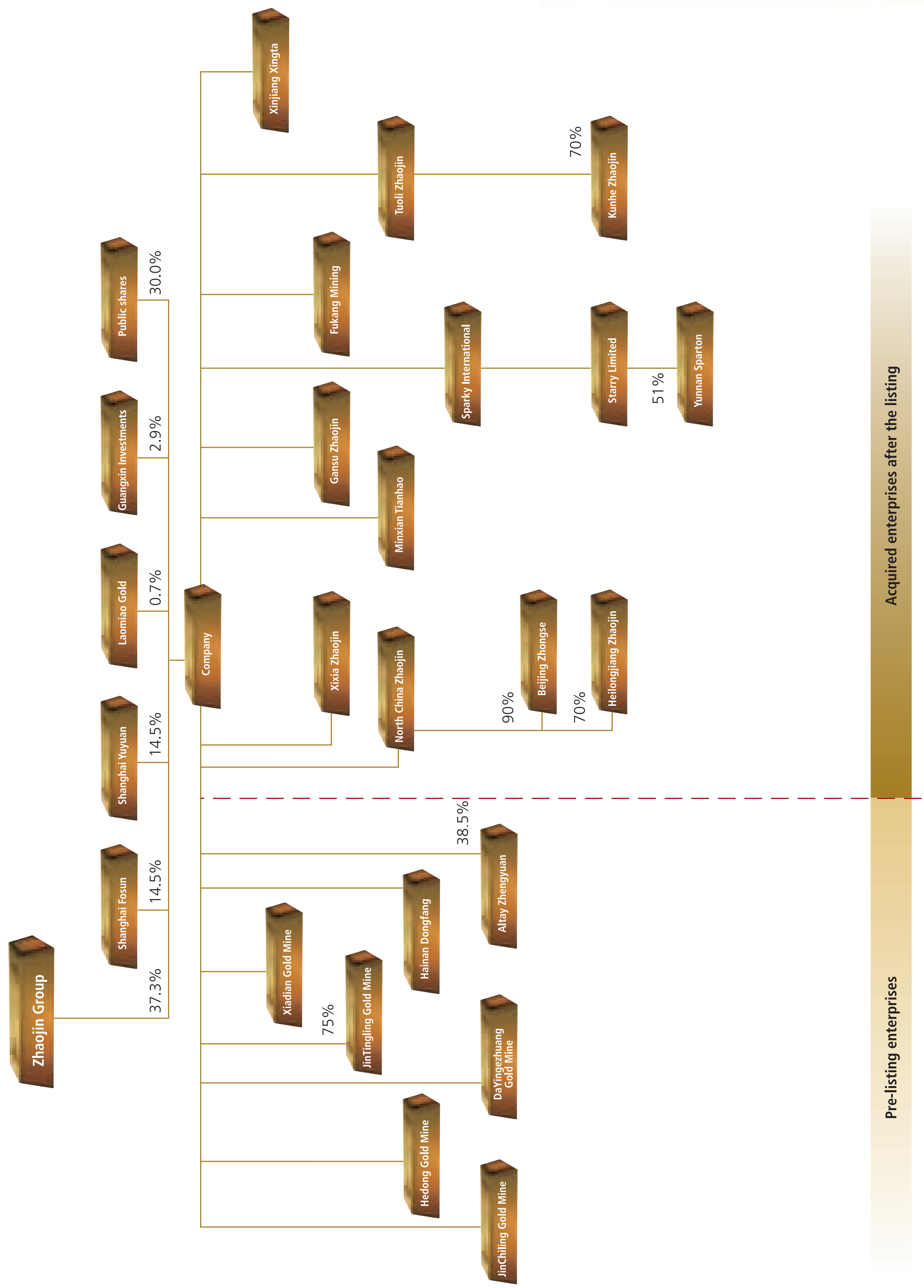
	For the year ended 31 December			
	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**1,512,273**	1,164,415	867,687	428,084
Gross profit	**754,821**	623,175	439,387	190,869
Share of profit/(loss) of associates	**1,979**	(1,935)	(717)	–
Profit before tax	**559,995**	517,750	239,976	100,027
Profit attributable to Shareholders of the Company	**388,447**	351,190	162,891	165,565
Earnings per share (RMB)	**0.53**	0.54	0.31	0.14

Summary of Assets

	As at 31 December			
	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**5,013,877**	4,907,558	2,133,045	1,025,012
Cash and cash equivalents	**1,625,689**	2,695,397	138,565	349,804
Total liabilities	**(1,260,663)**	(1,443,134)	(1,328,005)	(412,532)
Total net assets	**3,753,214**	3,464,424	805,040	612,480
Net assets per share (RMB)*	**5.15**	4.75	1.52	1.16

* *As at 31 December 2007, net assets per share is calculated on the basis of net assets of RMB3,753,214,000 and the total number of issued shares of 728,715,000 shares.*

Corporate Structure



Chairman's Statement

To Shareholders,

I am pleased to present the annual report of Zhaojin Mining Industry Company Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2007 (the "Year") on behalf of the board of directors (the "Board") of the Company. I would also like to express our kind regards to all shareholders (the "Shareholders") of the Company on behalf of the Board and all staff members.

The year 2007 is the first year after the Company's listing on the Stock Exchange and it took a great leap in its outbound expansion. Strong growth in operating results as well as outstanding financial and operational performance demonstrated our steady progress towards the goal of being a top international gold production corporation in the PRC and the world. For the year ended 31 December 2007, the Company achieved an aggregate gold production of approximately 19,364 kg (approximately 622,567 ozs), representing an increase of approximately 23.75% as compared to the corresponding period in the previous year, of which gold produced from our own mines accounted for approximately 8,378 kg (approximately 269,359 ozs) and smelting and processing gold accounted for approximately 10,986 kg (approximately 353,208 ozs). In accordance with the Hong Kong Financial Reporting Standards (the "HKFRS"), our annual sales revenue amounted to RMB1,512,273,000, representing an increase of 29.87% as compared to the prior year. Net profit amounted to RMB375,923,000, representing an increase of 30.02% as compared to the net profit (before interest income arising from the share application funds) of RMB289,131,000 of last year, and an increase of 7.51% as compared to the net profit (after interest income arising from the share application funds) of RMB349,651,000 of last year.

The Company's assets, shareholders' equity and earnings per share all accomplished, constant and steady growth during the Year. As the Company harvested growing results, we took no time to repay our Shareholders and the Board will propose at the forthcoming annual general meeting a distribution of a final cash dividend of RMB0.25 for the year ended 2007 (2006: RMB0.15) and a bonus issue on the basis of 1 bonus share (2006: Nil) for every share held by the Shareholders, which will be comprised (1) the bonus issue of shares on the basis of 0.25 bonus share (2006: Nil) for every share held by capitalization of retained profits of RMB182,179,000 to share capital of 182,179,000 shares of RMB1 each; and (2) a bonus issue of shares on the basis of 0.75 shares (2006: Nil) for every share held by way of capitalization of the capital reserve fund of RMB546,537,000 to share capital of 546,537,000 shares of RMB1 each.

Chairman's Statement

In 2007, the Company took a historical leap forward in the competition for mining rights through considering expansion by merger and acquisition as our "No.1 Project", participating proactively in the consolidation and development of domestic gold resources and vigorously implementing outbound expansion. We set up branches and offices in the North China, North-West, South-West and Xinjiang as our bridgeheads of outbound expansion. In June 2007, the Company successfully acquired three subsidiaries of Zhaojin Group, our substantial shareholder, with which we lifted the curtain of our expansion campaign. As at 31 December 2007, we have acquired a number of gold mining enterprises and their assets, covering an area of 659.55 sq.km of exploration rights and 12.18 sq.km of mining rights, thereby adding 5.422 tons (approximately 174 kozs, according to Behre Dolbear Report) of gold to our reserves.

We have held on to the guideline of "one stroke, multi catches" in our internal management while constantly strengthening our core competitive capability as we enhance our intrinsic value. The Company has rolled out a number of infrastructure technical conversion projects to improve our production capacity. To drive up the momentum of the Company's expansion, we have been powering up the geological exploration to build up our gold reserves. We have also fully pushed forward target-oriented management to reduce production costs, while reinforcing safety control and remaining highly concerned about production safety to create a safe, environmental-friendly and stable working environment.

Looking back on the year since the Company's listing, we have indeed endeavored to realize our commitment to the market and repay our Shareholders. The capital market's recognition of the Company has been improving as our share price rose by 109.7% during the Year, bringing our market value over HKD20 billion.

In 2008, we will adhere to our expansion strategy. Under the principal guideline of "grasp the macro while unreining the micro", we will continue to explore our path of expansion at low cost, acquire substantial resources and kick off big projects while consolidating management of the new branches established outside Zhaoyuan, increasing gold production, enhancing operating results and laying down a solid foundation for building a bigger and stronger Zhaojin Mining.

In 2008, while we are busy expanding our gold resources, we ought to be as busy securing human resources and implementing our infrastructure technical conversion projects. We should stick to our five drives, including accelerating exploration and increasing gold reserves, reducing costs and enhancing productivity, focusing on target-oriented management, technical innovation and upgrade the standardization of production safety to enlarge the scale and modernization of the Group, enhance corporate intrinsic value, and create substantial and consistent returns to shareholders. We strive to become one of the top and leading gold production enterprises in the PRC and the world.

I would like to express my gratitude on behalf of the Board to all of our staff for their dedication and our Shareholders for their continual support offered to the Group. We undertake that we will take "maximization of the interests of our Shareholders" as our operational objective like we did before and repay our Shareholders with the best results.

Lu Dongshang
Chairman

10 March 2008

Management Discussion and Analysis

The following discussions should be read in conjunction with the audited financial statements of the Group and the notes thereto contained in this annual report and other sections.

Market Overview

For the year ended 31 December 2007, due to the continuous weakening of US dollar, the increase of various energy prices, and the unstable geopolitical situations, the gold price surged up sharply to challenge the historical record high which extended the bullish gold market trend.

The average international spot price of gold in 2007 was US$689.89 per ounce (based on afternoon fix price of London Gold Market), representing an increase of approximately 14.32% from the average price of US$603.46 per ounce in 2006. The opening price was US$640.75 per ounce, and the average closing price was US$836.50 per ounce in 2007. The trend of the domestic gold price is basically in line with the international gold market trend with gold price increasing significantly as well. On the Shanghai Gold Exchange, the Au9999 gold price reached a new high of approximately RMB202.9 per gram.

The average price of gold sold by the Group during the Year was approximately RMB171.81 (before VAT) per gram (approximately US$689.61 per ounce), representing an increase of approximately 11.02% as compared to RMB154.76 per gram (approximately US$616.8 per ounce) last year.

Industry Position

For the year ended 31 December 2007, the Group is committed to the pure gold production, and maintained its position as the leading gold producer in the PRC. According to the statistics of the China Gold Association in 2007, the national gold production in the PRC amounted to 236,518 kg (approximately 7,604,219 ozs) , representing approximately 10.88% growth as compared to last year. The total output from the Group’s mines amounted to approximately 8,378 kg (approximately 269,359 ozs) of gold in 2007, representing approximately 3.54% of the ore gold output in the PRC.

Revenue

For the year ended 31 December 2007, the Group’s revenue was RMB1,512,273,000, representing an increase of approximately 29.87% as compared to last year.

For the year ended 31 December 2007, the output of gold of the Group amounted to approximately 19,364 kg (approximately 622,567 ozs), representing an increase of approximately 23.75% as compared to last year, of which the quantity of mine-produced gold was 8,378 kg (approximately 269,359 ozs), and smelted and processed gold amounted to 10,986 kg (approximately 353,208 ozs).

Management Discussion and Analysis

Net Profit

The Company's net profit was RMB375,923,000, representing an increase of 30.02% as compared to the net profit (before interest income arising from the share application funds) of RMB289,131,000 of last year, and an increase of 7.51% as compared to the net profit (after interest income arising from the share application funds) of RMB349,651,000 of last year.

Earnings per Share

For the year ended 31 December 2007, earnings per share of the Company amounted to RMB0.53 (2006: RMB0.54) which were calculated based on the profit attributable to ordinary shareholders of the Company of RMB375,923,000 (2006: RMB349,651,000) and the weighted average numbers of 728,715,000 (2006: 542,214,400) ordinary shares in issue.

Analysis of Results

The substantial increase in profit was primarily attributable to the significant increase in gold output and sales volume, effective cost control and higher average sale prices of gold.

Business Review

Substantial breakthrough in external exploitation and improvement in the capacity for resource integration

During 2007, leveraging on the Group's funds, management and technology resources, the Company endeavored to implement the external strategy of the "No. 1 Project", actively participating in the integration and competition of gold resources in the PRC, and accomplishing substantial breakthrough in, among others, merger and expansion and mine exploration rights acquisition. The total investment committed by the Group for the Year amounted to RMB920,000,000, with the paid investment amounting to RMB217,037,000 (net of cash effect) and payment of deposits for acquisitions amounting to RMB399,981,000. The total acquired area with exploration rights amounted to 659.55 sq.km.; the total acquired area with mining rights amounted to 12.18 sq.km.; and the acquired gold reserves amounted to 5.422 tons (approximately 174 kozs, according to Behre Dolbear Report).

As at 31 December 2007, there are 15 group companies and enterprises located outside Zhaoyuan with business exposures throughout 12 provinces and cities of major gold mine regions in the PRC. In 2007, the total output of gold of the group enterprises located outside Zhaoyuan amounted to 369 kg (approximately 11,864 ozs), with revenues of RMB56,604,000.

Rapid growth in operating results and further strengthening of its leading position in the industry

During the Year, the Company has firmly established the management concept of "scientific development, harmonious development, and leading development"; and the consideration of the results growth as the main assessment standard. Through such tasks, the Group established a reward system linked to the Group's results performance, which led to significant growth of the core business.

For the year ended 31 December 2007, the total output of gold of the Group was 19,364 kg (approximately 622,567 ozs), representing an approximately 23.75% growth as compared to last year, of which the quantity of gold from the Group's mines was 8,378 kg (approximately 269,359 ozs), representing an approximately 15.4% growth as compared to last year; gold smelting and processing of ore from non Group mines amounted to 10,986 kg (approximately 353,208 ozs), representing an increase of approximately 30.95% as compared to last year; the sales revenue amounted to approximately RMB1,512,273,000, representing an increase of approximately 29.87% as compared to last year; the net profits amounted to RMB375,923,000, representing an increase of 30.02% as compared to the net profit (before interest income arising from the share application funds) of RMB289,131,000 of last year, and an increase of approximately 7.51% as compared to the net profit (after interest income arising from the share application funds) of approximately RMB349,651,000 of last year.

Significant achievement in internal maximization and proven advance in technology and environmental protection

Site exploration and deposit building

During the Year, with the innovative exploration concept and higher exploration contribution, the Group's resource was further enriched. During the Year, the Group increased its gold reserves by 32.86 tons.

For the year ended 31 December 2007, the Group has 48 exploration rights covering an exploration area of 1,004.35 sq.km. in total and 17 mining rights covering an area of 43.59 sq.km. in total. In accordance with the standards issued by the Joint Ore Reserves Committee in Australia ("JORC"), our total gold resources amounted to approximately 211 tons and the gold reserves amounted to approximately 150 tons. The current exploitable gold reserves can support our production for approximately 19 years.

Management Discussion and Analysis

Infrastructure and technology reform

During the Year, the investment in infrastructure and technology reform amounted to RMB215,000,000. A total of 18 infrastructure and technology reform projects were implemented so as to improve and optimize the existing production system. Some of the projects are now implemented. The tunnel construction in Dayingezhuang Gold Mine (大尹格莊金礦) covers 41,341 sq.m., and 60 and 54 units (sets) of equipment were purchased and installed respectively; while the tunnel construction in Xiadian Gold Mine (夏甸金礦) covers 41,887 sq.m., and 90 and 32 units (sets) of equipment were purchased and installed respectively.

Scientific and technological innovation

During the Year, the Group further strengthened the management concept of "science and technology shall deliver efficiency", and was extensively engaged in new technology projects and target-oriented competition. The recovery rates of ore dressing and cyanide increased by 0.05%, which directly increased the economic benefits by over RMB1,800,000. The recovery rate of ore dressing in Dayingezhuang Gold Mine (大尹格莊金礦) increased by 0.14% as compared to last year, while the recovery rate of cyanide in Jinchiling Gold Mine (金翅嶺金礦) increased by 0.05% to 98.63% as compared to last year.

During the Year, the Group was awarded a total of thirteen national patents. The "Mid-and-High Thickness Orebody Exploration Technology Research" conducted by Xiadian Gold Mine (夏甸金礦) was awarded First Prize of Shandong Province Science and Technology Progress Award, while both Dayingezhuang Gold Mine (大尹格莊金礦) and Jinchiling Gold Mine (金翅嶺金礦) were awarded Second Prize and Third Prize of Shandong Province Science and Technology Progress Award respectively for their new technologies. The "Research on Adaptive Synchrodrive Disaster Warning Detection and Control Technology" is included as the supported project in the national "11th Five-Year Plan". The "Research on Energy-saving Developments of Existing Electric Machines" is included in the "National Finance Reward Programme on Energy-efficiency Technology for 2007" and "Major Energy-efficiency and Water-saving Model Project in Shandong Province". The "Technological Development Project on Inter-grown Multi-metal Integrated Recovery" is recognized as a key industry special technology development project of the state. The Group was granted government subsidies of approximately RMB10,700,000 in total under the state's policies for supporting the industry.

Low cost and high efficiency

During the Year, through taking strict measures in the three major expenses, namely "electricity bill, excavation cost, and materials", the Group obtained fruitful results in cost management. On comparable basis, the cash costs of gold production in the Group's enterprises within Zhaoyuan reduced by approximately 6.72% as compared to last year. Energy saving and pollutant emission reduction projects reported encouraging results. Total electricity consumption decreased by approximately 1.77% as compared to last year. Electricity saving cut down the bill by approximately RMB5,150,000, representing an increase of approximately 39.63% as compared to the saving last year. Total energy consumption decreased by approximately 1.02% as compared to last year.

Environmental safety

During the Year, the Group placed great emphasis on safety production and environmental protection, further carried out upgrading activities to satisfy the safety standardization, established a professional mine-rescue team and reduced material casualties and environmental pollution incidents. The Company was awarded with the "Corporate Award at the Provincial Safety Production Month 2007" by the Safety Production Committee of the Shandong Province and was recognized as the "Model Enterprise for Safety Culture Establishment". Xiadian Gold Mine (夏甸金礦) is the only non-coal mine Class A enterprise passing the safety assessment in Shandong Province. In addition, enterprises such as, Hedong Gold Mine (河東金礦), Dayingezhuang Gold Mine (大尹格莊金礦), Jinchiling Gold Mine (金翅嶺金礦) and Zhaoyuan Jintingling Mining Industry Company Limited (招遠市金亭嶺礦業有限公司) ("Jintingling Mining") have reached the level of Class B enterprise.

Meanwhile, through collaborative office platform, the Group implemented a company-wide online video broadcasting network to supervise the working site and was able to monitor the site situation via the video system, which further strengthened our safety supervision.

During the Year, Jintingling Mining encountered a water-filling fracture zone with large water gushing during the exploration of certain mines. To ensure the safety production, Jintingling Mine has reduced its production during the year and commenced scientific research activities on safety in order to solve this tough problem and resume its normal production as soon as possible.

Financial Review

Revenue

For the year ended 31 December 2007, the Group's revenue was approximately RMB1,512,273,000 (2006: RMB1,164,415,000), representing an increase of approximately 29.87% as compared to last year (2006: 34.2%). Such increase was primarily attributable to the increase in the sales of gold bullion of approximately 24.21% (2006: 36.8%) as a result of the increase in the average selling price and sales volume of gold bullion of approximately 11.02% (2006: 31.4%) and approximately 13.4% (2006: 3.7%) respectively.

Management Discussion and Analysis

Cost of sales

For the year ended 31 December 2007, the Group's cost of sales was approximately RMB757,452,000, representing an increase of approximately 39.95% (2006: 26.4%) from approximately RMB541,240,000 in 2006. Such increase was primarily attributable to the Group's higher production capacity, growth in purchase volume and the rise in costs of newly acquired mines.

Gross profit and gross profit margin

During the Year, the Group's gross profit and gross profit margin were approximately RMB754,821,000 and approximately 49.91% (2006: 53.51%), representing an increase of approximately 21.13% (2006: 41.82%) and a decrease of 3.61% (2006: an increase of 2.87%), respectively, as compared to last year. The increase in gross profit was primarily attributable to the increase in gold sales and gold price, while the decrease in gross profit margin was attributable to substantial increase in sales of purchased gold which has higher cost as compared to last year.

Other revenue and gains

During the Year, the Group's other revenue and gains were approximately RMB155,031,000 (2006: RMB16,411,000), representing an increase of approximately 844.68% (2006: 84.6%) as compared to last year. The increase in other revenue and gains was primarily attributable to interest income, gains arising from the fair value changes of forward foreign exchange contracts and gains from investment in securities and realisation of government grants.

Selling and distribution costs

For the year ended 31 December 2007, the Group's selling and distribution costs were approximately RMB9,581,000 (2006: RMB5,669,000), representing an increase of approximately 69.01% (2006: 18.2%) as compared to last year. Such increase was in line with the increase in sales.

Administrative and other operating expenses

The Group's administrative and other operating expenses were approximately RMB321,510,000 in 2007, representing an increase of approximately 115.36% (2006: 4.7%) from approximately RMB149,289,000 in 2006. Such increase was primarily attributable to increase in acquisition and development costs, expansion of the Group's size and increase in exchange losses arising from foreign currency translation.

Finance costs

For the year ended 31 December 2007, the Group's finance costs were approximately RMB20,745,000, representing a decrease of approximately 61.83% (2006: 17.9%) from approximately RMB54,346,000 in 2006. Such decrease was primarily attributable to repayment of bank loans during the Year after financing from the listing of the Company.

Income tax

The statutory income tax rate in the PRC is approximately 33%. For the year ended 31 December 2007, the effective income tax rate (i.e. the total income tax divided by its profit before tax) payable by the Group was approximately 32.9% (2006: 32.4%) which is comparable to the effective tax rate in 2006.

At the Fifth Session of the Tenth National People's Congress held on 16 March 2007, the PRC Enterprise Income Tax Law (the "New EIT Law") was passed and became effective on 1 January 2008. The New EIT Law made substantial changes, including but not limited to standardization of the income tax rate applicable to domestic investment and foreign investment enterprises to 25%.

Profit attributable to shareholders

For the year ended 31 December 2007, the Group's profit attributable to shareholders of the Company was approximately RMB388,447,000, representing an increase of approximately 10.61% (2006: 115.6%) from approximately RMB351,190,000 in 2006.

The net profit margin of the Group for the year ended 31 December 2007 was approximately 24.86% (2006: 30.03%), representing a decrease of approximately 5.17% from 30.03% in 2006.

Appropriation proposal

The Board proposed the payment of a cash dividend of RMB0.25 (including taxation) (2006: RMB0.15) per share, and a bonus issue to all Shareholders on the basis of 1 bonus share (2006: Nil) for every share, which will be comprised of (1) the bonus issue of shares on basis of 0.25 bonus share (2006: Nil) for every share held by capitalization of retained profits of RMB182,179,000 to share capital of 182,179,000 shares of RMB1 each; and (2) a bonus issue of shares on the basis of 0.75 shares (2006: Nil) for every share held by way of capitalization of the capital reserve fund of RMB546,537,000 to share capital of 546,537,000 shares of RMB1 each. Details of the arrangement for the aforesaid bonus issue are set out in the announcement of the Company dated 14 March 2008.

Liquidity and capital resources

The working capital and long-term funding required by the Group mainly come from its cash flows from operation and borrowings, while the Group's capital resources are used in its capital expenditures, operating activities and repayment of borrowings.

Management Discussion and Analysis

Net cash inflow/(outflow) from the followings:

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Operating activities	**374,613**	540,589
Investing activities	**(859,020)**	(244,814)
Financing activities	**(491,637)**	2,261,057
Effect of foreign exchange rate changes, net	**(93,664)**	–
Net cash (outflow) inflow	**(1,069,708)**	2,556,832

Cash flows and working capital

The Group's cash and cash equivalents have decreased from approximately RMB2,695,397,000 as at 31 December 2006 to approximately RMB1,625,689,000 as at 31 December 2007, primarily attributable to repayment of loans, acquisition of mines and also infrastructure and technology reform.

Net cash flows from operating activities

The Group's current fund primarily comes from cash flows generated from its operating activities. Its net cash inflow from operating activities decreased from approximately RMB540,589,000 in 2006 to approximately RMB374,613,000 in 2007, representing a decrease of approximately 30.7% (2006: 59.6%), which was attributable primarily to the increase in the Group's acquisition costs not directly attributable to acquisitions in 2007, increase in management costs of the Group after expansion and repayment of debts for the newly acquired mining enterprises.

Net cash flow used in investing activities

The net cash flow used in investing activities is mainly affected by the Group's acquisition of subsidiaries, properties, plants and equipment, its construction in progress and investment in scientific and technological innovation. The net cash flow used in investing activities increased by approximately 250.89% (2006: 62.8%) from approximately RMB244,814,000 in 2006 to approximately RMB859,020,000 in 2007, which was attributable primarily to the Group's cash outflow of approximately RMB217,037,000 (net of cash effect) for the Group's acquisition of mining as well as infrastructure and technology business in 2007 and also outflows such as deposits for acquisition of mines of RMB399,981,000 and investment in plant and equipment of RMB215,000,000 to improve the Group's technological innovation processes.

Net cash flows from financing activities

The net cash flows from financing activities decreased from a net inflow of RMB2,261,057,000 in 2006 to a net outflow of RMB491,637,000 in 2007, which was attributable to the cash inflow from the proceeds raised by the listing of the Company of approximately RMB2,500,000,000 in 2006 and the repayment of bank loans in 2007.

Borrowings

As at 31 December 2007, the Group had outstanding bank loans and other borrowings of approximately RMB375,590,000 (2006: RMB733,190,000), of which approximately RMB352,800,000 (2006: RMB125,400,000) shall be repaid within 1 year, approximately RMB15,000,000 (2006: RMB450,000,000) shall be repaid in the second year, nil (2006: RMB150,000,000) shall be repaid in the third to fifth year and approximately RMB7,790,000 (2006: RMB7,790,000) shall be repaid after 5 years. The gearing ratio as at 31 December 2007 was approximately 7.49% (2006: 14.9%), which is calculated by dividing the total borrowings by the total assets.

All loans of the Group bear fixed interest rates.

Market risks

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

Gold prices and other commodities prices risk

The Group's revenue and profit are sensitive to fluctuations in gold prices and prices of other commodities. This is due to the fact that the Group generates all of its revenue from the sale of gold and other contributions. The Group does not enter into commodity derivative instruments or futures to hedge any potential price fluctuations of gold and other commodities or for trading purposes. Therefore, fluctuations in the prices of gold and other commodities may have a material effect on the Group's revenue and profit.

Interest rate risk

The Group's exposure to interest rate risk relates primarily to the Group's cash holdings and interest-bearing bank loans. The Group manages its interest rate exposure from certain cash holdings through placing them into a fixed rate time deposit and manages the exposure from all of its interest-bearing loans through the use of fixed rates.

Management Discussion and Analysis

Foreign exchange risk

All of the Group's transactions are carried out in RMB. The fluctuation of the RMB/USD exchange rate may affect the international and local gold price, which may therefore affect the Group's operating results. In the past few years, the exchange rate of RMB was comparatively stable. RMB is not a freely convertible currency. On 21 July 2005, PBOC increased the exchange rate of RMB against U.S. dollar by 2.1%, and the exchange rate of RMB against a basket of currencies may fluctuate. In view of the above circumstances, the PRC government might take further actions and measures on the free trade of RMB. Therefore, fluctuations in exchange rates may have an adverse effect on our net assets, earnings and any dividend declared, which shall be converted or translated into Hong Kong dollars.

The Group has been monitoring the exchange rate between RMB and Hong Kong dollar closely as the proceeds raised by the Group from the initial public offering are denominated in Hong Kong dollars. Meanwhile, appropriate measures aiming at reducing the risk of fluctuation in exchange rates have been taken to minimize such risks. During the year, the Group entered into various forward currency contracts to manage its exchange rate exposures. The details of which is set out in note 25 on page 143 to the consolidated financial statements of this report.

Employees and Remuneration Policy

As at 31 December 2007, the Group's total number of staff was approximately 4,358. The Group remunerates its employees based on their performance, experience and prevailing industry practices. Other benefits offered to the employees include retirement benefits plans, medical benefits plans and housing fund plans. The Group also provides training to its employees.

Charges

As at 31 December 2007, no charge has been made by the Group.

Substantial Investment

As at 31 December 2007, the details of the investments in associates is set out in note 13 on page 128 to the consolidated financial statement of this annual report.

Substantial Acquisition and Disposal

As at 31 December 2007, the details of substantial acquisitions made by the Group is set out in note 36 to the consolidated financial statement of this annual report and no substantial disposal has been made by the Group during the year.

Contingent Liabilities

For the year ended 31 December 2007, the Group has given a guarantee of RMB145,000,000 in respect of banking facilities granted to Jintingling Mining (a subsidiary of the Company).

Business Outlook

The year of 2008 is the second year for the Group to continue to implement outward expansion and exploration development. The Group will capitalize on the surge of gold price. The Group will strengthen unrelenting efforts on managing resources and innovation and raise our integrated competitiveness so as to maximize the interests of both the Company and its shareholders. Accordingly, we will implement the following tasks:

Resource acquisition remains important above all

The Group continues to focus on the "No.1 Project" for external exploitation and resource acquisition and actively participate in mining resource exploration in western regions of the PRC, especially in Gansu and Xinjiang. The following acquisition requirements are to be met: reserves volume of over 5 tons, projects with resource volume over 10 tons, large company and site exploration unit as the preferred project cooperating partner, large-scale mineralization belt and well development outlook, stable mining order for investment environment, the high-quality neighboring development and policy environment. The aim is to comprehensively improve the quality and result of external acquisition and merger. In 2008, the Group intends to invest RMB1,120,000,000 to acquire additional area of approximately 320 sq.km. with mining and exploration rights, gold metal resource of 53 tons, as well as gold mine productivity of 3,750 kg per year (approximately 120,565 ozs per year).

Site exploration and deposit building is the key means of resource deposit improvement

In 2008, besides the integration of exploration rights inside and outside Zhaoyuan, the Company intends to embark on午 aditing projects of 52,830 meters and drilling projects of 150,946 meters on the principles of unified planning, management based on blocks, and step-by-step implementation. In 2008, it is planned that the gold resource reserves will increase by 35 tons respectively. For the mines in Zhaoyuan, the Company plans to invest RMB60,540,000 for gold geologic exploration with the estimated increase in gold reserves of approximately 14.5 tons; for the mines outside Zhaoyuan, the Group intends to contribute approximately RMB76,600,000 for gold geologic exploration with the estimated increase in gold reserves of approximately 15.5 tons; while for the acquired mines, the newly added gold reserves will amount to approximately 5 tons.

Management Discussion and Analysis

Further strengthening the technology advantages of the Group and reinforcing the infrastructure construction and technology reform

Technology innovation

The Group intends to implement 31 technology innovation research projects. The Company will invest a total of RMB48,080,000 in these projects, of which RMB43,470,000 will be used for the investment in 2008. Research projects will be mainly focused on the difficulties of the production techniques, especially the selection research on gold ore with arsenic and carbon content, research on deep-underground thick orebody recovery techniques and microwave metallurgy technology research. The Company will also cooperate with scientific research institutions to seek technical breakthrough in the fields of safety production and informational construction. Upon the completion of the projects, it is expected that this will bring about economic gains of RMB19,970,000 per year and scientific research will generate gold reserves of over 9 tons and report more than 10 patents, further improving the operation conditions and the neighbouring biological environment, and creating more significant social benefits.

Infrastructure and technology reform

The Group intends to implement a total of 20 infrastructure and technology reform projects. We intend to invest a total of RMB1,453,500,000, of which RMB819,900,000 will be used for the investment in 2008. When the projects are put in production, the ore processing and production capacity will reach 5,950 tons per day; the cyanide smelting capacity will reach 600 tons per day; and economic gains will reach RMB354,960,000 per year.

The enterprises within Zhaoyuan will pay close attention to the low-ore grade mine deep exploration and processing project of Dayingezhuang Gold Mine (大尹格莊金礦), the expansion project of Xiadian Gold Mine (夏甸金礦) with the output of 2,000 tons per day and the multifactor integrated recovery project and the three projects have been planned to complete and put into production within 2008.

The enterprises outside Zhaoyuan will focus on the infrastructure projects, namely, technical improvement project of Xinjiang Xingta Mining Co., Ltd. (新疆星塔礦業有限公司) ("Xingta Mining"), excavation project of Minxian Tianhao Gold Co., Ltd (岷縣天昊黃金有限責任公司) ("Minxian Tianhao") and infrastructure project of Gansu Liangdang County Mine Hill (甘肅兩當縣礦山).

In order to further optimize industrial linkages, the Company plans to invest RMB80,000,000 and use sulphur concentrate by-products of Jinchiling Gold Mine (a branch of the Company) and sulphur iron ores of Jintingling Mining (a subsidiary of the Company) as raw materials to invest and construct a multi-element integrated project which will adopt advanced techniques including burning furnace roasting. The Company will be able to handle cyaniding tailings of 240,000 tons per year and produce sulfuric acid of 200,000 tons per year upon the completion of the project.

Building environment-friendly mines through reinforcing energy saving, safety and environmental protection

State industry policies will undergo major adjustments in 2008. The traditional way of mining operation with high waste, high energy consumption, and high pollution would be replaced gradually by the new mining methods encompassing energy saving, pollutant emission reduction and environmental safety. In respect of energy saving, the Group will be engaged in the development and application of new equipments and the promotion and application of energy-saving new facilities.

In respect of safety and environmental issues, the Group will carry out further assessment on risks of safety and environmental protection and raise the employees' awareness on safety and environmental protection. The following technology innovation projects will be implemented step by step: construction of safety production information center, under-well communication and staff positioning system, and sewage system reconstruction, aiming at building the new, modern environment-friendly mines which make use of integrated resource application and ensure environmental safety.

Perfecting the recruitment and reward policy for the preparation of expansion development

The Group will continue to improve mechanism for talent recruitment and training as well as support its staff to build up their career path so as to devise the "Three Gold" policy comprising "Gold Bench, Gold Stair, and Gold Parachute Site". Meanwhile, high regard will be placed on broadening management's vision, introduction and recruitment of the most needed technology and technical talent as well as management talent. In the next two years, the Company plans to recruit 50 people with college degree or above and keep 100 candidates in record. By exploring new ways of staff training such as joint courses held with tertiary institutions and commissioned training, the Group is going to train up its staff to prepare for the future tremendous development of the Group. Meanwhile, through strengthening the basic skill training, and organising professional training in 10 areas such as finance, safety environmental protection as well as electrical and mechanical technology in 2008, we plan to comprehensively improve the expertise of our staff.

Directors, Supervisors and Senior Management Profile

Details of personnel currently serving as directors (the "Directors"), supervisors (the "Supervisors"), secretary of the Board/company secretary and senior management of the Company during the year and as of the date of this report are as follows:

Executive Directors

Mr. Lu Dongshang, aged 47, the chairman and an executive director of the Company. Mr. Lu currently also serves as the Communist Party secretary to the Company, the chairman of and the Communist Party secretary to Zhaojin Group, the vice president of the China Gold Association and a council member of the Shanghai Gold Exchange. Mr. Lu has 26 years professional experience in the gold production industry and has made outstanding contribution to the development of China's mining industry. Mr. Lu worked for and held senior positions at several gold mines in Zhaoyuan, and has been the general manager and chairman of and the Communist Party secretary to Zhaojin Group, the chairman and executive director of the First Session of the Board of the Company. Mr. Lu has received numerous awards, both at the provincial and national levels, for his achievement in technological advancement. For instance, Mr. Lu was awarded the Second Award in National Scientific and Technological Advancement technological advancement, "Model Worker of Shandong Province", "Middle-aged and Youth Expert with Outstanding Contributions in Shandong Province", "Gold Medal for Outstanding Business Persons in the National Gold Industry", and awarded a special allowance by the State Council. Mr. Lu graduated from the department of mining engineering of Shenyang Gold Institute, and graduated from the Cheung Kong Graduate School of Business with an Executive MBA degree. Mr. Lu has been the chairman and executive director of the Company since April 2004.

Mr. Wang Peifu, aged 52, an executive director, president and Chief Executive Officer of the Company. Mr. Wang has over 32 years experience in the gold production industry. Mr. Wang has served as the deputy mine manager of Zhaoyuan Canzhuang Gold Mine, the mine manager of Xiadian Gold Mine, the chairman and general manger of and the Communist Party secretary to Xiadian Gold Mine, director and the deputy general manager of the Company, executive director of the First Session of the Board and the general manager of the Company. Mr. Wang has received numerous honors for his achievement in technology and business management, and has obtained patents for three of his inventions. Mr. Wang is an applied engineering technology researcher and a certified safety engineer. Mr. Wang graduated from Kunming Industry University and Yantai University. Mr. Wang has been the executive director of the Company since April 2004.

Mr. Ma Yushan, aged 56, an executive director and chief marketing officer of the Company. Mr. Ma has 37 years experience in the gold production industry. He has been the millrun workshop director, the deputy general manager of Zhaoyuan Beijie Gold Mine, the deputy general manager of and the deputy Communist Party secretary to Zhaoyuan Gold Refinery Company Limited, the mine manager of and the Communist Party secretary to Hedong Gold Mine, the chairman of and the Communist Party secretary to Hedong Gold Mine Company Limited, executive director of the First Session of Board and deputy general manager of the Company and the mine manager of Hedong Gold Mine. Mr. Ma has been awarded honors for his achievements in technology developments and management. Mr. Ma is an applied engineering technology researcher and graduated from Shenyang Gold Institute. Mr. Ma has been the executive director of the Company since April 2004.

Non-executive Directors

Mr. Liang Xinjun, aged 39, the vice chairman and a non-executive director of the Company. Mr. Liang currently also serves as the executive director, vice chairman and president of Fosun Group, the director of Nanganglian and the director of Pearl Oriental. Mr. Liang has been the vice president of Guangxin Technology, vice chairman and vice president of Fosun Group and the director of Fosun Medicine. Mr. Liang also served many social duties, such as deputy chairman of the China Young Entrepreneurs' Association, standing member of the Communist Youth League of China in Shanghai Municipal Committee, deputy chairman of Entrepreneurs of Private Technological Enterprise of China, vice chairman of standing committee of Chamber of Metallurgy Industry of All-China Federation of Industry and Commerce, chairman of Shanghai Science and Technology Enterprises Association, Taizhou Chamber of Commerce in Shanghai, vice chairman of standing committee of Shanghai Alumni Association of Fudan University, etc. Mr. Liang holds a bachelor degree from the Department of Genetics of Fudan University and an MBA degree from the Cheung Kong Graduate School of Business. Mr. Liang also has an engineer qualification. Mr. Liang has been the vice chairman and a non-executive director of the Company since April 2007.

Mr. Wu Ping, aged 44, a non-executive director of the Company. He currently is also the director and administrative general manager of Shanghai Fosun High Technology (Group) Co. Ltd., the president of Shanghai Shopping Centre Association, and has been a non-executive director of the First Session of Board of the Company. Mr. Wu has been the non-executive director of the Company since April 2004.

Mr. Liu Gendong, aged 40, a non-executive director of the Company. He currently is also the vice president of Fosun Chemical Investment Company Limited. Mr. Liu has been an officer and deputy supervisor of the Hong Kong and Macau Affairs Office of the State Council, the deputy general manager of the investment banking department of Tebon Securities Co., Ltd., and non-executive director of the First Session of the Board of the Company. Mr. Liu holds an MBA degree from the University of Leeds in the UK, a master degree in money, banking and finance from Middlesex University in the UK and a bachelor degree in laws from Peking University. Mr. Liu has been the non-executive director of the Company since April 2004.

Mr. Cong Jianmao, aged 45, a non-executive director of the Company. He currently is also the deputy director of Zhaoyuan Municipal Finance Bureau. Mr. Cong has been the chief accountant of Zhaoyuan Municipal Commerce Bureau, the chairman of the board of supervisors of Zhaoyuan City State-owned Assets Operation Limited, and the chairman of the board of supervisors of Zhaojin Group. Mr. Cong graduated from Shandong Radio & TV University and Shandong Business Administration Institute. Mr. Cong has been the non-executive director of the Company since April 2004.

Directors, Supervisors and Senior Management Profile

Independent non-executive Directors

Mr. Yan Hongbo, aged 69, an independent non-executive director of the Company. He is currently a supervisor of Beijing Zhonganjian Mining Investment Limited. Mr. Yan was the department head of the construction department of the State Administration for Gold, the chief engineer of the China Gold Company, the chairman of the expert committee of CITIC Guoan Gold Company Limited, and independent non-executive director of the First Board of the Company. Mr. Yan graduated from the Beijing Institute of Steel (now known as University of Science and Technology Beijing). Mr. Yan has been the independent non-executive director of the Company since October 2004.

Mr. Ye Tianzhu, aged 67, an independent non-executive director of the Company, and currently a researcher of the Development And Research Centre of the China Geological Survey and the chief engineer of the Administrative Office for the Management of Projects Concerning the Replacing Resources for Mine in Risk in the PRC, a director of the Chinese Association of Mining Rights Assessors, a committee member of the 38th Committee of the Geological Society of China and a deputy officer of the Third Committee for Land Layers. Mr. Ye has been an engineer and the chief engineer of the Second, the Fifth and the Sixth Geological Brigade of the Jilin Province, the chief engineer of the Department of Land and Resources of Jilin Province, the deputy chairman and deputy chief engineer of the Ministry of Geology and Mineral Resources of the PRC, General Bureau and the China Geological Survey, the head of the Department of Reserves the Ministry of Land and Resources of the PRC and the Director-General of the China Geological Survey and so on. He received National Awards for Technological Development for various achievements in scientific researches and was awarded the 9th Li Siguang Awards for Geosciences. Mr. Ye graduated from Beijing College of Geosciences majoring in geological survey and mine exploration. Mr. Ye has been the independent non-executive director of the Company since April 2007.

Ms. Chen Jinrong, aged 49, is an associate professor, an independent non-executive director of the Company. She is currently working in the Training Centre of Senior Management of School of Economics and Management of Tsinghua University, a professor of Beijing Union University, and a part-time professor of University MOTOROLA etc. Ms. Chen is qualified as an accountant in China and an independent director. Ms. Chen mainly focuses on research, teachings and counseling of corporate financial management, analysis of financial report for listing companies and operations of corporate capital, corporate organization and risk control, comprehensive corporate budget management etc. Ms. Chen had served as the deputy head of the finance department of China Information Industry Research Institute (中國信息產業部研究院) under the Ministry of Information Industry, the deputy general manager of Beijing Hua Tsing Cai Zhi Corporate Management Counseling Company etc. She has also served as an independent director of Synutra International Inc (Code: SUYT), a senior financial advisor of various companies including China National Textile Machinery (Group), China Merchants Newspaper Group, XianJu Pharmaceutical, Hebei Meihua Group. Ms. Chen has solid experience in aspects such as corporate restructuring, comprehensive corporate budget management, capital operations and corporate internal control. Ms. Chen has gained the reputation as the outstanding elementary personnel in Beijing City and an outstanding teacher of Economic Committee of Beijing municipal government. Ms. Chen graduated from the Renmin University of China. Ms. Chen has been the independent non-executive director of the Company since April 2007.

Mr. Choy Sze Chung Jojo, aged 49, an independent non-executive director of the Company, and the vice chairman of National Resources Securities Limited. Mr. Choy is also the vice chairman of the Institute of Securities Dealers Limited, an independent non-executive director of Chengdu PUTIAN Telecommunications Cable Limited, an independent non-executive directors of Mandarin Entertainment (Holdings) Ltd., an independent non-executive directors of Jade Dynasty Group Limited, a committee member of Society of Registered Financial Planner Ltd., a fellow member of Institute of Financial Accountants, a fellow member of the Institute of Compliance Officer, a fellow certified financial strategist of Hong Kong Institute of Investors, a member of CPPCC Shantou, a honorary president of Shantou Overseas Friendship Association and a council member of Rotary Club Kowloon West. Mr. Choy has extensive experience in the securities industry and business management. Mr. Choy obtained his Master of Business Administration Degree from University of Wales, Newport and his Master of Business Law Degree form Monash University, Australia. Mr. Choy has been the independent non-executive director of the Company since May 2007.

SUPERVISORS

Mr. Wang Xiaojie, aged 35, the Chairman of the Supervisory Committee of the Company, and also the secretary of Commission for Disciplinary Inspection of Zhaojin Group and the Chairman of the Labour Union. He has served as the deputy manager of Zhaoyuan City Gold Software Science and Technology Co., Ltd., and then the deputy manager and manager of Information Centre of Zhaojin Group. Mr. Wang graduated with a degree in applied electronic technology from Institute of Information Engineering of Shandong, a degree in computer application from Qingdao Chemical & Engineer College and a degree in economics and management from the Party School of the Shandong Provincial Committee of the C. P. C.. Mr. Wang has been a supervisor of the Supervisory Committee of the Company since April 2007.

Mr. Cheng Binghai , aged 59, a supervisor of the Company, and also an executive director and chairman of Shanghai Yuyuan, the vice president of China Gold Association, a member of the standing committee of China General Chamber of Commerce, president of Shanghai Gold & Jewellery Trade Association and vice president of Shanghai Commercial Association. He has served as a director, vice general manager, chairman and general manager of Shanghai Yuyuan and a Supervisor of the First Supervisory Committee of the Company. Mr. Cheng has been a supervisor of the Company since April 2004.

Mr. Chu Yushan, aged 42, a supervisor of the Company and the workshop director of the No.7 plant in Xiadian Gold Mine. Mr. Chu has served as a supervisor of the First Supervisory Committee of the Company. He graduated from Shandong Textile Vocational College. Mr. Chu has been a supervisor of the Company since April 2004.

Directors, Supervisors and Senior Management Profile

Secretary to the Board/Company Secretary

Mr. Wang Ligang, aged 35, the Secretary to the Board since December 2007. Mr. Wang has served for Zhaoyuan Beijie Gold Mine, Zhaojin Group and served as director of the general manager's office and director of the Board office of the Company, assistant to Board secretary of the Company and general manager of Sparky International Trade Co., Ltd. Mr. Wang graduated from Shandong Economic University with a major in labour economy management. He has the qualification of senior political officer.

Mr. Ngai Wai Fung, aged 46, the Company Secretary of the Company since April 2007. Mr. Ngai is a director and head of listing services of KCS Hong Kong Limited, a corporate secretarial and accounting services provider in Hong Kong. Mr. Ngai is currently vice president of The Hong Kong Institute of Chartered Secretaries (HKICS) and the Chairmen of its China Affairs Committee and Membership Committee. He is also a fellow of HKICS and the Institute of Chartered Secretaries and Administrators in the United Kingdom, a member of the Hong Kong Institute of Certified Public Accountants, a member of the Association of Chartered Certified Accountants in the United Kingdom, a member of Hong Kong Institute of Directors and a member of Hong Kong Securities Institute. Mr. Ngai holds a Master of Corporate Finance from The Hong Kong Polytechnic University, a Master of Business Administration from Andrews University of the United States and a Bachelor of Laws (with Honours) degree from the University of Wolverhampton, the United Kingdom. He is also a PhD (thesis stage) in Finance at Shanghai University of Finance and Economics.

Senior Management

Ms. Yu Huiling, aged 49, the Chief Securities Officer of the Company. Ms.Yu is a Superior International Manager named by the China International Professional Manager Association, and has over 32-year experience in the gold production industry. Ms. Yu has served as a manager of the investment department of Zhaojin Group, an assistant to the general manager of Zhaojin Group, a secretary to the deputy general manager and the Board of the Company. Ms. Yu graduated from Shandong Economic University with qualifications of an accountant. Ms. Yu joined the Company since April 2004 and has served as the deputy general manager.

Mr. Xu Yuanjun, aged 55, the Chief Development Officer of the Company. Mr. Xu has over 32-year experience in the gold production industry. Mr. Xu has hold various managerial positions in gold mining companies which included Zhaoyuan Gold Industrial Group Corporation and Zhaoyuan Luoshan Gold Mine. He was also a director and the deputy general manager of Zhaojin Group, and deputy general manager of the Company. Mr. Xu graduated from Shandong Economic University with qualifications of a senior economist. Mr. Xu joined the Company since April 2004 and has served as the deputy general manager.

Mr. Zhang Banglong, aged 45, the Chief Financial Officer of the Company. Mr. Zhang has served as the deputy chief accountant (acting chief accountant) and chief accountant of the China Yangzi Group Co. Limited, the chief accountant and deputy general manager of the Macat Group Textile Co., Ltd, the chief financial officer and financial manager of the Company. Mr. Zhang obtained a master degree from Anhui Institute of Business Administration majoring in Business Administration, and has the qualification of an accountant. Mr. Zhang joined the Company since March 2005 and has served as the chief financial officer.

Mr. Li Xiuchen, aged 44, the Vice President of the Company. Mr. Li has served as a technician of the production office of Luoshan Gold Mine, the deputy supervisor, co-ordination officer and first deputy mine manager of Daiqinjia Gold Mine, the deputy mine manager and deputy general manager at Beidai Gold Mine and Zhongkuang Gold Industry, the deputy general manager, director and general manager of Xinyuan Gold Technology Development Co., Ltd. and the deputy general manager of the Company. Mr. Li graduated from Shenyang Institute of Gold Technology majoring in mine engineering with qualifications of a senior engineer. Mr. Li has been the general manager of the Company since February 2007.

Mr. Shi Wenge, aged 42, the Vice President of the Company. Mr. Shi has served as the geology officer of the department of geological survey of Xiadian Gold Mine, deputy officer of the main shaft mine area and technical supervisor, the deputy department head of the department of geological survey, senior engineer of the technology centre and the planning and development department of Xiadian Gold Mine of Zhaojin Group, the deputy manager of the audits department and the manager of the department of production technology of the Company, the assistant to the General Manager and the manager of the department of production technology of the Company and the deputy general manager of the Company. Mr. Shi graduated from the China University of Geosciences majoring in geology and exploration. Mr. Shi has been the deputy general manager of the Company since February 2007.

Report of the Directors

The Board hereby presents the report of the Directors and the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2007.

Corporate Reorganization

The Company was incorporated as a joint stock limited liability company under the Company Law of the People's Republic of China (the "PRC") on 16 April 2004. The Company is mainly engaged in the mining, processing, smelting and sales of gold and silver products (the "Relevant Business"). Prior to the incorporation of the Company, the Relevant Business was operated by wholly-owned subsidiaries of Shandong Zhaojin Group Company Limited ("Zhaojin Group") (a PRC state-owned corporation). According to note 1 to the financial statements and the details related to corporate reorganization that stated in our prospectus (published on 24 November 2006), since the date of established, the Relevant Business together with related assets and liabilities were transferred to the Company from Zhaojin Group.

The Group successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") in December 2006.

According to the Board, prior to listing, Zhaojin Group was our parent company and held the ultimate controlling interest in our Company. After listing, we no longer have any parent company and ultimate holding party. However, Zhaojin Group is in a position to exercise significant influence over the Company.

Principal Operations

The principal activities of the Company are investment holding and the exploration, mining, ore processing, smelting and sales of gold and other metallic products. The Group is mainly engaged in the exploration, mining, ore processing, smelting and sales of gold and other metallic products, being a large integrated mining operation speciacising in the production of gold. The Group principally produces two kinds of gold products, which are Au9999 and Au9995 gold bullions with "Zhaojin" as their brands. Currently, the sales of gold products represents approximately 91% (2006: 95%) of the income of the Group's principal operations. Details of the principal activities of the subsidiaries are set in note 14 to the financial statements.

During the Year, there was no material change in the principal operations of the Group.

Results

The Group's profit for the year ended 31 December 2007, and the financial conditions of the Company and the Group as at 31 December 2007 are set out on pages 77 to 175 of the financial statements in this report.

Final Dividend

Up to the date of this annual report, the final dividend for the financial year ended 31 December 2006 paid by the Company was approximately RMB109,307,000.

The Board proposed the payment of a cash final dividend for 2007 of RMB0.25 (2006: RMB0.15) per share, and a bonus issue to all Shareholders on the basis of 1 bonus share (2006: Nil) for every share, which will be comprised of (1) the bonus issue of shares on the basis of 0.25 shares (2006: Nil) for every share held by capitalization of retained profits of RMB182,179,000 into share capital of 182,179,000 shares of RMB1 each; and (2) a bonus issue of shares on the basis of 0.75 shares (2006: Nil) for every share held by way of capitalization of the capital reserve fund of RMB546,537,000 into share capital of 546,537,000 shares of RMB1 each. The proposed final cash dividend has been reflected in the equity of the balance sheet as a reserved profit for distribution.

The cash dividend for domestic shares will be distributed and paid in Renminbi and the cash dividend for H shares will be declared in Renminbi and paid in Hong Kong dollars (at the average exchange rate of the medium rate of converting Renminbi into Hong Kong dollars as quoted by the People's Bank of China for the week immediately preceding 16 May 2008).

The proposed distributions are subject to the approval of the shareholders at the annual general meeting of the Company ("AGM") to be held on Friday, 16 May 2008.

Major Customers and Suppliers

Sales of the gold products of the Company are conducted through trading and settlement on the Shanghai Gold Exchange, with the number and identity of ultimate customers unknown.

During the Year, approximately 91% (2006: 95%) of the total sales was conducted on the Shanghai Gold Exchange. Similar to a stock exchange, the Shanghai Gold Exchange is a platform for conducting gold transactions. Under the circumstances where purchaser and seller do not know each other, all transactions are conducted under the coordination and supervision of the Shanghai Gold Exchange. Therefore, the Shanghai Gold Exchange is deemed to be the Group's sole major customer.

Transactions between the Group and its suppliers are conducted on normal commercial terms. The total amount of purchases from the five largest suppliers did not exceed 30% (2006: 30%) of the Group's total amount of purchases.

So far as the directors are aware, none of the Directors and Supervisors or any of their associates or any Shareholders holding 5% or more of the Company's share capital and their associates (as defined in the Listing Rules of the Stock Exchange) have had any direct or indirect interests in our sole major customer and the five largest suppliers for the year.

Report of the Directors

Reserves

Details of changes in reserves of the Group as at 31 December 2007 are set out in note 32 to the financial statements on pages 153 to 155.

Distributable Reserves

According to the articles of association of the Company, distributable reserves are based on the profits of the Company prepared according to the PRC Accounting Standards and HKFRS, whichever is the lower.

According to the PRC Company Law, after transferring appropriate amounts into the statutory surplus reserve fund and statutory public welfare fund, profit after tax can be distributed as dividend.

As at 31 December 2007, in accordance with the PRC Accounting Standards, relevant Laws of the PRC and the Articles of Association of the Company, the distributable reserves of the Company amounted to RMB367,368,000, of which RMB182,179,000 was proposed to be the final cash dividend of the year and RMB182,179,000 was proposed by the Board of Directors to be capitalised as 182,179,000 shares of RMB1 each for the distribution to shareholders of 0.25 shares for every share held. In addition, an amount of RMB2,091,022,000 from share premium account can be used for the issue of bonus shares, of which RMB546,537,000 was proposed by the Board to be capitalized as 546,537,000 shares of RMB1 each for the distribution to shareholders of 0.75 shares for every share held.

Property, Plant, Equipment and Property Investment

Details of changes in property, plant and equipment of the Company and the Group during the year are set out in note 11 to the consolidated financial statements on pages 122 to 125 of this annual report.

The Group did not hold any investment property.

Share Capital

During the year, details of share capital of the Company are set out in note 31 to the consolidated financial statements on page 152 of this annual report.

During the Year, there was no arrangement for issue of bonus shares, placing and issue of shares of the Company. In addition, the share capital structure of the Company had no changes during the Year and the period from 31 December 2007 to the date of this annual report.

Use of Proceeds raised from Listing

The proceeds raised from the Company's newly issued and listed H shares on the Stock Exchange in December 2006, after deduction of related issuance expenses, amounted to approximately HKD2,360,000,000. As of 31 December 2007, approximately HKD1,045,000,000 of the proceeds so raised was used, and the unused proceeds of approximately HKD1,315,000,000 was deposited in bank, the security of which was adequately ensured.

Details of the used proceeds raised of approximately HKD1,045,000,000 as follows:

- as to approximately HKD220 million for expanding and improving Dayingezhuang Gold Mine and Xiadian Gold Mine, and enhancing the mines existing ore processing capacity, with a view to enhancing the ore processing capacity of each of these two mines by approximately 1,000 tons per day;

- as to approximately HKD50 million for expanding the exploration activities, particularly in the Zhaoping fault-line area and other major gold deposits in China with a view to enhancing our gold reserves;

- as to approximately HKD513 million for the acquisitions of operating gold mines with a view to expanding our scale and competitiveness and to enhancing our continuing development capacity;

- as to approximately HKD42 million for the acquisition of advanced exploration projects with a view to expanding our exploration areas and to enhancing our future gold reserves; and

- as to approximately HKD220 million for repayment of bank borrowings with a view to lowering the gearing ratio and improving the financial position of the Group.

The unused proceeds will be used by the Company for the purposes as set out in the section headed "Future plans and use of proceeds" in the prospectus of the Company dated 24 November 2006.

Charity Donation

During the year, the Group made charitable donation totalling RMB2,200,000 (2006: RMB37,000).

Bank Borrowings

Details of bank borrowings of the Company and the Group are set out in note 26 to the consolidated financial statements on pages 144 to 147 of this annual report.

Report of the Directors

Taxation

The Company and its subsidiaries basically pay PRC corporate income tax at a rate of 33% of taxable profits according to the relevant laws and regulations in the PRC during the Year. During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Details are set out in note 8 to the consolidated financial statements on pages 119 to 120 of this annual report.

Pre-emptive Rights

There is no provision or regulation for pre-emptive rights under the Company's articles of association or the PRC Laws which requires the Company to issue new shares to the existing shareholders according to their respective proportions of shareholding.

Purchase, Sale or Redemption of the Company's Listed Securities

During the Year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

Directors and Supervisors

During the Year and as at the date of this report, the Company's Directors and Supervisors are listed as follows:

Executive Directors

Mr. Lu Dongshang *(Chairman)*
Mr. Wang Peifu *(CEO)*
Mr. Ma Yushan

Non-executive Directors

Mr. Guo Guangchang *(Vice Chairman)* (resigned on 16 April 2007)
Mr. Liang Xinjun *(Vice Chairman)* (appointed on 16 April 2007)
Mr. Wu Ping
Mr. Liu Gendong
Mr. Cong Jianmao

Independent non-executive Directors

Mr. Zhai Yusheng (resigned on 16 April 2007)
Mr. Ng Ming Wah, Charles (resigned on 16 April 2007)
Mr. Li Dingan (resigned on 16 April 2007)
Mr. Yan Hongbo
Mr. Ye Tianzhu (appointed on 16 April 2007)
Ms. Chen Jinrong (appointed on 16 April 2007)
Mr. Choy Sze Chung Jojo (appointed on 22 May 2007)

Supervisors

Mr. Wang Xiaojie (*Chairman)*
Mr. Cheng Binghai
Mr. Chu Yushan

Profiles of the Directors, Supervisors and Senior Management Personnel

Details for the profiles of the Directors, Supervisors and Senior Management are set out on pages 22 to 27 of this annual report.

The Terms of Service of the Directors and the Supervisors

According to the requirements of the articles of association, the terms of service of the Directors and the Supervisors are for three years as from the respective dates of appointment or re-appointment, and the Directors and the Supervisors are subject to re-appointment and re-election upon the expiry of their term.

Remuneration of the Directors and Supervisors

The remuneration of each Director and Supervisor is approved at general meetings. Other emoluments will be determined by the Board with reference to the duties, responsibilities, performance of the Directors and Supervisors and the results of the Group.

Details of the remuneration of the Directors and Supervisors are set out in note 7 to the consolidated financial statements on pages 114 to 118 of this annual report.

The Service Contracts of the Directors and the Supervisors

Each of the existing Directors and Supervisors has entered a service contract with the Company, with a term of 3 years. The Directors' and Supervisors' remuneration include salary, bonus, allowance and other benefits including pension.

Report of the Directors

Apart from the above disclosed, neither the Directors nor the Supervisors have a service contract with the Company with a term specifying that if the Company terminates the contract within one year, the Company will make compensation apart from statutory compensation.

Material Contracts in which Directors and Supervisors have substantial Interests

None of the Directors and Supervisors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its ex-holding company, or any of its subsidiaries and fellow subsidiaries was a party during the year.

Directors' and Supervisors' Interests and short positions in shares, underlying shares or debentures of the Company and its associated corporations

As at 31 December 2007, none of the Directors, Supervisors, senior management personnel of the Company and their respective associates had any interests and short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (as defined in the Securities and Futures Ordinance ("SFO")) of which they were required to notify the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including those deemed or taken to have under Part XV of the SFO), or interests and short positions to be entered in the register referred to in Section 352 of the SFO or of which they were required to notify the Company and the Stock Exchange pursuant to requirements of the Model Code for Securities Transaction by Directors of Listed Companies (for such purposes, the relevant regulations in the SFO were also interpreted as applicable to the Supervisors).

Rights to purchase shares or debentures of Directors and Supervisors

At no time during the Year did any of the Directors or Supervisors hold any shares of the Company. None of the Directors and Supervisors had any interests in the share capital or debt securities of the Company or any of its associated corporations (as defined in the SFO). None of the Directors, Supervisors and their spouses and children under eighteen years old was granted rights to subscribe for the share capital or debt securities of the Company or any of its associated corporations and there was no exercise of such rights by any of such persons.

At no time during the Year had the Company or any of its subsidiaries, holding companies or any fellow subsidiaries entered into any arrangement which enables the Directors and Supervisors to have the right to acquire benefits by means of acquisition of shares or debentures in the Company or any other legal entities.

Five Highest Paid Personnel

The five highest paid individuals in the Group during the Year include two Directors. Full details of the five highest paid individuals' remuneration are set out in note 7 to the consolidated financial statements on pages 114 to 118 of this annual report.

Share Capital and Shareholders' Information

1. Number of Shareholders

Details of the number of shareholders of the Company recorded in the register of members at 31 December 2007 are as follows:

Classification	**Number of Shareholders**
Domestic shares	5
Overseas-listed foreign shares – H shares	2,748
Total number of Shareholders	2,753

2. Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Board confirms that its public float has reached the requirement of the Listing Rules as at the date of the annual report.

Report of the Directors

Substantial Shareholders

To the best knowledge of the Directors, Supervisors and senior management personnel of the Company, as at 31 December 2007, the interest and short positions of the substantial shareholders in the issued share capital of the Company which will be required, pursuant to Section 336 of the SFO, to be entered into the register referred to therein, or holding 5% or above in the issued share capital of the Company which will be required to be notified to the Company are as follows:

	Name of Shareholders	Classification of shares	The number of shares held	Approximate percentage of shareholding in registered capital of the Company	Approximate percentage of shareholding in the total amount of issued domestic shares of the Company	Approximate percentage of shareholding in the total amount of issued H shares of the Company	Long/Short
1	Zhaojin Group	Domestic	271,628,500	37.3	53.2	–	Long
2	Shanghai Fosun	Domestic	106,000,000	14.5	20.8	–	Long
3	Shanghai Fosun	Domestic	79,500,000 *(Note 1)*	10.9	15.6	–	Short
4	Shanghai Yuyuan	Domestic	79,500,000 *(Note 1)*	10.9	15.6	–	Long
5	Shanghai Yuyuan	Domestic	5,300,000 *(Note 2)*	0.7	1.0	–	Long
6	Shanghai Yuyuan	Domestic	106,000,000	14.5	20.8	–	Long
7	NSSF Council	H shares	19,871,500 *(Note 3)*	2.8	–	9.1	Long
8	Merrill Lynch & Co., Inc	H shares	19,502,700 *(Note 3)*	2.7	–	8.9	Long
9	Atlantis Investment Management Ltd.	H shares	37,295,000 *(note 3)*	5.1	-	17.1	Long
10	Mirae Asset Global Investments (Hong Kong) Limited	H shares	21,957,500 *(note 3)*	3.0	–	10.0	Long

Notes:

(1) As disclosed in the prospectus of the Group dated 24 November 2006, Shanghai Yuyuan and Shanghai Fosun entered into a share transfer agreement dated 23 September 2004, pursuant to which Shanghai Fosun has agreed to transfer to Shanghai Yuyuan 79,500,000 shares legally held by Shanghai Fosun, therefore the 79,500,000 shares is shown as long position for Shanghai Yuyuan and short position for Shanghai Fosun.

(2) Shanghai Yuyuan holds 95% equity interest in Laomiao Gold, therefore the 5,300,000 shares held by Laomiao Gold in the Company is shown as long position of Shanghai Yuyuan.

(3) Pursuant to Section 336 of the SFO, shareholders of the Company are required to file interest disclosure forms when certain criteria is fulfilled and the full details of the requirements are available on SFO's official website. When a shareholder's holding in the Company changes, it is not necessary for the shareholder to notify the Company and the Stock Exchange unless certain criteria are fulfilled, therefore substantial shareholders' latest holdings in the Company may be different to what is filed with the Company and the Stock Exchange.

As at 31 December 2007, apart from the above disclosed and to the best knowledge of the Directors of the Company, no person had any interests in the shares or short positions in the issued share capital of the Company which were required, pursuant to Section 336 of the SFO, to be entered into the register referred to therein, or holding 5% or above in the issued share capital of the Company which will be required to be notified to the Company.

Connected Transactions and Continuing Connected Transactions

During the Year, the Company and the Group had the following connected transactions and continuing connected transactions, details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

Continuing Connected Transactions which are non-exempt according to the requirements of the Stock Exchange:

i. With reference to the Land Lease Agreements between the Company and Zhaojin Group, the Company has been leasing certain land from Zhaojin Group (one of the substantial shareholders and promoters of the Company) for ancillary, non-production purposes (Leased Land). Each Land Lease Agreement contains an option for renewal after expiry at the Company's request. The term of each lease is subject to the term of Zhaojin Group's land use rights with respect to the Leased Land. The Company also has a right to terminate any of the Land Lease Agreements with one month's written notice. In the event that any of the Land Lease Agreements is terminated by the Company before expiry, the aggregate rental payable by the Company would be reduced accordingly. The rental amounts stipulated in the Land Lease Agreement are subject to adjustment by reference to market rental every three years from its effective date. Total rental was approximately RMB2,300,000 in 2007.

ii. PRC laws and regulations require gold refining to be carried out at a refinery that has been licensed by the Shanghai Gold Exchange to produce standard gold bullion. As we are not a qualified gold refinery, we have appointed Shandong Zhaojin Gold and Silver Refinery Company Limited ("Zhaojin Refinery", a licensed gold refinery in the PRC and the subsidiary of Zhaojin Group) to refine the Group's gold since the Company's incorporation. Pursuant to a non-exclusive gold refining agreement between the Company and Zhaojin Refinery dated 26 October 2006 (the "Gold Refining Agreement"), Zhaojin Refinery agrees to provide gold refining services to the Company for a term of three years commencing from 26 October 2006, renewable for another three years after expiry of the term at the Company's request. The fees payable to Zhaojin Refinery are calculated on the basis of the unit price specified in the Gold Refining Agreement and the actual amount of work undertaken by Zhaojin Refinery. The refinery fees payable to Zhaojin Refinery were approximately RMB2,700,000 in 2007.

Report of the Directors

iii. On 31 August 2007, the Company entered into a leasing agreement (the "Xinyuan Leasing Agreement") with Xinyuan Gold Technology Development Co., Ltd. ("Xinyuan Gold"), a wholly-owned subsidiary of Zhaojin Group for leasing office space with approximately 5,965 sq.m. at the premises at No. 299 Jinhui Road, Zhaoyuan City, Shandong ("Premises") for a period of one year commencing from 1 September 2007 to 31 August 2008. Annual rental is RMB2,430,000 payable in equal quarterly instalments on the 20th day of September 2007, December 2007, March 2008 and June 2008 respectively and is determined with reference to the market rental of comparable properties. For the year ended 31 December 2007, the actual rental payable to Xinyuan Gold by the Company was RMB1,215,000.

Other Connected Transactions

i. The Company holds an option from Zhaojin Group to purchase certain businesses, if and when certain defects in legal titles are remedied. The Company exercised the option during the year and on 22 June 2007, the Company entered into various acquisition agreements with Zhaojin Group to acquire from Zhaojin Group its 51%, 90% and 80% equity interests in Xixia Zhaojin Mining Co., Ltd. ("Xixia Zhaojin"), Tuoli Zhaojin Beijiang Mining Co., Ltd. ("Tuoli Zhaojin") and Minxian Tianhao Gold Co., Ltd. ("Minxian Tianhao") at considerations of RMB9,965,300, RMB66,870,000 and RMB52,313,400 respectively. The acquisition prices were determined based on independent valuation reports and negotiations between the parties.

ii. On 22 August 2007, the Group entered into a share transfer agreement with Shanghai Fosun Industrial Technology Development Co., Ltd. and Shanghai Fosun Industrial Investment Co., Ltd. to acquire their 95% and 5% equity interests in Xinjiang Xingta Mining Co., Ltd. with purchase considerations of RMB19,858,705 and RMB1,045,195 respectively. The acquisition price was based on independent valuation reports and negotiations between the parties.

iii. The Company entered into a non-completion agreement with Zhaojin Group on 17 November 2006, pursuant to which Zhaojin Group has agreed not to engage in business activities that compete with us (excluding existing business), and has also granted us options and pre-emptive rights to acquire the gold resource exploration and mining business of Zhaojin Group in Zhaoyuan district which may compete with our business. During the year, the Company has exercised the options to acquire three gold mines from Zhaojin Group. (refer to (i) above)

iv. The Company entered into an indemnity agreement with Zhaojin Group on 17 November 2006, pursuant to which Zhaojin Group has agreed to indemnify the Company against certain tax liabilities, liability for uncollected gold mineral resources compensation levies, liability or expenses in connection with leased properties and liability in connection with claims from China Gold Funds.

v. On 24 December 2007, the Company entered into an agreement to acquire properties from Xinyuan Gold Technology Development Company Limited ("Xinyan Gold"), a wholly-owned subsidiary of Zhaojin Group. The consideration of RMB56,840,000 was determined after arm's length negotiation between the Company and Xinyuan Gold after taking in account the valuation of the properties as at 31 July 2007 made by an independent PRC valuer. The purchase consideration was paid in cash when the transaction became unconditional on 28 February 2008.

Further details of the transactions (i) to (v) above are included in notes 34 and 35 to the financial statements.

Our Independent Non-executive Directors have reviewed the continuing connected transactions set out in note 35 of financial statements on pages 160 to 162 in this report, and are of the view that the continuing connected transactions (i) were in the usual course of business; (ii) have been entered into by the Company on normal commercial terms or on terms no less favorable to the Company than terms to/by independent third parties; (iii) have been entered in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

Our auditor has also reviewed those continuing connected transactions (details of which are set out in note 35 to the financial statements) and confirmed to our Directors that the continuing connected transactions:

(i) have received the approval of the Board;

(ii) are in accordance with the pricing policies of the Company if the transactions involved provision of goods or services by the Group;

(iii) have been entered into and conducted in accordance with the relevant agreements governing the transactions; and

(iv) have not exceeded the caps disclosed in the Company's prospectus dated 24 November 2006 and last announcement.

Report of the Directors

SIGNIFICANT EVENTS

1. Election of the second session of the Board and supervisory committee

The Company held its first 2007 extraordinary general meeting ("EGM") on 16 April 2007, at which Mr. Lu Dongshang, Mr. Wang Peifu, Mr. Ma Yushan, Mr. Liang Xinjun, Mr. Wu Ping, Mr. Liu Gendong, Mr. Cong Jianmao, Mr. Yan Hongbo, Mr. Ye Tianzhu and Ms. Chen Jinrong were elected as members of the second session of the Board; and Mr. Wang Xiaojie and Mr. Cheng Binghai were elected as two of the three supervisors of the second supervisory committee of the Company (together with Mr. Chu Yushan, the employees' supervisor elected at the meeting of employees' representatives of the Company, form the second supervisory committee of the Company).

The Directors and Supervisors were appointed for a term of three years commencing from 16 April 2007 upon the approval of the shareholders obtained at the EGM.

The 2006 annual general meeting ("2006 AGM") of the Company was held on 22 May 2007, at which Mr. Choy Sze Chung, Jojo was elected as an independent non-executive Director with a term of three years commencing from 22 May 2007 upon approval of the shareholders obtained at the 2006 AGM.

The resolution announcement for the first EGM for 2007 was set out in the Hong Kong Economic Times and South China Morning Post and published on the website of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at www.hkex.com.hk and the website of the Company at www.zhaojin.com.cn on 17 April 2007.

2. Formation of senior management

The first board meeting of the second session of the Board was held on 16 April 2007, at which Mr. Lu Dongshang was elected as the chairman of the second session of the Board and the legal representative of the Company, Mr. Liang Xinjun was elected as the vice chairman, Mr. Wang Peifu was appointed as the president and the CEO of the Company, Mr. Ma Yushan was appointed as the chief marketing officer, Ms. Yu Huiling was appointed as the chief securities officer, Mr. Xu Yuanjun was appointed as the chief development officer, Mr. Lin Jizhao was appointed as the chief technology officer *(Note 1)*, Mr. Zhang Banglong was appointed as the chief finance officer, Mr. Li Xiuchen was appointed as the deputy general manager, Mr. Shi Wenge was appointed as the deputy general manager, Ms. Yu Huiling was appointed as the secretary to the Board, Mr. Ngai Wai Fung was appointed as the company secretary, and Mr. Lu Dongshang and Mr. Wang Peifu were both appointed as the authorized representatives of the Company.

Meanwhile, members of the respective special committees were designated by the Board:

(1) The Strategic Committee of the Board comprises executive Director Mr. Lu Dongshang, non-executive Directors Mr. Liang Xinjun and Mr. Liu Gendong, and independent non-executive Directors Mr. Yan Hongbo and Mr. Ye Tianzhu, and Mr. Lu Dongshang was appointed as the chairman of the strategic committee.

(2) The Remuneration and Appraisal Committee of the Board comprises non-executive Director Mr. Liang Xinjun, independent non-executive Directors Mr. Yan Hongbo and Ms. Chen Jinrong, and Mr. Yan Hongbo was appointed as the chairman of the remuneration and appraisal committee.

(3) The Nomination Committee of the Board comprises non-executive Director Mr. Wu Ping, independent non-executive Directors Mr. Ye Tianzhu and Ms. Chen Jinrong, and Mr. Ye Tianzhu was appointed as the chairman of the nomination committee.

(4) The Audit Committee of the Board comprises non-executive Director Mr. Liu Gendong, independent non-executive Directors Mr. Yan Hongbo, Ms. Chen Jinrong and Mr. Choy Sze Chung Jojo *(Note 2)*, and Ms. Chen Jinrong was appointed as the chairman of the audit committee.

(5) The Safety and Environmental Protection Committee of the Board comprises executive Director Mr. Wang Peifu, non-executive Director Mr. Cong Jianmao, independent non-executive Directors Mr. Yan Hongbo and Mr. Ye Tianzhu, and Mr. Yan Hongbo was appointed as the chairman of the safety and environmental protection committee.

The announcement about the Board resolutions was set out in the Hong Kong Economic Times and South China Morning Post and published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.zhaojin.com.cn on 17 April 2007.

Notes:

1. Mr. Lin Jizhao passed away due to illness on 8 July 2007.

2. Mr. Choy Sze Chung, Jojo was appointed as member of the audit committee at the fourth meeting of the second session of the Board held on 8 August 2007.

Report of the Directors

3. Acquisition of Xixia Zhaojin, Tuoli Zhaojin and Minxian Tianhao

On 22 June 2007, the Company entered into three agreements with Zhaojin Group (招金集團), where Zhaojin Group is the promoter and substantial shareholder (as defined in the Listing Rules) of the Company and is beneficially interested in approximately 37.3% of the issued shares of the Company. Pursuant to these agreements, the Company conditionally agreed to acquire from Zhaojin Group its 51%, 90%, and 80% equity interests in Xixia Zhaojin Mining Company Limited ("Xixia Zhaojin"), Tuoli Zhaojin Beijiang Mining Company Limited ("Tuoli Zhaojin") and Minxian Tianhao Gold Company Limited ("Minxian Tianhao"), respectively, at RMB9,965,300, RMB66,870,000 and RMB52,313,400, respectively. The Company also entered into three agreements with three independent third parties, respectively, to conditionally acquire the remaining 49%, 10% and 20% equity interests in Xixia Zhaojin, Tuoli Zhaojin and Minxian Tianhao at RMB9,574,500, RMB7,430,000 and RMB13,078,400, respectively.

The aforesaid transactions constituted connected transactions of the Company under the Listing Rules. An announcement and a circular were published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.zhaojin.com.cn on 23 June 2007 and 12 July 2007, respectively, and such transactions were approved by independent shareholders by poll at the EGM held on 28 August 2007. On 31 August 2007, the transactions were completed, and each of Xixia Zhaojin, Tuoli Zhaojin and Minxian Tianhao became a wholly-owned subsidiary of the Company upon completion of such acquisitions.

4. Acquisition of Yunnan Sparton

On 25 July 2007, Sparky International Trade Co., Ltd ("Sparky International"), a wholly-owned subsidiary of the Company, entered into an equity transfer agreement in respect of STARRY LIMITED ("STARRY", a joint stock company incorporated under the laws of the British Virgin Islands with limited liability) with an independent third party in Beijing, pursuant to which Sparky International acquired 100% equity interest in STARRY for a consideration of RMB8,200,000.

On 20 November 2006, STARRY entered into an equity transfer agreement with Yunnan Nuclear Geological Exploration Brigade 201 (雲南省核工業地質201調查隊) ("Exploration Brigade") and Sparton International (斯帕頓國際資源有限公司) for the acquisition of 51% issued share capital of Yunnan Sparton Minerals Co., Ltd.(雲南斯帕頓礦業有限公司) ("Yunnan Sparton") from Exploration Brigade and Sparton International at a consideration of RMB24,480,000.

Yunnan Sparton was a sino-foreign co-operative joint venture established by Exploration Brigade and Sparton International on 5 April 2004 and was owned by them as to 20% and 80%, respectively. In July 2007 upon completion of the transfer, the shareholding of Yunnan Sparton was changed to: 51% by STARRY, 10% by Exploration Brigade and 39% by Sparton International. Following the acquisition, Sparky International indirectly holds 51% equity interest in Yunnan Sparton.

Yunnan Sparton currently owns eight exploration rights in Luxi City, Yunnan province, with total exploration area of approximately 249 sq.km.

5. Establishment of Subsidiaries

The Company established the wholly-owned subsidiaries, namely, Sparky International, North China Zhaojin Mining Industry Investment Co., Ltd. (華北招金礦業投資有限公司) ("North China Zhaojin", previously known as Beijing Jindu Zhaojin Mining Investment Co., Ltd. (北京金都招金礦業投資有限公司)) and Gansu Zhaojin Mining Investment Co., Ltd. and their subsidiaries to attend to the acquisition of gold mining rights both overseas and in northern, northeastern and the northwestern regions of the PRC. Total investment for the above-said establishment of subsidiaries was RMB154,598,000.

6. Change of Company Secretary and the Principal Place of Business in Hong Kong

On 16 April 2007, the Board announced that Ms. Michelle Feng Harnett ("Ms. Harnett") had ceased to act as the company secretary of the Company with effect from 15 April 2007 due to expiry of the term of her employment contract with the Company.

Ms. Harnett confirmed that she has no disagreement with the Board and there are no circumstances which need to be brought to the attention of the Stock Exchange and the shareholders of the Company.

The Board also announced that Mr. Ngai Wai Fung was appointed as the company secretary of the Company and the principal place of business of the Company in Hong Kong was changed to 8th Floor, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong with effect from 16 April 2007.

The announcement relating to the change of company secretary and change of the principal place of business in Hong Kong was set out in Hong Kong Economic Times and South China Morning Post and published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.zhaojin.com.cn on 17 April 2007.

7. Common Directorship

On 10 July 2007, the Board announced that Mr. Lu Dongshang ("Mr. Lu"), a Director of the Company and a Director of Zhaojin Group, had tendered his resignation as a Director of Zhaojin Group to the government of Zhaoyuan City, Shandong Province, the People's Republic of China ("Zhaoyuan City Government") in January 2007 pursuant to the undertaking given by Mr. Lu to the Company.

Report of the Directors

The Zhaoyuan City Government considered that the overlap of Mr. Lu as a Director of the Company and a Director of Zhaojin Group would not cause any impairment to the interests of the Company and its shareholders, as the competition between the Company and Zhaojin Group had been significantly reduced, therefore the resignation of Mr. Lu was not approved.

Each member of the Board (excluding Mr. Lu) considers that since the competition between the Company and Zhaojin Group has been significantly reduced and that Mr. Lu will abstain from voting at the Board meeting of the Company in respect of any matter that may give rise to any potential conflict of interest as a result of his common directorship in the Company and Zhaojin Group, the Board does not have any objection to Mr. Lu remaining as a Director of the Company whilst being a Director of Zhaojin Group.

Further information regarding Mr. Lu's common directorship was published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.zhaojin.com.cn on 10 July 2007.

8. Acquisition of mining rights and exploration rights

a. On 17 June 2007, the Company and the 1st Geology and Mineral Survey Academy of Gansu Geology and Mineral Survey and Developing Bureau (甘肅省地質礦產勘查開發局第一地質礦產勘查院) (the "1st Geology and Mineral Survey Academy", an independent third party), entered into a cooperative exploration agreement in relation to the cooperative exploration of Xiangtanzi Gold Mine (湘潭子金礦) and Liushaogouduo Metal Mine (柳梢溝多金屬礦) in Liangdang County in Gansu under mining rights, covering an area of 62.9 sq.km.

   The parties agreed that, during the period of cooperative exploration, the 1st Geology and Mineral Survey Academy shall possess the exploration rights and it shall offer geological technology, exploration capacity, the exploration rights and provide the achieved geological results and shall hold 30% interest in the venture, while the Company shall be responsible for the follow up contribution of RMB15,000,000 in cash as the venture capital and shall hold 70% interest in the venture.

   After the exploration, provided that the parties are satisfied with the result of their joint development, a cooperative joint venture company would be established for mining operation with the ownership structure unchanged. If the mining does not proceed by the parties and the exploration rights are to be transferred, the proceeds from the transfer will be attributed to the 1st Geology and Mineral Survey Academy and the Company in the proportion of 30% and 70% in accordance with their respective interests in the company.

b. On 30 June 2007, Minxian Tianhao entered into a transfer agreement with the 1st Geology and Mineral Survey Academy pursuant to which Minxian Tianhao acquired (i) the exploration right of the Bao Jiagou Gold Mine (包家溝金礦) located at Bao Jiagou, Maiji District, Tianshui City, Gansu Province, the PRC (中國甘肅省天水市麥積區包家溝) with an area of 12.23 sq.km. at a consideration of RMB1,850,000; and (ii) the exploration right of the Huayuan Dam Gold Mine (花園壩金礦) located at Huayuan Dam, Maiji District, Tianshui City, Gansu Province, the PRC (中國甘肅省天水市麥積區花園壩) with an area of 26.03 sq.km. at a consideration of RMB2,000,000.

Bao Jiagou Gold Mine (包家溝金礦) is located in the west end of Hua Shishan Gold Mine (花石山金礦) and the periphery of Diao Bazi Gold Mine (吊壩子金礦), a well-known gold mine in Gansu Province, and has good prospects and potential of having gold reserves.

Huayuan Dam Gold Mine (花園壩金礦) has gold mineralisation and a circled gold body whose ore grades are 4.37 g per ton. The relevant area is an ideal plot for gold exploration.

The relevant information was published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.zhaojin.com.cn on 19 September 2007.

c. On 28 June 2007, Tuoli Zhaojin, a wholly-owned subsidiary of the Company, entered into a transfer agreement with Shanghai Rongxin Copper Industry Company Limited (上海熔鑫銅業有限公司) ("Shanghai Rongxin") to acquire the Sarekuobu Gold Mine (薩熱闊布金礦) at a consideration of RMB6,650,000.

The Sarekuobu Gold Mine (薩熱闊布金礦) is located in the Sarekuobu area at the northeast of Aletai City, Xinjiang, the PRC. The mining right covers approximately 3 sq.km. with ore processing volume of 150 tons per day. The Company and Tuoli Zhaojin have carried out on-site investigation of the Sarekuobu Gold Mine (薩熱闊布金礦) and the confirmed volume of gold is 3,100 kg. In addition, according to the results of the completed geology study and expected drilling process, the volume of gold under our control is 1,500 kg, and the gold ore grade is 2.7 g per ton.

After the acquisition of Sarekuobu Gold Mine (薩熱闊布金礦), Aletai Zhaojin Kunhe Mining Industry Co. Ltd. (阿勒泰市招金昆合礦業有限公司) was established with registered capital of RMB10,000,000 in August 2007 to operate the production of the Sarekuobu Gold Mine (薩熱闊布金礦).

The relevant information was published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.zhaojin.com.cn on 25 September 2007.

Report of the Directors

d. On 19 August 2007, North China Zhaojin, a wholly-owned subsidiary of the Company, entered into a joint venture agreement with Beijing Sino Tech Institute of Mineral Exploration Co., Ltd (北京中色地科礦產勘查研究院有限公司) ("Beijing Sino Tech"), an independent third party, to establish a joint venture company Beijing Zhongse Hongxin Mining Technology Co., Ltd. (北京中色鴻鑫礦業科技有限責任公司) ("Beijing Zhongse") for the purposes of exploration and development of Hunan Lijiachong Gold (Tungsten) Mine (湖南省李家沖金(鎢)礦) (a gold mine located at Taoyuan County, Changde City, Hunan Province, with an exploration area of 51.64 sq.km.), Sichuan Dongjiayuan Gold Mine (四川省董家院金礦) (a gold mine located at Chaotian County, Guangyuan, Sichuan Province, with an exploration area of 114.51 sq.km.), and Neimenggu Elunchun Qi Xilingti Autonomous Gold Mine (內蒙古鄂倫春旗西陵梯金礦) (a gold mine located at Neimenggu Autonomous Hulunbeier City, Elunchun Autonomous County, with an exploration area of 65.68 sq.km.).

North China Zhaojin and Beijing Sino Tech hold 90% and 10% of the issued share capital of Beijing Zhongse, respectively upon discovery of proved and probable mineral reserves that are viable for production.

The relevant information was published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.zhaojin.com.cn on 4 October 2007.

e. On 22 August 2007, the Group entered into (i) an equity transfer agreement in respect of an acquisition of 95% equity interest in Xingta Mining from Shanghai Fosun Industrial Technology Development Co., Ltd (上海復星工業技術發展有限公司) ("Shanghai Fosun Technology") at RMB19,858,705; and (ii) an equity transfer agreement in respect of an acquisition of 5% equity interest in Xingta Mining from Shanghai Fosun Industrial Investment Co., Ltd. (上海復星產業投資有限公司) ("Shanghai Fosun") at RMB1,045,195. The consideration for the acquisitions had been determined after arm's length negotiation and after taking into account the valuation of the net asset value of Xingta Mining as at 31 December 2006 made by China Assets Appraisal Company Limited (中資資產評估有限公司) ("China Assets Appraisal"), an independent firm of valuers in the PRC, and the current financial condition of Xingta Mining.

Shanghai Fosun is the promoter and substantial shareholder of the Company and Shanghai Fosun Technology is a subsidiary of Shanghai Fosun. Shanghai Fosun and Shanghai Fosun Technology are therefore connected persons of the Company. The aforesaid transactions constituted connected transactions of the Company under the Listing Rules.

The relevant information about Xingta Mining was published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.zhaojin.com.cn on 22 August 2007.

f. On 28 September 2007, the Company entered into an equity transfer agreement with third parties independent of the Company to acquire 100% equity interest in Fukang Mining Industry Company Limited (富康礦業有限責任公司) ("Fukang Mining") at a consideration of RMB27,000,000.

Fukang Mining possesses one mining right and one exploration right, one productive mine and one ore processing plant with mining and ore processing capacity of 100-150 tons per day. The verified multi-ore resource reserves are as follows: ore reserves are 164,671 tons, gold metal reserves are 1,355.92 kg and its average grade is 8.23 g per ton.

The relevant information was published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.zhaojin.com.cn on 12 October 2007.

g. On 2 January 2008, the Company entered into an equity transfer agreement with two vendors, being independent third parties to the Company. Pursuant to the equity transfer agreement, the Company agreed to conditionally acquire 52% equity interests in Fengning Jinlong Mining Limited (豐寧金龍黃金工業有限公司) ("Fengning Jinlong") at a total cash consideration of RMB310,000,000. The Company agreed to the additional conditions provided in the equity transfer agreement, which are settlement of certain debts of approximately RMB23,000,000 for the vendors, resource certification fees of approximately RMB5,000,000, taxes of approximately RMB5,000,000 and audit and valuation fees of approximately RMB3,000,000 incurred by the vendors in respect to the acquisition. The consideration for the acquisition will be satisfied in cash. The Company paid RMB346 million as deposit as at 31 December 2007.

Fengning Jinlong is based in Fengning Manchu Autonomous County in Hebei Province of the PRC. It has three mining areas. The total areas with mining rights and exploration rights amount to approximately 1.1693 sq.km. and approximately 19.41 sq.km. respectively. The gold reserves amount to approximately 21 tons. Fengning Jinlong is principally engaged in mining, processing and/or smelting of gold.

Fengning Jinlong possesses one processing mill, which processes approximately 800 tons of ores a day, and one smelting plant, which daily processing capacity is approximately 200 tons. The ores are processed to the end product of gold concentrates and finished gold.

The acquisition does not constitute a connected transaction for the Company under Chapter 14A of the Listing Rules, nor a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

Report of the Directors

h. On 1 January 2008, the Company and an independent third party entered into an equity transfer agreement to acquire 51% equity interests in Xinjiang Tonghui Copper Co., Ltd. (新疆銅輝礦業有限責任公司) ("Tonghui Copper"). Tonghui Copper is a company established in the PRC. The consideration for the acquisition was RMB265,000,000 under the equity agreement, which will be satisfied in cash from the proceeds raised by the listing. The Company paid RMB53,600,000 as a deposit on 31 December 2007.

   Tonghui Copper located at the southwestern region of Xinjiang Uygur Autonomous possesses four mining rights with mining areas of 9.26 sq.km. Tonghui Copper is principally engaged in development and processing of gold and copper.

   The acquisition does not constitute a connected transaction for the Company under Chapter 14A of the Listing Rules, nor a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

9. Lease of office building

On 31 August 2007, the Company entered into the Xinyuan Leasing Agreement with Xinyuan Gold（欣源黃金）, a wholly-owned subsidiary of the Zhaojin Group, to lease premises with a total leasing area of approximately 5,965 sq.m. located at No.299 Jinhui Road, Zhaoyuan City, Shandong Province (the "Property") for a period of one year commencing from 1 September 2007 to 31 August 2008.

The rent payable by the Company to Xinyuan Gold is determined with reference to the market rent of comparable properties in the market together with the total rental gross floor area under the Xinyuan Leasing Agreement, and was RMB2,430,000 for the period from 1 September 2007 to 31 August 2008.

Zhaojin Group is one of the promoters and substantial shareholders of the Company. Xinyuan Gold is therefore a connected person of the Company. The aforesaid transaction constituted a continuing connected transaction of the Company under the Listing Rules.

The relevant information was published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.zhaojin.com.cn on 31 August 2007.

On 24 December 2007, an asset transfer agreement was entered into between the Company and Xinyuan Gold to acquire the leased property from Xinyuan Gold the land use rights of the Property with a total site area of approximately 16,173 sq.m. and the building erected thereon with a total gross floor area of approximately 13,717.52 sq.m. More details are set out in the paragraph headed "11. The property to be acquired" below. The leasing agreement was therefore terminated on 24 December 2007.

Extraordinary General Meetings

During the Year, the Company convened two extraordinary general meetings.

1. On 16 April 2007, the first extraordinary general meeting in 2007 was held at the Company. The attending shareholders represented 725,336,500 shares of the Company and represented 99.54% of the total shares of the Company. The resolutions approved at the meeting are as follows: (1) the resolution in relation to the election of the 2nd session of the Board; (2) the resolution in relation to the election of the 2nd session of the Supervisory Committee; and (3) the resolution giving authorization to the Board to determine the remunerations of new directors and supervisors.

2. On 28 August 2007, the second extraordinary general meeting of the Company in 2007 was held at the meeting room of Red Crowned Crane Hotel in Qingdao city. The attending shareholders represented 726,476,500 shares of the Company and represented 99.69% of the total of shares of the Company. As the resolutions considered at the meeting involved connected transactions, Zhaojin Group, the connected shareholder of the Company, abstained from voting in respect of such resolutions in accordance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, and so there were only 290,998,500 shares carrying voting rights were exercised at the meeting. The agreement dated 22 June 2007 entered into between the Company and Zhaojin Group was approved at the meeting, which was related to the acquisition of 51% equity interest in Xixia Zhaojin Mining Co., Ltd., 90% equity interest in Tuoli Zhaojin Beijiang Mining Co., Ltd. and 80% equity interest in Minxian Tianhao Gold Co., Ltd. respectively.

Litigation and Arbitration

During the year, the Company and the Group have not been involved in any material litigation and arbitration. As far as the Directors are aware, the Company does not have any material litigation and arbitration which are pending to be solved or threaten the Company so as to adversely affect the Company's operating results and financial conditions.

Compliance with the Code on Corporate Governance Practices

The Board is of the view that the Company has complied with the provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules during the Year. No Director is aware of any information that reasonably reveals that there is any non-compliance with the code provisions of the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules by the Company during any time of the Year.

For details of the Corporate Governance Report, please refer to pages 51 to 72 of this annual report.

Report of the Directors

Compliance with the Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors.

The Board is pleased to confirm, after making specific enquiries with all Directors, that all Directors have fully complied with standards required according to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules during the Year.

Audit Committee

The Company established its audit committee on 16 October 2004. The audit committee currently comprises one Non-executive Director and three Independent Non-executive Directors, namely Mr. Liu Gendong, Mr. Yan Hongbo, Ms. Chen Jinrong and Mr. Choy Sze Chung Jojo .

The audit committee has adopted a written terms of references which is in compliance with the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules. The audit committee is primarily responsible for the matters concerning the internal controls and financial reporting. It has reviewed the accounting principles, accounting standards and methods adopted by the Company together with the management, discussed on the matters concerning the internal controls, as well as reviewed the Group's audited annual results for the year ended 31 December 2007.

The audit committee is of the view that the Group's audited annual results for the year ended 31 December 2007 are prepared in accordance with the applicable accounting standards, laws and regulations, and appropriate disclosures have already been made.

Confirmation of Independence of the independent non-executive Directors

The Company confirmed that it has received the annual confirmation of independence from each of the Independent Non-executive Directors in compliance with Rule 3.13 of the Listing Rules on 20 January 2008. The Company is of the view that the existing Independent Non-executive Directors remain independent in accordance with the relevant guidelines of Rule 3.13 of the Listing Rules.

Post Balance Sheet Events

The details of post balance sheet events of the Group are set out in note 39 to the financial statements.

Auditor

The financial statements of the Group prepared in accordance with the generally accepted accounting principles in Hong Kong have been audited by Ernst & Young.

A resolution in relation to the reappointment of Ernst & Young as the international auditor of the Company will be proposed at the 2007 annual general meeting.

By the order of the Board
Lu Dongshang
Chairman

10 March 2008

Corporate Governance Report

Report of Corporate Governance Practice

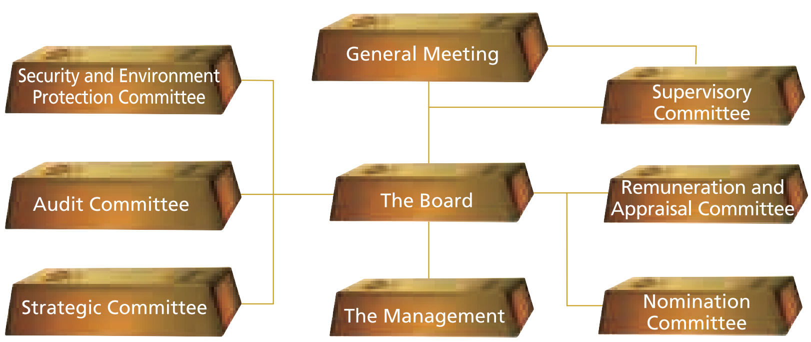
As one of the largest gold mining overseas-listed companies in the PRC, we always commit to achieve the best corporate governance practice and try to create shareholder value so as to protect shareholders' and staff's interests. The Board and the management of the Company believe that the Company should improve accountability and transparency and strike a balance among various interested groups (including but not limited to the shareholders, government, clients, creditors and staff). The Company must uphold a high standard of corporate governance.

The objectives of the Company are to strive to enhance corporate value, ensure a sustainable development of the Company, and bring favorable returns to the shareholders. We maintain a high standard of corporate governance practices, and it is our strong belief that through corporate governance, we may achieve greater transparency and establish an effective accountability mechanism, which will facilitate the accomplishment of the Company's objectives mentioned above, standardize the operation of the Company, and promote investor confidence.

(A) Corporate Governance Practice

For the year ended 31 December 2007, the Company has fully complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules issued by the Hong Kong Stock Exchange with no deviation, and has adopted certain recommended best practices in the Code when it is applicable.

The corporate governance structure of the Company is set out as follows:



(B) Securities Transaction of Directors

The Company had adopted all provisions of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules so as to govern the securities transaction by Directors.

None of the Directors had any interest in other securities of the Company as at 31 December 2007. Special enquiries were made to all Directors, and they all confirmed that they had fully complied with the Model Code during the period between 1 January 2007 and 31 December 2007.

Corporate Governance Report

(C) The Board

The Board is the executive body of the Company and shall be responsible for formulating and executing the operation plans and management decisions of the Company as well as establishing the overall strategic direction of the Company. Its duties include evaluating the performance of senior management and supervising the system of the Company. The Board has to act in the best interest of the Company and its shareholders.

The main duties of the Board are to convene general meetings, to implement resolutions passed at general meetings, to exercise management decisions with authority delegated by general meetings in respect of the Company's strategic development and operation plan, governance structure, investment and financing, financial supervision and human resources, to prepare and control the Company's financial system and annual budget, to supervise the Company's internal controlling system and carry out governance policy as well as monitor performance of the senior management. The Board acts according to the Rules and Procedures of Board Meetings formulated by the Board. All substantial transactions or transactions with conflicts of interests of the Company are to be decided by the Board.

Directors are elected or replaced by general meetings. Shareholders, the Board or the Supervisory Committee are entitled to nominate a candidate for directorship by written notice. Directors have a term of three years and are eligible to offer themselves for re-appointment upon expiry of term.

Being the second session of Board since the establishment of the Company, the incumbent Board comprises 11 Directors, of which 3 are executive Directors, 4 are non-executive Directors and 4 are independent non-executive Directors. In accordance with the articles of association of the Company, all members of the Board (including independent non-executive Directors) have a term of three years commencing on the date of being elected and ending on 15 April 2010. Directors shall be eligible for re-election upon the expiry of their terms of office. The election of all members of the new session of Board was held on the extraordinary general meeting convened on 16 April 2007. All members of the second session of Board have a term of three years since 16 April 2007. Mr. Choy Sze Chung Jojo was elected as independent non-executive Director on 2006 annual general meeting held on 22 May 2007 with a term of office with effect from 22 May 2007 to the expiry of term of the second session of Board. The list and profiles of Directors (including their names) are set out on pages 22 and 27 of this annual report.

Members of the Board are from different industry backgrounds and have extensive experience in science and technology, securities and finance, mining and metallurgy, corporate management and accounting.

The Company has 3 Directors responsible for specific management duties, representing 27% of the Directorship. This helps the Board closely review and monitor the management procedure of the Company. Mr. Lu Dongshang, the Chairman of the Company, and 2 other executive Directors have years of extensive experience in the gold mining management industry and are responsible for the operating management, formulating and implementing important strategies, making daily operation decisions and coordinating overall business operations.

The Company has 4 independent non-executive Directors, representing 36% of the Directorship, which complies with the requirement of Rules 3.10 (1) of the Listing Rules. Independent non-executive Directors were assumed by the persons who are independent of any Directors, Supervisors, chief executives and substantial shareholders (as defined in the Listing Rules) or such individuals without any connection thereto (the independent third party), which complies with the requirement of independence of Listing Rules. According to the Listing Rules, each independent non-executive Director shall confirm his independence to the Hong Kong Stock Exchange prior to his appointment. As at 20 January 2008, the Company has received written confirmation of independence from each of the independent non-executive Directors in respect of confirming his independent status to the Company.

All the Company's independent non-executive Directors have extensive experience in mining, economics, management and accounting, which complies with the requirements of Rule 3.10(2) of the Listing Rules which requires that at least one of its independent non-executive Directors have appropriate professional qualifications, accounting or related financial management expertise.

The 4 independent non-executive Directors assumed duties in the Audit Committee, Nomination Committee, Remuneration and Appraisal Committee, Strategic Committee or Security and Environmental Protection Committee under the Board.

The Board acknowledges its responsibilities for the preparation of the financial statements for each financial year, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that year and in compliance with relevant laws and disclosure provisions of the Listing Rules.

The directors confirmed that they have the responsibility to prepare company accounts to reflect the true and fair situation of the Group's business position, results and cash flow performance during the year. When preparing the accounts as at 31 December 2007, the directors confirmed that:

- appropriate accounting policy was chosen and applied consistently;
- the early adoption of all standards contained in the Hong Kong Financial Reporting Standard in compliance with the International Financing Reporting Standard was approved; and
- cautious and reasonable judgement and estimation were made and the accounts were prepared on the continual operational basis.

Corporate Governance Report

The Board convenes meetings on a regular basis. A minimum of 4 meetings with Directors' personal attendance are held each year (2007: 4 meetings), and additional meetings will be convened if necessary. The secretary to the Board/Company Secretary is responsible for helping the Chairman in compiling agendas. Each Director can request to have discussion topics included in the agenda.

Management members of the Company is responsible for implementing decisions made by the Board and making decisions within their authority endowed by the Board in respect of the Company's operation.

Notices of regular Board meetings and special committee meetings are served to all Directors and Supervisors at least 14 days before the meetings, and documents set out information of analysis and background and meeting agendas shall be distributed to Directors or members of special committee meeting 3 days before regular Board meetings or special committee meetings are held.

Directors are free to express their views at the meetings. Important decisions will only be made after detailed discussion at the Board meetings. Directors confirm that they have responsibility to act in the interests of the public and the Company, particularly in the interests of minority shareholders. In the event of a conflict of interests between shareholders' interests and any other interests, Shareholder's interests shall prevail.

The CEO and Vice-president of the Company are invited to attend the Board meetings. Other senior management members are also invited to attend the Board meetings from time to time for detailed explanation of the issues under discussion and respond to enquiries from the Directors.

Detailed minutes of meetings are compiled for the Board meetings or special committee meetings. Minutes of the meetings must record issues in details considered by the Directors during the meeting as well as the resolutions made, including any worries or objections put forward by the Directors.

Directors can provide comments for the draft minutes within a week available for all Directors or special committee members. Draft minutes will then be approved with confirmation given by the Chairman of the Board or the chairman of the special committee.

Minutes of Board meetings or special committee meetings are kept by the secretary to the Board/Company Secretary and are available for inspection by the Directors at all time.

All Directors are free to communicate with the secretary to the Board/ Company Secretary who is responsible for ensuring and advising on compliance of all procedures in connection with the Board and all applicable rules and regulations.

The management shall on their own accord or upon enquiries provide appropriate and sufficient information to the Directors and special committee members and/or respond as soon as possible, so as to keep them informed of the latest development of the Company to facilitate their performance of duties.

Each Director has been provided with a Director's Handbook containing guidance on practice. Provisions of regulations or Listing Rules are quoted in the Director's Handbook to remind Directors of the need to discharge their responsibilities, including disclosure of their interest to the supervisory bodies, potential conflict of interests and details of changes of personal data.

The Board and special committees are provided with sufficient resources for performance of duties including but not limited to hiring external consultants when necessary at the expenses of the Company. Individual Directors can also hire consultants for advice on any specific issues at the expenses of the Company.

All Directors can obtain from the secretary to the Board/Company Secretary timely information and latest development about rules and regulations and other continual responsibilities which Directors of listed companies must observe so as to ensure that each Director is informed of his own duties and that the Company implements the Board procedures consistently and complies with the legislations properly.

(D) Chairman and CEO

The Chairman of the Company is elected by the Board. The CEO is nominated by the Chairman and appointed by the Board respectively.

On the first board meeting of the second session of Board held on 16 April 2007, Mr. Lu Dongshang was elected to be the Chairman of the Company by all the Directors. The Chairman is the legal representative of the Company, who is primarily responsible for convening and presiding over Board meetings, inspecting the implementation of Board resolutions, attending annual general meetings and arranging attendance by chairpersons of other Board committees at general meetings in order to answer questions raised by shareholders, signing documents authorizing issue of securities by the Company and other important documents, and exercising other rights conferred on by the Board. The Chairman is responsible to and reports to the Board.

On the first Board meeting of the second session of Board held on 16 April 2007, the Board approved the resolution in relation to Mr. Lu Dongshang's nomination of Mr. Wang Peifu as the CEO of the Company. The CEO is responsible for the day-to-day operations of the Company, including implementing strategies and policies, the Company's operation plans and investment schemes approved by the Board, formulating the Company's internal control structure and fundamental management policies, drawing up basic rules and regulations, submitting to the Board for appointment or removal of senior management and exercising other rights granted under the Articles of Association and by the Board. The CEO takes full responsibility to the Board in respect of the operations of the Company.

Defined duties of the Chairman and the CEO of the Company are stated in writing.

On 19 December 2007, Mr. Lu Dongshang, the Chairman of the Company, held a meeting with the Non-executive Directors (including independent non-executive Directors) but in the absence of the executive Directors, on which, the Chairman, Mr. Lu Dongshang, not only acquainted the Non-executive Directors (including independent non-executive Directors) who attended the meeting with the achievements the Company has accomplished during the year after the listing of the Company's shares, but also listened to their advices and recommendations to the Board and the management of the Company in respect of the operations of the Company.

(E) Non-executive Directors

The second session of the Board consists of four Non-executive Directors, namely Mr. Liang Xinjun, Mr. Wu Ping, Mr. Liu Gendong, and Mr. Cong Jianmao, accounting for 36% of the total number of the Board's members. Pursuant to the Articles of Association, Non-executive Directors may be re-elected on the expiry of the three-year term commencing from the date of their appointment and expiring on 15 April 2010.

(F) Directors' Remuneration

Roles and duties of the Remuneration and Appraisal Committee include:

1. to advise the Board on remuneration policies and framework of the Directors and senior management of the Company and to formulate such remuneration policies in accordance with formal and transparent procedures;

2. to discharge the following duties as transferred by the Board, namely, to determine specific remuneration of all executive Directors and senior management including non-monetary profits, rights to pension and quantum (including compensation for loss or termination of employment or appointment) as well as to advise the Board on remuneration of independent non-executive Directors;

3. factors the Remuneration and Appraisal Committee should take into consideration including comparison of salaries paid by similar companies, time contributed by Directors and their duties, terms of employment of other positions within the Group and whether to adjust salaries according to performance;

4. to review and approve performance-based salary and the terms of Directors' service contracts in accordance with corporate targets and approach approved by the Board from time to time;

5. to review and approve payment of compensation in relation to loss or termination of employment or appointment of executive Directors and senior management so as to ensure that such compensation is determined according to the contractual terms;

6. to review and approve compensation arrangements in relation to dismissal or removal of Directors due to their misconducts so as to ensure that such compensation is determined according to the contractual terms.

7. to formulate remuneration policies and determine remuneration based on formal and transparent procedures, to ensure that the Company attracts, retains and motivates competent staff who are crucial to the continual development of the Company;

8. to ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration;

9. to formulate the standards or plans of the remuneration packages in accordance with the duties, responsibilities, importance and relevant positions in other relevant enterprises. The remuneration standards or plan principally include but not limited to salaries, bonuses, shares; performance assessment standards, procedures and major assessment system; major plans and systems for awards and punishments;

10. to formulate annual evaluation target and conduct annual performance assessment;

11. to review the duties performed by the Directors and senior management of the Company; and

12. to be responsible for monitoring the implementation of the Company's remuneration system.

Operation procedures of the Remuneration and Appraisal Committee include:

1. Chairman of the Remuneration and Appraisal Committee shall report the conclusion of discussion to the Board after each meeting and provide recommendations;

2. The Remuneration and Appraisal Committee can seek professional advices when necessary;

3. Details about remuneration of Directors and Supervisors for the year ended 31 December 2007 are set out on pages 114 to 118 in this annual report in note 7 to the financial statements; and

4. Duties of the Remuneration and Appraisal Committee during the year include implementations of Directors' remuneration policy, performance assessment of executive Directors and approval of contract terms of executive Directors.

Corporate Governance Report

In evaluating the performance of the Directors and senior management, the Company used budget targets and audited financial reports as benchmarks. At the same time, sales revenue and net profits as key performances indicators were used as business indices. The Company's remuneration policy is that remuneration is linked with Company's performance. Directors' remuneration is determined upon appraisal by the Remuneration and Appraisal Committee. Total income of senior management during the year comprises of a basic annual salary and a performance-based annual bonus. The remuneration of Directors and Supervisors are determined in general meetings according to related policies or stipulations of the PRC and the actual position of the Company. The management remuneration of Directors and Supervisors of the Company are determined on the basis of their specific duties undertaken in the Company.

Due to the re-election of the Board during the year, the second session of Remuneration and Appraisal Committee of the Board still comprises three members, namely Mr. Yan Hongbo and Ms. Chen Jinrong (independent non-executive Directors), and Mr. Liang Xinjun (Non-executive Director). Mr. Yan Hongbo acts as the chairman of the committee.

During the year 2007, the work performed by the Remuneration and Appraisal Committee was principally as follows:

1. Reviewing the proposal on the nomination of candidates for the second session of the Board of the Company;

2. Reviewing the resolution to be put forth at the general meeting to authorize the Board to determine the remuneration of Directors and Supervisors, and recommending the Board to put forth the same for approval at the general meeting;

3. Reviewing and determining the annual salary scheme for the management for the year 2006, and recommending its proposal for the Board's review and approval;

The details of the terms of reference of the Remuneration and Appraisal Committee are available for inspection on the website of the Company.

The Company currently does not operate any long term incentive plan.

(G) Nomination of Directors

The role and main duties of the Nomination Committee include:

1. to advise the Board on Structure, membership and composition of the Board in light of the Company's production and business activities, asset scale and equity structure;

2. to review criteria and procedure for selection of Directors and general managers and provide recommendation to the Board;

3. to extensively seek suitable candidates for Directors and general manager, to conduct examination and make recommendations on candidates of Directors and general managers;

4. to conduct examination and make recommendations on other senior management staff pending referral to the Board for the decision of their employment;

5. to assess independency of independent non-executive Directors; and

6. to advise the Board on issues regarding appointment or re-appointment of Directors and succession of Directors (in particular the Chairman and CEO).

The Nomination Committee to the Board currently comprises two independent non-executive Directors, namely Mr. Ye Tianzhu and Ms. Chen Jinrong, and one Non-executive Director, namely Mr. Wu Ping. Mr. Ye Tianzhu acts as the chairman of the committee.

The working process of the Nomination Committee includes:

1. the Nomination Committee shall actively communicate with the relevant divisions of the Company to research on the demand of the Company for new Directors and managers and to come up with written materials;

2. the Nomination Committee may extensively look for the candidates of Directors and managers within the Company and its controlled companies as well as in the market of talents;

3. to obtain the information of the occupation, education background, job title, detailed working experience and all the concurrent positions of the initially proposed candidates and to come up with written materials;

4. to seek the nominees' opinions on nomination, otherwise he or she shall not be put on the list of candidates of Directors and managers;

5. to convene meetings of the Nomination Committee and to check the qualification of initially proposed candidates according to the job qualifications of Directors and managers;

6. to put forward the recommendation about the candidates of Directors and managers and relevant materials to the Board one to two months prior to the election of new Directors and the appointment of new managers; and

7. to conduct other follow-up work according to the decision and feedbacks of the Board.

The chairman of the committee shall report the conclusion of discussion and recommendations of the committee to the Board after each meeting.

Corporate Governance Report

Currently, the executive Directors of the Company are nominated mainly through the selection and identification of its staff who are familiar with the gold industry with extensive management experiences, while the Non-executive Directors are nominated from those persons who are eligible for being appointed as the Director of the Company based on their independence, their experiences in gold industry and business management and their technical expertise with reference to the requirements of the laws and regulations in the jurisdiction where the Company has been listed, the structure of the Board and the reasonability of corporate composition. The Nomination Committee will first discuss the nomination of candidates for Directors, and then propose them at the general meeting for selection.

In current year, the Nomination Committee met one time with all members attended the meeting. The candidates for Directors of the second session of the Board were proposed at the general meeting during which Mr. Lu Dongshang, Mr. Wang Peifu and Mr. Ma Yushan were proposed as the executive Directors, Mr. Liang Xinjun, Mr. Wu Ping, Mr. Liu Gendong and Mr. Cong Jianmao as the Non-executive Directors, and Mr. Yan Hongbo, Ms. Chen Jinrong, Mr. Ye Tianzhu and Mr. Choy Sze Chung Jojo as the independent non-executive Directors. Mr. Lu Dongshang, Mr. Wang Peifu, Mr. Ma Yushan, Mr. Liang Xinjun, Mr. Wu Ping, Mr. Liu Gendong, Mr. Cong Jianmao, Mr. Yan Hongbo, Ms. Chen Jinrong and Mr. Ye Tianzhu were appointed at the 1st extraordinary general meeting of the Company on 16 April 2007, while Mr. Choy Sze Chung Jojo was appointed at the annual general meeting of the Company on 22 May 2007.

(H) Auditors Remuneration

The overseas auditors hired by the Company is nominated by the Board and approved in the general meeting. Its remuneration was determined by the Board as authorised by the general meeting. During the year, the remuneration paid to overseas auditors for their auditing services to the Group was approximately RMB1,800,000.

(I) Audit Committee of the Board

To attain the goal of best corporate governance, the Company established the Audit Committee on 16 October 2004, and re-elected it at the 1st meeting of the second session of the Board on 16 April 2007. Mr. Choy Sze Chung Jojo was appointed as the member of the Audit Committee at the 4th meeting of the second session of the Board on 8 August 2007.

Jurisdiction of the committee is formulated in accordance with recommendations of "A guide for Effective Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants. Its major duties include: to report to the Board, examine quality and procedure of the Group's interim and annual reports, review connected transactions, supervise the financial reporting procedures, revise soundness and effectiveness of internal control system of the Company, approve appointment of independent auditors, coordinate and review its efficiency and work quality, review written reports of in-house auditing staff and revise feedback from the management level to such reports.

Besides, the Audit Committee shall also undertake the following duties:

1. to advise the Board on appointment, re-appointment and removal of hired external auditors, approve remuneration and terms of appointment of external auditors and to handle any problems in relation to the auditors' resignation or dismissal of auditors;

2. to revise and supervise the work of the external auditors;

3. to formulate and implement policies on non-auditing services provided by auditors and to advise the Board on related issues;

4. to review the Company's financial information and other related information;

5. to monitor the Company's financial reporting system and internal control procedures as well as related issues;

6. to advise the Board as to whether the internal supervisory system is effective; and

7. In case of uncertain events or circumstances which may materially affect the Group's sustainable operation, such uncertain factors should be reported.

Pursuant to the requirements of the Listing Rules, the Audit Committee currently comprises 3 independent non-executive Directors, including Mr. Yan Hongbo, Ms. Chen Jinrong, Mr. Choy Sze Chung Jojo and 1 Non-executive Director, Mr. Liu Gendong. The members of the Audit Committee shall have a term of three years. The Committee is chaired by Ms. Chen Jinrong.

During the year, the Audit Committee had convened two meetings both which were chaired by the chairman of the committee. For details about the attendance, please refer to the related form in this section. The attendance rate of the meetings was 100%. All matters passed during the meetings were duly recorded in accordance with related rules, and the records were filed upon review by all members of the Audit Committee with amendments. After each meeting, the chairman has submitted reports on the significant matters discussed to the Board.

Major work performed by the Audit Committee during the year included:

1. to review the Group's report of the directors, financial reports and results announcement for the year ended 31 December 2006 and provide recommendation to the Board ;

2. to review the Group's interim report, unaudited financial reports and interim results announcement for the six months ended 30 June 2007;

3. to review recommendations on management put forward by auditors and responses from the Company's management;

4. to review matters related to accounting policies and accounting practices adopted by the Group;

Corporate Governance Report

5. to ensure that the connected transactions of the Company comply with the principle of impartiality, fairness and openness and fully protect interests of minority shareholders;

6. to assist the Board in making independent assessment of effectiveness of the Group's financial reporting procedures and internal control system;

7. to supervise internal auditing of the Company; and

8. to advise on significant events of the Company or remind the management of related risks.

Attendance at the Board meetings and various special committee meetings

Attendance at the Board meetings in 2007

Name of Directors	Number of meetings should be attended during the year	Attendance in person	Attendance by way of proxy	Attendance by way of electronic communication
Lu Dongshang	9	4	0	5
Wang Peifu	9	3	1	5
Ma Yushan	9	4	0	5
Guo Guangchang	3	0	1	2
Wu Ping	9	2	2	5
Liu Gendong	9	2	2	5
Cong Jianmao	9	4	0	5
Zhai Yusheng	3	1	0	2
Yan Hongbo	9	4	0	5
Ng Ming Wah, Charles	3	1	0	2
Li Dingan	3	1	0	2
Liang Xinjun	6	2	1	3
Ye Tianzhu	6	2	1	3
Chen Jinrong	6	2	1	3
Choy Sze Chung Jojo	5	2	0	3

Attendance at the Audit Committee meetings in 2007

Name of Directors	Number of meetings during the year	Attendance in person	Attendance by way of proxy	Attendance by way of electronic communication
Wu Ping	1	0	1	0
Liu Gendong	2	2	0	0
Yan Hongbo	2	2	0	0
Ng Ming Wah, Charles	1	1	0	0
Li Dingan	1	0	1	0
Chen Jinrong	1	1	0	0
Choy Sze Chung Jojo	1	1	0	0

Attendance at the Nomination Committee meetings in 2007

Name of Directors	Number of meetings during the year	Attendance in person	Attendance by way of proxy	Attendance by way of electronic communication
Lu Dongshang	1	1	0	0
Zhai Yusheng	1	1	0	0
Wu Ping	2	0	2	0
Ng Ming Wah, Charles	1	1	0	0
Ye Tianzhu	1	1	0	0
Chen Jinrong	1	1	0	0

Attendance at the Remuneration Committee meetings in 2007

Name of Directors	Number of meetings during the year	Attendance in person	Attendance by way of proxy	Attendance by way of electronic communication
Lu Dongshang	1	1	0	0
Zhai Yusheng	1	1	0	0
Wu Ping	1	0	1	0
Ng Ming Wah, Charles	1	1	0	0
Liang Xinjun	0	0	0	0
Yan Hongbo	0	0	0	0
Chen Jinrong	0	0	0	0

Corporate Governance Report

Monitoring Mechanism

Supervisory Committee

The Supervisory Committee was established in accordance with the PRC law. The Supervisory Committee consists of three members, one of whom is the chairman. The first session Supervisor has a term of three years from the date of election to 15 April 2007, who is subject to and eligible in re-election. The Second Supervisory Committee was established through election at the first extraordinary general meeting in 2007 convened on 16 April 2007, comprising Mr. Wang Xiaojie, Cheng Binghai and Chu Yushan. Mr. Chu Yushan is a representative supervisor from the staff, and Mr. Wang Xiaojie is the chairman of the Supervisory Committee. The number of members and composition of the Supervisory Committee are in accordance with the laws and regulations.

The Supervisory Committee is conferred with powers from the laws to perform the following duties independently: to examine the financial position of the Company, to monitor whether the Directors, CEO, Vice-presidents and other senior management act in contravention to the laws, administrative regulations, the Articles of Association and the resolutions of the general meetings, to demand rectification from the above officers when their acts are detrimental to the interests of the Company, to review the financial information such as the financial report, results report and plans for distribution of profits to be submitted by the Board to the general meetings and to authorize a re-examination by the auditors of the Company for the time being in the name of the Company, to propose the convening of a shareholders' extraordinary general meeting and propose resolutions on shareholders' meetings, to represent the Company in negotiations with, or bringing an action against, a Director, and to perform other duties required by laws, regulations and rules imposed by national and overseas supervisory bodies.

The Supervisory Committee is accountable to the shareholders. Each year, the Supervisory Committee presents the Report of the Supervisory Committee and reports their work performed according to the laws at the general meetings. The Supervisory Committee also evaluates the attendance rate and integrity of the Directors, CEO, Vice president and other senior management, and reviews the auditor's reports issued by the auditors in accordance with the generally acceptable auditing standards.

During the year, the first Supervisory Committee has convened three meetings. The attendance rate of the meetings by the three Supervisors was 66.67%.

All Supervisors have attended all the Board meetings and performed their monitoring obligations on behalf of the shareholders as to whether the financial activities of the Company, the performance of duties of Directors and senior management and the decision making procedures of the Board are in compliance with the laws and regulations. The Supervisors had performed their statutory duties impartially.

Internal Control and Internal Review

The Board is responsible for the establishment and maintenance of the Company's internal control system for reviewing relevant financial, operating and supervisory control procedures to protect shareholders' interests and the Group's assets. The Board authorizes the operating management to promote such internal control system mentioned above, and the effectiveness of which is reviewed by the Audit Committee.

The internal control system includes a management framework with clearly defined duties for the purposes of:

1. assisting the Company in accomplishing various business targets and ensuring that corporate assets will not be defalcated or disposed of;

2. ensuring that the Company's accounting record provides reliable financial data for internal use or public disclosure; and

3. ensuring compliance with related legislations and requirements.

Aiming at more effective review on the effectiveness of the internal control system, the Company set up an internal audit department in April 2004 to review, monitor and assess the disclosure of financial information, operations and internal control activities of the Company and its associates on a regular basis and when necessary, based on potential risks and the importance of internal control systems for different businesses and workflows. This can ensure the transparency of information disclosure, operating efficiency and effectiveness of the corporate monitoring mechanism. The independent and objective evaluation and recommendation are provided in the form of an audit report. The internal auditors are entitled to have access to all information of the Company and to make enquiries to relevant persons in performing their duties. The manager of the audit department directly reports the relevant outcomes and his/her opinions to the Audit Committee for consideration. After reviewing their reports, the Audit Committee puts forward its recommendation to the management of the Company and regularly reports to the Board.

The Company concerns the importance of the internal control and had set up relevant internal management systems and procedures for corporate governance, operation, construction, finance, and administrative personnel. In December 2004, an internal control system was approved by the Board. The internal control system summarizes and clarifies the objectives, content, methods and obligations of the internal control system. This will facilitate the Company's continuing review and assessment on implementation of the existing systems and the effectiveness of internal controls.

Corporate Governance Report

During the year, the Board made comprehensive review to the effectiveness of the internal control system of the Company, which include the Company's finance control, operation control, compliance control and risk management function, etc. To further promote effective internal control, the Board set up the following major procedures:

- The accountability of the Company's organization structure is definite and has distinguishable monitor level. All department heads participate in formulating strategic plan and determining the Company's corporate strategies so formulated to achieve annual operation plan and annual operational and financial targets in next three years. Both the strategic plan and annual operational plan are the basis of formulating annual budgets; the Company allocates resources depending on the definability and priority of business opportunities based on annual budgets. Other than the three-year plan which is approved by the Board and subject to annual review, the annual operational plan and annual budget should also be approved by the Board annually.

- The Company already has a comprehensive accounting system in place, such system provides and measures finance and operation performance indicators, as well as relevant financial data that can be used for reporting and disclosure. The budget gap, if any, shall be analyzed and explained, and appropriate actions shall be taken to remedy the problems found as necessary.

- The Company also has systems and procedures in place to identify, measure, deal with and control risks which include legal, credit, market, centralized, operational, environmental, behavior risks as well as others which may influence the development of the Company.

- The audit department will carry out independent review on confirmed risks and control so as to reasonably guarantee the management and Audit Committee that the risks are satisfactorily handled and the control is fully effected.

During the year, the Company appointed an internal control and assessment advisor who is an independent third party to conduct detailed assessment about our internal control system during the year. The assessment method applied the COSO Internal Control Structure of American COSO Committee. The introduction of COSO Internal Control Structure can reveal the effectiveness of the Company's internal control system and we can take this chance to rationalize our management processes, regulate management and raise the overall management standard. According to the assessment report from internal control and assessment advisor, the Board has reviewed the in-house control system of the Company and its subsidiaries and vertified the effectiveness of this system, the audit committee has also found no material deficiencies on the internal control system.

Chief Financial Officer

Chief Financial Officer is in charge of the financial operation of the Company and reports to the CEO.

Chief Financial Officer is responsible for preparing financial statements in accordance with GAAP of the PRC and Hong Kong and to ensure compliance with disclosure requirements as stipulated by the Hong Kong Stock Exchange. The Board bears the ultimate responsibility towards the financial statements prepared by him.

Chief Financial Officer is also responsible for preparing the Company's annual budget scheme and the budget implementation proposal, as well as monitoring the implementation of the Company's annual financial and operating plans. In addition, the chief financial officer shall work with and give recommendations to the Board in establishing relevant internal control systems.

Relations with shareholders, investors and other concerned parties

The Company is committed to ensuring that all shareholders, especially the minority shareholders, can enjoy equal status and fully exercise their own rights.

General Meeting

As the highest authority of the Company, the general meeting exercises its rights under the law to make decisions on significant events of the Company. The Company establishes and maintains various communication channels by way of publication of annual reports, interim reports and information announcements. To promote effective communication, shareholders can choose to receive information to shareholders from the Company viaelectronic means. The information is also published in the website of the Company.

The annual general meeting or extraordinary general meeting (if applicable) serves as a direct communication channel between the Board and the shareholders. All Directors understand that general meetings provide an effective platform for direct communication between Directors, Supervisors and other senior management and shareholders, where they shall report to shareholders with regard to the Group's operations to secure effective communications with shareholders. Accordingly, the Company had attached much importance to general meetings. In addition to a 45-day notice before the holding of a general meeting, the Company requires that all Directors and senior management shall employ their best endeavors to attend the general meetings. Also, all shareholders are encouraged to attend general meetings. At the general meetings, the shareholders can make enquiries about the Company's operation status or financial information and the shareholders are welcome to express their views therein.

Details about the polling process and the shareholders' rights to request for decisions by way of a poll are included in notices or circulars issued to the shareholders together with the annual reports. Results of polls are not only announced at the meeting, but also available for inspection on the websites of the Company and the Hong Kong Stock Exchange, and published on the press on the next day .

In 2007, the Company had convened one annual general meeting and two extraordinary general meetings. The shareholding held by shareholders who attended the meetings represented more than 99.5% of the total issued shares (728,715,000 shares) of the Company.

Corporate Governance Report

Largest Shareholder

At the end of 2007, 271,628,500 ordinary shares are held by Zhaojin Group, the largest shareholder of the Company, representing 37.3% of the total issued ordinary shares of the Company. Number of shares held by other promoters include: 106,000,000 shares held by Shanghai Fosun, representing 14.5% of the total issued ordinary shares of the Company; 106,000,000 shares held by Shanghai Yuyuan, representing 14.5% of the total issued ordinary shares of the Company; 21,200,000 shares held by Guangxin Investments, representing 2.9% of the total issued ordinary shares of the Company; 5,300,000 shares held by Laomiao Gold, representing 0.7% of the total issued ordinary shares of the Company. As the largest shareholder of the Company, Zhaojin Group has never overridden the general meeting to directly or indirectly intervene in the Company's decision-making and operation. The Company has always kept independent from largest shareholder in terms of assets, finance, organisation and business.

As the largest shareholder of the Company, Zhaojin Group has never overridden the general meeting to directly or indirectly intervene the Company's decision-making and operation. The Company has always kept independent from its largest shareholder in terms of assets, finance, organisation and business.

Independence from Zhaojin Group

The Directors are satisfied that the Company can be independent of Zhaojin Group's business:

- **Management independence**: Among the Board, only one Director will continue to hold the Chairman's position with the Board of Zhaojin Group. In the opinion of the Directors, as the management overlap only involves one Director therefore the participation of the independent non-executive Directors of the Company would be sufficient for managing the material conflicts of interests arising from the management overlap. Details of which were published on website of Hong Kong Stock Exchange (www.hkex.com.hk) and website of the Company (www.zhaojin.com.cn) on 10 July 2007 already.

  Apart from Mr. Lu Dongshang, none of the Directors or members of senior management of the Company (excluding the Supervisors of the Company) hold current positions in Zhaojin Group.

- **Production and operational independence**: Since its incorporation, the Group has operated its business independently of Zhaojin Group, and has not shared its production teams, production facilities and equipment, or marketing, sales and general administration resources with Zhaojin Group or its associates, except as described in "Connected Transactions" with respect to the provision of gold refinery and gold bullion trading services by Zhaojin Group, which are conducted on an arm's length basis and normal commercial terms. Zhaojin Group operates a gold bullion trading agency business through its Shanghai Gold Exchange membership and has more than 800 customers in addition to the Company as at 31 December 2007 (30 September 2006: approximately 180 customers).

The refinery business owned by Zhaojin Group through its majority interest in Zhaojin Refinery provides gold refinery services to gold mines in the Zhaoyuan district and had approximately 81 customers in addition to the Company as at 31 December 2007 (30 September 2006: approximately 27 customers). Under the terms of the agreements with Zhaojin Group for these services, the Company may terminate the agreements at any time and the Company is not prohibited from engaging other service providers during the term of the agreements.

In the Yantai region, there are three other qualified refineries and five other Shanghai Gold Exchange members that the Company can readily engage on comparable terms as those the Company has agreed with Zhaojin Group to provide it with refinery or trading agency services, if necessary.

- **Independence of access to supplies and raw materials**: The Group's principal supplies and raw materials for production, namely, electricity and water, gold and silver concentrates, and auxiliary materials, are sourced from independent suppliers not related to Zhaojin Group. Independence of access to customers: The Group's customers mainly comprise purchasers of its standard gold bullion on the Shanghai Gold Exchange. The anonymity and market-driven nature of Shanghai Gold Exchange trades ensure that there is no customer independence issue. As far as the Directors are aware, the Group's other customers, being metallurgical enterprises that purchase silver and concentrates of sulphur and other metals from it, are independent of Zhaojin Group.

- **Independence of access to customers:** The Group's customers mainly comprise purchasers of its standard gold bullion on the Shanghai Gold Exchange. The anonymity and market-driven nature of Shanghai Gold Exchange trades ensure that there is no customer independence issue. As far as the Directors are aware, the Group's other customers, being metallurgical enterprises that purchase silver and concentrates of sulphur and other metals from it, are independent of Zhaojin Group.

- **Financial independence**: The Group has an independent financial department that is independent from and does not share functions or resources with Zhaojin Group. The Group's financial auditing is undertaken separately from that of Zhaojin Group by its own staff. The Group has separate bank accounts and tax registration. While the Group has, in the past, enjoyed the benefit of shareholder loans from and/or bank loans guaranteed by Zhaojin Group, most of such shareholder loans have been repaid and most of such guarantees have been released. In their place, the Group has obtained bank financing at market rates from independent financial institutions and did not experience any difficulties in doing so. Given the Group's financial and cash flow position, the Directors believe that, if required, the Group is able to obtain further loans and credit facilities from financial institutions at market rates without material difficulty.

Non Competition Agreement and Excluded Businesses

On 17 November 2006 the Company and Zhaojin Group entered into a non competition agreement which sets out arrangements to minimize the competitive impact on the Company of the investments of Zhaojin Group in gold related assets and businesses. The investments were as follows:

1) various exploration and mining permits with respect to gold mineral resources in the Zhaoyuan district; and

2) a 45.1% interest in Zhongkuang Gold, a 45.22% interest in Shandong Guoda Gold Co., Ltd., a 51% interest in Xixia Zhojin, a 90% interest in Tuoli Zhaojin and an 80% interest in Minxian Tianhao (collectively referred to as the "Excluded Businesses");

Corporate Governance Report

The exploration and mining permits have not been transferred to the Group because the exploitation of such permits requires capital resources that the Directors believe would, at present, be better spent on our existing mines. Also, none of these permits are currently being exploited by Zhaojin Group, and none of these permits covers any area that overlaps with the areas covered by our exploration and mining permits. Under the non-competition agreement entered into between the Company and Zhaojin Group on 17 November 2006, the Company has an option and a right of first refusal to acquire Zhaojin Group's exploration and mining rights.

Under the non competition agreement, the Company also has an option and right of first refusal to acquire the interests in the Excluded Businesses. The option can be exercised at any time during the term of the non competition agreement, which only expires when the Company ceases to be a listed company, or Zhaojin Group ceases to be its controlling shareholder. Should the Company decide not to exercise such option, it has the right to require Zhaojin Group to dispose of its interests in the Excluded Businesses to independent third parties. In addition, under the terms of the non competition agreement, Zhaojin Group has undertaken not to engage in further competitive activities, apart from the Excluded Businesses.

During the year ended 31 December 2007, the Company exercised that option with respect to the 51% interest in Xixia Zhaojin, the 90% interest in Tuoli Zhaojin and the 80% interest in Minxian Tianhao (for further details, please refer to page 38).

During the Year, Zhaojin Group had transferred all of its 45.1% interest in Zhaongkuang Gold to an independent third party. The non competition agreement made between the Company and Zhaojin Group on 17 November 2006 for the option to acquire the 45.1% interest in Zhongkuang Gold was ceased accordingly.

As at the date of this report, the Company has not exercised its option to acquire the 45.22% interest in Shandong Guoda Gold Co., Ltd. for the reasons set out below.

Shandong Guoda Gold Co., Ltd. ("Shandong Guoda Gold")

For the year, Zhaojin Group held indirectly 45.22% equity interest in Shandong Guoda Gold through its wholly-owned subsidiary Zhaoyuan Gold Smelting Co., Ltd. . The remaining equity interest in Shandong Guoda Gold is held indirectly by Zijin Mining Group Co., Limited, an independent third party.

Shandong Guoda Gold is principally engaged in the business of gold smelting. It is not authorised to engage in gold exploration or mining operations. Zhaojin Group has confirmed that it is only a passive investor in Shandong Guoda Gold with no board representation therein, no specific right to appoint its own board representatives (except for its general right as a PRC shareholder to vote for PRC director nominees), and no participation in the management of Shandong Guoda Gold, and that it will remain as a passive investor and does not participate in the daily management of Shandong Guoda Gold.

Directors of the Company believe that the extent of competition from the business of Shandong Guoda Gold, if any, would not have a material impact on our business as a whole, for the following reasons:

(a) Smelting is not the core business of the Company.

(b) Although it has traditionally concentrated on gold smelting, Shandong Guoda Gold is in the process of changing its business focus from gold smelting to copper smelting.

(c) The Company and Shandong Guoda Gold own and operate their respective gold smelting plants independently of each other, and the management of the Group is distinct from and remains independent from that of Shandong Guoda Gold. The Company's cyanidation and smelting plants have sufficient capacity to process all gold concentrates produced from its own mines, as well as the third party concentrates as an ancillary business. There is no sharing of services or resources, including production technique and patent, between the Company and Shandong Guoda Gold. Therefore, the Company conducts its business independently from the business of Shandong Guoda Gold.

Reasons for not transferring Zhaojin Group's interest in the Excluded Businesses to the Company

Shandong Guoda Gold

Our Directors believe that there exists limited conflict between Zhaojin Group's interest in Shandong Guoda Gold's smelting business and Zhaojin Group's interests in the business of the Company, on the basis that (i) smelting is not the main business of the Company, and (ii) the Company's smelting operations at Jinchiling Gold Mine have sufficiently satisfied its purposes. In addition, Zhaojin Group is only a passive investor in Shandong Guoda Gold with no board representation or management participation. Accordingly, the Directors of the Company do not consider it necessary for the Company to acquire Zhaojin Group's interest in Shandong Guoda Gold.

Information Disclosure and Investor Relation Management

The Company strictly complies with the requirements on information disclosure under the Listing Rules and discloses to the shareholders and related parties all information that is required to be disclosed to the best knowledge of the Company on a timely and fair basis.

The Company uses a number of formal channels to keep shareholders informed of its performance and operations, in particular, its annual and interim reports. Generally, when announcing its interim results and annual results in accordance with relevant requirements of the Listing Rules, the Company arranges investment analyst conferences, press conferences and investor telephone conferences to explain the relevant results to shareholders, investors and the general public, and to answer any questions they may raise so as to facilitate their understanding of the Group's operations and to increase the Company's transparency.

Corporate Governance Report

The secretary to the Board/Company Secretary is responsible for information disclosure of the Company and reception of visits of its shareholders and investors. The Company had formulated Information Disclosure Management System to ensure information disclosure on an open, fair and impartial basis and to improve the Company's transparency.

In 2007, the Company's management have received many visiting investors and maintained close contact and good communication with investors. The Company provides detailed information to shareholders in the Investor Relations section on its website (www.zhaojin.com.cn).

Other Concerned Parties

The Company is committed to providing satisfactory services to customers and room for development to employees. The Company is committed to improve its profitability while maintaining its honesty and faithfulness with a high sense of responsibility toward its shareholders, investors, employees, customers, suppliers and the society. Meanwhile, the Company oversees and develops its businesses in compliance with local rules and environmental protection regulations to improve its corporate governance, and actively participates in public welfare and environmental protection.

Continuous Enhancement of Corporate Governance

The Company will follow the model of corporate governance developed by the world's leading corporations as what it has done previously so as to comply with the requirements of the regulatory authorities. The Company will regularly review and enhance its corporate governance procedures and implementations to ensure the sustainable development of the Company.

Report of the Supervisory Committee

To the Shareholders,

During the year, all members of the Supervisory Committee of the Company duly discharged their duties of supervision stipulated by various laws and regulations, which include the Companies Law, the Listing Rules and the Articles of Association. They fully realized the Supervisory Committee's monitoring function and attended all the Board meetings, general meetings and the major meetings of the Company in which decisions were made with due care and diligence. They strengthened the supervision on the level of compliance of the work of the Board and the operational decision of the management of operations, as well as the implementation by the Board of the resolutions approved by the general meetings. The Supervisors formed their opinions and recommendations through their inspection of the operation of the Company and of the implementation of the internal systems, as well as their efficient supervision of the fulfillment of duties by the Directors and the senior managements. In relations to the Company's financial position and the annual report, the Supervisors listened with due care to the report of the Chief Financial Officer on the Company's financial position and results, which they have duly reviewed and analyzed.

Set out below are the independent opinions of the Supervisory Committee to the Shareholders:

1. Level of Compliance of the Company

During the year, the Company operated in accordance with the requirements of the Companies Law, the Listing Rules, the Articles of Association and other applicable laws and regulations. It has established the internal control systems with continuous improvement. Its decision-making procedures are in compliance with laws. The Company strictly implemented the resolutions of the general meetings.

2. Performance of Duties by the Directors, General Manager and Other Senior Management

The Directors, General Manager and other senior management performed their duties to the Company diligently, prudently and faithfully. It is not aware of any action of abusing powers, in breach of the laws and regulations of the PRC and the Companies Law or of prejudicial to or against the interests of the Shareholders, the Company and its staff.

3. Report of the Board

The Supervisory Committee reviewed the report of the Board intended to be submitted to the forthcoming Annual General Meeting for approval with due care. It is of the opinion that the report gives an objective and true picture of the works performed by the Company during the year.

4. Financial Reporting

The Supervisory Committee reviewed the Company's financial systems and the audited annual financial report with due care and diligence. In the opinion of the Supervisory Committee, the financial report gives a true and fair view of the financial position, assets and operational affairs of the Company. It is not aware of any breach of laws, regulations or the financial systems of the Company. The financial report audited by the auditor gives an objective and fair view of the Group's financial position.

Report of the Supervisory Committee

5. Connected Transaction

The Supervisory Committee is of the view that the connected transactions of the Company are normal and ordinary transactions, are fair and reasonable as far as the Shareholders are concerned, and do not prejudice the interests of the medium and minority shareholders and of the Company.

6. Litigations

During the year, the Company and the Group have not been involved in any material litigation and arbitration. As far as the Directors are aware, the Company does not have any material litigation and arbitration which are pending to be solved or threaten the Company so as to adversely affect the Company's operating results and financial conditions.

In year 2008, the Supervisory Committee will fully perform its supervisory function on the decision-making, finance and the Directors and senior management of the Company. It will carry out its supervisory duties diligently and devote efforts to assist the Company to achieve its goals as well as to enhance the operational efficiency of the Company.

Wang Xiaojie
Chairman
The Supervisory Committee

10 March 2008

Independent Auditors' Report

ERNST & YOUNG
安永會計師事務所

To the shareholders of Zhaojin Mining Industry Company Limited
(A joint stock company established in the People's Republic of China with limited liability)

We have audited the financial statements of Zhaojin Mining Industry Company Limited set out on pages 77 to 175, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

Independent Auditors' Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

10 March 2008

Consolidated Income Statement

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
REVENUE	4, 5	**1,512,273**	1,164,415
Cost of sales		**(757,452)**	(541,240)
Gross profit		**754,821**	623,175
Other revenue and gains	5	**155,031**	16,411
Selling and distribution costs		**(9,581)**	(5,669)
Administrative expenses		**(216,039)**	(143,488)
Other operating expenses		**(105,471)**	(5,801)
Finance costs		**(20,745)**	(54,346)
Share of profit/(loss) of an associate		**1,979**	(1,935)
PROFIT BEFORE INTEREST INCOME ARISING FROM SHARE APPLICATION FUNDS AND TAX	6	**559,995**	428,347
Interest income arising from share application funds		**–**	89,403
PROFIT BEFORE TAX		**559,995**	517,750
Income tax expense:			
– On profit before interest income arising from share application funds		**(184,072)**	(139,216)
– On interest income arising from share application funds		**–**	(28,883)
Total income tax expense	8	**(184,072)**	(168,099)
PROFIT FOR THE YEAR		**375,923**	349,651
Attributable to:			
Equity holders of the Company		**388,447**	351,190
Minority interests		**(12,524)**	(1,539)
		375,923	349,651
Dividends	9	**182,179**	167,042
Basic earnings per share (RMB) attributable to ordinary equity holders of the Company:			
– Before interest income arising from share application funds	10	**0.53**	0.54
– After interest income arising from share application funds	10	**0.53**	0.65

Consolidated Balance Sheet

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	**1,436,135**	1,177,988
Intangible assets	12	**799,900**	550,679
Interest in an associate	13	**33,977**	14,848
Long term deposits	16	**4,637**	4,955
Land lease prepayments	17	**68,131**	54,175
Other long term assets	18	**409,864**	–
Deferred tax assets	19	**74,488**	82,836
Total non-current assets		**2,827,132**	1,885,481
CURRENT ASSETS			
Cash and cash equivalents	20	**1,625,689**	2,695,397
Trade and notes receivables	21	**33,216**	1,193
Prepayments and other receivables	22	**124,788**	50,004
Inventories	23	**333,440**	275,483
Equity investments at fair value through profit or loss	24	**30,926**	–
Derivative financial instruments	25	**38,686**	–
Total current assets		**2,186,745**	3,022,077
CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	26	**352,800**	125,400
Trade payables	27	**235,292**	163,596
Other payables and accruals	28	**238,235**	237,266
Provisions	29	**10,447**	8,230
Tax payable		**176,810**	130,458
Dividend payable		**16,695**	–
Total current liabilities		**1,030,279**	664,950
NET CURRENT ASSETS		**1,156,466**	2,357,127
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,983,598**	4,242,608

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	26	**22,790**	607,790
Provisions	29	**50,390**	46,095
Deferred income	30	**31,967**	34,107
Deferred tax liabilities	19	**125,237**	90,192
Total non-current liabilities		**230,384**	778,184
NET ASSETS		**3,753,214**	3,464,424
EQUITY			
Equity attributable to equity holders of the Company			
Issued share capital	31	**728,715**	728,715
Reserves	32	**2,772,591**	2,569,491
Proposed final dividend	9	**182,179**	109,307
		3,683,485	3,407,513
Minority interests		**69,729**	56,911
Total equity		**3,753,214**	3,464,424

路東尚
Director

王培福
Director

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**559,995**	517,750
Adjustments for:			
Depreciation of property, plant and equipment	11	**107,648**	94,639
Amortisation of mining rights	12	**18,205**	21,954
Amortisation of land lease prepayments	17	**2,026**	3,456
Net loss on disposal of property, plant and equipment		**10,282**	726
Exploration assets written off	12	**11,387**	5,429
(Reversal of impairment)/impairment of other receivables		**(879)**	1,750
Deferred income recognised	30	**(25,251)**	(2,476)
Interest expenses		**20,637**	47,744
Foreign exchange loss		**91,951**	–
Interest income		**(73,578)**	(7,712)
Interest income arising from share application funds		**–**	(89,403)
Share of (profit)/loss of an associate		**(1,979)**	1,935
Fair value gains, net:			
Equity investments at fair value through profit or loss	5	**(10,845)**	–
Derivative instruments – transactions not qualifying as hedges	5	**(38,686)**	–
		670,913	595,792
(Increase)/decrease in trade and notes receivables		**(27,744)**	20,500
Decrease/(increase) in prepayments and other receivables		**10,088**	(21,628)
Increase in inventories		**(39,444)**	(121,621)
Increase in amounts due from a related party		**(3,899)**	(2,857)
Increase in trade payables		**63,151**	89,150
Increase/(decrease) in other payables and accruals		**(156,595)**	83,853
Increase/(decrease) in provisions		**2,400**	(4,910)
Decrease in amounts due to related parties		**–**	(10,990)

	Notes	2007 RMB'000	2006 RMB'000
CASH GENERATED FROM OPERATIONS		**518,870**	627,289
Income taxes paid		**(144,257)**	(86,700)
NET CASH INFLOW FROM OPERATING ACTIVITIES		**374,613**	540,589
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(217,923)**	(239,004)
Purchase of intangible assets	*12*	**(38,723)**	(28,501)
Increase in land lease prepayments	*17*	**(2,554)**	(8,879)
Proceeds from disposal of property, plant and equipment		**7,803**	5,479
Acquisition of subsidiaries	*36*	**(217,037)**	–
Purchase of an additional equity interest in an associate		**(1,750)**	–
Additional capital contribution in an associate		**(15,400)**	–
Contribution of capital from minority interests upon establishment of subsidiaries		**4,000**	–
Receipt of government grants	*30*	**18,111**	18,379
Interest received		**24,515**	7,712
Deposits paid for the purchase of subsidiaries	*18*	**(399,981)**	–
Purchase of equity investments at fair value through profit or loss		**(20,081)**	–
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		**(859,020)**	(244,814)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of shares		**–**	2,531,133
Interest income received on application funds		**–**	89,403
Share issue expenses		**–**	(163,665)
Proceeds from bank borrowings		**274,000**	610,290
Repayment of bank borrowings		**(656,500)**	(703,500)
Dividend paid		**(92,612)**	(57,735)
Interest paid		**(16,525)**	(44,869)
NET CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES		**(491,637)**	2,261,057

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	**2007** **RMB'000**	2006 RMB'000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(976,044)**	2,556,832
Cash and cash equivalents at beginning of year		**2,695,397**	138,565
Effect of foreign exchange rate changes, net		**(93,664)**	–
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,625,689**	2,695,397
ANALYSIS OF BALANCES OF CASH AND CASH EQUILAVENTS:			
Cash and bank balances	20	**626,551**	2,695,397
Non-pledged time deposits with original maturity of one year when acquired but can be withdrawn at the discretion of the Group with seven days' notice	20	**999,138**	–
		1,625,689	2,695,397

Consolidated Statement of Changes in Equity

Year ended 31 December 2007

	Issued share capital RMB'000 Note 31	Capital reserve RMB'000 Note 32	Statutory reserves RMB'000 Note 32	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total owners' equity RMB'000	Minority interests RMB'000	Total equity RMB'000
At 31 December 2005 and 1 January 2006	530,000	(77,731)	26,180	–	268,141	–	746,590	58,450	805,040
Issue of new shares	198,715	2,332,418	–		–	–	2,531,133	–	2,531,133
Share issue expenses	–	(163,665)	–	–	–	–	(163,665)	–	(163,665)
Profit/(loss) for the year	–	–	–	–	351,190	–	351,190	(1,539)	349,651
Total income and expense for the year	–	–	–	–	351,190	–	351,190	(1,539)	349,651
Transfer to reserves	–	–	28,602	–	(28,602)	–	–	–	–
Dividends									
– 2006 final proposed	–	–	–	–	(109,307)	109,307	–	–	–
– 2005 final paid	–	–	–	–	(57,735)	–	(57,735)	–	(57,735)
At 31 December 2006 and 1 January 2007	728,715	2,091,022	54,782	–	423,687	109,307	3,407,513	56,911	3,464,424
Total income and expense for the year recognised directly in equity – Exchange realignment	–	–	–	(3,168)	–	–	(3,168)	–	(3,168)
Profit/(loss) for the year	–	–	–	–	388,447	–	388,447	(12,524)	375,923
Total income and expense for the year	–	–	–	(3,168)	388,447	–	385,279	(12,524)	372,755
Acquisition of subsidiaries	–	–	–	–	–	–	–	21,342	21,342
Contribution of capital from minority interests upon formation of subsidiaries	–	–	–	–	–	–	–	4,000	4,000
Transfer to reserves	–	–	41,573	–	(41,573)	–	–	–	–
Dividend									
– 2007 final proposed	–	–	–	–	(182,179)	182,179	–	–	–
– 2006 final paid	–	–	–	–	–	(109,307)	(109,307)	–	(109,307)
At 31 December 2007	**728,715**	**2,091,022**	**96,355**	**(3,168)**	**588,382**	**182,179**	**3,683,485**	**69,729**	**3,753,214**

Company Balance Sheet

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	**849,674**	785,956
Intangible assets	12	**367,176**	370,862
Interest in an associate	13	**34,650**	17,500
Interests in subsidiaries	14	**606,903**	265,569
Long term loans receivable	15	**350,500**	195,983
Long term deposits	16	**4,637**	4,955
Land lease prepayments	17	**38,536**	37,813
Deferred tax assets	19	**–**	1,398
Other long term assets	18	**409,864**	–
Total non-current assets		**2,661,940**	1,680,036
CURRENT ASSETS			
Cash and cash equivalents	20	**1,444,949**	2,689,759
Trade and notes receivables	21	**16,975**	1,193
Prepayments and other receivables	22	**122,274**	48,974
Inventories	23	**227,956**	260,731
Short term loans receivable	15	**195,982**	–
Derivative financial instruments	25	**38,686**	–
Total current assets		**2,046,822**	3,000,657
CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	26	**201,400**	51,900
Trade payables	27	**210,990**	149,215
Other payables and accruals	28	**105,502**	130,574
Provisions	29	**9,287**	7,485
Tax payable		**177,144**	124,458
Dividend payable		**16,695**	–
Total current liabilities		**721,018**	463,632
NET CURRENT ASSETS		**1,325,804**	2,537,025
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,987,744**	4,217,061

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	26	**7,790**	527,790
Provisions	29	**41,361**	39,583
Deferred income	30	**24,191**	30,984
Deferred tax liabilities	19	**1,829**	–
Total non-current liabilities		**75,171**	598,357
NET ASSETS		**3,912,573**	3,618,704
EQUITY			
Issued share capital	31	**728,715**	728,715
Reserves	32	**3,001,679**	2,780,682
Proposed final dividend	9	**182,179**	109,307
Total equity		**3,912,573**	3,618,704

路東尚
Director

王培福
Director

Notes to Financial Statements

31 December 2007

1. Corporate Reorganisation and Information

The Company was established as a joint stock limited liability company under the Company Law of the People's Republic of China (the "PRC") on 16 April 2004 to take over and operate certain businesses of mining, processing, smelting and selling gold and silver products.

In December 2006, the Company issued 198.7 million new H shares to the public at a price of HK$12.68 per share (equivalent to approximately RMB12.74 per share) and the H shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "IPO"). In addition, the 19.8 million H shares converted from certain domestic shares were transferred to the National Council for the Social Security Fund.

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

Prior to the IPO, the parent and ultimate controlling party of the Company was Shandong Zhaojin Group Company Limited ("Zhaojin Group"), a state-owned enterprise established in the PRC. Subsequent to the IPO, the Company does not have a parent or ultimate controlling party. However, Zhaojin Group is in a position to exercise significant influence over the Company.

2.1 Basis of Preparation

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

These financial statements are presented in Renminbi ("RMB"), with values rounded to the nearest thousand, and have been prepared under the historical cost convention, except for derivative financial instruments and equity investments, which have been measured at fair value.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2.1 Basis of Preparation (Continued)

Basis of consolidation (Continued)

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

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

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except as disclosed below, the adoption of these new and revised standards and interpretations has had no effect on these financial statements.

HKFRS 7	Financial Instruments: Disclosures
HKAS 1 Amendment	Capital Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 7 *Financial Instruments: Disclosures*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and the extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(b) Amendment to HKAS 1 *Presentation of Financial Statements-Capital Disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 38 to the financial statements.

Notes to Financial Statements

31 December 2007

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

(c) HK(IFRIC)-Int 8 *Scope of HKFRS 2*

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has no share option scheme, the interpretation has had no effect on these financial statements.

(d) HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives*

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements.

(e) HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment*

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group did not recognise impairment losses in respect of such assets in its interim period, the interpretation has had no impact on the financial position or results of operations of the Group.

2.3 Impact of Issued but not yet Effective Hong Kong Financial Reporting Standards

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

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKFRS 8	Operating Segments[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions[2]
HK(IFRIC)-Int 12	Service Concession Arrangements[4]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[3]
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction[4]

1 *Effective for annual periods beginning on or after 1 January 2009*
2 *Effective for annual periods beginning on or after 1 March 2007*
3 *Effective for annual periods beginning on or after 1 July 2008*
4 *Effective for annual periods beginning on or after 1 January 2008*

The revised HKAS 1 *Presentation of Financial Statements* becomes effective for financial years beginning on or after 1 January 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expenses, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements.

HKFRS 8, which will replace HKAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional provisions in the revised standard, the Group shall apply the revised standard on a prospective basis to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.

Notes to Financial Statements

31 December 2007

2.3 Impact of Issued but not yet Effective Hong Kong Financial Reporting Standards (Continued)

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group.

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty awards credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 may result in new or amended disclosures and the adoption of HKAS 23 (revised) may result in a change in accounting policy, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 Summary of Significant Accounting Policies

Subsidiaries

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

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

Associates

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

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

Related parties

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

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

(b) the party is an associate;

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

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

Notes to Financial Statements

31 December 2007

2.4 Summary of Significant Accounting Policies (Continued)

Related parties (Continued)

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

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

Property, plant and equipment and depreciation

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

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

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

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

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

2.4 Summary of Significant Accounting Policies (Continued)

Property, plant and equipment and depreciation (Continued)

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

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

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

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

Impairment of non-financial assets

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

Notes to Financial Statements

31 December 2007

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of non-financial assets (Continued)

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

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

Leases

Operating leases

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

Land lease prepayments

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

2.4 Summary of Significant Accounting Policies (Continued)

Intangible assets

Mining rights and reserves

Mining rights and reserves are stated at cost less accumulated amortisation and any impairment losses. Mining rights and reserves include the cost of acquiring mining licences, exploration and evaluation costs transferred from exploration rights and assets upon determination that an exploration property is capable of commercial production, and the cost of acquiring interests in the mining reserves of existing mining properties. The mining rights and reserves are amortised over the estimated useful lives of the mines, ranging from 5 to 36 years, in accordance with the production plans of the entities concerned and the proven and probable mineral reserves of the mines using the UOP method. Mining rights and reserves are written off to the consolidated income statement if the mining property is abandoned.

Exploration rights and assets

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

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

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

When it can be reasonably ascertained that an exploration property is capable of commercial production, exploration and evaluation costs capitalised are transferred to either mining infrastructure or mining rights and reserves and depreciated/amortised on the UOP method based on the proven and probable mineral reserves. Costs incurred for exploration which can be directly attributable to the development of mining infrastructure are transferred to mining infrastructure when the exploration reaches the stage of commercial production. All other costs will be transferred to mining rights and reserves. Exploration rights and assets are written off to the consolidated income statement if the exploration property is abandoned.

Notes to Financial Statements

31 December 2007

2.4 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss and loans and receivables, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on investments held for trading are recognised in the consolidated income statement. The net fair value gain or loss recognised in the consolidated income statement does not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

2.4 Summary of Significant Accounting Policies (Continued)

Investments and other financial assets (Continued)

Loans and receivables

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

Fair value

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

Impairment of financial assets

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

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the consolidated income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

Notes to Financial Statements

31 December 2007

2.4 Summary of Significant Accounting Policies (Continued)

Impairment of financial assets (Continued)

Assets carried at amortised cost (Continued)

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

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

Derecognition of financial assets

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

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

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

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

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

2.4 Summary of Significant Accounting Policies (Continued)

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, an amount due to related parties and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the consolidated income statement.

Gain and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the amortisation process.

Financial guarantee contracts

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

Derecognition of financial liabilities

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

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

Notes to Financial Statements

31 December 2007

2.4 Summary of Significant Accounting Policies (Continued)

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the consolidated income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

None of the derivative financial instruments held by the Group qualifies for hedge accounting.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

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

Inventories

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

By-products arising during the course of production are allocated a share of production costs.

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

2.4 Summary of Significant Accounting Policies (Continued)

Trade and other payables

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

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

Provisions

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

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

Notes to Financial Statements

31 December 2007

2.4 Summary of Significant Accounting Policies (Continued)

Revenue recognition

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

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

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

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

(d) dividend income, when the shareholders' right to receive payment has been established.

Borrowing costs

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

Government grants

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

2.4 Summary of Significant Accounting Policies (Continued)

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

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

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

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

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

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

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

Notes to Financial Statements

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2.4 Summary of Significant Accounting Policies (Continued)

Income tax (Continued)

(b) in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

Dividends

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

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

2.4 Summary of Significant Accounting Policies (Continued)

Employee benefits

Pension obligations

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

Early retirement benefits

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

Medical benefit costs

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

Housing fund

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

Notes to Financial Statements

31 December 2007

2.4 Summary of Significant Accounting Policies (Continued)

Foreign currencies

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

The functional currencies of non PRC incorporated subsidiaries are currencies other than the Renminbi. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date, and their income statements are translated into Renminbi at the weighted average rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Renminbi at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Renminbi at the weighted average exchange rates for the year.

3. Significant Accounting Judgements and Estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expense, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

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

(a) Deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised. Where the actual or expected tax positions of the relevant companies of the Group in future are different from the original estimate, such differences will impact the recognition of deferred tax assets and income tax charge in the period in which such estimate has been changed. The carrying value of deferred tax assets at 31 December 2007 was approximately RMB74,488,000 (2006: RMB82,836,000). Further details are contained in Note 19 to the financial statements.

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

The carrying value of mining and exploration assets and property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed in Note 2.4 to the financial statements. The recoverable amount of these assets, or, where appropriate, the cash generating unit to which they belong, is the higher of its fair value less costs to sell and value in use. Estimating the value in use requires the Group to estimate the expected future cash flows from the cash-generating units and to choose a suitable discount rate in order to calculate the present value of those cash flows. The aggregate carrying value of mining and exploration assets and property, plant and equipment was RMB2,236,035,000 (2006: RMB1,728,667,000).

Notes to Financial Statements

31 December 2007

3. Significant Accounting Judgements and Estimates (Continued)

Estimation uncertainty (Continued)

(c) Provisions

Provisions are based on estimates of future payments made by management and are discounted at rates in the range of 7.5% to 7.8% (2006: 4.6% to 6.4%). Changes in assumptions could significantly affect these estimates. The aggregate carrying value of provisions was RMB60,837,000 (2006: RMB54,325,000).

(d) Mine reserves

Engineering estimates of the Group's mine reserves are inherently imprecise and represent only approximate amounts because of the significant judgments involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated mine reserves can be designated as "proved" and "probable". Proved and probable mine reserve estimates are updated on regular intervals taking 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 mine reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis at related depreciation rates.

4. Segment Information

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. As more than 90% of the revenue and profit from operating activities of the Group for the current year are generated from its gold mining and smelting operations in the PRC, and over 98% of the assets and all the customers of the Group are located in the PRC, no further geographical segment information has been presented.

The mining business segment consists of the operations of twelve (2006: Five) gold mines. Mining segment revenues are measured at the value at which gold is sold into the market. Mining cost of sales includes a processing fee from the smelting business segment.

4. Segment Information (Continued)

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

	2007	2006
	kg	*kg*
Own mines	**6,296**	6,271
Purchase and others	**2,082**	988
Tolling	**10,986**	8,389
Total	**19,364**	15,648

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

Intersegment sales are transacted under negotiated terms.

Notes to Financial Statements

31 December 2007

4. Segment Information (Continued)

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

Group

Year ended 31 December 2007

	Mining RMB'000	Smelting RMB'000	Inter-segment elimination RMB'000	Unallocated RMB'000	Consolidated RMB'000
Revenue					
Revenues from external customers	1,018,892	493,381	–	–	1,512,273
Intersegment revenue	–	6,304	(6,304)	–	–
Other revenue	31,922	–	–	123,109	155,031
Total	1,050,814	499,685	(6,304)	123,109	1,667,304
Segment results	522,487	75,710	–	(50,594)	547,603
Share of profit of an associate	1,979	–	–	–	1,979
Interest income					73,578
Fair value gain on derivative financial instrument					38,686
Fair value gain on equity investments at fair value through profit or loss					10,845
Finance costs					(20,745)
Foreign exchange loss					(91,951)
Income tax expense					(184,072)
Profit for the year					375,923
Assets and liabilities					
Segment assets	2,735,546	474,565	–	1,769,789	4,979,900
Interest in an associate	33,977	–	–	–	33,977
Total assets					5,013,877
Segment liabilities	311,393	254,938	–	694,332	1,260,663
Other segment information					
Capital expenditure	187,840	69,269	–	–	257,109
Long term assets through acquisition of subsidiaries/ operation	359,474	62,092	–	–	421,566
Deposit paid for acquisition of subsidiaries and property plant and equipment	409,864	–	–	–	409,864
Impairment losses reversed in the consolidated income statement	879	–	–	–	879
Depreciation and amortisation	112,936	14,943	–	–	127,879

4. Segment Information (Continued)

Group

Year ended 31 December 2006

	Mining RMB'000	Smelting RMB'000	Inter-segment elimination RMB'000	Unallocated RMB'000	Consolidated RMB'000
Revenue					
Revenues from external customers	949,886	214,529	–	–	1,164,415
Intersegment revenue	–	6,906	(6,906)	–	–
Other revenue	6,540	2,159	–	7,712	16,411
Total	956,426	223,594	(6,906)	7,712	1,180,826
Segment results	428,110	67,332	–	(18,526)	476,916
Share of loss of an associate	(1,935)	–	–	–	(1,935)
Interest income					7,712
Interest income arising from share application funds					89,403
Finance costs					(54,346)
Income tax expense					(168,099)
Profit for the year					349,651
Assets and liabilities					
Segment assets	1,718,119	396,368	–	2,778,223	4,892,710
Interest in an associate	14,848	–	–	–	14,848
Total assets					4,907,558
Segment liabilities	289,853	199,441	–	953,840	1,443,134
Other segment information					
Capital expenditure	218,553	37,439	–	–	255,992
Depreciation and amortisation	108,450	11,599	–	–	120,049
Impairment losses recognised in the consolidated income statement	1,750	–	–	–	1,750

Notes to Financial Statements

31 December 2007

5. Revenue, Other Revenue and Gains

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

	2007	2006
	RMB'000	*RMB'000*
Revenue		
Sale of goods:		
Gold	**1,373,262**	1,105,630
Silver	**61,253**	15,268
Sulphur	**29,918**	6,062
Other by-products	**30,753**	17,534
Rendering of service:		
Processing of gold and silver	**31,479**	31,640
	1,526,665	1,176,134
Less: Government surcharges	**(14,392)**	(11,719)
	1,512,273	1,164,415
Other revenue and gains		
Bank interest income	**73,578**	7,712
Sale of raw materials	**5,197**	3,927
Government grants	**25,251**	2,476
Gain on disposal of items of property, plant and equipment	**631**	166
Fair value gains, net:		
Equity investments at fair value through profit or loss	**10,845**	–
Derivative instruments – transactions not qualifying as hedges	**38,686**	–
Other gains	**843**	2,130
Other revenue and gains	**155,031**	16,411

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

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

	2007	2006
	RMB'000	*RMB'000*
Cost of inventories sold	**712,618**	514,427
Interest on bank and other borrowings	**16,525**	44,869
Total interest expense on financial liabilities not at fair value through profit or loss	**16,525**	44,869
Incremental interest on provisions	**4,112**	2,875
Bank charges and other finance costs	**108**	41
Foreign exchange loss	**–**	6,561
Financial costs	**20,745**	54,346
Foreign exchange loss	**91,951**	–
Auditors' remuneration	**1,800**	1,100
Amortisation of land lease prepayments*	**2,026**	3,456
Amortisation of mining rights*	**18,205**	21,954
Depreciation	**107,648**	94,639
Loss on disposal of property, plant and equipment	**10,913**	892
Operating lease rentals in respect of:		
– Land	**2,411**	3,611
– Office	**1,748**	221
(Reversal of impairment)/impairment of other receivables	**(879)**	1,750
Exploration assets written off	**11,387**	5,429
Staff costs (including directors' emoluments as set out in Note 7):		
Wages and salaries (including directors' remuneration)	**184,173**	138,683
Early retirement benefits	**14,280**	3,464
Defined contribution fund		
– Retirement costs	**24,834**	21,992
Other staff benefits	**16,238**	19,431
Total staff costs	**239,525**	183,570

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

Notes to Financial Statements

31 December 2007

7. Directors' and Senior Executives' Emoluments

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

		2007	2006
		RMB'000	*RMB'000*
Fees			
– Non-executive directors		**–**	320
– Independent non-executive directors	*(b)*	**384**	358
– Supervisors		**–**	50
		384	728
Salaries, allowances and benefits in kind		**934**	553
Performance related bonuses*		**658**	435
Pension scheme contributions		**40**	49
		1,632	1,037
		2,016	1,765

* *Certain directors' bonus payments are determined as a percentage of the profit after tax of the Group.*

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

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

	Fees *RMB'000*	Salaries, allowances & benefits in kind *RMB'000*	Performance related bonuses *RMB'000*	Pension scheme contributions *RMB'000*	Total *RMB'000*
For the year ended 31 December 2007					
Executive directors:					
– Lu Dong Shang	–	351	282	–	633
– Wang Pei Fu	–	302	213	20	535
– Ma Yu Shan	–	213	163	20	396
	–	866	658	40	1,564
Non-executive directors:					
– Guo Guang Chang (resigned on 16 April 2007)	–	–	–	–	–
– Liang Xin Jun (appointed on 16 April 2007)	–	–	–	–	–
– Wu Ping	–	–	–	–	–
– Liu Gen Dong	–	–	–	–	–
– Cong Jian Mao	–	–	–	–	–
	–	–	–	–	–
Supervisors:					
– Hou Wen Shan	–	–	–	–	–
– Cheng Bing Hai	–	–	–	–	–
– Wang Xiao Jie (appointed on 16 April 2007)	–	–	–	–	–
– Chu Yu Shan	–	68	–	–	68
	–	68	–	–	68
	–	934	658	40	1,632

Notes to Financial Statements

31 December 2007

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

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

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

* *In 2006, part of this director's emoluments were paid by Zhaojin Group.*

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

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

(b) Independent non-executive directors

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

	2007 RMB'000	2006 RMB'000
Independent non-executive directors:		
– Yan Hong Bo	**96**	100
– Choy Sze Chung, Jojo (appointed on 22 May 2007)	**67**	–
– Chen Jin Rong (appointed on 16 April 2007)	**67**	–
– Ye Tian Zhu (appointed on 16 April 2007)	**67**	–
– Ng Ming Wah, Charles (resigned on 16 April 2007)	**29**	100
– Zhai Yu Sheng (resigned on 16 April 2007)	**29**	100
– Li Ding An (resigned on 16 April 2007)	**29**	58
	384	358

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

(c) Five highest paid employees

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

	2007	2006
Directors	**2**	2
Non-director and non-supervisory employees	**3**	3
	5	5

Details of directors' remuneration are set out in Note 7 (a) and (b) to the financial statements.

Notes to Financial Statements

31 December 2007

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

(c) Five highest paid employees (Continued)

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

	2007 **RMB'000**	2006 *RMB'000*
Salaries, allowances and benefits in kind	**803**	435
Performance related bonuses	**393**	192
Pension scheme contribution	**29**	28
	1,225	655

The number of the non-director and non-supervisor, highest paid employees whose remuneration fell within the following band is as follows:

	2007	2006
Nil – HK$1,000,000 (Equivalent to RMB935,600)	**3**	3

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

8. Income Tax Expense

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

PRC corporate income tax ("CIT") has been provided at a rate of 33% (2006: 33%) on the taxable income as reported in the statutory accounts of the companies comprising the Group, which are prepared in accordance with PRC GAAP, as adjusted for income and expense items which are not assessable or deductible for income tax purposes. Hong Kong profits tax has been provided at the rate of 17.5% (2006: not applicable as no Hong Kong incorporated entity in the Group) on the estimated assessable profits arising in Hong Kong during the year. During the year, the Group has not incurred any Hong Kong profits tax.

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

	2007	2006
	RMB'000	*RMB'000*
Group:		
PRC corporate income tax		
– Charge for the year	**190,609**	143,343
Deferred tax *(Note 19)*	**(6,537)**	24,756
	184,072	168,099

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

		2007		2006	
	Notes	**%**	***RMB'000***	%	*RMB'000*
Profit before tax			**559,995**		517,750
Statutory tax rate applied to profit before tax		**33.0**	**184,798**	33.0	170,858
Reconciling items:					
Expenses not deductible for tax		**0.2**	**1,021**	0.3	1,803
Tax losses not recognised		**1.4**	**7,924**	–	–
Income not subject to tax		**(1.3)**	**(7,322)**	(0.1)	(620)
Credit for capital expenditure	*(i)*	**(0.5)**	**(3,000)**	(1.0)	(4,934)
Effect on deferred taxes of reduction in tax rate	*(ii)*	**(0.1)**	**(262)**	–	–
Others		**0.2**	**913**	0.2	992
Total tax charge for the year		**32.9**	**184,072**	32.4	168,099

Notes to Financial Statements

31 December 2007

8. Income Tax Expense (Continued)

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

(ii) During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and became effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%.

Accordingly, as at 31 December 2007, deferred tax assets and liabilities have been calculated at the above rate for temporary differences.

(iii) The share of tax attributable to an associate amounting to RMB653,000 (2006: nil) is included in "Share of profit/(loss) of an associate" on the face of the consolidated income statement.

(iv) Unused tax losses of approximately RMB22 million arising from subsidiaries of the Group has not been recognised as deferred tax assets in the financial statements as it is not probable that the subsidiaries will generate future taxable income to utilise the tax benefits. The unused tax losses will expire within 5 years.

9. Dividends

	2007	2006
	RMB'000	*RMB'000*
Ordinary:		
2005 final dividend paid of RMB0.11 per share	**–**	57,735
Proposed final – RMB0.25 per share (2006: RMB0.15 per share)	**182,179**	109,307
	182,179	167,042

In addition to the final cash dividend, the Board recommends a bonus issue of shares to all shareholders on the basis of 0.25 shares for every share held by way of capitalisation of retained profits of RMB182,179,000 into 182,179,000 shares of RMB1 each.

The proposed final dividend for the year and the bonus issue are subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

10. Earnings Per Share

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

Diluted earnings per share for the years ended 31 December 2007 and 2006 have not been disclosed as no diluting events existed during these years.

The calculation of basic earnings per share is based on:

	2007	2006
	RMB'000	*RMB'000*
Earnings:		
Profit attributable to equity holders of the Company used in the basic earnings per share calculation	**388,447**	351,190
Interest income arising from share application funds	**–**	(89,403)
Tax on interest income arising from share application funds	**–**	28,883
Profit before interest income arising from share application funds	**388,447**	290,670

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2007 includes a profit of RMB403,176,000 (2006: RMB349,283,000) which has been dealt with in the financial statements of the Company.

	2007	2006
	'000	*'000*
Shares:		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**728,715**	542,214

	2007	2006
	RMB	*RMB*
Basic earnings per share attributable to ordinary equity holders of the Company:		
– Before interest income arising from share application funds	**0.53**	0.54
– After interest income arising from share application funds	**0.53**	0.65

Notes to Financial Statements

31 December 2007

11. Property, Plant and Equipment

Group

31 December 2007

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Mining infrastructure RMB'000	Construction in progress (CIP) RMB'000	Total RMB'000
Cost:							
At 1 January 2007	412,540	293,048	23,883	52,214	757,731	56,145	1,595,561
Additions	17,919	11,329	7,421	8,760	10,776	159,627	215,832
Transferred from CIP	35,030	19,742	1,480	734	62,517	(119,503)	–
Transferred from exploration assets	–	–	–	–	22,287	–	22,287
Acquisition of subsidiaries	23,722	28,832	2,161	6,669	32,131	74,827	168,342
Disposals/written off	(6,640)	(12,581)	(1,139)	(4,803)	(4,575)	(4,543)	(34,281)
At 31 December 2007	**482,571**	**340,370**	**33,806**	**63,574**	**880,867**	**166,553**	**1,967,741**
Accumulated depreciation:							
At 1 January 2007	126,360	91,294	10,141	29,061	160,717	–	417,573
Charge for the year	24,016	29,768	5,707	7,298	40,859	–	107,648
Acquisition of subsidiaries	5,429	6,115	572	1,765	8,700	–	22,581
Disposals/written off	(1,728)	(7,252)	(935)	(3,362)	(2,919)	–	(16,196)
At 31 December 2007	**154,077**	**119,925**	**15,485**	**34,762**	**207,357**	**–**	**531,606**
Net book value:							
At 31 December 2007	**328,494**	**220,445**	**18,321**	**28,812**	**673,510**	**166,553**	**1,436,135**

11. Property, Plant and Equipment (Continued)

Group

31 December 2006

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

Notes to Financial Statements

31 December 2007

11. Property, Plant and Equipment (Continued)

Company

31 December 2007

	Buildings	Plant and machinery	Office equipment	Motor vehicles	Mining infrastructure	Construction in progress (CIP)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost:							
At 1 January 2007	316,963	260,405	19,178	46,433	456,058	51,603	1,150,640
Additions	3,935	3,043	6,759	2,467	10,300	99,234	125,738
Transferred from CIP	29,305	18,466	1,348	734	20,203	(70,056)	–
Transfer from exploration assets	–	–	–	–	14,577	–	14,577
Disposals/written off	(3,045)	(8,537)	(1,025)	(2,597)	(4,535)	–	(19,739)
At 31 December 2007	**347,158**	**273,377**	**26,260**	**47,037**	**496,603**	**80,781**	**1,271,216**
Accumulated depreciation:							
At 1 January 2007	105,579	85,493	8,472	27,156	137,984	–	364,684
Charge for the year	14,972	22,298	4,809	4,848	24,741	–	71,668
Disposals/written off	(1,703)	(6,775)	(894)	(2,519)	(2,919)	–	(14,810)
At 31 December 2007	**118,848**	**101,016**	**12,387**	**29,485**	**159,806**	**–**	**421,542**
Net book value:							
At 31 December 2007	**228,310**	**172,361**	**13,873**	**17,552**	**336,797**	**80,781**	**849,674**

11. Property, Plant and Equipment (Continued)

Company

31 December 2006

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

Notes to Financial Statements

31 December 2007

12. Intangible Assets

Group

31 December 2007

	Exploration rights and assets RMB'000	Mining rights and reserves RMB'000	Total RMB'000
Cost:			
At 1 January 2007	44,582	561,442	606,024
Additions	38,723	–	38,723
Capitalisation of amortisation	3,274	–	3,274
Acquisition of subsidiaries	72,776	190,579	263,355
Write-off	(11,387)	–	(11,387)
Transfer out to property, plant and equipment	(22,287)	–	(22,287)
At 31 December 2007	**125,681**	**752,021**	**877,702**
Accumulated amortisation:			
At 1 January 2007	15,909	39,436	55,345
Acquisition of subsidiaries	–	978	978
Provided during the year	3,274	18,205	21,479
At 31 December 2007	**19,183**	**58,619**	**77,802**
Net book value:			
At 31 December 2007	**106,498**	**693,402**	**799,900**

31 December 2006

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

12. Intangible Assets

Company

31 December 2007

	Exploration rights and assets RMB'000	Mining rights and reserves RMB'000	Total RMB'000
Cost:			
At 1 January 2007	34,841	414,919	449,760
Additions	37,977	–	37,977
Capitalisation of amortisation	–	–	–
Write-off	(5,502)	–	(5,502)
Transfer out to property, plant and equipment	(14,577)	–	(14,577)
At 31 December 2007	**52,739**	**414,919**	**467,658**
Accumulated amortisation:			
At 1 January 2007	15,909	62,989	78,898
Provided during the year	–	21,584	21,584
At 31 December 2007	**15,909**	**84,573**	**100,482**
Net book value:			
At 31 December 2007	**36,830**	**330,346**	**367,176**

31 December 2006

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

Notes to Financial Statements

31 December 2007

13. Interest in an Associate

Group

	2007 RMB'000	2006 RMB'000
Share of net assets	**33,977**	14,848

Company

	2007 RMB'000	2006 RMB'000
Unlisted shares, at cost	**34,650**	17,500

Particulars of the associate are as follows:

Company name	Place and date of incorporation	Paid-up/ registered capital RMB'000	Percentage of equity interest attributable to the Group Direct 2007 %	Principal activity
Aletai Zhengyuan International Mining Company Limited (阿勒泰正元國際礦業有限公司)	PRC 20 May 2005	90,000	38.5	Mining and processing of gold products

The percentages of the Company's voting power held and profit sharing are 38.5% respectively (2006: 35%).

During the year, the Company has contributed an additional RMB15.4 million as paid-in capital of the associate, and acquired a 3.5% equity interest from other shareholders at a purchase consideration of RMB1.75 million.

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

	2007 RMB'000	2006 RMB'000
Assets	**90,630**	49,816
Liabilities	**2,378**	7,393
Revenue	**15,064**	–
Profit/(Loss)	**5,141**	(5,529)

14. Interests in Subsidiaries

Company

	2007 RMB'000	2006 RMB'000
Unlisted shares, at cost	**606,903**	265,569

Particulars of the subsidiaries are as follows:

Company name	Place and date of incorporation/ registration and operations	Nominal value of paid-up/ registered capital	Percentage of equity interest attributable to the Group		Principal activities
			Direct	Indirect	
		RMB'000	%	%	
Zhaoyuan Jintingling Mining Industry Company Limited (招遠市金亭嶺礦業有限公司)	PRC 10 October 2002	60,000	75	–	Mining and processing of gold products
Hainan Dongfang Zhaojin Mining Industry Company Limited (海南東方招金礦業有限公司)	PRC 13 May 2004	5,800	95	–	Mining and processing of gold products
Minxian Tianhao Gold Company Limited (岷縣天昊黃金有限責任公司)*	PRC 16 May 2001	46,670	100	–	Mining and processing of gold products
Tuoli Zhaojin Beijiang Mining Company Limited ("TZB") (托里縣招金北疆礦業有限公司)*	PRC 16 April 2004	10,000	100	–	Mining and processing of gold products

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14. Interests in Subsidiaries (Continued)

Company name	Place and date of incorporation/ registration and operations	Nominal value of paid-up/ registered capital	Percentage of equity interest attributable to the Group Direct	Indirect	Principal activities
		RMB'000	%	%	
Subsidiary of TZB:					
Kunhe Zhaojin Mining Company Limited (阿勒泰市招金混合礦業有限公司)**	PRC 27 August 2007	10,000	–	70	Mining and processing of gold products. Being development stages
Xixia Zhaojin Mining Company Limited (西峽縣招金礦業有限責任公司)*	PRC 11 July 2002	4,100	100	–	Mining and processing of gold products
Xinjiang Xingta Mining Company Limited (新疆星塔礦業有限公司)*	PRC 24 November 2005	20,000	100	–	Smelting. Being development stage
Fukang Mining Industry Company Limited (富康礦業有限公司)*	PRC 16 August 2002	6,680	100	–	Mining and processing of gold products. Being development stages
North China Zhaojin Mining Investment Company Limited ("HZMI") (華北招金礦業投資有限公司)**	PRC 20 June 2007	50,000	100	–	Investment holdings

14. Interests in Subsidiaries (Continued)

Company name	Place and date of incorporation/ registration and operations	Nominal value of paid-up/ registered capital	Percentage of equity interest attributable to the Group Direct	Indirect	Principal activities
		RMB'000	%	%	
Subsidiaries of HZMI:					
Heilongjiang Zhaojin Mining Company Limited (黑龍江招金礦業開發有限公司)**	PRC 10 September 2007	10,000	–	100	Investment holdings
Beijing Zhongse Mining Technology Company Limited (北京中色鴻鑫礦業科技有限責任公司)**	PRC 26 September 2007	10,000	–	90	Investment holdings
Gansu Zhaojin Mining Company Limited (甘肅招金礦業有限公司)**	PRC 14 August 2007	10,000	100	–	Investment holdings
Sparky International Trade Company Limited ("SIT") (斯派柯國際貿易有限公司)**	Hong Kong 31 May 2007	68,598	100	–	Purchase gold concentrates from outside China
Subsidiaries of SIT:					
Yunnan Sparton Company Limited (雲南斯帕頓礦業有限公司)*	PRC 5 April 2004	2,217	–	51	Exploration of minerals
Starry Company Limited (滿天星股份有限公司)*	British Virgin Islands 19 July 2006	1	–	100	Investment holding

The above subsidiaries incorporated/established in PRC are registered as companies with limited liabilities under PRC law.

* *Details of the acquisition of subsidiaries are included in Note 36 to the financial statements.*

** *During the year, the Company and subsidiaries subscribed for equity investments at a total consideration of RMB128,598,000 and RMB26,000,000, respectively, on the formation of the respective companies.*

Notes to Financial Statements

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15. Loans Receivable

Company

	2007	2006
	RMB'000	*RMB'000*
Entrustment loans receivable	**546,482**	195,983
Less: Due within 12 months	**195,982**	–
Due after 12 months	**350,500**	195,983

The Company entered into entrustment loan agreements with its subsidiaries and a bank. Pursuant to the entrustment loan agreements, the Company extended loans to subsidiaries through the bank. The loans are unsecured, bear fixed interest rates ranging from 6.63% to 8.69% per annum and have fixed repayment dates in 2008 and 2009.

The fair value of loans receivable with a carrying value of RMB546,482,000 (2006: RMB195,983,000) was RMB553,414,000 (2006: RMB189,659,000) at the balance sheet date and has been calculated by discounting the expected future cash flows at prevailing interest rates.

16. Long Term Deposits

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

17. Land Lease Prepayments

Group

	2007	2006
	RMB'000	*RMB'000*
At cost:		
At beginning of year	**62,033**	53,154
Additions during the year	**2,554**	8,879
Acquisition of subsidiaries	**13,453**	–
At end of year	**78,040**	62,033
Accumulated amortisation:		
At beginning of year	**7,858**	4,402
Acquisition of subsidiaries	**25**	–
Amortisation for the year	**2,026**	3,456
At end of year	**9,909**	7,858
Net book value:		
At end of year	**68,131**	54,175

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17. Land Lease Prepayments (Continued)

Company

	2007 *RMB'000*	2006 *RMB'000*
At cost:		
At beginning of year	**42,775**	41,845
Additions during the year	**1,972**	930
At end of year	**44,747**	42,775
Accumulated amortisation:		
At beginning of year	**4,962**	2,206
Amortisation for the year	**1,249**	2,756
At end of year	**6,211**	4,962
Net book value:		
At end of year	**38,536**	37,813

The Group's and the Company's leasehold lands are located in the PRC. In 2004 and 2005, the Group and the Company were formally granted by the relevant PRC authorities certain rights to use the land on which the Group's factories and gold mines are erected, for periods generally ranging between 44 and 64 years from the grant date.

18. Other Long Term Assets

Group and Company

	2007	2006
	RMB'000	*RMB'000*
Deposits paid for the purchase of subsidiaries	**399,981**	–
Advance payment for the purchase of property, plant and equipment	**9,883**	–
Prepayment for long term assets	**409,864**	–

In January 2008, the Company completed Share Transfer Agreements with third parties to acquire a 52% equity interest in Fengningjinlong Mining Limited ("FNJL") and a 51% equity interest in Tonghui Copper Mining Limited ("TCM"), both companies incorporated in PRC, for purchase considerations of RMB346 million and RMB265 million respectively. The purchase considerations for the above acquisitions were determined based on independent valuation reports and negotiations between the parties. As at 31 December 2007, deposits totalling RMB399.9 million had been paid in respect of these acquisitions.

Notes to Financial Statements

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19. Deferred Tax

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

Group

	At 1 January RMB'000	(Charged)/ credited to consolidated income statement RMB'000 (Note 8)	Arising on acquisition RMB'000	At 31 December RMB'000
31 December 2007				
Deferred tax assets:				
Income received on share application funds	(21,700)	9,668	–	(12,032)
Excess tax depreciation over book value				
– Intangible assets	73,503	(24,452)	–	49,051
– Property, plant and equipment	(7,939)	4,163	–	(3,776)
Provision for early retirement and rehabilitation	16,102	(2,263)	–	13,839
Other temporary differences	22,870	4,536	–	27,406
Deferred tax assets	82,836	(8,348)	–	74,488
Deferred tax liabilities:				
Non-deductible premium paid on acquisition				
– Intangible assets	(90,192)	24,267	(40,603)	(106,528)
– Property, plant and equipment	–	289	(9,327)	(9,038)
Excess book value of derivative over tax cost	–	(9,671)	–	(9,671)
Deferred tax liabilities	(90,192)	14,885	(49,930)	(125,237)
Total	(7,356)	6,537	(49,930)	(50,749)

19. Deferred Tax (Continued)

	At 1 January *RMB'000*	(Charged)/ credited to consolidated income statement *RMB'000* *(Note 8)*	Arising on acquisition *RMB'000*	At 31 December *RMB'000*
31 December 2006				
Deferred tax assets:				
Income received on share application funds	–	(21,700)	–	(21,700)
Excess tax depreciation over book value				
– Intangible assets	80,669	(7,166)	–	73,503
– Property, plant and equipment	(5,370)	(2,569)	–	(7,939)
Provision for early retirement and rehabilitation	17,098	(996)	–	16,102
Other temporary differences	18,988	3,882	–	22,870
Deferred tax assets	111,385	(28,549)	–	82,836
Deferred tax liabilities:				
Non-deductible premium paid on acquisition				
– Intangible assets	(93,985)	3,793	–	(90,192)
Deferred tax liabilities	(93,985)	3,793	–	(90,192)
Total	17,400	(24,756)	–	(7,356)

Notes to Financial Statements

31 December 2007

19. Deferred Tax (Continued)

Company

	At 1 January RMB'000	(Charged)/ credited to income statement RMB'000	At 31 December RMB'000
31 December 2007			
Deferred tax assets/(liabilities):			
Income received on share application funds	**(21,700)**	**9,668**	**(12,032)**
Excess tax depreciation over book value			
– Intangible assets	**(1,119)**	**(1,386)**	**(2,505)**
– Property, plant and equipment	**(5,583)**	**(817)**	**(6,400)**
Provision for early retirement and rehabilitation	**14,034**	**(2,616)**	**11,418**
Excess book value of derivative over tax cost	**–**	**(9,671)**	**(9,671)**
Other temporary differences	**15,766**	**1,595**	**17,361**
Deferred tax assets/(liabilities)	**1,398**	**(3,227)**	**(1,829)**
31 December 2006			
Deferred tax assets:			
Income received on share application funds	–	(21,700)	(21,700)
Excess tax depreciation over book value			
– Intangible assets	–	(1,119)	(1,119)
– Property, plant and equipment	(2,686)	(2,897)	(5,583)
Provision for early retirement and rehabilitation	14,910	(876)	14,034
Other temporary differences	11,533	4,233	15,766
Deferred tax assets	23,757	(22,359)	1,398

20. Cash and Cash Equivalents

Group

	2007	2006
	RMB'000	*RMB'000*
Cash on hand	**875**	40
Cash in banks, unrestricted	**625,676**	2,695,357
Time deposits	**999,138**	–
	1,625,689	2,695,397

Company

	2007	2006
	RMB'000	*RMB'000*
Cash on hand	**13**	13
Cash in banks, unrestricted	**463,099**	2,689,746
Time deposit – denominated in US$	**981,837**	–
	1,444,949	2,689,759

At the balance sheet date, the cash and cash equivalents of the Group and Company denominated in Hong Kong dollars amounted to RMB2,936,190 (2006: RMB2,496,573,854) and those denominated in US$ amounted to RMB981,836,667 (2006: Nil). All other cash and cash equivalents held by the Company and the Group are denominated in Renminbi. The RMB is not freely convertible into other currencies; however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulation, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash in banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for one year and earn interest at the short term time deposit rates. Time deposits can be withdrawn at the discretion of the Group with seven days' notice. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

Notes to Financial Statements

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21. Trade and Notes Receivables

Group

	2007	2006
	RMB'000	*RMB'000*
Trade receivables	**15,061**	893
Notes receivable	**18,155**	300
	33,216	1,193

An ageing analysis of trade and notes receivables, based on the invoice date, is as follows:

	2007	2006
	RMB'000	*RMB'000*
Outstanding balances due within 90 days	**33,216**	1,193

Company

	2007	2006
	RMB'000	*RMB'000*
Trade receivables	**220**	893
Notes receivable	**16,755**	300
	16,975	1,193

An ageing analysis of trade and notes receivables, based on the invoice date, is as follows:

	2007	2006
	RMB'000	*RMB'000*
Outstanding balances due within 90 days	**16,975**	1,193

Trade and notes receivables are non-interest-bearing. There were no receivables that were past due or impaired. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of the receivables as they have no history of default. In addition, substantially all gold sales are made through the Shanghai Gold Exchange, or through physical delivery of gold and silver in settlement of liabilities to suppliers of gold and silver concentrates, or for cash. The credit term given to other customers is 30 days.

22. Prepayments and Other Receivables

Group

	2007	2006
	RMB'000	*RMB'000*
Prepayments	**54,243**	29,438
Other receivables	**63,486**	17,658
Amounts due from related parties:		
– A party can exercise significant influence over the Group	**7,059**	2,908
	124,788	50,004

Company

	2007	2006
	RMB'000	*RMB'000*
Prepayments	**44,333**	26,011
Other receivables	**56,274**	16,918
Amounts due from related parties:		
– A party can exercise significant influence over the Group	**3,701**	2,908
– Subsidiaries of the Company	**17,966**	3,137
	122,274	48,974

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

None of the above assets is either past due or impaired. Prepayment and other receivables relate to receivables from individuals and entities that were no recent history of default.

Notes to Financial Statements

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23. Inventories

Group

	2007	2006
	RMB'000	*RMB'000*
Raw materials	**23,494**	19,092
Work in progress	**258,535**	235,240
Finished goods	**51,411**	21,151
	333,440	275,483
Included in the above balances are:		
Inventories processed for third parties *(Note 27)*	**173,660**	119,385

Company

	2007	2006
	RMB'000	*RMB'000*
Raw materials	**15,728**	16,121
Work in progress	**192,251**	231,096
Finished goods	**19,977**	13,514
	227,956	260,731
Included in the above balances are:		
Inventories processed for third parties *(Note 27)*	**173,660**	119,385

24. Equity Investments at Fair Value Through Profit or Loss

Group

	2007 RMB'000	2006 RMB'000
Hong Kong listed equity investments at fair value	30,926	–

The above equity investments, which were upon initial recognition, designated by the Group as financial assets as at fair value through profit or loss.

25. Derivative Financial Instruments

Group and Company

	2007 RMB'000	2006 RMB'000
Forward currency contracts	38,686	–

During the year, the Group entered into various forward currency contracts to manage its exchange rate exposures. These contracts did not meet the criteria for hedge accounting. Changes in the fair value of non-hedging currency derivatives amounting to RMB38,686,000 (2006: Nil) were credited to the consolidated income statement during the year.

The carrying amounts of forward currency contracts are the same as their fair values. The above transactions involving derivative financial instruments are with Bank of China and Agricultural Bank of China which have AAA credit rating.

Notes to Financial Statements

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26. Interest-bearing Bank and Other Borrowings

Group

	2007 RMB'000	2006 RMB'000
Unsecured:		
– Bank loans	**365,000**	723,500
– Other borrowings	**10,590**	9,690
	375,590	733,190
Repayable:		
– Within one year	**352,800**	125,400
– In the second year	**15,000**	450,000
– In the third to fifth years	**–**	150,000
– Over five years	**7,790**	7,790
	375,590	733,190
Portion classified as		
– Current	**352,800**	125,400
– Non-current	**22,790**	607,790

Notes:

(a) Effective interest rate and maturity date

An analysis of the effective interest rate per annum and maturity date is as follows:

	2007 RMB'000	2006 RMB'000
(i) Bank loans – fixed rate		
– Effective interest (%)	**6.03**	5.47
– Maturity (Year)	**2008-2009**	2007-2009
(ii) Other borrowings – fixed rate		
– Effective interest (%)	**2.89**	2.76
– Maturity (Year)	**2008-2021**	2007-2021

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

Notes: (Continued)

(b) Unutilised limit of bank loans

	2007	2006
	RMB'000	*RMB'000*
Banking facilities:		
– Available	**2,105,200**	1,503,500
– Utilised	**(365,000)**	(723,500)
Unutilised	**1,740,200**	780,000

(c) Corporate guarantee

The following loans of the Group are guaranteed by Zhaojin Group (see Note 35(b)):

	2007	2006
	RMB'000	*RMB'000*
Bank loans	**15,000**	–

Company

	2007	2006
	RMB'000	*RMB'000*
Unsecured:		
– Bank loans	**200,000**	570,000
– Other borrowings	**9,190**	9,690
	209,190	579,690
Repayable:		
– Within one year	**201,400**	51,900
– In the second year	**–**	370,000
– In the third to fifth years	**–**	150,000
– Over five years	**7,790**	7,790
	209,190	579,690
Portion classified as		
– Current	**201,400**	51,900
– Non-current	**7,790**	527,790

Notes to Financial Statements

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

Notes:

(a) Effective interest rate and maturity date

An analysis of the effective interest rate per annum and maturity date is as follows:

	2007	2006
(i) Bank loans – fixed rate		
– Effective interest (%)	**5.79**	5.22
– Maturity (Year)	**2008**	2007-2009
(ii) Other borrowings – fixed rate		
– Effective interest (%)	**2.16**	2.76
– Maturity (Year)	**2008-2021**	2007-2021

(b) Unutilised limit of bank loans

	2007	2006
	RMB'000	*RMB'000*
Banking facilities		
Available	**1,680,000**	1,350,000
Utilised	**(200,000)**	(570,000)
Unutilised	**1,480,000**	780,000

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

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

The carrying amounts of the Group's and the Company's current borrowings approximate to their fair values. The carrying amounts and fair values of the Group's non-current borrowings are as follows:

Group

	Carrying amounts		Fair values	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Fixed rate bank loans	**15,000**	600,000	**16,371**	592,340
Other borrowings	**7,790**	7,790	**4,625**	4,775
	22,790	607,790	**20,996**	597,115

Company

	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Fixed rate bank loans	**–**	520,000	**–**	512,355
Other borrowings	**7,790**	7,790	**4,625**	4,775
	7,790	527,790	**4,625**	517,130

The fair values of the above were calculated by discounting the expected future cash flows at prevailing interest rates.

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27. Trade Payables

Group

	2007	2006
	RMB'000	*RMB'000*
Trade payables	**61,632**	44,211
Payable under tolling arrangements	**173,660**	119,385
	235,292	163,596

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

	2007	2006
	RMB'000	*RMB'000*
Outstanding balances with ages:		
Within one year	**229,826**	160,466
Over one year but within two years	**1,719**	1,484
Over two years but within three years	**1,260**	973
Over three years	**2,487**	673
	235,292	163,596

Company

	2007	2006
	RMB'000	*RMB'000*
Trade payables	**37,330**	29,830
Payable under tolling arrangements	**173,660**	119,385
	210,990	149,215

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

	2007	2006
	RMB'000	*RMB'000*
Outstanding balances with ages:		
Within one year	**209,033**	147,416
Over one year but within two years	**188**	221
Over two years but within three years	**459**	905
Over three years	**1,310**	673
	210,990	149,215

27. Trade Payables (Continued)

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

28. Other Payables and Accruals

Group

	2007 RMB'000	2006 RMB'000
Accrued taxes other than income tax	**26,135**	14,207
Accrued expenses and other payables	**124,932**	143,935
Capital expenditure payables	**86,916**	79,124
Amounts due to related parties:		
– A party can exercise significant influence over the Group	**252**	–
	238,235	237,266

Company

	2007 RMB'000	2006 RMB'000
Accrued taxes other than income tax	**19,215**	4,057
Accrued expenses and other payables	**65,488**	110,973
Capital expenditure payables	**20,799**	15,544
	105,502	130,574

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

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

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29. Provisions

Group

	2007	2006
	RMB'000	*RMB'000*
Provision for rehabilitation		
At beginning of year	**6,388**	5,416
Interest increment	**489**	328
Change in discount rate	**(1,410)**	–
Additions	**1,045**	644
At end of year	**6,512**	6,388
Provision for early retirement		
At beginning of year	**47,937**	50,944
Additional early retirees	**18,992**	3,465
Change in discount rate	**(4,713)**	–
Interest increment	**3,623**	2,547
Utilised during the year	**(11,514)**	(9,019)
At end of year	**54,325**	47,937
Total	**60,837**	54,325
Analysis of total provisions		
Current	**10,447**	8,230
Non-current	**50,390**	46,095
	60,837	54,325

29. Provisions (Continued)

Company

	2007	2006
	RMB'000	*RMB'000*
Provision for rehabilitation		
At beginning of year	**5,224**	4,960
Interest increment	**431**	264
Change in discount rate	**(862)**	–
Additions	**1,045**	–
At end of year	**5,838**	5,224
Provision for early retirement		
At beginning of year	**41,844**	44,763
Additional early retirees	**12,586**	3,465
Change in discount rate	**(2,515)**	–
Interest increment	**3,162**	2,238
Utilised during the year	**(10,267)**	(8,622)
At end of year	**44,810**	41,844
Total	**50,648**	47,068
Analysis of total provisions		
Current	**9,287**	7,485
Non-current	**41,361**	39,583
	50,648	47,068

The provisions are based on estimates of future payments made by management and are discounted at rates in the range of 7.5% to 7.8% (2006: 4.6% to 6.4%). Changes in assumptions could significantly affect these estimates.

The provision for rehabilitation is in relation to the estimated costs of complying with the Group's obligations for land reclamation. These costs are expected to be incurred on mine closure, which, based on current mineral reserve estimates, ranges from 5 to 36 years.

The provision for early retirement is in respect of future payments to be made by the Group to former employees who have accepted early retirement terms. These payments are made monthly based on the employees' pre-retirement salary level and age, and are due to be made until the former employees reach normal statutory retirement age, which extends up to 2025.

Notes to Financial Statements

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30. Deferred Income

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

Group

	2007	2006
	RMB'000	*RMB'000*
At beginning of year	**34,107**	18,204
Received during the year	**18,111**	18,379
Acquisition of subsidiaries	**5,000**	–
Recognised as income during the year	**(25,251)**	(2,476)
At end of year	**31,967**	34,107

Company

	2007	2006
	RMB'000	*RMB'000*
At beginning of year	**30,984**	14,734
Received during the year	**12,312**	18,379
Recognised as income during the year	**(19,105)**	(2,129)
At end of year	**24,191**	30,984

31. Share Capital

	2007	2006
	RMB'000	*RMB'000*
Registered, issued and fully paid:		
Domestic shares of RMB1.00 each	**510,128**	510,128
H shares of RMB1.00 each	**218,587**	218,587
	728,715	728,715

32. Reserves

(a) Group

The amount of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 83.

(b) Company

	Capital reserve RMB'000	Statutory reserves RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total owners' equity RMB'000
At 1 January 2006	273,372	26,180	130,136	–	429,688
Issue of new shares	2,332,418	–	–	–	2,332,418
Share issue expenses	(163,665)	–	–	–	(163,665)
Profit for the year	–	–	349,283	–	349,283
Total income and expense for the year	–	–	349,283	–	349,283
Transfer to reserves	–	28,602	(28,602)	–	–
Dividends					
– 2006 final proposed	–	–	(109,307)	109,307	–
– 2005 final paid	–	–	(57,735)	–	(57,735)
At 31 December 2006 and 1 January 2007	2,442,125	54,782	283,775	109,307	2,889,989
Profit for the year	–	–	403,176	–	403,176
Total income and expense for the year	–	–	403,176	–	403,176
Transfer to reserves	–	41,573	(41,573)	–	–
Dividends					
– 2007 final proposed	–	–	(182,179)	182,179	–
– 2006 final paid	–	–	–	(109,307)	(109,307)
At 31 December 2007	**2,442,125**	**96,355**	**463,199**	**182,179**	**3,183,858**

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32. Reserves (Continued)

Capital reserve

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

There is no movement in share premium of the Group and of the Company during the year.

On 10 March 2008, the Directors recommend a distribution of a bonus issue of share to all shareholders on the basis of 0.75 shares for every share held by capitalising share premium of RMB546,537,000 to share capital of 546,537,000 shares of RMB1 each. The proposed distribution is subject to the approval of the shareholder at Annual General meeting to be held on 16 May 2008.

Statutory and distributable reserves

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

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

32. Reserves (Continued)

Statutory and distributable reserves (Continued)

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

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

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

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

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

At 31 December 2007, the Company's reserves available for distribution were approximately RMB367,368,296 (2006: RMB314,614,680). On 10 March 2008, as part of dividend distribution for the year ended 31 December 2007, the Directors recommend a final cash dividend of RMB0.25 per share amounting to RMB182,179,000 and a bonus issue of share to all shareholders on the basis of 0.25 shares for every share held by capitalising retained profits of RMB182,179,000 to share capital of 182,179,000 shares of RMB1 each.

Recommendation of final cash dividend has been reflected in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

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33. Commitments

(a) Capital commitments

Group

	2007	2006
	RMB'000	*RMB'000*
Contracted, but not provided for:		
In respect of:		
– Land and buildings	**79,185**	11,141
– Plant and machinery	**18,127**	6,914
– Multi-element project	**80,000**	–
– Unlisted equity investments in subsidiaries	**211,000**	–
	388,312	18,055
Authorised, but not contracted for:		
In respect of:		
– Land and buildings	**200,710**	144,903
– Plant and machinery	**639,940**	51,437
– Exploration and evaluation assets	**136,250**	260,370
	976,900	456,710

33. Commitments (Continued)

(a) Capital commitments (Continued)

Company

	2007	2006
	RMB'000	*RMB'000*
Contracted, but not provided for:		
In respect of:		
– Land and buildings	**79,185**	11,141
– Plant and machinery	**18,127**	6,914
– Multi-element project	**80,000**	–
– Unlisted equity investment in subsidiaries	**211,000**	–
	388,312	18,055
Authorised, but not contracted for:		
In respect of		
– Land and buildings	**137,910**	138,170
– Plant and machinery	**585,340**	47,170
– Exploration and evaluation assets	**59,460**	24,370
	782,710	209,710

Notes to Financial Statements

31 December 2007

33. Commitments (Continued)

(b) Operating lease commitments

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

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

Group

	2007	2006
	RMB'000	*RMB'000*
Within one year	**2,865**	2,506
In the second to fifth years, inclusive	**2,459**	4,224
Over five years	**–**	790
	5,324	7,520

Company

	2007	2006
	RMB'000	*RMB'000*
Within one year	**2,042**	2,506
In the second to fifth years, inclusive	**1,761**	4,224
Over five years	**–**	790
	3,803	7,520

34. Contingent liabilities

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

(a) Guarantees

Company

	2007 RMB'000	2006 RMB'000
Guarantees provided to bank for loan facilities granted to:		
– Zhaoyuan Jintingling Mining Industry Company Limited, a subsidiary of the Company	**145,000**	153,500

(b) Indemnities from Zhaojin Group

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

Group

	2007 RMB'000	2006 RMB'000
Mineral resource compensation levies:	**45,629**	45,629

Company

	2007 RMB'000	2006 RMB'000
Mineral resource compensation levies:	**33,439**	33,439

Notes to Financial Statements

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35. Related Party Transactions

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	2007 *RMB'000*	2006 *RMB'000*
Nature of relationships/transactions		
(i) A party can exercise significant influence over the Group, Zhaojin Group		
Recurring transactions		
Expenses:		
– Payment of rental	**52**	221
– Payment of ground rent	**2,300**	3,611
– Gold exchange commission fee	**421**	292
– Commission fee for purchase of property, plant, and equipment	**456**	–
Non-recurring transactions		
Capital transactions:		
– Purchase of subsidiaries	**129,149**	–
– Purchase of land use rights	**–**	605
– Purchase of property, plant and equipment	**–**	3,120
– Disposal of items of property, plant and equipment	**–**	3,020
(ii) Subsidiaries of Zhaojin Group		
Recurring transactions		
Expenses:		
– Fees for refining services	**2,700**	2,684
– Fees for mining construction activities	**235**	1,770
– Fees for hotel accommodation	**764**	–
– Office rental	**1,215**	–
Non-recurring transactions		
Capital transactions:		
– Purchase of property, plant and equipment	**369**	484
– Purchase of software	**274**	270

35. Related Party Transactions (Continued)

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year: (Continued)

		2007 RMB'000	2006 RMB'000
(iii)	Minority interest holder of a subsidiary		
	Non-recurring transactions		
	Expenses		
	– Compensation arising from land usage	**748**	2,567
	– Payment of ground rent	**173**	2,818
(iv)	Substantial shareholders of the Company, Shanghai Fosun Industrial Technology Development Co., Ltd. ("Shanghai Fosun Technology") and Shanghai Fosun Industrial Investment Co., Ltd. ("Shanghai Fosun")		
	Non-recurring transaction		
	Capital transaction:		
	– Purchase of a subsidiary	**21,000**	–

The above transactions were conducted at commercial prices based on market rates, except for the business combination as disclosed in Note 36 to the financial statements and the following:

i. In August 2007, the Group acquired interests in entities from Zhaojin Group at a total consideration of RMB129 million. The acquisition prices were based on independent valuation reports and negotiations between the parties.

ii. In August 2007, the Group acquired an interest in an entity from substantial shareholders of the Company, Shanghai Fosun Technology and Shanghai Fosun, at a total consideration of RMB21 million. The acquisition prices were based on independent valuation reports and negotiations between the parties.

iii. The Company entered into an indemnity agreement with Zhaojin Group on 17 November 2006, pursuant to which Zhaojin Group has agreed to indemnify the Company against certain tax liabilities, liability for uncollected gold mineral resources compensation levies, liability or expenses in connection with leased properties and liability in connection with claims from China Gold Funds as disclosed in Note 34 to the financial statements. These indemnities are provided free of charge.

iv. On 24 December 2007, the Company entered into an agreement to acquire properties from Xinyuan Gold Technology Development Co., Ltd., "Xinyuan Gold" a wholly-owned subsidiary of the Zhaojin Group. The consideration of RMB56,840,000 was determined after arm's length negotiation between the Company and Xinyuan Gold after taking into account the valuation of the properties as at 31 July 2007 made by an independent PRC valuer. The purchase consideration was paid in cash when the transaction became unconditional on 28 February 2008.

Notes to Financial Statements

31 December 2007

35. Related Party Transactions (Continued)

(b) Guarantees granted by Zhaojin Group for securing the Group's bank loans are disclosed in Note 26 (c) to the financial statements. These guarantees were provided free of charge.

(c) Outstanding balances with related parties

As disclosed in Notes 22 and 28 to the financial statements, the Group had outstanding advances receivable/payable from/to related parties at the end of the year. The advances are unsecured, interest-free and have no fixed terms of repayment.

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

	2007	2006
	RMB'000	*RMB'000*
Short term employee benefits	**3,998**	1,687
Post-employment benefits	**–**	–
Total compensation paid to key management personnel	**3,998**	1,687

Further details of directors' emoluments are included in Note 7 to the financial statements.

(e) During the year, no fees were paid to non-executive directors and supervisors.

(f) Connected transactions

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

36. Business Combinations

Acquisitions of subsidiaries/operation during the year are as follows:

(a) On 22 June 2007, the Company entered into agreements with Zhaojin Group and independent third parties. Pursuant to these agreements, the Company conditionally agreed to acquire 100% equity interests in Xixia Zhaojin Mining Company Limited , Tuoli Zhaojin Beijiang Mining Company Limited and Minxian Tianhao Gold Company Limited for RMB19,539,800, RMB74,300,000 and RMB65,391,800, respectively.

The purchase considerations for the acquisitions were in the form of cash with full settlement on 31 August 2007, acquisition date.

(b) On 28 June 2007, the Group entered into a transfer agreement with a third party to acquire the operation of Sarekuobu Gold Mine at a consideration of RMB6,650,000 satisfied with cash. The acquisition was completed on 30 September 2007.

(c) On 20 November 2006, the Group entered into an equity transfer agreement with third parties for the acquisition of 51% of the issued share capital of Yunnan Sparton Minerals Co., Ltd.（雲南斯帕頓礦業有限公司）("Yunnan Sparton") at a consideration of RMB24,480,000 satisfied in cash. The transaction was completed on 31 July 2007.

(d) On 22 August 2007, the Company entered into an Equity Transfer Agreement with Shanghai Fosun Technology and Shanghai Fosun to acquire their 95% and 5% equity interests in Xinjiang Xingta Mining Co., Ltd. with purchase considerations of RMB19,858,705 and RMB1,045,195 respectively. The purchase considerations were settled in cash and the acquisitions were completed on 31 August 2007.

(e) On 28 September 2007, the Company entered into an Equity Transfer Agreement with a third party to acquire a 100% equity interest in Fukang Mining Industry with a purchase consideration of RMB27,000,000 satisfied in cash. The acquisition was completed on 30 November 2007.

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36. Business Combinations (Continued)

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

	Previous carrying amounts *RMB'000*	**Fair values on acquisition** *RMB'000*
Property, plant and equipment	108,454	145,761
Intangible assets	65,931	262,377
Land lease prepayments	6,798	13,428
Cash and bank balances	21,229	21,229
Trade receivables	4,279	4,279
Prepayments and other receivables	31,916	31,916
Inventories	18,513	18,513
Deferred income	(5,000)	(5,000)
Interest-bearing bank and other borrowings	(24,900)	(24,900)
Trade payables	(8,545)	(8,545)
Other payables and accruals	(149,520)	(149,520)
Deferred tax liabilities	–	(49,930)
Minority interests	–	(21,342)
	69,155	238,266
Satisfied by:		
Cash		238,266

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

	2007 *RMB'000*
Cash consideration	**238,266**
Cash and bank balances acquired	**(21,229)**
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries/operation	**217,037**

Since acquisition, the above subsidiaries contributed RMB27,266,000 to the Group's revenue and RMB6,325,000 to the Group's profit for the year ended 31 December 2007. Had the combinations taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit for the year of the Group would have been RMB1,607,006,000 and RMB384,404,000 respectively.

37. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

Group

Financial assets

	2007			2006		
	FA	Loans and receivables	Total	FA	Loans and receivables	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Interest in an associate	–	33,977	33,977	–	14,848	14,848
Long term deposits	–	4,637	4,637	–	4,955	4,955
Trade and notes receivables	–	33,216	33,216	–	1,193	1,193
Financial assets included in prepayments and other receivables	–	70,545	70,545	–	20,566	20,566
Equity investments at fair value through profit or loss	30,926	–	30,926	–	–	–
Derivative financial instruments	38,686	–	38,686	–	–	–
Cash and cash equivalents	–	1,625,689	1,625,689	–	2,695,397	2,695,397
	69,612	1,768,064	1,837,676	–	2,735,959	2,736,959

FA – Represents financial assets at fair value through profit or loss upon recognition.

Financial liabilities

	2007 Financial liabilities at amortised cost	2006 Financial liabilities at amortised cost
	RMB'000	*RMB'000*
Trade payables	235,292	163,596
Tax payable	176,810	130,458
Financial liabilities included in other payables and accruals	238,235	237,266
Interest-bearing bank and other borrowings	375,590	733,190
	1,025,927	1,264,510

Notes to Financial Statements

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37. Financial Instruments by Category (Continued)

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: (Continued)

Company

Financial assets

	2007			2006		
	FA	Loans and receivables	Total	FA	Loans and receivables	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest in an associate	–	34,650	34,650	–	17,500	17,500
Interest in subsidiaries	–	606,903	606,903	–	265,569	265,569
Loan receivables	–	546,482	546,482	–	195,983	195,983
Long term deposits	–	4,637	4,637	–	4,955	4,955
Trade and notes receivables	–	16,975	16,975	–	1,193	1,193
Financial assets included in prepayments and other receivables	–	77,941	77,941	–	22,963	22,963
Derivative financial instruments	38,686	–	38,686	–	–	–
Cash and cash equivalents	–	1,444,949	1,444,949	–	2,689,759	2,689,759
	38,686	2,732,537	2,771,223	–	3,197,922	3,197,922

FA – Represents financial assets at fair value through profit or loss upon recognition.

Financial liabilities

	2007 Financial liabilities at amortised cost	2006 Financial liabilities at amortised cost
	RMB'000	RMB'000
Trade payables	210,990	149,215
Tax payable	177,144	124,458
Financial liabilities included in other payables and accruals	105,502	130,574
Interest-bearing bank and other borrowings	209,190	579,690
	702,826	983,937

38. Financial Risk Management Objectives and Policies

Financial assets of the Group mainly include cash and cash equivalents, trade and notes receivables, deposits and other receivables, equity investments at fair value through profit or loss and derivative financial instruments. Financial liabilities of the Group include bank and other borrowings, trade payables and other payables. The Group enters into forward currency contracts during the year to manage the currency risks arising from the foreign currency held in banks.

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

Liquidity risk

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

Subsequent to the IPO of the Company in December 2006, the Group's cash and cash equivalents are more than total debts. Accordingly, management is of the view that the liquidity risk of the Group is minimal.

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38. Financial Risk Management Objectives and Policies (Continued)

Liquidity risk (Continued)

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

Group

	Less than 3 months	3 to less than 12 month	1 to 5 years	Over 5 years	Total Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2007					
Interest-bearing bank and other borrowings	**–**	**352,800**	**15,000**	**7,790**	**375,590**
Trade payables	**235,292**	**–**	**–**	**–**	**235,292**
Other payables and accruals	**238,235**	**–**	**–**	**–**	**238,235**
	473,527	**352,800**	**15,000**	**7,790**	**849,117**
2006					
Interest-bearing bank and other borrowings	–	125,400	600,000	7,790	733,190
Trade payables	163,596	–	–	–	163,596
Other payables and accruals	237,266	–	–	–	237,266
	400,862	125,400	600,000	7,790	1,134,052

38. Financial Risk Management Objectives and Policies (Continued)

Liquidity risk (Continued)

Company

	Less than 3 months RMB'000	3 to less than 12 month RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	Total Total RMB'000
2007					
Interest-bearing bank and other borrowings	**–**	**201,400**	**–**	**7,790**	**209,190**
Trade payables	**210,990**	**–**	**–**	**–**	**210,990**
Other payables and accruals	**105,502**	**–**	**–**	**–**	**105,502**
	316,492	**210,400**	**–**	**7,790**	**525,682**
2006					
Interest-bearing bank and other borrowings	–	51,900	520,000	7,790	579,690
Trade payables	149,215	–	–	–	149,215
Other payables and accruals	130,574	–	–	–	130,574
	279,789	51,900	520,000	7,790	859,479

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38. Financial Risk Management Objectives and Policies (Continued)

Interest rate risk

The Group's exposure to interest rate risk relates primarily to the Group's cash holdings and interest-bearing bank loans. The Group manages its interest rate exposure from certain cash holdings through placing them into a fixed rate time deposit and manages the exposure from all of its interest-bearing loans through the use of fixed rates.

The following table demonstrates the sensitivity to a reasonable change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on cash in banks which earns interest at floating rates).

	Group		
	Increase/ (decrease) in Basis points	**Increase/ (decrease) in profit before tax** *RMB'000*	**Increase/ (decrease) in equity** *RMB'000*
2007			
Renminbi	**10/(5)**	**895/(448)**	**600/(300)**
Hong Kong dollar	**10/(5)**	**10/(5)**	**7/(3)**
United States dollar	**10/(5)**	**29/(15)**	**19/(10)**
2006			
Renminbi	10/(5)	286/(143)	192/(96)
Hong Kong dollar	10/(5)	9,237/(4,619)	6,189/(3,095)

Price risk

The Group's exposure to price risk relates principally to the market price fluctuation on gold and silver which can affect the Group's results of operations. In addition, the Group enters into contracts for the processing of gold and silver concentrates with the liabilities settled through physical delivery of predetermined quantities of gold and silver. Price fluctuations affect the RMB denominated amounts of these liabilities. The Group's policy is to accept price risk exposure in relation to financial instruments held.

38. Financial Risk Management Objectives and Policies (Continued)

Credit risk

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

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

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, prepayments and other receivables, equity investments at fair value through profit or loss and derivative financial instruments, arises from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments. The Company is also exposed to credit risk through granting of financial guarantees to a subsidiary, further details of which are disclosed in Note 34 to the financial statements.

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

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

Foreign exchange risk

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

The Group and the Company held HK$ and US$ denominated cash deposits during the year (Note 20). The Group has entered into foreign currency forward contracts to mitigate the foreign currency exposure.

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38. Financial Risk Management Objectives and Policies (Continued)

Foreign exchange risk (Continued)

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the HK$ and US$ exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of cash deposits).

	Increase/ (decrease) in HKD and USD rate %	Increase/ (decrease) in profit before tax *RMB'000*	Increase/ (decrease) in equity *RMB'000*
2007			
If Renminbi weakens against United States dollar	**5**	**50**	**34**
If Renminbi strengthens against United States dollar	**(5)**	**(50)**	**(34)**
If Renminbi weakens against Hong Kong dollar	**5**	**130**	**87**
If Renminbi strengthens against Hong Kong dollar	**(5)**	**(130)**	**(87)**
2006			
If Renminbi weakens against Hong Kong dollar	5	124,829	83,635
If Renminbi strengthens against Hong Kong dollar	(5)	(124,829)	(83,635)

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments classified as trading equity investments (Note 24) as at 31 December 2007. The Group's listed investments are listed on the Hong Kong Stock Exchange ("HKSE") and are valued at quoted market prices at the balance sheet date.

38. Financial Risk Management Objectives and Policies (Continued)

Equity price risk (Continued)

The market equity index for the HKSE, at the close of business of the nearest trading day in the year to the balance sheet date, and its respective highest and lowest points during the year were as follows:

	31 December 2007	High/low 2007	31 December 2006
Hong Kong – Hang Seng Index	**27,812**	**31,638/18,659**	19,964

The following table demonstrates the sensitivity to every 10% change in the fair values of the equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the balance sheet date.

	Carrying amount of equity investments *RMB'000*	Increase/ (Decrease) in profit before tax and equity *RMB'000*	Increase/ (Decrease) in equity *RMB'000*
2007			
Investments listed in:			
Hong Kong	**27,833**	**3,093/(3,093)**	**2,072/(2,072)**

Fair values

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

The fair values of the Group's long term borrowings are disclosed in Note 26 to the financial statements. The carrying amounts of all other financial instruments approximated to their fair values due to the short term to maturity at each of the balance sheet dates.

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38. Financial Risk Management Objectives and Policies (Continued)

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

The Group is currently funding its capital expenditure through the proceeds from its IPO in December 2006. The proceeds from the IPO are being utilised in accordance with the plan stated in the Company's prospectus dated 24 November 2006. Under normal circumstances, the Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. The Group's policy is to maintain the gearing ratio between 20% and 35%.

The excess of cash and cash equivalents over debts was as follows:

Group

	2007	2006
	RMB'000	*RMB'000*
Interest-bearing bank and other borrowings	**375,590**	733,190
Trade payables	**235,292**	163,596
Other payables and accruals	**238,235**	237,266
Less: Cash and cash equivalents	**(1,625,689)**	(2,695,397)
Excess of cash and cash equivalents over debt	**(776,572)**	(1,561,345)

39. Events Subsequent to Balance Sheet Date

(a) On 31 January 2008, the Company completed its acquisitions of a 52% equity interest in Fengningjinlong Mining Limited ("FNJL") and a 51% equity interest in Tonghui Copper Mining Limited ("TCM"), both companies incorporated in the PRC at considerations of RMB346 million and RMB265 million respectively (see Note 18). The purchase considerations were fully settled in the form of cash at the date of acquisition.

Given the short period since the acquisitions were completed to the date of approval of these financial statements, it is not practical to disclose, at the acquisition date, the fair values recognised for each class of the acquiree's assets, liabilities and contingent liabilities, and the carrying amounts of each of these classes immediately before the combination.

(b) On 24 December 2007, the Company entered into an agreement to acquire properties from Xinyuan Gold, a wholly-owned subsidiary of the Zhaojin Group. The consideration of RMB56,840,000 was determined after arm's length negotiation between the Company and Xinyuan Gold after taking into account the valuation of the properties as at 31 July 2007 made by an independent PRC valuer. The purchase consideration was paid in cash when the transaction became unconditional on 28 February 2008.

(c) On 10 March 2008, the Board of Directors proposed a final dividend comprising the following:

(i) Payment of cash dividend of RMB0.25 after tax per share amounting to RMB182,179,000; and

(ii) Bonus issue of shares on the basis of 0.25 shares for every share held by capitalising retained profits of RMB182,179,000 into share capital of 182,179,000 shares of RMB1 each.

In addition, the Board of Directors proposed an additional bonus issue of shares on the basis of 0.75 shares for every share held by capitalisation of capital reserve of RMB546,537,000 into share capital of 546,537,000 shares of RMB1 each.

40. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 10 March 2008.

Five Year Financial Summary

The results, assets, liabilities and minority interests of the Group for the last five financial years are set out below:

	Year ended 31 December				
	2007	2006	2005	2004	2003
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE	**1,512,273**	1,164,415	867,687	428,084	383,970
Cost of sales	**(757,452)**	(541,240)	(428,300)	(237,215)	(237,921)
Gross profit	**754,821**	623,175	439,387	190,869	146,049
Other revenue and gains	**155,031**	16,411	8,891	7,640	2,217
Selling and distribution costs	**(9,581)**	(5,669)	(4,795)	(2,244)	(863)
Administrative expenses	**(216,039)**	(143,488)	(139,736)	(83,322)	(54,049)
Other operating expenses	**(105,471)**	(5,801)	(16,947)	(6,876)	(11,927)
Financial costs	**(20,745)**	(54,346)	(46,107)	(6,040)	(6,710)
Share of profit/(loss) of an associate	**1,979**	(1,935)	(717)	–	–
PROFIT BEFORE INTEREST INCOME ARISING FROM SHARE APPLICATION FUNDS AND TAX	**559,995**	428,347	239,976	100,027	74,717
Interest income arising from share application funds	**–**	89,403	–	–	–
PROFIT BEFORE TAX	**559,995**	517,750	239,976	100,027	74,717
Income tax expense:					
– On profit before interest income arising from share application funds	**(184,072)**	(139,216)	(80,283)	(33,301)	(29,255)
– On interest income arising from share application funds	**–**	(28,883)	–	–	–
Total income tax expense	**(184,072)**	(168,099)	(80,283)	(33,301)	(29,255)
PROFIT BEFORE DEFERRED TAX ARISING FROM REORGANISATION	**375,923**	349,651	159,693	66,726	45,462
Deferred tax on Reorganization	**–**	–	–	98,825	–
PROFIT FOR THE YEAR	**375,923**	349,651	159,693	165,551	45,462
Attributable to:					
Equity holders of the Company	**388,447**	351,190	162,891	165,565	45,462
Minority interests	**(12,524)**	(1,539)	(3,198)	(14)	–
	375,923	349,651	159,693	165,551	45,462
ASSETS, LIABILITIES AND MINORITY INTERESTS					
TOTAL ASSETS	**5,013,877**	4,907,558	2,133,045	1,025,012	369,809
TOTAL LIABILITIES	**(1,260,663)**	(1,443,134)	(1,328,005)	(412,532)	(250,020)
MINORITY INTERESTS	**(69,729)**	(56,911)	(58,450)	(276)	–
	3,683,485	3,407,513	746,590	612,204	119,789