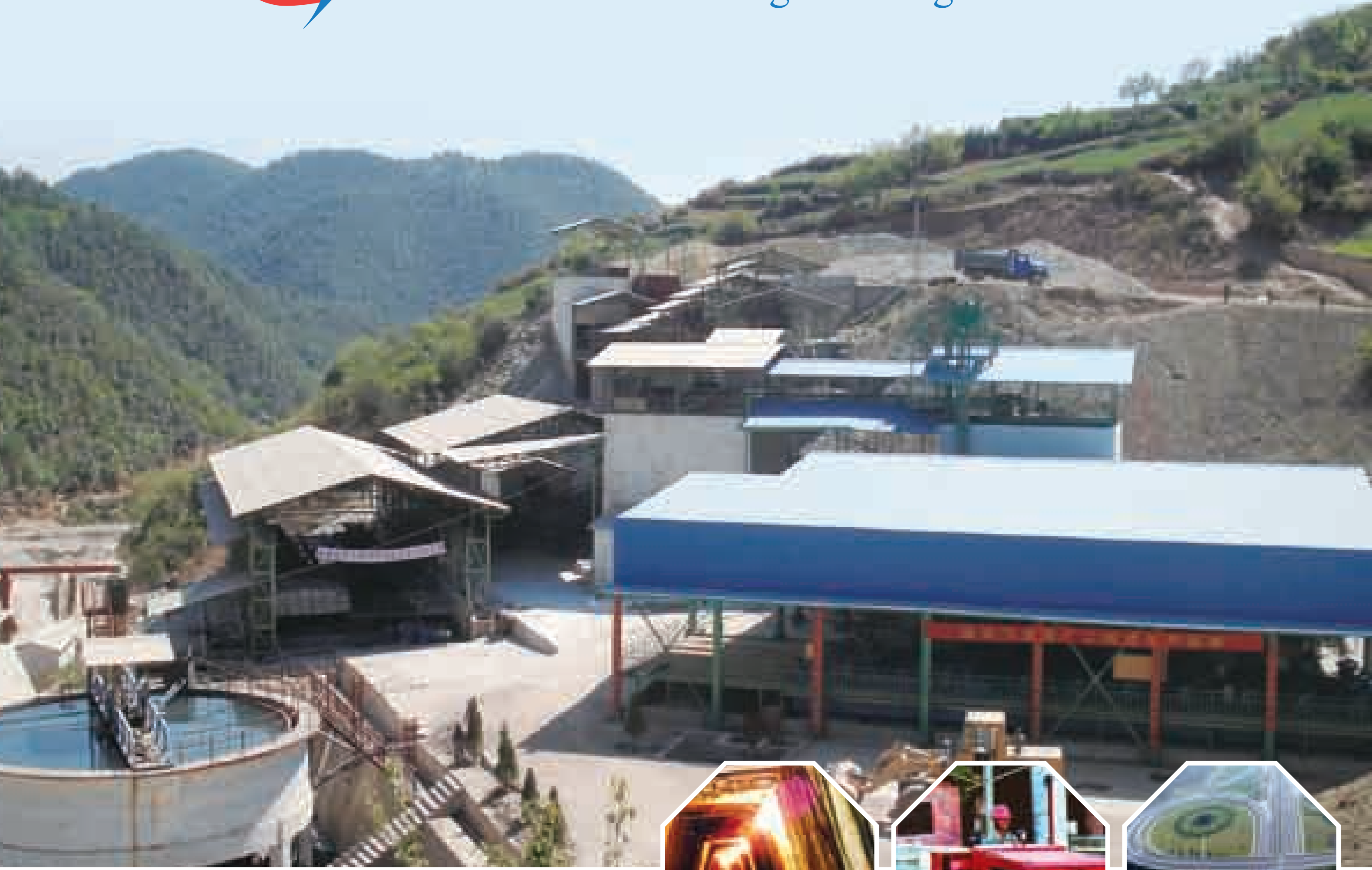
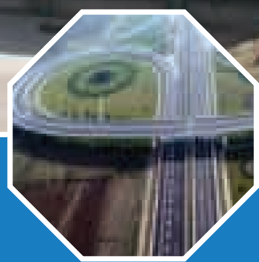
悅達礦業控股有限公司

Yue Da Mining Holdings Limited





Annual Report 2007

Stock code : 629

Contents

Corporate Information

REGISTERED OFFICE:

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG:

Office nos. 3321–3323 and 3325
China Merchants Tower
Shun Tak Centre
200 Connaught Road Central
Sheung Wan
Hong Kong

MEMBERS OF THE BOARD:

Executive directors

Mr. Hu You Lin, Mr. Dong Li Yong and Mr. Chen Gang

Non-executive directors

Mr. Qi Guangya and Mr. Liu Xiaoguang

Independent non-executive directors

Mr. Cai Chuan Bing, Ms. Leung Mei Han, Mr. Cui Shuming and Mr. Han Runsheng

Audit Committee

Mr. Cai Chuan Bing (Chairman), Ms. Leung Mei Han and Mr. Qi Guangya

Remuneration Committee

Mr. Cui Shuming (Chairman), Mr. Dong Li Yong and Mr. Cai Chuan Bing

AUTHORISED REPRESENTATIVES:

Mr. Dong Li Yong
Mr. Qian Jin Biao

COMPANY SECRETARY:

Mr. Qian Jin Biao

INDEPENDENT AUDITOR:

Deloitte Touche Tohmatsu,
Certified Public Accountants

LEGAL ADVISERS AS TO HONG KONG LAW:

Chiu & Partners

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE:

Bank of Bermuda (Cayman) Limited
P.O. Box 513 G.T.
Strathvale House
North Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE:

Computershare Hong Kong Investor Services Limited
46th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

PLACE OF LISTING:

Main Board of The Stock Exchange of Hong Kong Limited
Stock code: 00629

PRINCIPAL BANKERS:

Industrial and Commercial Bank
of China (Asia) Limited
Standard Chartered Bank

Chairman's Statement

On behalf of the board ("Board") of directors ("Directors") of Yue Da Mining Holdings Limited (the "Company"), I am pleased to present to the shareholders the results of the Company and its subsidiaries (the "Group") for the year ended 31st December, 2007.

FINANCIAL PERFORMANCE

Turnover and operating profit of the Group for the year ended 31st December, 2007 amounted to RMB293,960,000 and RMB158,060,000, representing an increase of approximately 59% and 60% respectively over last year. Affected by the one-off accounting adjustments, audited profit attributable to shareholders amounted to RMB7,571,000, a decrease of approximately 27% over last year. Basic earnings per share was RMB2.8 cents.

The Directors of the Company considered that, as the accounting adjustments (adjustments in respect of changes in fair value of convertible bonds and deferred tax liability on appraisal of mining rights) were one-off book adjustments only, such adjustments will not have any no material impact on the future normal production and operation of the Company. Disregarding the above accounting adjustments, profit attributable to the shareholders of the Company would have been RMB118,636,000, an increase of approximately 1.36 times over last year on a similar basis.

BUSINESS DEVELOPMENT

The principal activities of the Group are the mining, cleansing and processing of metal minerals, and the management and operation of a toll highway. During 2007, the Mining Operations realised an operating revenue of RMB236,400,000, an increase of 192% over last year, accounting for 80.4% of the Group's total turnover. Since the Group's entry into the metal mineral industry in 2006, the operating size, profitability and share of the Group's revenue of the Mining Operations have achieved steady growth, with emerging development prospects and sound returns to the Company.

In order to further enlarge the operating size and enhance the competitiveness of the Mining Operations, the Company has undertaken a number of acquisition of mining projects during 2007. Acquisitions of the minority interests in three mining subsidiaries of the Company and the Shaanxi Daqian mining project were completed during 2007. Completion of the Weng Qi Acquisition was also consummated in March, 2008. At present, the Hong Ling Transactions are progressing smoothly. The Directors of the Company believe that such newly acquired mining projects will further increase the Group's mining resource bank, enhance the operating size and profitability of the Group's Mining Operations and laid a sound foundation for the Group's sustainable development.

Chairman's Statement

PROSPECTS

Looking forward, we believe the Group will benefit from a continuous robust growth of China's economy and the increasing buoyant demand for base metals, such as lead and zinc, due to the unsustainable nature of mineral resources. Hence, we are expecting a fruitful return for the Company from the Group's Mining Operations. In the meantime, the Company has also formulated a long-term development plan, with a clearly-stated operating strategy focusing on mining project investments. On one hand, the Company will endeavour to expand its existing exploration and mining efforts in further promoting production capacity, increasing production size, implementing technical renovations, upgrading craftsmanship and productivity. On the other hand, we will continue to proactively seek for opportunities to invest in metals mining projects with rich reserves and high yields in order to expand the Company's investment portfolio effectively and to add new streams of income sources so as to bring better returns for investors.

APPRECIATION

Finally, I would like to take this opportunity to express my gratitude to the Directors, management personnel and all staff for their unfailing contributions to the development of the Group. Likewise, I would like to express my appreciation to the shareholders for their support. The Group is fully committed to do its best to bring better returns to the shareholders.

By Order of the Board
Hu You Lin
Chairman

Hong Kong, 18th April, 2008

Management Discussion and Analysis

FINANCIAL HIGHLIGHTS

The Group recorded an operating revenue of RMB293,960,000 in the year ended 31st December, 2007 ("Period"), representing an increase of approximately 59% over RMB184,628,000 in the corresponding period of last year. Gross operating profit amounted to RMB158,060,000, representing an increase of approximately 60% as compared to RMB98,582,000 in the corresponding period of last year.

As a result of the one-off impact of accounting adjustments, the audited profit attributable to the equity holders of the Group for 2007 amounted to RMB7,571,000, representing an decrease of approximately 27% compared to the corresponding period of last year and basic earnings per share amounted to RMB2.8 cents.

Excluding the impact of the accounting adjustments set out below and relevant minority interests, the profit attributable to the equity holders should be RMB118,636,000, representing an increase of 1.36 times over RMB50,205,000, the profit attributable to equity holders in the corresponding period of last year without taking into account of the impact of the corresponding adjustments.

The Group made two significant accounting adjustments during the Period. Firstly, regarding the convertible bonds in the amount of HK$75,000,000 issued to Feilong Holdings Limited by the Company on 23rd June, 2006, due to the increase in the price of the shares of the Company and other factors, the fair value of such convertible bonds recorded a net increase of RMB71,504,000 (gain on redemption of convertible bonds amounted to RMB30,104,000 net-off with loss from fair value changes of convertible bonds' embedded derivatives amounted to RMB101,608,000) according to the valuation carried out by a valuer. As required by the Hong Kong Accounting Standards, such change in fair value shall be recorded as losses for the current period. Secondly, in the valuation of the Company's mining rights, the income tax rate of 15% was originally applied in the calculation of the deferred tax. However, with the new enterprise income tax law in the PRC promulgated on 16th March, 2007, the income tax will be adjusted to the rate of 25% for certain subsidiaries from 1st January, 2008. Therefore, the Company made accounting adjustments

Management Discussion and Analysis

for the amount of deferred tax, resulting in an increase in the Company's income tax expenses of RMB56,574,000 (before deducting minority interests RMB17,013,000). The directors of the Company (the "Directors") considered such accounting adjustments will not materially affect the normal production and operation of the Group, because the above accounting adjustment were recorded as a one-off accounting adjustments and all of the convertible bonds issued by the Company were redeemed and converted during the Period.

DIVIDENDS

The Board did not recommend the payment of a final dividend for the Period.

BUSINESS REVIEW

Overview

The Group is principally engaged in the mining as well as cleansing and processing of metal minerals, and the operation of a toll road. During the Period, the mining operations of the Group ("Mining Operations") realised an operating revenue of RMB236,400,000 with an operating profit of RMB124,895,000, which represented a segment profit of RMB102,678,000 for the Mining Operations after deducting the amortisation charges of mining rights of RMB22,217,000. The toll road operations ("Toll Road Operations") recorded a net operating revenue of RMB57,560,000 and a segment profit of RMB15,527,000. During the corresponding period of last year, the Group was mainly engaged in the operation of two toll roads and Mining Operations commenced from June last year.

Mining Operations

During the Period, the Mining Operations recorded an operating revenue of RMB236,400,000 with a gross profit of RMB150,765,000 and gross profit margin of approximately 64%. The ores extracted during the Period amounted to 552,391 tons with a unit mining cost of approximately RMB75 per ton (the corresponding period of last year: RMB66 per ton) and a unit processing cost of approximately RMB67 per ton (the corresponding period of last year: RMB98 per ton). The Mining Operations included the processing of such metal ore concentrates as zinc ore concentrates of 9,645 metal tons, lead ore concentrates of 4,172 metal tons, silver of 3,162 kilograms and iron ore concentrates of 69,434 tons, as well as the direct sales of oxidized zinc ores of 3,263 tons. During the Period, the metal ore concentrates were sold at an average price of RMB16,786 per metal ton for zinc ore concentrates, RMB18,388 per metal ton for lead ore concentrates (with silver content), and RMB517 per ton for iron ore concentrates.

During the Period, both Baoshan Feilong Nonferrous Metal Co., Ltd. ("Baoshan Feilong") and Yaoan Feilong Mining Co., Ltd. ("Yaoan Feilong") expanded the production capacity of their plants. Yaoan Feilong built an additional processing plant with a daily processing capacity of 600 tons, which commenced production in March 2007; while Baoshan Feilong upgraded its processing plant with a daily processing capacity of 500 tons, which also commenced production in April 2007, and will steadily achieve the planned production capacity. On 10th May, 2007, Tengchong Ruitu Mining and Technology Limited ("Tengchong Ruitu") completed the acquisition of the Ruilong plant which originally processed ores for Tengchong Ruitu and made investment in upgrading the technology and enhancing the capacity of the plant. Currently, the project is still in progress and its completion will further enhance the self-operation of Tengchong Ruitu. The newly explored mine No.10 will soon commence production, which will substantially boost the daily ores production capacity.

Management Discussion and Analysis

However, the Mining Operations have also encountered certain challenges. On one hand, the daily production process was partly affected by the realization of improvements and acquisition of projects, which led to certain negative influences on the production volume of the Period. On the other hand, the production operations suffered certain unexpected difficulties. In particular, the production of the Tengchong Ruitu mines, which was successfully acquired only by the end of 2006, was not able to operate smoothly and failed to meet the expected production target in 2007 due to a number of factors. However, the Directors considered that such impacts were temporary and some of which are problems usually encountered during optimization of newly acquired projects, which have been resolved at present. As the production operations of mines are running normally at present, the future development of the Mining Operations shall not be adversely affected.

Toll Road Operations

The Wen An Section of the National Highway 106 in Hebei Province (the "Wen An Section"), located in Langfang, Hebei, and in the proximity to Beijing, has a toll collection station at Wen An. Annual average daily traffic (AADT) reached 16,045 during the Period while the operating revenue achieved RMB57,560,000, which represented an approximately 7% increase over RMB53,897,000 in the corresponding period of last year. Steady vehicle flows and toll revenues were recorded and it is expected that the Toll Road Operations will continue to develop steadily in the future.

The Wen An Section has also implemented a computer-aided toll fee and control system to effectively uphold the standard of the Toll Road Operations. No adjustment was made to the toll fee for the Wen An Section during the Period. Regular maintenance and repair works were carried out on the Wen An Section to maintain the quality of the road during the Period. However, no large-scale maintenance works have been carried out.

Acquisition of Additional Equity Interests in the Feilong Mining Project

On 28th June, 2007, the Company completed the acquisition of the additional equity interests in three subsidiaries, namely Baoshan Feilong, Yaoan Feilong and Puer Feilong Mining Co., Ltd. (the "Feilong Mining Project"). The consideration for such acquisition was HK$250,000,000, which was mainly funded by a 5 years' term loan from a licensed bank in Hong Kong. Such acquisition recorded a gain on discount of RMB17,942,000. Accordingly, except for the 8.5% equity interests in Baoshan Feilong that remained to be held by a minority shareholder, the Group owned the remaining 91.5% in Baoshan Feilong and 100% equity interests in each of Yaoan Feilong, Puer Feilong Mining Co., Ltd. and Tengchong Ruitu, the five mines of which are under production operation.

Management Discussion and Analysis

Acquisition of Shaanxi Daqian Mining Project

On 28th December, 2007, the Company completed the acquisition of 100% equity interest in Zhen'an County Daqian Mining Development Co., Ltd. in Shaanxi ("Daqian Mining"). Daqian Mining holds interest in the mining rights in Dagou Lead and Zinc Mine of Zhen'an County. The ore body of such mining site is expected to comprise an ore reserve of 3,914,300 tons. Contained lead and zinc resource is approximately 154,386 tons. Acquisition consideration of HK$120,000,000 was settled by cash in full, which was mainly funded by the Group's internal resources and proceeds from placing of shares of the Company. Due to the fact that the period between the completion date of such acquisition to the year end date is very short, this project has no significant impact on the operating revenue and operating profit of the Group.

Inner Mongolia Acquisitions

In addition, the Group has also carried out Weng Qi acquisition and Hong Ling transactions for the acquisition of exploration and/or mining rights of mines located in Inner Mongolia during the Period (details set out in the announcement and circular of the Group dated 30th November, 2007 and 5th February, 2008 respectively). The above acquisitions have been approved in general meeting of the shareholders of the Company. Weng Qi acquisition has been completed on 31st March, 2008 and completion of the Hong Ling transactions is being arranged and has not taken place.

Prospect

The Group is committed to raising production capacity of its existing mines and enhancing its mining and exploration efforts in its mining sites. Processing plants of Baoshan Feilong and Yaoan Feilong completed expansion on schedule during the Period, which will effectively increase the production capacity of its existing mines. Tengchong Ruitu is actively exploring new mines and carrying out its construction works as scheduled so as to increase the mining capacity of the Tengchong site. The project on the technical reconstruction and expansion of the production capacity of the newly acquired processing plant is in progress, and the processing capacity and recovery rate of the plant will be boosted significantly upon completion. Daqian Mining's mines possess rich mineral resources, but the daily processing capacity of its original plant is only 200 tons per day. The new processing plant of the Company is under construction with a view to enhance the production scale in near future.

Weng Qi acquisition and Hong Ling transactions will further increase the Group's metal ore reserve, enhance its metal ore production capacity and strengthen its competitiveness in the mining and exploration industry. Weng Qi Mines, of which the Company acquired the exploration and mining rights through Weng Qi acquisition, are equipped with abundant lead and zinc ore resources and also a satisfactory production environment and are thus qualified for a large scale production. At present, the companies acquired under the Weng Qi acquisition (being the subsidiaries of the Company) have two processing factories of production scale of 2,500 tons and 500 tons per day respectively. Further, since operation has commenced a few years ago, the companies acquired under the Weng Qi acquisition have accumulated considerable experience particularly in handling largescale processing and extraction of metal ores. Hong Ling Mine is equipped with multi-metal ores of a relatively high quality. The Hong Ling Mine is regarded as rare both in terms of its relatively large size and the quality of metal ores located therein. As mining activities have been carried out for a considerably long time at the Hong Ling Mine, it is already equipped with an experienced management and technical team for the extraction and processing of metal ores therein. At present, the facilities to cater for the expansion plan to increase the production scale to 1,500 tons per day have been implemented. After the completion of the Hong Ling transactions (which is currently being arranged), the Hong Ling Mine shall be the major mining site of the Group. The Directors expected that the Weng Qi acquisition and Hong Ling transactions would bring desirable returns to the Group.

Management Discussion and Analysis

The Directors believe that the demand for lead, zinc and iron will be considerable in view of the rapid growth of the PRC economy and the expected growth in the consumption of lead, zinc and iron in the PRC. As the production capacity of metal smelting has been increasing, the demands for metal ore concentrates are expected to increase rapidly. In light of fact that the gross margin for ore concentrates of lead, zinc and iron are relatively high, the Directors believe that the Mining Operations will yield promising returns for the Group. The Group will continue to look for opportunities to acquire metal mines with abundant ore resources, high returns and competitive prices so as to further diversify its investment portfolio and to secure higher returns for its shareholders. On the other hand, the pace of Toll Road Operations' growth is relatively slow, and the cost of repair and maintenance works may also increase gradually as a result of prolonged hours of highway usage, thus affecting the investment returns for the Toll Road Operations.

FINANCIAL POSITION

Liquidity and Financial Resources

As at 31st December, 2007, the Group's current assets were RMB189,604,000 (2006: RMB121,065,000), of which RMB128,952,000 (2006: 102,094,000) were cash at hand. As at 31st December, 2007, the net asset value of the Group amounted to RMB792,828,000, representing approximately 6% decrease as compared with RMB842,033,000 in 2006. The gearing ratio (total liabilities/total assets) of the Group was approximately 48% (2006:35%). The increase in liabilities is mainly due to new bank borrowings of HK$285,000,000 for funding acquisitions and operation requirements, the issue of promissory notes of HK$69,330,000 for the redemption of the convertible bonds, and an increase in deferred taxation liabilities of RMB88,308,000 over the corresponding period of last year.

As at 31st December, 2007, the share capital of the Company was RMB31,208,000 (2006: RMB25,976,000). The increase in share capital is mainly due to the issue of 22,450,000 new shares and 33,333,333 convertible bonds shares. The Company's reserve was RMB648,606,000 (2006: RMB456,055,000). The minority interests decreased by RMB246,988,000 subsequent to the Group's acquisition of additional equity interests in Feilong Mining Project as compared to last year. As at 31st December, 2007, the Group had total current liabilities of RMB149,882,000 (2006: RMB118,997,000), mainly comprising bank borrowing, the promissory notes and other payables. The total non-current liabilities of the Group amounted to RMB591,214,000 (2006: RMB327,601,000), mainly including bank borrowing and such promissory notes having maturity over one year, as well as deferred tax liabilities.

The Group's monetary assets, liabilities and transactions are mainly denominated in Renminbi, Hong Kong dollars and US dollars. During the Period, most of the transactions were denominated and settled in Renminbi. The Group believes that its exposure to exchange rate risk is minimal. The Group recorded an exchange gain amounting to RMB25,948,000 during the Period due to the appreciation of Renminbi.

CONTINGENT LIABILITIES AND CHARGE ON THE GROUP'S ASSETS

As at 31st December, 2007, except for the guarantees and charges in the amount of HK$360,000,000 provided to Industrial and Commercial Bank of China (Asia) Limited by the Group, the Company did not have any guarantees and charges nor any other material contingent liabilities.

Management Discussion and Analysis

EMPLOYEE AND REMUNERATION POLICY

As at 31st December, 2007, the Group had a total of approximately 1,975 employees in Hong Kong and the PRC, engaged in management, administration, toll collection functions and mining. The management reviewed the remuneration policy regularly on the basis of performance and experience of the employees as well as the prevailing industry practice. Social insurance contributions were made by the Group for its PRC employees in accordance with the relevant PRC regulations. Insurance and mandatory provident fund schemes are also maintained for its Hong Kong staff. During the Period, the Group provided various training courses on relevant business or skills for its management and staff at different levels. The Group did not experience any major difficulties in recruitment, nor did it experience any material loss in manpower or any material labour dispute.

REPURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

On 5th January, 2007, the Company repurchased 1,314,000 ordinary shares of the Company at an average price of approximately HK$3.52 per share, and the aggregate amount that shall be paid was HK$4,620,840. These shares were all repurchased through the Stock Exchange. Apart from that, neither the Company nor any of its subsidiaries repurchased, sold or redeemed any of the shares of the Company during the Period.

THE CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Group complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules throughout the Period, except that the Chairman of the Board was unable to attend the annual general meeting of the Company held in 2007 which deviates from code provision E.1.2, but one of the executive Directors of the Company was present to chair such meeting.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by the Directors of the Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules. All the Directors of the Company, in response to specific enquiries made by the Company, confirmed that they complied with the requirements set out in the Model Code throughout the Period.

AUDIT COMMITTEE

The Company's audit committee currently comprises Mr. Cai Chuan Bing, Ms. Leung Mei Han (both being independent non-executive Directors) and Mr. Qi Guang Ya (being a non-executive Director). Its duties include reviewing all matters relating to the scope of audit, such as the financial statements and internal control, with an aim to safeguard the interest of the shareholders of the Company. At a meeting held on 18th April, 2008, the audit committee reviewed the accounting principles and practices adopted by the Group, the annual results of the Group for the Period, the 2007 audited annual financial report and the connected transactions carried out by the Group during the Period, and discussed matters relating to audit, internal control and financial reporting with the management.

REMUNERATION COMMITTEE

The Company has set up with written terms of reference a remuneration committee, whose members are currently Mr. Cui Shu Ming, Mr. Cai Chuan Bing (both being independent non-executive directors) and Mr. Dong Li Yong (being an executive director). Regular meetings were held by the committee, which reviewed and discussed on the related matters of the remuneration policy, remuneration levels and the remuneration of executive.

Corporate Governance Report

The Company, as a listed company in Hong Kong, is committed to enhancing its corporate governance level. The board of directors (the "Board") and the management of the Company understand that they are responsible for the formulation and strict implementation of a sound corporate governance structure and code, so as to improve the accountability system and transparency of the Company, protect the interests of and create value for shareholders.

The Board considered that the Group has adopted and complied with all the code provisions of the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to the Listing Rules, save for the departure from Code provision E.1.2. as the Chairman of the Board was unable to attend the annual general meeting of the Company held on 27th June, 2007 due to business reasons (but one of the executive Directors of the Company was authorised by the Chairman to chair the meeting on his behalf).

The status of the Company's compliance with the Code during 2007 and (if applicable) up to the date of this report is set out below.

A. DIRECTORS

A.1 The Board

Pursuant to the Code, an issuer should be headed by an effective board of directors which should assume responsibility for leadership and control of the company and be collectively responsible for promoting the success of the company by directing and supervising the company's affairs. Directors should make decisions objectively in the interests of the Company.

The Board is committed to improving the governance system of the Company and is ultimately responsible for formulating and implementing strategies and the operating results of the Company. The main duties of the Board include:

1) to determine the strategies, objectives, policies and business plans of the Company and monitor the implementation of the strategies of the Company;

2) to monitor and control the operating and financial performance of the Company and establish appropriate risk management policies and procedures to ensure the implementation of the Company's strategic objectives;

3) to supervise the performance of the senior management and determine their remuneration; and

4) to perfect the corporate governance structure and facilitate communication with shareholders.

The Company has established internal guidelines to clarify matters which require approval of the Board. Under the guidelines, the Board's approval is required for significant financing programmes of the Company, such as investment plans, merger and acquisition or disposal of major assets, major capital expenditure and external borrowings.

The Board has set up two standing committees, namely, the audit committee (the "Audit Committee") and the remuneration committee (the "Remuneration Committee") with specific duties, power and written terms of reference. The chairman of each committee reports to the Board regularly and advises on matters for discussion when necessary.

Corporate Governance Report

Attendance of each of the directors of the Company to meetings of the Board and each of the committees during 2007 was set out as follows:

		Board	Audit Committee	Remuneration Committee
Number of meetings held		12	2	3
Attendance	Hu You Lin	3		
	Dong Li Yong	12		3
	Chen Gang	4		
	Qi Guangya	11	2	
	Liu Xiaoguang	11		
	Cai Chuan Bing	8	2	3
	Leung Mei Han	8	2	
	Cui Shuming	11		3
	Han Runsheng	10		

The Board and each of the committees adopted the principles, procedures and arrangement set out in Code provisions A.1.1 to A.1.8 under the Code, without deviation.

A.2 Chairman and Chief Executive Officer

Pursuant to the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual so as to ensure a balance of power and authority and that power is not concentrated in any one individual.

The functions of the Chairman and the chief executive officer of the Company ("Chief Executive Officer") are clearly segregated. The Chairman of the Board, Mr. Hu You Lin, is responsible for providing leadership for the Board. His main responsibility is to ensure that the Board works effectively and that good corporate governance practices and procedures are established and followed. The Chairman is also responsible for ensuring that appropriate steps are taken to provide effective communication with the shareholders and that the views of shareholders are communicated to the Board as a whole.

The present Chief Executive Officer of the Company, Mr. Dong Li Yong, is responsible for managing the business operations and general operation of the Company, implementing significant strategies of the Board and making decisions regarding daily operations of the Company.

There is no relationship (whether financial, business, family and other material/relevant relationship) among the members of the Board of the Company (including between the Chairman and the Chief Executive Officer).

There was no deviation from Code provisions A.2.1 to A.2.3 under the Code.

A.3 Board composition

Pursuant to the Code, the board of directors should have a balance of skills and experience appropriate for the requirements of the business of the company. A board of directors should include a balanced composition of executive and non-executive directors so as to ensure the independency of the board. The board of directors must include at least three independent non-executive directors, and it is suggested in the Code that independent non- executive directors should represent at least one-third of the board.

Corporate Governance Report

The Board comprises 9 members, of whom 3 are executive directors, 2 are non-executive directors and 4 are independent non-executive directors.

At present, details of members of the Board and committees of the Company are as follows:

Name	Office	Audit Committee	Remuneration Committee
Hu You Lin	Executive director/Chairman		
Dong Li Yong	Executive director/Vice Chairman		√
Chen Gang	Executive director		
Qi Guangya	Non-executive director	√	
Liu Xiaoguang	Non-executive director		
Leung Mei Han	Independent non-executive director	√	
Cui Shuming	Independent non-executive director		√ (Chairman)
Cai Chuan Bing	Independent non-executive director	√ (Chairman)	√
Han Runsheng	Independent non-executive director		

The Company also maintains on its website (www.yueda.com.hk) an updated list of its directors identifying their roles and functions and whether or not they are independent non-executive directors.

Each member of the Board, with different backgrounds and possessing different expertise, has extensive experience in corporate planning and operation management, capital market, financial accounting, auditing, geology and so forth. There are 4 independent non-executive Directors in the Company at present, representing more than one-third of the Board. The number of independent non-executive directors in the Board is in line with the recommended best practices under Code provision A.3.2 under the Code. The biographical details of the members of the Board are disclosed on pages 21 to 23 of this annual report.

There was no deviation from Code provisions A.3.1 under the Code.

A.4 Appointment, re-election and removal

Pursuant to the Code, there should be formal, due consideration and transparent procedures for the appointments of new directors to the board. There should be plans for orderly succession of board appointments. All directors should be subject to re-election at regular intervals.

The Company has adopted measures for the nomination of directors to ensure the transparency of appointment and re-election processes of directors and evaluate the efficiency of the Board and the contribution of each director to the Board. According to the nomination measures, a director has to be nominated by the Board and shareholders severally or jointly holding the shares required by the Articles of Association and his/her election has to be approved in general meeting other than those elected by the Board to fill casual vacancy. A candidate must consent with such nomination. The proposer shall fully understand the basic information of the nominee, including his occupation, academic qualification, position and detailed work experience, and provide written materials to the Company in such regard. The proposer of independent non-executive directors shall also express his opinions on the qualification and independence of the candidate as an independent non-executive director, and the nominee shall declare that he does not have any relationship with the Company which may affect his independent and objective judgment. The Company shall disclose detailed information of the candidate before convening the general meeting to ensure that shareholders have full understanding about the candidate. The candidate should provide a written confirmation prior to the

Corporate Governance Report

general meeting that he accepts the nomination and undertakes the information disclosed about him is true, accurate and complete and warrants that he will duly perform his duties as a director upon his appointment. On expiry of a term of office of a director, the Board will consider his nomination for re-election after taking into account of the then business development requirement of the Company, performance of the relevant director in achieving designated objectives during his term, his dedication and commitment and performance in other material aspects.

The above nomination measures have also provided for the qualifications of a directorship candidate, including but not limited to, the expertise, skills and quality in modern corporate management, finance and law which are necessary for the candidate to perform his duties, understanding of the corporate operating rules under the market economy conditions and upholding of the principle of maximization of interests of the Company and the shareholders as a whole. The candidate should ensure that he can devote sufficient time and attention to discharging his duties during his term of office, to carefully review and consider all the business and financial reports of the Company and material news reports regarding the Company by public media and to understand and continually care for the business operation and management of the Company. The candidate should also ensure that he is, in principle, able to attend Board meetings in person, to exercise in a reasonably careful and dedicated manner and to clearly express his opinions on the matters for discussion. Candidate for the post of an independent non-executive director shall also possess the independence required by the Listing Rules, the basic knowledge of the operation of a listed company, extensive working experience in operation management, economic research, teaching, legal or financial fields and shall ensure that he can devote sufficient time and attention to discharging his duties as a director of the Company.

On 2nd January, 2007, Mr. Qian Jin Biao (the then executive director), Mr. Pan Wan Qu and Mr. Shen Xiao Zhong (the then non-executive directors), and Mr. Yu Zheng Hua and Ms. Yu Chor Woon, Carol (the then independent non-executive directors of the Company), resigned from the offices of directors of the Company. Concurrently, according to the procedures required by the nomination measures and the qualifications and criteria of the nominees, the Board nominated and appointed Mr. Chen Gang as an executive director, Mr. Qi Guangya and Mr. Liu Xiaoguang as non-executive directors and Ms. Leung Mei Han, Mr. Cui Shuming and Mr. Han Runsheng as independent non-executive directors. Save for the above, the Board did not nominate or appoint any other new directors.

Mr. Hu You Lin, an executive director and Chairman of the Board, entered into a service agreement with the Company for a term of two years with effect from 1st November, 2006. Each of Mr. Dong Li Yong and Mr. Chan Gang, executive directors, entered into a service agreement with the Company for a term of two years with effect from 2nd January, 2007. Mr. Qi Guangya and Mr. Liu Xiaoguang have been appointed as non-executive directors and Ms. Leung Mei Han, Mr. Cui Shuming and Mr. Han Runsheng have been appointed as independent non-executive directors for a term of two years with effect from 2nd January, 2007.

Pursuant to Article 108 (A) of the Articles of Association of the Company, one-third of the members of Board of the Company (including executive, non-executive and independent non-executive directors) shall retire by rotation and be eligible for re-election at the forthcoming annual general meeting. Accordingly, three directors shall retire by rotation and may offer themselves for re-election at the 2007 annual general meeting and the relevant resolutions shall be tabled for approval.

There was no deviation from Code provisions A.4.1 and A.4.2 under the Code.

Corporate Governance Report

A.5 Responsibilities of directors

Pursuant to the Code, every director is required to keep abreast of his responsibilities as a director of a company and of the conduct, business activities and development of the company. Non-executive directors shall have the same duties of care and skill and fiduciary duties as executive directors.

Every newly-appointed director of the Company received a comprehensive, formal and tailor-made introduction on the first occasion of his appointment to ensure that he has a proper understanding of the operations and business of the Company and that he is fully aware of his responsibilities under the relevant statutes and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company.

The Company has in place a set of written guidelines for trading in the Company's securities by employees which provide strict requirements in respect of trading in the Company's securities conducted by its employees and are more stringent than the standards contained in the Model Code for Securities Transactions by directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code"). In addition, the Company notified all directors, senior management and relevant employees to follow such guidelines a month prior to the publication of the 2007 annual results.

Having made specific enquiries of all directors, the directors confirmed that they had complied with the Model Code and the written guidelines for trading in the Company's securities by employees.

The Company encouraged the directors of the Company to participate in the continuous professional development programme to develop and update their knowledge and skills to ensure that they are equipped with all the information and can continue to contribute to the Board when required. The Company is responsible for the costs of such programme.

The Company invited its non-executive directors and/or independent non-executive directors to act as members of the Audit Committee and the Remuneration Committee and to contribute by providing independent and constructive opinions to the Company.

There was no deviation from Code provisions A.5.1 to A.5.4 under the Code.

A.6 Supply of and access to information

Pursuant to the Code, directors should be provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as directors.

In respect of regular Board meetings and Committee meetings, the Company adopts the policy of giving 14-day-notice prior to the intended date of meeting, and sending in full an agenda and the relevant documents to all directors at least 3 days before the meeting so that the directors can understand the matters to be discussed.

Corporate Governance Report

All directors are eligible to have access to relevant materials for Board Meetings. The management has an obligation to supply the Directors with complete and reliable information regarding the matters or subjects for discussion and explain the situations to the Board to enable them to make informed decisions. The management should also update the Board with the latest development of the Company in a timely manner, including information disclosure, investor relations activities and capital market performance.

The Company has also set up internal procedures so that each Director can have separate and independent access to the senior management as appropriate. All directors are eligible to make further enquiries in respect of the business development of the Company.

There was no deviation from Code provisions A.6.1 to A.6.3 under the Code.

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

B.1 Level and structure of remuneration

Pursuant to the Code, an issuer should disclose information relating to its directors' remuneration policy and other remuneration related matters. There should be a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration packages for all directors. Levels of remuneration should be sufficient to attract and retain the directors required to run the company successfully, but companies should avoid paying more than is necessary for this purpose. No director should be involved in deciding his own remuneration.

The Board has established the Remuneration Committee. As a standing committee of the Board, the Remuneration Committee is mainly responsible for supervising the remuneration policy of the Company, determining the level of remuneration of executive directors and senior management and evaluating the performance of executive directors. From 2nd January, 2007, the members of the Remuneration Committee comprised Mr. Dong Li Yong, executive director, and Mr. Cui Shuming and Mr. Cai Chuan Bing, independent non-executive directors, with Mr. Cui Shuming as the Chairman of the Committee.

The main duties of the Remuneration Committee include:

(1) to make recommendations to the Board on the policy and structure of the Company for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

(2) to determine the specific remuneration packages of all executive directors and senior management, including any benefits-in-kind, pension rights, incentive payments and any compensation payable for loss or termination of office or appointment, and make recommendations to the Board on the remuneration of non-executive directors;

(3) to evaluate the performance of executive directors, review and approve performance-based remuneration as well as approving terms and conditions of executive directors' service contracts by reference to corporate goals and objectives resolved by the Board from time to time;

(4) to review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms;

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(5) to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that the compensation payment is reasonable and appropriate.

The Remuneration Committee held three meetings during 2007. The Remuneration Committee has reviewed the remuneration policy and structure and performance evaluation system of the Group, made recommendations regarding directors' fees and the remuneration level of the senior management to the Board, discussed the execution of the share option scheme of the Company.

The remuneration of the Directors and senior management of the Company comprises three sections, namely, basic salaries, year-end bonuses and share options. The Company will consider the annual results of the Company and individual performance in determining the bonuses of executive directors and senior management. The Company also offers a share option scheme, which aims at retaining valuable talents and ensuring executive directors, senior management and the employees share the same benefits as shareholders.

Details of the directors' remuneration of the Company and the share option scheme are disclosed in notes 9 and 29 to the financial statements in this annual report.

There was no deviation from Code provisions B.1.1 to B.1.5 under the Code.

C. ACCOUNTABILITY AND AUDIT

C.1 Financial reporting

Pursuant to the Code, a board of directors should present a balanced, clear and comprehensible assessment of the company's performance, position and prospects.

The Directors of the Company understand its responsibilities for the preparation of the financial statements for each financial period which give a true and fair view of the operation and financial position of the Company.

In preparation of the financial statements for 2007, the directors of the Company:

(1) have applied appropriate accounting policies.

(2) have made reasonable judgment and estimate on a going concern basis.

(3) have acknowledged their responsibilities in preparing the accounts.

There was no departure from Code provisions C.1.1 to C.1.3 under the Code.

C.2 Internal controls

Pursuant to the Code, a board of directors should ensure that the company maintains sound and effective internal controls to safeguard shareholders' investment and company's assets.

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The Board has conducted periodic review on the efficiency of the Group's internal control systems, including financial, operation and compliance control and risk management procedures. The Board authorised the financial controller of the Company to set up the scope of review and work timetable of the internal control system under the supervision of the Audit Committee, to seek help from a qualified international or Hong Kong accounting firm in respect of the designated scope as deemed necessary by the Audit Committee, to engage an external accounting firm to assist in reviewing the internal control system within the budget approved by the Board and to report the contents and results of such review to the Board and shareholders. The Company has not set up a specialised internal control department yet, but it has required its financial department to specifically take up the responsibility of reviewing the internal control system of the Group. The Board believes that the Group is responsible to improve the internal control system continuously in order to give heed to the risk of the deficiency in the operating system, if any, with an aim to achieve the Group's objectives.

There was no deviation from Code provision C.2.1 under the Code.

C.3 Audit Committee

Pursuant to the Code, a board of directors should establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors. The audit committee established by an issuer pursuant to the Listing Rules should have clear terms of reference.

The Board has established the Audit Committee. As a standing committee of the Board, the Audit Committee is mainly responsible for monitoring the completeness of the financial statements and regular reports issued by the Company and reviewing the financial control, internal control and risk management system of the Company. From 2nd January, 2007, the members of the Audit Committee comprised Mr. Cai Chuan Bing and Ms. Leung Mei Han, independent non-executive directors, and Mr. Qi Guangya with Mr. Cai Chuan Bing as the Chairman of the Committee.

The main duties of the Audit Committee include, but not limited to:

(1) to be responsible for making recommendations to the Board on the appointment, re-election and removal of the external auditor, to approve the remuneration and terms of engagement of the external auditor, and to handle any questions on resignation or dismissal of any relevant auditor;

(2) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

(3) to develop and implement policy on the engagement of an external auditor to supply non-audit services. The Audit Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;

(4) to monitor the integrity of the financial statements, annual report and accounts, and interim report and to review significant financial reporting opinions contained therein;

(5) to review the Company's financial control, internal control and risk management systems;

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(6) to discuss the internal control system with the management and ensure that management has discharged its duty in establishing an effective internal control system;

(7) to consider any findings of major investigations of internal control matters and management responses as delegated by the Board or on its own initiative;

(8) to review the Group's financial and accounting policies and practices;

(9) to review the external auditor's management letter to the management of the Company, any material queries raised by the auditor to the management in respect of accounting records, financial accounts or systems of control and management's response;

(10) to ensure that the Board will provide a timely response to the issues raised in the management letter from the external auditor to the management;

(11) to report to the Board on the matters set out in the Code; and consider other topics, as defined by the Board.

The Audit Committee held two meetings during 2007, at which the Audit Committee reviewed the annual report and interim report of the Company and matters relating the connected transactions and made recommendations to the Board, and reviewed the internal control system of the Company. The Board and the Audit Committee concurred in their opinions regarding the election and appointment of the external auditor.

In 2007, the fee paid by the Company to the external auditor, Deloitte Touche Tohmatsu, was HK$7,580,000 (including non-audit services, such as financial due diligence conducted in respect of acquisitions and disposals of operations and assets).

There was no deviation from Code provisions C.3.1 to C.3.6 under the Code.

D. DELEGATION BY THE BOARD

D.1 Management functions

Pursuant to the Code, a company should have a formal schedule of matters specifically reserved to the board for its decision. The board should give clear directions to the management as to the matters that must be approved by the board before decisions are made on behalf of the company.

The Board is principally responsible for formulating strategies, objectives, policies and business plans of the Company, supervising the implementation of strategies of the Company, supervising and controlling the operation and financial performance of the Company and formulating appropriate risk management policies and procedures in order to achieve the Group's strategic objectives. Moreover, the Board is also equipped with an effective corporate governance structure to facilitate communication with shareholders.

Corporate Governance Report

The Board authorized the management under the Chief Executive Officer's leadership to implement the strategies and plans established by the Board and make decisions on daily operations. However, the Board's approval is required for significant financing programs of the Company, such as, merger and acquisition or disposal of material assets, material capital expenditure and external borrowing. Management is responsible for reporting the operation and financial performance of the Company to the Board.

There was no deviation from Code provisions D.1.1 to D.1.2 under the Code.

D.2 Board committees

Pursuant to the Code, board committees should be formed with specific written terms of reference which deal clearly with the authority and duties of the committees.

The Company has prescribed sufficiently clear terms of reference to enable the two Board committees (i.e. the Audit Committee and the Remuneration Committee) to discharge their functions properly and require the two committees to report to the Board on their decisions or recommendations.

There was no deviation from Code provisions D.2.1 to D.2.2 under the Code.

E. COMMUNICATION WITH SHAREHOLDERS

Pursuant to the Code, a board of directors should endeavour to maintain an on-going dialogue with shareholders and, in particular, to communicate through annual general meetings with shareholders and encourage their participation. The company should regularly inform shareholders of the procedure for voting by poll and ensure compliance with the requirements about voting by poll contained in the Listing Rules and the constitutional documents of the company.

The Company, the Board and the management place high regard on the opinions and needs of shareholders. The Company attempts to enhance the communication with its shareholders through publishing interim and annual results and reports and press releases as well as announcing publicly its latest developments on its website (www.yueda.com.hk). Shareholders may also receive the latest information released by the Company electronically.

The annual general meeting of the Company is a communication channel between the shareholders with the Board members, including independent non-executive directors, and senior management. The Chairman of the Board and chairmen of each committee shall try their best to attend the meeting to answer questions raised by the shareholders.

During 2007, the Company held five general meetings (including the 2006 annual general meeting), at which a separate resolution was proposed in respect of each motion. The procedures for and the rights of shareholders to demand a poll and details of the proposed resolutions were disclosed in the circular sent to shareholders prior to each of the general meeting.

The Company also facilitates communication with the shareholders through various investor relations activities.

Save for the deviation from Code provision E.1.2 set out under paragraph 2 on page 11, there was no departure from Code provisions E.1.1 and E.2.1 to E.2.3 under the Code.

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. HU You Lin, aged 58, is the Chairman of the Board, an executive director and the founder of the Company. He is also the chairman of the board of directors of Jiangsu Yue Da Group Company Limited ("Jiangsu Yue Da") and Jiangsu Yue Da Investment Company Limited ("Yue Da Investment"). Mr. Hu is primarily responsible for the Group's overall strategic planning, and business development. He is a senior economist and a graduate of the Beijing Economics and Management Institute for Executives and holds a certificate in economics. Prior to the founding of the Group in 1991, Mr. Hu had substantial experience in the management of various government departments and enterprises. Mr. Hu was awarded the title of "National Model Labour" (全國勞動模範) by the State Council in 1995 and appointed as a visiting professor at the Central Party School of Communism (中共中央黨校) in 1997. He is also a member of the Ninth and the Tenth Session of the Chinese People's Political Consultative Conference (中國人民政治協商會議第九及第十屆全國委員會).

Mr. DONG Li Yong, aged 37, joined the Group in 1995. Mr. Dong has been an executive director of the Company since 2001. While remaining as an executive director of the Company, he also holds office of vice chairman of the Board and Chief Executive Officer of the Company. He is primarily responsible for the overall business operations of the Group focusing on strategic planning, business development, investors' relationship as well as corporate finance. He graduated from the People's University of China, Beijing in 1995 with a bachelor degree in economics, majored in marketing. In May 2005, Mr. Dong graduated from the Haas School of Business, University of California, Berkeley with a master degree in business administration. Mr. Dong is also a director of each of Yue Da Mining Limited and Yue Da Infrastructure Limited, all being subsidiaries of the Company.

Mr. CHEN Gang, aged 34, joined the Group in January, 2007 and is an executive director and deputy Chief Executive Officer of the Company. He is primarily responsible for project investments and human resources management. Mr. Chen is an economist in the PRC. He graduated from Hunan University in 2002 with a bachelor degree in finance. He has over 12 years' experience in finance and corporate management. Mr. Chen had been the master accountant, a customer service manager of the international department, a manager of the foreign exchange funds transaction department, and a chief trader of the Agricultural Bank of China, Jiangsu Branch. Mr. Chen had been a manager of the investment department and the financial controller of Chengdu Qianfeng Electronic Company Limited, the shares of which are listed on the Shanghai Stock Exchange.

SENIOR MANAGEMENT

Mr. LI Biao, aged 41, joined the Group in January, 2007 and is a vice president of the Company. He is primarily responsible for human resources and Yunnan mining project management. He graduated from Jiangsu Provincial Party Committee School with a postgraduate degree. He has over 20 years of experience in marketing and management. He was a lecturer of Yancheng Commercial College, Jiangsu Province, a supervisor to the Yancheng Provincial Committee Office as well as the chairman of the Industry and Commerce Bureau of Yancheng Economic and Development Zone.

Mr. Dong Guang Yong, aged 43, joined the Group in November 2007 and is a vice president of the Company. He is primarily responsible for project development, mining projects in Shaanxi and Inner Mongolia and road project management. He graduated from Huadong Polytechnic University with a master degree in engineering. He has over 10 years of experience in project development and corporate management. He was a lecturer of Yancheng Normal College, Jiangsu Province, head of the development section of the management committee of the Jiangsu Yue Da Development Zone, deputy managing director of Yancheng Yue Da Real Estate Company Limited and deputy division head, division head and secretary to the board of Yue Da Investment.

Biographical Details of Directors and Senior Management

Mr. QIAN Jin Biao, aged 37, is the qualified accountant, company secretary and financial controller of the Company. He is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and an associate member of the Association of Chartered Certified Accountants. He is also a certified public accountant and qualified lawyer in the PRC. He graduated from Nanjing University in 1995 with a bachelor degree in economics. He has over 10 years' experience in accounting, auditing and financial management. He joined the Group since the Company's listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in November 2001, and has been the financial controller of the Company. Mr. Qian was an executive director of the Company and resigned from his position in January 2007. He remains as the qualified accountant, company secretary and financial controller of the Company.

NON-EXECUTIVE DIRECTORS

Mr. QI Guangya, aged 38, joined the Group as non-executive director since January 2007. He is a senior accountant and a certified public accountant in the PRC and a senior international finance manager certified by International Finance Management Association (國際財務管理協會). He graduated from Jiangsu Provincial Party Committee School (江蘇省委黨校) with a postgraduate degree. He has over 18 years' experience in financial management. In 1991, Mr. Qi joined a subsidiary of Jiangsu Yue Da, and has been a director, chief accountant and deputy general manager of Jiangsu Yue Da.

Mr. LIU Xiaoguang, aged 54, joined the Group as a non-executive director in January 2007. He is a senior economist in the PRC. He graduated from Soochow University with a bachelor degree in jurisprudence. He has over 15 years' experience in corporate planning and management. In 1991, Mr. Liu joined Jiangsu Yue Da and had been an assistant to general manager, deputy general manager and secretary to the board of directors of Jiangsu Yue Da. At present, Mr. Liu is the chief secretary to the board of directors of Jiangsu Yue Da.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CAI Chuan Bing, aged 68, has been appointed as an independent non-executive director of the Company since 2001. Mr. Cai graduated from the Anhui Finance and Economics Institute (安徽財經學院), majored in accounting. He is a member of the Chinese Institute of Certified Public Accountants, a senior accountant in the PRC, and a member of the International Certified Internal Auditor Association. Prior to his retirement, Mr. Cai was the head of the audit bureau of the Ministry of Communications. He is currently vice chairman of the China Internal Audit Society (中國內部審計學會副會長) with extensive experience in auditing and accounting.

Ms. LEUNG Mei Han, aged 49, has been appointed as an independent non-executive director of the Company since January 2007. She is a fellow member of CPA Australia. She graduated from the University of Queensland with a bachelor degree in Commerce. Ms. Leung is the chairman and an executive director of Optima Capital Limited (a firm of corporate finance advisers and a licensed corporation under the Securities and Futures Ordinance). She has over 23 years' experience in accounting, securities, corporate finance and related areas. Ms. Leung is also an independent non-executive director of Bossini International Holdings Limited and Four Seas Mercantile Holdings Limited, the shares of which are both listed on the Main Board of the Stock Exchange.

Mr. CUI Shuming, aged 70, has been appointed as an independent non-executive director of the Company since January 2007. He is a senior economist in the PRC and graduated from the People's University of China. He has over 40 years' experience in international finance and corporate planning and management. Mr. Cui was deputy head of the Bank of China, Jiangsu Branch, and managing director of the National Commercial Bank Ltd. (浙江興業銀行) and the general manager of its Hong Kong branch. Mr. Cui was a director and deputy chief executive

Biographical Details of Directors and Senior Management

officer of CITIC Ka Wah Bank Limited (currently known as CITIC International Financial Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange), a non-executive director of Cheung Tai Hong Holdings Limited (currently known as ITC Properties Group Limited, the shares of which are listed on the Main Board of the Stock Exchange) and an independent non-executive director of Burwill Holdings Limited and Wah Sang Gas Holdings Limited, the shares of which are listed on the Main Board and the Growth Enterprise Market of the Stock Exchange respectively.

Mr. HAN Runsheng, aged 43, has been appointed as an independent non-executive director of the Company in January 2007. He graduated from the Kunming University of Science and Technology with a doctoral degree in mineral resource prospecting and exploration (礦產普查與勘探) and completed the post-doctoral fellowship at the Institute of Geochemistry of the Chinese Academy of Sciences (中國科學院地球化學研究所). Mr. Han was a researcher and tutor to doctoral degree candidates at the Kunming University of Science and Technology. Mr. Han was also the head of Southwest Geology Survey Centre of the Institute of Mineral and Geology Survey of Non-ferrous Metals (有色金屬礦產地質調查中心西南地質調查所所長) and a part-time professor at Southwest University of Science and Technology. In addition, Mr. Han is currently the Cross-Century Young Academic and Technical Leader of the Yunnan Province (雲南省跨世紀中青年學術和技術帶頭人) and the State-level candidate of the project of "Hundreds, Thousands, and Ten Thousands of Talents for the New Century" (新世紀百千萬人才工程) of the Ministry of Education. Mr. Han's major areas of research study are the research and teaching of the location forecasting of concealed ore-body, tectonic geochemistry, dynamic tectonic mineralization and mineral and geology survey.

COMPANY SECRETARY

Mr. QIAN Jin Biao, aged 37, has been appointed as the company secretary of the Company since September 2006. At present, Mr. Qian is also the qualified accountant and financial controller of the Company.

Directors' Report

The board of directors presents its annual report and the audited consolidated financial statements for the year ended 31st December, 2007.

CHANGE OF NAME

Pursuant to special resolutions passed at an extraordinary general meeting held on 15th November, 2007, the name of the Company was changed from Yue Da Holdings Limited to Yue Da Mining Holdings Limited.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its principal subsidiaries are engaged in (i) exploration, mining and processing of zinc, lead and iron; and (ii) management and operation of highway and bridge in the People's Republic of China (the "PRC").

During the year, the Group acquired further mining rights in the PRC. Details of the Group's acquisitions are set out in notes 31 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2007 are set out in the consolidated income statement on page 36.

The directors do not recommend the payment of a dividend.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past financial years is set out on page 104.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately RMB46,315,000 on property, plant and equipment.

Details of the above and other movements in the property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of the Company's share capital and movement thereof during the year are set out in note 28 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The amount of the Company's reserves available for distribution to shareholders which represent the share premium, contributed surplus and accumulated earnings as at 31st December, 2007 was RMB493,507,000.

Directors' Report

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Hu You Lin *(Chairman)*	
Mr. Dong Li Yong	
Mr. Chen Gang	(Appointed on 2nd January, 2007)
Mr. Qian Jinbiao	(Resigned on 2nd January, 2007)
Mr. Gao Yi Shan	(Resigned on 2nd January, 2007)

Non-executive directors:

Mr. Liu Xiaoguang	(Appointed on 2nd January, 2007)
Mr. Qi Guangya	(Appointed on 2nd January, 2007)
Mr. Shen Xiao Zhong	(Resigned on 2nd January, 2007)
Mr. Pan Wan Qu	(Resigned on 2nd January, 2007)

Independent non-executive directors:

Mr. Cai Chuan Bing	
Ms. Leung Mei Han	(Appointed on 2nd January, 2007)
Mr. Cui Shuming	(Appointed on 2nd January, 2007)
Mr. Han Runsheng	(Appointed on 2nd January, 2007)
Ms. Yu Chor Woon, Carol	(Resigned on 2nd January, 2007)
Mr. Yu Zheng Hua	(Resigned on 2nd January, 2007)

In accordance with Article 108(A) of the Company's Articles of Association, Mr. Chen Gang, Mr. Liu Xiaoguang and Mr. Cui Shuming will retire by rotation. Mr. Liu Xiaoguang and Mr. Cui Shuming will offer themselves for re-election at the forthcoming annual general meeting of the Company.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"). The Company considers all of the independent non-executive directors are independent.

DIRECTORS' SERVICE CONTRACTS

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The term of office of each of the non-executive directors and the independent non-executive directors is the period up to his/her retirement by rotation as required by the Company's Articles of Association.

Directors' Report

DIRECTORS' INTERESTS, UNDERLYING SHARES AND DEBENTURES OR ANY ASSOCIATED CORPORATION OF THE COMPANY

As at 31st December, 2007, the interests and short positions of each Director in the shares or underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he was deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Name	Name of the company/ associated corporation	Capacity	Number and class of securities (Note 1)	Approximate percentage of interest (Note 2)
Hu You Lin	The Company	Beneficial owner	1,980,000 ordinary Shares (L)	0.65%
	The Company	Beneficial owner	1,980,000 ordinary Shares (L) (Note 3)	0.65%
Dong Li Yong	The Company	Beneficial owner	1,796,000 ordinary Shares (L)	0.59%

Note:

1. The letter "L" represents the Director's interests in the Shares and underlying shares of the Company.

2. The percentage of issued share capital of the Company is calculated by reference to 304,231,333 shares in issue as at 31st December, 2007.

3. These Shares were Shares which would be allotted and issued upon the exercise in full of the options granted to Mr Hu You Lin on 26th September, 2005 under the share option scheme of the Company. These options, all of which remained exercisable as at the Latest Practicable Date, were exercisable at the subscription price of HK$0.53 per Share during the period from 12th October, 2005 to 25th September, 2015.

Save as disclosed above and in this annual report, as at 31st December, 2007, none of the Directors, chief executives or their related parties had any interests or short positions in any shares and underlying shares of the Company or any of its associated corporations.

Directors' Report

SHARE OPTIONS

The Company's share option scheme (the "Scheme") was adopted by a written resolution passed on 12th November, 2001 for the purpose of providing incentives or rewards to selected participants for their contribution to the Group and will expire on 11th November, 2011. Under the Scheme, the directors may, at their discretion, invite any person belonging to any of the following classes of participants to take up options to subscribe for shares of the Company:

(i) any employee or proposed employee (whether full time or part time) of the Company, any of its subsidiaries or any entity ("Invested Entity") in which the Group holds an equity interest, including any executive director of the Company, any of such subsidiaries or any Invested Entity;

(ii) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;

(iii) any supplier of goods or services to any member of the Group or any Invested Entity;

(iv) any customer of the Group or any Invested Entity;

(v) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;

(vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and

(vii) any other group or classes of participants from time to time determined by the directors as having contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group,

and, for the purposes of the Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants. For the avoidance of doubt, the grant of any options by the Company for the subscription of shares of the Company or other securities of the Group to any person who fall within any of the above classes of participants shall not, by itself, unless the directors otherwise determined, be construed as a grant of option under the Scheme.

The basis of eligibility of any of the above classes of participants to the grant of any options shall be determined by the directors from time to time.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the relevant class of securities of the Company in issue from time to time. The total number of shares in respect of which options may be granted under the Scheme and any other share option scheme of the Group is not permitted to exceed 10% of the shares of the Company in issue as at the date of adoption of the Scheme (i.e. on 12th November, 2001, the 10% limit being 20,000,000 shares of the Company), unless with prior approval from the Company's shareholders. In the annual general meeting of the Company held on 27th June, 2007, such 10% limit was approved to be refreshed and re-set at 28,358,133 shares of the Company, being 10% of the shares of the Company in issue as at the date of the said annual general meeting.

Directors' Report

The number of shares in respect of which options may be granted to any participant in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to directors, chief executives or substantial shareholders of the Company or any of their respective associates must be approved by independent non-executive directors of the Company (excluding any independent non-executive director who is the grantee of the options). Options granted to substantial shareholders or independent non-executive directors or any of their respective associates in the 12-month period up to and including the date of such grant in excess of 0.1% of the shares of the Company in issue and with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

The subscription price for shares under the Scheme shall be a price determined by the directors, but shall not be less than the higher of (i) the closing price of shares as stated in the Stock Exchange's daily quotations on the date of the offer for grant; (ii) the average closing price of shares as stated in the daily quotations of the Stock Exchange for the five business days immediately preceding the date of the offer for grant; and (iii) the nominal value of the shares.

Further particulars of the Company's share option scheme are set out in note 29 to the financial statements.

Details of movements during the year in the options granted by the Company under the Scheme are as follows:

Names and classes of the participants	Exercisable period	Exercise price per share HK$	Outstanding at 1st January, 2007	Granted during the year	Exercised during the year	Outstanding at 31st December, 2007 HK$	Closing price per share immediately before the date of grant
Directors of the Company:							
Mr. Hu You Lin	12th October, 2005 to 25th September, 2015	0.53	1,980,000	–	–	1,980,000	0.53
Mr. Pan Wan Qu (note)	12th October, 2005 to 25th September, 2015	0.53	510,000	–	(510,000)	–	0.53
Total for directors of the Company			2,490,000	–	(510,000)	1,980,000	
Other employees of the Company:							
In aggregate	12th October, 2005 to 25th September, 2015	0.53	1,290,000	–	(1,290,000)	–	0.53
	9th March, 2007 to 8th March, 2017	3.00	–	720,000	(500,000)	220,000	2.97
Total for other employees of the Company			1,290,000	720,000	(1,790,000)	220,000	
Other employees of the Company's subsidiaries:							
In aggregate	16th May, 2003 to 28th April, 2013	0.40	600,000	–	(150,000)	450,000	0.40
Total			4,380,000	720,000	(2,450,000)	2,650,000	

Note: Mr. Pan Wan Qu resigned on 2nd January, 2007.

Directors' Report

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the Company's share option scheme as disclosed above, at no time during the year was the Company, or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance, to which the Company, or any of its subsidiaries, holding companies or fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

Details of the discloseable connected transactions are disclosed in note 36 to the consolidated financial statements.

The following are the connected transaction and continuing connected transaction carried out during the year ended 31st December, 2007 and which are not exempt under Rule 14A.31 and Rule 14A.33 respectively of the Listing Rules.

1. The acquisition set out under the paragraph headed "Acquisition of Additional Equity Interests in the Feilong Mining Project" in the management discussion and analysis section of this annual report and early redemption of convertible bonds

Given that Feilong Holdings is ultimately beneficially owned by Mr Yang and that he is a director of each of the subsidiaries in which additional interest was then being acquired, such acquisition (the agreement of which was dated 11th April, 2007 and entered into between, among others, Feilong Holdings and Yue Da Mining Limited, a wholly owned subsidiary of the Company) constituted a non-exempt connected transaction, which is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Such acquisition was proceeded as it is in line with the business strategy of the Group. Details of such acquisition are set out in the circular of the Company dated 1st June, 2007.

Due to the above connected relationship, the transaction pursuant to a redemption agreement dated 11th April, 2007 and entered into with Feilong Holdings for early redemption of the convertible bonds also constituted non-exempt connected transaction of the Company. Details of such transaction are set out in note 25 to the financial statement in this annual report and in the circular of the Company dated 1st June, 2007.

Both the above connected transactions were approved in the extraordinary general meeting of the Company held on 18 June, 2007.

2. Tenancy agreement ("HK Office Tenancy Agreement") with Yue Da Group (H.K.) Co., Limited

On 24th August, 2007, the Company (as tenant) entered into the HK Office Tenancy Agreement with Yue Da Group (H.K.) Co., Limited (as landlord) for renting the Company's office in Hong Kong for a term from 1st September, 2007 to 31st August, 2010 (both dates inclusive). The rental payable to Yue Da Group (H.K.)

Directors' Report

Co., Limited is HK$200,000 per month (excluding rates, management fees and utility charges). Yue Da Group (H.K.) Co., Limited is a controlling shareholder of the Company and accordingly is a connected person. Further, the Company has previously entered into two tenancy agreements with Yue Da Group (H.K.) Co., Limited for staff's quarter purpose, each for a term of three years from 1st January, 2007 to 31st December, 2009 and at a monthly rental of HK$20,000 and HK$25,000 respectively. Aggregating these transactions with that under the HK Office Tenancy Agreement, the above transactions constituted continuing connected transactions of the Company and are subject to announcement and reporting requirements under Chapter 14A of the Listing Rules, details of which are disclosed in the announcement of the Company dated 27th August, 2007.

3. Hong Ling Transactions

As disclosed in the announcement of the Company dated 30th November, 2007, High Boom Limited, a wholly owned subsidiary of the Company, entered a joint venture contract with Jiangsu Yue Da and People's Government of Balin Zuo Qi of Chi Feng City of Inner Mongolia Self Autonomous Zone for the purpose of administering the mining business under the Hong Long Transactions. As Jiangsu Yue Da is a controlling shareholder of the Company, the above constituted a non-exempt connected transaction, which is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Such transactions were approved in the extraordinary general meeting of the Company held on 5th February, 2008.

4. Ore supply agreement and composite services agreement with Feilong Industrial

On 30th November, 2007, Feilong Nonferrous, Puer Feilong, Yaoan Feilong and Tengchong Company, all being subsidiaries of the Company, entered into an ore supply agreement and composite services agreement with Feilong Industrial, both for a term commencing 1st January, 2008 and expiring on 31st December, 2010. As Mr Yang is a controlling shareholder of Feilong Industrial and that Mr Yang is a substantial shareholder of the Company, the above transactions constituted non-exempt connected transaction and are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The annual cap amount under the ore supply agreement for the three years ending 31st December, 2010 is RMB600 million, RMB660 million and RMB726 million respectively, while the annual cap amount under the composite services agreement for the three years ending 31st December, 2010 is RMB40 million, RMB44 million and RMB48.4 million respectively. Details of the transactions were disclosed in the circular of the Company dated 12th December, 2007. The transactions were approved in the extraordinary general meeting of the Company held on 28th December, 2007.

Pursuant to Rule 14A.38 of the Listing Rules, the board of directors engaged the auditor of the Company to perform certain agreed-upon procedures in respect of the continuing connected transactions of the Group. The auditor has reported the factual findings on these procedures to the board of directors. The independent non-executive directors have reviewed the continuing connected transactions and the report of the auditor and have confirmed that the transactions entered into by the Group were in the ordinary course of its business; on normal commercial terms, or on terms no less favourable than terms available to or from (as the case may be) independent third parties and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Directors' Report

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTEREST

The register of substantial shareholders maintained by the Company pursuant to section 336 of the Securities and Futures Ordinance shows that, as at 31st December, 2007, the following shareholders had an interest of 5% or more in the issued share capital of the Company:

Name	Capacity	Number of issued ordinary shares held (Note a)	Percentage of the issued share capital of the Company (Note b)
Yue Da Group (H.K.) Co., Limited (note c)	Beneficial owner	136,034,000 (L)	44.71%
Jiangsu Yue Da Group Company Limited (note c)	Interest of a controlled corporation	136,034,000 (L)	44.71%
Feilong Holdings Limited (note d)	Beneficial owner	33,333,333 (L)	10.96%
Pure Talent Investments Limited (note d)	Interest of a controlled corporation	33,333,333 (L)	10.96%
Mr. Yang Long (Note e)	Interest of a controlled corporation	33,333,333 (L)	10.96%
Keywise Capital Management (HK) Limited	Investment manager	31,275,000 (L)	10.28%
Keywise Greater China Opportunities Master Fund	Investment manager	20,401,000 (L)	6.71%

Notes:

a. The letter "L" represents the entity's interests in the shares.

b. The percentage of issued share capital of the Company is calculated by reference to 304,231,333 shares in issue as at 31st December, 2007.

c. Jiangsu Yue Da Group Company Limited holds 100% interests in Yue Da Group (H.K.) Co., Limited and is accordingly deemed to be interested in the shares of the Company beneficially owned by Yue Da Group (H.K.) Co., Limited under the Securities and Futures Ordinance.

d. Pure Talent Investment Limited holds 100% interest in Feilong Holdings Limited.

e. Mr. Yang Long holds 100% interest in Pure Talent Investments Limited which in turn holds 100% interest in Feilong Holdings Limited.

Other than as disclosed above, the Company has not been notified of any other persons who, as at 31st December, 2007, had interests of 5% or more in any shares or underlying shares of the Company.

Directors' Report

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers during the year accounted for approximately 78% of the Group's total revenue and the largest customer accounted for approximately 43% of the Group's total revenue. The aggregate purchases attributable to the Group's five largest suppliers during the year accounted for approximately 80% of the Group's purchases and the largest suppliers accounted for approximately 47% of the Group's total purchases.

At 31st December, 2007, Yang Long, a shareholder holding more than 5% of the company's share capital, had a beneficial interest in one of the Group's five largest customers. All transactions between the Group and the customer concerned were carried out as normal commercial terms.

REPURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

On 5th January, 2007, the Company repurchased 1,314,000 ordinary shares of the Company at an average price of approximately HK$3.52 per share, and the aggregate amount that shall be paid was HK$4,620,840. These shares were all repurchased through the Stock Exchange. Apart from that, neither the Company nor any of its subsidiaries repurchased, sold or redeemed any of the shares of the Company during the Period.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of the employees' merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive for directors and eligible employees. Details of the scheme are set out in note 29 to the consolidated financial statements.

PLACING AND SUBSCRIPTION OF SHARES

Pursuant to the placing and subscription agreement dated 6th December, 2007, Yue Da Group (H.K.) Co. Limited raised net proceeds of approximately HK$132.60 million by issuing 20 million ordinary shares of HK$0.10 each in the capital of the Company (with an aggregate nominal value of HK$2,000,000) at HK$6.63 each to independent investors, while the net price to the Company of each share issued is HK$6.40. The independent investors are independent private individual and institutional investors who are independent of and not connected nor acting in concert with the directors, chief executive or substantial shareholders of the Company or its subsidiaries, or any of their respective associates. The reason for such placing was to raise capital from the equity market in order to maintain the cashflow position of the Group, to increase working capital and to enlarge shareholders' base of the Company. The placing price of HK$6.63 per share represented a discount of 16.39% to the closing price of HK$7.93 per share as quoted on the Stock Exchange on 5th December, 2007, being the last trading day before the release of the announcement of the Company in relation to the above placing on 7th December, 2007. The net proceeds raised were used to finance the mining acquisition projects carried out by the Company during the year ended 31st December, 2007.

Particulars of the placing and subscription are also set out in Note 28 to the financial statements.

Directors' Report

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2007.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 41 to the consolidated financial statements.

AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board
Mr. Hu You Lin
CHAIRMAN

Hong Kong
18th April, 2008

Independent Auditor's Report

Deloitte.
德勤

TO THE MEMBERS OF YUE DA MINING HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Yue Da Mining Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 36 to 103, which comprise the consolidated balance sheet as at 31st December, 2007, 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 consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated 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 the consolidated 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated 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 consolidated financial statements.

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

Independent Auditor's Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st December, 2007 and of the Group's loss 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.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
18th April, 2008

Consolidated Income Statement

For the Year ended 31st December, 2007

	NOTES	**2007** **RMB'000**	2006 *RMB'000*
Revenue	7	**293,960**	184,628
Cost of sales		**(102,508)**	(32,049)
Direct operating costs		**(33,392)**	(53,997)
Gross profit		**158,060**	98,582
Other income		**28,966**	2,349
Gain on redemption of convertible bonds	25	**30,104**	—
Discount on acquisition of additional interests in mining subsidiaries	31	**17,942**	56,532
Impairment loss recognised in respect of property, plant and equipment		**—**	(44,679)
Impairment loss recognised in respect of goodwill	18	**(3,235)**	—
Loss from fair value changes of convertible bonds' embedded derivatives	25	**(101,608)**	(39,873)
Loss on disposal of a subsidiary	32	**—**	(6,337)
Administrative expenses		**(56,554)**	(18,574)
Interest expense	10	**(20,628)**	(7,866)
Profit before tax		**53,047**	40,134
Income tax expense	11	**(54,404)**	(4,852)
(Loss) profit for the year	12	**(1,357)**	35,282
Attributable to:			
— Equity holders of the Company		**7,571**	10,332
— Minority interests		**(8,928)**	24,950
		(1,357)	35,282
Earnings per share	13		
— Basic (RMB)		**2.8 cents**	4.9 cents
— Diluted (RMB)		**2.8 cents**	4.7 cents

Consolidated Balance Sheet

At 31st December, 2007

	NOTES	2007 RMB'000	2006 RMB'000
Non-current Assets			
Property, plant and equipment	14	**250,260**	198,957
Prepaid lease payments	15	**2,887**	773
Mining rights	16	**1,081,953**	953,114
Exploration and evaluation assets	17	**—**	9,248
Goodwill	18	**7,298**	5,474
Deposits paid for acquisition of property, plant and equipment	19	**1,922**	—
		1,344,320	1,167,566
Current Assets			
Prepaid lease payments	15	**229**	97
Inventories	20	**23,931**	7,858
Accounts and other receivables	21	**13,857**	6,418
Amounts due from related companies	22	**22,635**	4,598
Bank balances and cash	23	**128,952**	102,094
		189,604	121,065
Current Liabilities			
Accounts and other payables	24	**38,534**	15,844
Amounts due to related companies	22	**6,231**	8,643
Taxation payable		**1,908**	3,678
Convertible bonds' embedded derivatives	25	**—**	57,366
Promissory notes — due within one year	26	**68,716**	14,716
Bank borrowing — due within one year	27	**34,493**	18,750
		149,882	118,997
Net Current Assets		**39,722**	2,068
Total Assets Less Current Liabilities		**1,384,042**	1,169,634

Consolidated Balance Sheet

At 31st December, 2007

	NOTES	2007 RMB'000	2006 RMB'000
Capital and Reserves			
Share capital	28	**31,208**	25,976
Reserves		**648,606**	456,055
Equity attributable to equity holders of the Company		**679,814**	482,031
Minority interests		**113,014**	360,002
Total equity		**792,828**	842,033
Non-current Liabilities			
Convertible bonds' liabilities portion	25	**—**	66,844
Promissory notes — due after one year	26	**53,384**	57,236
Bank borrowing — due after one year	27	**302,251**	56,250
Deferred tax liabilities	30	**235,579**	147,271
		591,214	327,601
		1,384,042	1,169,634

The consolidated financial statements on pages 36 to 103 were approved and authorised for issue by the Board of Directors on 18th April, 2008 and are signed on its behalf by:

Hu You Lin
DIRECTOR

Dong Li Yong
DIRECTOR

Consolidated Statement of Changes in Equity

For the Year ended 31st December, 2007

	Attributable to equity holders of the Company										
	Share capital RMB'000	Share premium RMB'000	Non-distributable reserves RMB'000	Special reserve RMB'000	Capital contribution RMB'000	Share options reserve RMB'000	Other reserve RMB'000	Accumulated earnings RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1st January, 2006	21,000	15,897	(1,127)	157,178	11,703	2,193	–	118,622	325,466	101,214	426,680
Profit for the year, representing total recognised income for the year	–	–	–	–	–	–	–	10,332	10,332	24,950	35,282
Exercise of share options	1,170	5,194	–	–	–	(1,146)	–	–	5,218	–	5,218
Placing of new shares	4,000	148,000	–	–	–	–	–	–	152,000	–	152,000
Transaction costs attributable to placing of new shares	–	(4,943)	–	–	–	–	–	–	(4,943)	–	(4,943)
Shares repurchased and cancelled	(194)	(6,960)	–	–	–	–	–	–	(7,154)	–	(7,154)
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	–	(7,380)	(7,380)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	275,784	275,784
Release of non-distributable reserves upon disposal of a subsidiary	–	–	1,112	–	–	–	–	–	1,112	–	1,112
Release of capital contribution upon disposal of a subsidiary	–	–	–	–	(11,703)	–	–	11,703	–	–	–
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	(34,566)	(34,566)
At 31st December, 2006 and 1st January, 2007	25,976	157,188	(15)	157,178	–	1,047	–	140,657	482,031	360,002	842,033
Profit (loss) for the year, representing total recognised income (expense) for the year	–	–	–	–	–	–	–	7,571	7,571	(8,928)	(1,357)
Shares repurchased and cancelled	(132)	(4,514)	–	–	–	–	–	–	(4,646)	–	(4,646)
Recognition of equity-settled share-based payments	–	–	–	–	–	644	–	–	644	–	644
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	–	(33,036)	(33,036)
Acquisition of additional interests in mining subsidiaries	–	–	–	–	–	–	(59,372)	–	(59,372)	(205,024)	(264,396)
Conversion of convertible bonds	3,233	126,810	–	–	–	–	–	–	130,043	–	130,043
Exercise of share options	240	3,197	–	–	–	(977)	–	–	2,460	–	2,460
Placing of new shares	1,891	123,496	–	–	–	–	–	–	125,387	–	125,387
Transaction costs attributable to placing of new shares	–	(4,304)	–	–	–	–	–	–	(4,304)	–	(4,304)
Transfer	–	–	7,457	–	–	–	–	(7,457)	–	–	–
At 31st December, 2007	31,208	401,873	7,442	157,178	–	714	(59,372)	140,771	679,814	113,014	792,828

The non-distributable reserves represent statutory reserves appropriated from the profit after tax of the Company's subsidiaries established in the People's Republic of China (the "PRC") under the PRC laws and regulations and capital deficit arising from capital injections by the Group into the Company's subsidiaries in the PRC in the form of foreign currencies.

The special reserve represents the difference between the nominal value of the share capital issued by the Company and the nominal value of the share capital of the subsidiaries acquired pursuant to the group reorganisation in 2001 and the surplus arising on the capitalisation of an amount payable to a fellow subsidiary as part of the group reorganisation.

The other reserve represents net amount of the difference between the fair value and the book value of the mining rights attributable to additional interests acquired.

Consolidated Cash Flow Statement

For the Year ended 31st December, 2007

	NOTES	2007 RMB'000	2006 RMB'000
OPERATING ACTIVITIES			
Profit before tax		**53,047**	40,134
Adjustments for:			
Amortisation of mining rights		**22,217**	8,328
Depreciation of property, plant and equipment		**31,172**	34,192
Discount on acquisition of additional interests in mining subsidiaries		**(17,942)**	(56,532)
Gain on redemption of convertible bonds		**(30,104)**	—
Loss (gain) on disposal of property, plant and equipment		**1,778**	(353)
Impairment loss recognised in respect of property, plant and equipment		**—**	44,679
Impairment loss recognised in respect of goodwill		**3,235**	—
Interest expense		**20,628**	7,866
Interest income		**(790)**	(1,368)
Loss on disposal of a subsidiary		**—**	6,337
Loss from fair value changes of convertible bonds' embedded derivatives		**101,608**	39,873
Share-based payment expenses		**644**	—
Release of prepaid lease payments		**157**	11
Operating cash flows before movements in working capital		**185,650**	123,167
Increase in inventories		**(12,453)**	(1,190)
Increase in accounts and other receivables		**(2,180)**	(2,354)
Increase in amounts due from related companies		**(18,037)**	(5,947)
(Decrease) increase in amounts due to related companies		**(2,412)**	3,105
(Decrease) increase in accounts and other payables		**(6,226)**	212
Cash generated from operations		**144,342**	116,993
Income tax paid		**(6,180)**	(6,429)
NET CASH FROM OPERATING ACTIVITIES		**138,162**	110,564
INVESTING ACTIVITIES			
Acquisition of subsidiaries/additional interests in mining subsidiaries	31	**(370,696)**	(400,351)
Purchase of property, plant and equipment		**(46,315)**	(14,859)
Deposits paid for acquisition of property, plant and equipment		**(1,922)**	—
Purchase of exploration and evaluation assets		**(1,839)**	(4,848)
Prepaid lease payments		**(1,310)**	—
Interest received		**790**	1,368
Proceeds from disposal of property, plant and equipment		**358**	6,090
Disposal of a subsidiary	32	**—**	52,376
NET CASH USED IN INVESTING ACTIVITIES		**(420,934)**	(360,224)

Consolidated Cash Flow Statement

For the Year ended 31st December, 2007

	NOTES	**2007** **RMB'000**	2006 RMB'000
FINANCING ACTIVITIES			
Bank borrowing raised		**338,744**	77,635
Proceeds on placing of new shares		**125,387**	152,000
Proceeds from issue of shares upon exercise of share options		**2,460**	5,218
Bank borrowing repaid		**(74,000)**	—
Dividend paid to minority shareholders		**(33,036)**	(7,380)
Interest paid		**(16,601)**	(507)
Repayment of promissory notes		**(9,753)**	—
Payments on repurchase of shares		**(4,646)**	(7,154)
Expenses on placing of new shares		**(4,304)**	(4,943)
Repayment of loans to minority shareholders		**—**	(11,791)
NET CASH FROM FINANCING ACTIVITIES		**324,251**	203,078
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**41,479**	(46,582)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**102,094**	151,311
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(14,621)**	(2,635)
CASH AND CASH EQUIVALENTS AT END OF YEAR, REPRESENTED BY BANK BALANCES AND CASH		**128,952**	102,094

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

1. GENERAL

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

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

As all of the Group's operations are in the PRC, the consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

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

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1st January, 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) - Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) - Int 8	Scope of HKFRS 2
HK(IFRIC) - Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) - Int 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

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

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combination[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) - Int 11	HKFRS 2: Group and Treasury Share Transactions[3]
HK(IFRIC) - Int 12	Service Concession Arrangements[4]
HK(IFRIC) - Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) - Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

[1] Effective for annual periods beginning on or after 1st January, 2009
[2] Effective for annual periods beginning on or after 1st July, 2009
[3] Effective for annual periods beginning on or after 1st March, 2007
[4] Effective for annual periods beginning on or after 1st January, 2008
[5] Effective for annual periods beginning on or after 1st July, 2008

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

HK(IFRIC) - Int 12 gives guidance on the accounting by operators for public-to-private service concession arrangements and sets out the general principles on recognising and measuring the obligations and related rights in service concession arrangements. For arrangements falling within its scope, depending on the terms of the arrangement, the infrastructure assets will, instead of being recognised as property, plant and equipment, be recognised as either (i) a financial asset; (ii) an intangible asset; or (iii) both a financial asset and an intangible asset. The directors of the Company are in the process of assessing the impact of the application of HK(IFRIC) - Int 12 on the Group.

The directors of the Company anticipate that the application of the other new and revised standards or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

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

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

Business combinations

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Acquisition of additional interest in subsidiaries

On acquisition of additional interest in subsidiaries, the difference between the fair values and the carrying values of the underlying assets and liabilities attributable to the additional interest in subsidiaries acquired is charged to other reserve. Goodwill or discount arising on the purchase of the additional interest is calculated as the difference between the additional cost of the interest acquired and the increase in Group's interest, based on the fair values of all identifiable assets and liabilities of the subsidiaries.

Property, plant and equipment

Property, plant and equipment, including buildings held for use in the production or supply of goods or services, or for administrative purpose, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress and toll highway and bridge, over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

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

Prepaid lease payments

Prepaid lease payments represent the up-front payments to lease medium-term leasehold land interests in the PRC and are charged to the consolidated income statement on a straight-line basis over the term of the relevant leases.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Mining rights

Mining rights are stated at cost less subsequent accumulated amortisation and accumulated impairment losses. Mining rights are amortised using the units of production method based on the proven and probable mineral reserves.

Exploration and evaluation assets

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

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

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

Goodwill

Goodwill arising on acquisitions prior to 1st January, 2005

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

For previously capitalised goodwill arising on acquisitions of net assets and operations of another entity, the Group has discontinued amortisation from 1st January, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash-generating unit ("CGU") to which the goodwill relates may be impaired (see the accounting policy below).

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill (continued)

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

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

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

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

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

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method.

Financial instruments

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

Objective evidence of impairment could include:

- significant financial difficulty of issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it is becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as accounts receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivables and amounts due from related companies, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When an account receivable or amount due from a related company is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss ("FVTPL") and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis other than these financial liability designed at FVTPL, of which the interest expense is included in net gains or losses.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Effective interest method (continued)

Convertible bonds

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

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

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

Other financial liabilities

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

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment losses on assets other than goodwill (see accounting policy in this note)

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

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

Revenue recognition

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

Toll revenue is recognised on receipt.

Revenue from sales of goods are recognised when goods are delivered and title has passed.

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

Retirement benefits costs

Payments to defined benefit retirement schemes are charged as expenses when employees have rendered services entitling them to the contributions.

Operating leases

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

Rentals payable under operating leases are charged to the consolidated income statement on a straight-line basis over the relevant lease term. Benefits received and receivables as an incentive to enter into an operating lease are required as a reduction of rental expense over the lease term on a straight-line basis.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equity-settled share-based payment transactions

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Taxation

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

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

Foreign currencies

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. The following are 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.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. During the year, impairment loss for goodwill of RMB3,235,000 was recognised in the consolidated income statement. As at 31st December, 2007, the carrying amount of goodwill is RMB7,298,000.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Depreciation of toll highway and bridge

As at 31st December, 2007, the carrying value of the Group's toll highway and bridge was RMB117,416,000. The Group depreciates the toll highway and bridge on an units-of-usage basis based on the ratio of estimated traffic volume for a particular period over the projected total traffic volume throughout the periods of 9% (2006: 9%). An estimation of the projected total traffic volume over the existing operation period of the toll highway and bridge is required. Any change to the projected total traffic volume will affect the amount of depreciation charge of the toll highway and bridge over the operation period.

Operation period of toll highway and bridge

The operation period granted to the Group in respect of its toll highway and bridge will end in 2013. The Group is currently negotiating with relevant authorities to extend the operation period for a further 10 year to end in 2023. Depreciation of the toll highway and bridge is being provided on the basis that the operation period will end in 2013. Should there be an extension of the operation period, the basis of the depreciation will be revised.

Useful lives of mining rights

The Group's management determines the estimated useful lives of 9 to 25 years for its mining rights based on the proven and probable reserves of 20,971,000 tonnes. However, the mining rights were granted for terms of two to eight years. The directors of the Company are of the opinion that the Group will be able to continuously renew the mining rights and the business licenses of respective mining subsidiaries at minimal charges. In the opinion of the independent legal advisor of the Company, there is no significant obstacle for the Group to renew its mining rights and business licenses when they expire. Accordingly, the Group has used the proven and probable reserves as basis of estimation for the useful lives of its mining rights.

Amortisation rates are determined based on estimated proven and probable mine reserve quantities with reference to the independent technical assessment report. The estimates involve subjective judgements in developing such information and have taken into account the recent production and technical information about each mine. The capitalised cost of mining rights are amortised using the units of production method. Any change to the estimated proven and probable mine reserves will affect the amortisation charge of those mining rights. Management will reassess the useful lives whenever the ability to renew the mining rights and business licenses is changed.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of debts, which include the convertible bonds disclosed in note 25, promissory notes disclosed in note 26, bank borrowing disclosed in note 27 and equity reserves attributable to equity holders of the Company, comprising issued share capital and various reserves.

The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors of the Company consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debts.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2007 **RMB'000**	2006 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**151,787**	107,732
Financial liabilities		
Fair value through profit or loss – designated as at FVTPL (see below)	**–**	57,366
Amortised cost	**469,189**	223,319

(b) Financial risk management objectives and policies

The Group's major financial instruments include accounts and other receivables, amounts due from related companies, bank balances, accounts and other payables, amounts due to related companies, convertible bonds, promissory notes and bank borrowing. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

6. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (continued)

Market risk

(i) Currency risk

The carrying amounts of the Group's monetary assets and monetary liabilities which are denominated in a currency other than the financial currency of the relevant group entity at the reporting date are as follows:

	Liabilities		Assets	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Hong Kong dollars ("HKD")	**458,844**	273,516	**107,944**	8,200

Sensitivity analysis

The Group is mainly exposed to HKD exchange risk.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against HKD. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rate. The sensitivity analysis includes convertible bonds, promissory notes, bank borrowing and bank balances where the denomination of them is in HKD, the major foreign currency risk. On this basis, there will be a decrease/increase in (loss) profit where RMB strengthens against HKD by 5%, and vice versa.

	2007	2006
	RMB'000	RMB'000
(Loss) profit for the year	**14,913**	11,275

The Group's sensitivity to foreign currency has increased during the current year mainly due to an increase in HKD borrowing.

In the opinion of the directors, the sensitivity analysis is not necessarily representative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

6. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (continued)

Market risk (continued)

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate convertible bonds and promissory notes (see notes 25 and 26 for details of the convertible bonds and promissory notes). Currently, the Group does not have hedging policy. However, the management monitors interest rate exposure and will consider hedging significant fixed rate bank borrowing should the need arise.

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowing (see note 23 and 27 for details of the bank balances and bank borrowing, respectively). It is the Group's policy to keep its bank balances and bank borrowing at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR bank rate arising from the Group's HKD bank borrowing and bank balances.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for bank balances and bank borrowing at the balance sheet date. For variable-rate bank balances and bank borrowing, the analysis is prepared assuming the amount of asset and liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's loss for the year ended 31st December, 2007 would increase/decrease by RMB883,000 (2006: profit increase/decrease by RMB115,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowing and bank balances.

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in variable-rate bank balances and bank borrowing.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

6. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (continued)

Credit risk

As at 31st December, 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, management of the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group has concentration of credit risk on accounts receivables and amounts due from related companies. Accounts receivables were solely due from one single external customer in PRC while amounts due from related companies were wholly in trade nature and due from two related companies.

Liquidity risk

In management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of bank loan and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

For derivative instruments settle on a net basis, undiscounted net cash (inflows)/outflows are presented.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

6. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Liquidity and interest risk tables

	Weighted average effective interest rate %	Less than 1 month RMB'000	1–3 months RMB'000	3 months to 1 year RMB'000	1–5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31st December 2007 RMB'000
2007							
Non-derivative financial liabilities							
Accounts and other payables	–	1,784	2,034	296	–	4,114	4,114
Amounts due to related companies	–	2,571	2,632	1,028	–	6,231	6,231
Promissory notes	9.00	–	–	75,943	62,971	138,914	122,100
Bank borrowing – variable rate	4.63	1,299	2,599	46,186	334,462	384,546	336,744
		5,654	7,265	123,453	397,433	533,805	469,189

	Weighted average effective interest rate %	Less than 1 month RMB'000	1–3 months RMB'000	3 months to 1 year RMB'000	1–5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at 31st December 2006 RMB'000
2006							
Non-derivative financial liabilities							
Accounts and other payables	–	790	42	48	–	880	880
Amounts due to related companies	–	–	–	8,643	–	8,643	8,643
Convertible bonds' liabilities portion	9.00	–	–	–	72,094	72,094	66,844
Promissory notes	9.00	–	–	15,868	78,000	93,868	71,952
Bank borrowing – variable rate	6.00	–	–	19,766	59,299	79,065	75,000
		790	42	44,325	209,393	254,550	223,319
Derivatives – net settlement							
Convertible bonds' embedded derivatives	9.00	–	–	59,991	–	59,991	57,366

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

6. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions. For an option-based derivative, the fair value is estimated using Black-Scholes Option Pricing Model. The directors consider that the carrying amounts of these financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

7. REVENUE

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

	2007	2006
	RMB'000	RMB'000
Toll revenue	**57,560**	103,734
Sale of zinc, lead and iron ore concentrates	**236,400**	80,894
	293,960	184,628

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

— management and operation of toll highway and bridge ("Toll Road Operations"); and

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Business segments (continued)

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

Year ended 31st December, 2007

	Toll Road Operations RMB'000	Mining Operations RMB'000	Consolidated RMB'000
REVENUE			
External sales	57,560	236,400	293,960
RESULTS			
Segment results	15,527	102,678	118,205
Unallocated corporate income			27,734
Gain on redemption of convertible bonds			30,104
Discount on acquisition of additional interests in mining subsidiaries			17,942
Loss from fair value changes of convertible bonds' embedded derivatives			(101,608)
Unallocated corporate expenses			(18,702)
Interest expense			(20,628)
Profit before tax			53,047
Income tax expense			(54,404)
Loss for the year			(1,357)

As at 31st December, 2007

	Toll Road Operations RMB'000	Mining Operations RMB'000	Consolidated RMB'000
ASSETS			
Segment assets	127,536	1,269,948	1,397,484
Unallocated corporate assets			136,440
Consolidated total assets			1,533,924
LIABILITIES			
Segment liabilities	7,428	27,161	34,589
Unallocated corporate liabilities			706,507
Consolidated total liabilities			741,096

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Business segments (continued)

As at 31st December, 2007

	Toll Road Operations RMB'000	Mining Operations RMB'000	Unallocated RMB'000	Consolidated RMB'000
OTHER INFORMATION				
Capital additions	1,682	229,796	—	231,478
Prepaid lease payments additions	—	2,403	—	2,403
Depreciation and amortisation	17,272	36,253	21	53,546
Impairment loss recognised in respect of goodwill	—	3,235	—	3,235

Year ended 31st December, 2006

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

8. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Business segments (continued)

As at 31st December, 2006

	Toll Road Operations RMB'000	Mining Operations RMB'000	Consolidated RMB'000
ASSETS			
Segment assets	143,121	1,043,416	1,186,537
Unallocated corporate assets			102,094
Consolidated total assets			1,288,631
LIABILITIES			
Segment liabilities	7,367	17,120	24,487
Unallocated corporate liabilities			422,111
Consolidated total liabilities			446,598

As at 31st December, 2006

	Toll Road Operations RMB'000	Mining Operations RMB'000	Unallocated RMB'000	Consolidated RMB'000
OTHER INFORMATION				
Capital additions	1,558	1,046,633	—	1,048,191
Prepaid lease payments additions	—	881	—	881
Depreciation and amortisation	30,727	11,784	20	42,531
Impairment loss recognised in respect of property, plant and equipment	44,679	—	—	44,679

Geographical segments

The Group's revenues are solely generated in the PRC and all its identifiable assets are located in the PRC. Accordingly, no geographical segment data is presented.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

9. DIRECTORS AND EMPLOYEES' REMUNERATION

The emoluments paid or payable to each of the fifteen (2006: eleven) directors were as follows:

2007

	Executive directors					Non-executive directors										
	Mr. Hu You Lin RMB'000	Mr. Dong Li Yong RMB'000	Mr. Chen Gang RMB'000	Mr. Qian Jinbiao RMB'000	Mr. Gao Yi Shan RMB'000	Mr. Liu Xiaoguang RMB'000	Mr. Qi Guangya RMB'000	Mr. Shen Xiao Zhong RMB'000	Mr. Pan Wan Qu RMB'000	Mr. Cai Chuan Bing RMB'000	Ms. Leung Mei Han RMB'000	Mr. Cui Shuming RMB'000	Mr. Han Runsheng RMB'000	Ms. Yu Chor Woon, Carol RMB'000	Mr. Yu Zheng Hua RMB'000	Total RMB'000
Fees	–	–	–	–	–	–	–	–	–	98	196	196	98	–	–	588
Other emoluments																
Salaries and other benefits	1,565	969	265	–	–	–	–	–	–	–	–	–	–	–	–	2,799
Contributions to retirement benefits schemes	12	12	12	–	–	–	–	–	–	–	–	–	–	–	–	36
Total emoluments	1,577	981	277	–	–	–	–	–	–	98	196	196	98	–	–	3,423

2006

	Executive directors						Non-executive directors					
	Mr. Hu You Lin RMB'000	Mr. Dong Li Yong RMB'000	Mr. Qian Jinbiao RMB'000	Mr. Gao Yi Shan RMB'000	Mr. Lu Wei Dong, David RMB'000	Ms. Wang Pei Ping RMB'000	Mr. Shen Xiao Zhong RMB'000	Mr. Pan Wan Qu RMB'000	Mr. Cai Chuan Bing RMB'000	Ms. Yu Chor Woon, Carol RMB'000	Mr. Yu Zheng Hua RMB'000	Total RMB'000
Fees	–	–	–	–	–	–	–	–	100	300	50	450
Other emoluments												
Salaries and other benefits	1,613	460	60	259	285	53	–	–	–	–	–	2,730
Contributions to retirement benefits schemes	12	46	3	12	19	3	–	–	–	–	–	95
Total emoluments	1,625	506	63	271	304	56	–	–	100	300	50	3,275

Of the five individuals with the highest emoluments in the Group, three (2006: five) were directors of the Company whose emoluments are included in the disclosures above. The emolument of the remaining two (2006: Nil) individuals was as follows:

	2007 RMB'000	2006 RMB'000
Salaries and other benefits	**759**	–
Contributions to retirement benefits schemes	**12**	–
	771	–

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

10. INTEREST EXPENSE

	2007 RMB'000	2006 RMB'000
Interest on:		
— bank borrowing wholly repayable within five years	**11,448**	—
— a loan from a minority shareholder wholly repayable within five years	**—**	507
— promissory notes	**6,153**	2,330
— convertible bonds	**3,027**	3,092
Imputed interest expense on a non-current loan from a minority shareholder	**—**	1,937
	20,628	7,866

11. INCOME TAX EXPENSE

	2007 RMB'000	2006 RMB'000
PRC Enterprise Income Tax		
— current year	**3,708**	6,618
— underprovision in prior years	**152**	—
Deferred tax (note 30)		
— current year	**(6,030)**	(1,766)
— increase in deferred tax liabilities resulting from a change in tax rate enacted in March 2007	**56,574**	—
	54,404	4,852

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

Langfang Tongda Highway Co., Ltd. ("Langfang Tongda") is subject to PRC Enterprise Income Tax at the rate of 15%. In addition, Langfang Tongda is entitled to an exemption from local income tax of 3% during the five years ended 31st December, 2002, followed by a 50% tax relief for the next five years. The reduced local income tax rate for the relief period is 1.5%. The tax exemption expired in 2007. Accordingly, Langfang Tongda was subject to income tax at the reduced rate of 16.5% for the year.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

11. INCOME TAX EXPENSE (CONTINUED)

Zhen'an County Daqian Mining Development Co., Ltd. ("Daqian Mining"), a subsidiary acquired by the Group on 28th December, 2007, was taxed at 33% for the year.

Pursuant to the relevant regulations applicable to enterprises situated in the western region of the PRC, all the Group's PRC mining subsidiaries, other than Daqian Mining, enjoy a preferential tax rate of 15%. In addition, these PRC mining subsidiaries are entitled to an exemption from PRC Enterprise Income Tax for the two years starting from their first profit-making year, followed by a 50% tax reduction in the three years thereafter. The first profit-making years of these PRC mining subsidiaries are 2006 and 2007 respectively. During the year, they were within the tax exemption period and not subject to tax.

On 16th March, 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6th December, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate to 25% for certain subsidiaries from 1st January, 2008. For all those subsidiaries situated in the western region of the PRC will continue to enjoy the preferential tax rate of 15% until 2010, while tax rate of Langfang Tongda will gradually increase to 25% commencing from 1st January, 2008.

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

	2007	2006
	RMB'000	RMB'000
Profit before tax	**53,047**	40,134
Tax at the domestic income tax rate of 15% *(Note)*	**7,957**	6,020
Tax effect of expenses not deductible for tax purpose	**12,720**	14,745
Effect of tax exemption granted to PRC subsidiaries	**(19,525)**	(9,084)
Tax effect of income not taxable for tax purpose	**(3,716)**	(7,132)
Underprovision in respect of prior years	**152**	—
Increase in opening deferred tax liability resulting from an increase in applicable tax rates	**56,574**	—
Effect of different tax rates of subsidiaries operating in other jurisdictions	**242**	303
Income tax expense for the year	**54,404**	4,852

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

12. (LOSS) PROFIT FOR THE YEAR

	2007 RMB'000	2006 RMB'000
(Loss) profit for the year has been arrived at after charging:		
Amortisation of mining rights	**22,217**	8,328
Release of prepaid lease payments	**157**	11
Auditors' remuneration	**2,500**	2,000
Cost of inventories sold	**102,508**	32,049
Depreciation of property, plant and equipment	**31,172**	34,192
Employee benefit expense, including directors' remuneration (note 9) and share-based payment expense (note 29)	**40,631**	23,515
Loss on disposal of property, plant and equipment	**1,778**	—
Net foreign exchange loss	**—**	1,403
and after crediting:		
Bank interest income	**790**	1,368
Gain on disposal of property, plant and equipment	**—**	353
Net foreign exchange gain	**25,948**	—

13. EARNINGS PER SHARE

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

	2007 RMB'000	2006 RMB'000
Earnings		
Profit for the year attributable to equity holders of the Company and earnings for the purposes of basic and diluted earnings per share	**7,571**	10,332

	2007	2006
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**268,371,954**	210,027,258
Effect of dilutive ordinary shares — share options	**2,893,866**	10,760,820
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**271,265,820**	220,788,078

The Company's convertible bonds are not included in the calculation of diluted earnings per share as they are anti-dilutive for both years.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

14. PROPERTY, PLANT AND EQUIPMENT

	Toll highway and bridge RMB'000	Buildings RMB'000	Mining shafts RMB'000	Plant and machinery RMB'000	Electricity generation plant RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST									
At 1st January, 2006	502,798	2,219	–	–	–	3,599	2,122	–	510,738
Additions	–	95	–	6,079	–	491	1,356	6,838	14,859
Acquired on acquisition of subsidiaries	–	23,730	8,859	14,528	1,450	82	3,099	5,902	57,650
Disposals	–	(4,697)	–	–	–	(128)	(814)	(2,193)	(7,832)
Disposal of a subsidiary	(255,000)	–	–	–	–	(869)	(709)	–	(256,578)
Transfer	–	3,765	–	1,488	–	–	–	(5,253)	–
At 31st December, 2006	247,798	25,112	8,859	22,095	1,450	3,175	5,054	5,294	318,837
Additions	–	1,250	4,979	5,425	–	3,956	2,518	28,187	46,315
Acquired on acquisition of subsidiaries	–	10,619	2,135	11,216	–	99	3,140	–	27,209
Disposals	–	(136)	–	(348)	–	(28)	(3,039)	–	(3,551)
Transfer from exploration and evaluation assets	–	–	8,276	–	–	–	–	2,811	11,087
Transfer	–	10,424	–	4,782	–	787	–	(15,993)	–
At 31st December, 2007	247,798	47,269	24,249	43,170	1,450	7,989	7,673	20,299	399,897
DEPRECIATION AND IMPAIRMENT									
At 1st January, 2006	166,887	778	–	–	–	2,591	1,081	–	171,337
Charge for the year	29,683	1,710	209	1,114	211	606	659	–	34,192
Eliminated on disposals	–	(1,314)	–	–	–	(118)	(663)	–	(2,095)
Impairment recognised for the year	44,679	–	–	–	–	–	–	–	44,679
Disposal of a subsidiary	(127,453)	–	–	–	–	(682)	(98)	–	(128,233)
At 31st December, 2006	113,796	1,174	209	1,114	211	2,397	979	–	119,880
Charge for the year	16,586	2,976	2,287	6,190	258	1,436	1,439	–	31,172
Eliminated on disposals	–	(105)	–	(276)	–	(15)	(1,019)	–	(1,415)
At 31st December, 2007	130,382	4,045	2,496	7,028	469	3,818	1,399	–	149,637
CARRYING VALUE									
At 31st December, 2007	117,416	43,224	21,753	36,142	981	4,171	6,274	20,299	250,260
At 31st December, 2006	134,002	23,938	8,650	20,981	1,239	778	4,075	5,294	198,957

The toll highway and bridge and the buildings are situated in the PRC under medium-term leases.

Depreciation of toll highway and bridge is calculated to write off their carrying values on a units-of-usage basis based on the ratio of estimated traffic volume for a particular period over the projected total traffic volume throughout the periods for which the Group is entitled to operate the toll highway and bridge. The ratio calculated in this manner was 9% in respect of the current year (2006: 9%).

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

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

The Group owns the toll highway and bridge of Wen An Section and has been granted the right to manage, operate and collect toll charges on the toll highway and bridge for the duration of the joint venture term of 16 years to May 2013 (note 39 ii). Applications with the relevant governmental authorities to extend the operation period for further ten years to May 2023 are still in progress as at 31st December, 2007. Upon expiry of the operation period, the right to manage, operate and collect toll charges at the toll highway and bridge may be withdrawn and the toll highway and bridge will be delivered to the relevant government authorities at the end of the operation period.

Certain buildings of the Group are erected in the PRC with respect to which the Group had not been granted formal title of ownership. At 31st December, 2007, the net book value of such buildings amounted to RMB41,967,000 (2006: RMB22,605,000). In the opinion of directors, the absence of formal title does not impair the value of the relevant buildings. The directors also believe that formal title of these buildings will be granted to the Group in due course.

15. PREPAID LEASE PAYMENTS

	2007 RMB'000	2006 RMB'000
The Group's prepaid lease payments comprise:		
Leasehold land outside Hong Kong:		
Medium-term lease	**3,116**	870
Analysed for reporting purposes as:		
Current asset	**229**	97
Non-current asset	**2,887**	773
	3,116	870

The Group acquired rights to the land use rights in the PRC and has paid substantially the full purchase consideration. However, the relevant government authorises have not granted formal title to certain of these land use rights to the Group. As at 31st December, 2007, the carrying value of land use rights in respect of which the Group had not been granted formal title of ownership amounted to RMB887,000 (2006: Nil). In the opinion of directors, the absence of formal title to these land use rights does not impair the value of the relevant properties to the Group. The directors also believe that formal title of these land use rights will be granted to the Group in due course.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

16. MINING RIGHTS

	RMB'000
COST	
At 1st January, 2006	—
Acquired on acquisition of subsidiaries (note 31)	961,042
Transfer from exploration and evaluation assets	400
At 31st December, 2006	961,442
Acquired on acquisition of subsidiaries (note 31)	151,056
At 31st December, 2007	1,112,498
AMORTISATION	
At 1st January, 2006	—
Charge for the year	8,328
At 31st December, 2006	8,328
Charge for the year	22,217
At 31st December, 2007	30,545
CARRYING VALUE	
At 31st December, 2007	1,081,953
At 31st December, 2006	953,114

The mining rights represent the rights to conduct mining activities in the location of Changdong, Yaoan, Hetaoping, Tengchong and Zhen'an county in the PRC, and have legal lives of two to eight years, expiring in December 2011, February 2012, February 2014, December 2014 and June 2008, respectively. In the opinion of the directors, the Group will be able to renew the mining rights with the relevant government authorities continuously at minimal charges.

The mining rights are amortised over 9 – 25 years using the units of production method based on the proven and probable mineral reserves of 20,971,000 tonnes under the assumption that the Group can renew the mining rights indefinitely till all proven reserves have been mined.

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For the year ended 31st December, 2007

17. EXPLORATION AND EVALUATION ASSETS

	RMB'000
COST	
At 1st January, 2006	—
Acquired upon acquisition of subsidiaries	4,800
Additions	4,848
Transfer to mining rights	(400)
At 31st December, 2006	9,248
Additions	1,839
Transfer to property, plant and equipment	(11,087)
At 31st December, 2007	—
CARRYING VALUE	
At 31st December, 2007	—
At 31st December, 2006	9,248

18. GOODWILL

	RMB'000
COST	
At 1st January, 2006	482
Acquisition of subsidiaries	4,992
At 31st December, 2006	5,474
Acquisition of a subsidiary (note 31)	3,235
Release of profit guarantee (note 26i)	1,824
At 31st December, 2007	10,533
IMPAIRMENT	
At 1st January, 2006 and 31st December, 2006	—
Recognised for the year (Note)	3,235
At 31st December, 2007	3,235
CARRYING VALUE	
At 31st December, 2007	7,298
At 31st December, 2006	5,474

Note:

During the year, the Group recognised an impairment loss of RMB3,235,000 in relation to goodwill arising on acquisition of Tengchong Ruilong Gongmao Co., Ltd. ("Tengchong Ruilong") due to its loss of major customers as a result of which the projected future cash flows of Tengchong Ruilong cannot support the carrying value of the goodwill. In October 2007, Tengchong Ruilong transferred all the assets to the immediate holding company and was closed down by the Group subsequently.

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For the year ended 31st December, 2007

18. GOODWILL (CONTINUED)

For the purpose of impairment testing, goodwill arising from an acquisition is allocated to the CGUs that are expected to benefit from the business combination. At the balance sheet date, the carrying value of goodwill is allocated to the following CGUs:

	2007 **RMB'000**	2006 RMB'000
Toll Road Operations	**482**	482
Mining Operations		
— Baoshan Feilong mining operation	**6,461**	4,732
— Puer Feilong mining operation	**31**	23
— Yaoan Feilong mining operation	**324**	237
	7,298	5,474

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

Toll Road Operations

The recoverable amount of this CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 18% (2006: 18%). Cash flows beyond the five-year period are extrapolated using a steady 5% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. The key assumption for the value in use calculation relates to the forecast traffic flows. Management of the Group determines that there is no impairment of the CGU containing goodwill.

Mining Operations

The recoverable amount of the CGUs have been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering periods a five-year, and a discount rate of 19% (2006: 18%). Cash flows beyond the five-year period are extrapolated using a steady 2% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. The key assumptions for the value in use calculation relate to the estimated mine reserves and the estimated prices of mineral resources. As at 31st December, 2007, the recoverable amounts of the CGUs exceed their corresponding carrying amounts. Management of the Group determines that there is no impairment of the CGUs containing goodwill, other than as described above.

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For the year ended 31st December, 2007

19. DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

The deposits were paid by the Group in connection with the acquisition of property, plant and equipment in the PRC. The related capital commitments are included in note 35.

20. INVENTORIES

	2007 **RMB'000**	2006 RMB'000
Raw materials	**14,354**	6,961
Finished goods	**9,577**	897
	23,931	7,858

21. ACCOUNTS AND OTHER RECEIVABLES

	2007 **RMB'000**	2006 RMB'000
Accounts receivables	**200**	1,040
Other receivables	**13,657**	5,378
Total accounts and other receivables	**13,857**	6,418

The Group allows an average credit period of 60 days to its trade customers. The following is an aging analysis of accounts receivables at the reporting date:

	2007 **RMB'000**	2006 RMB'000
0 – 30 days	**—**	1,040
30 – 180 days	**—**	—
180 – 360 days	**200**	—
	200	1,040

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Credit limits attributed to customers are reviewed once a year.

In the prior year, the counterparty of the entire account receivable balance that was neither past due nor impaired had no default record based on historical information.

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For the year ended 31st December, 2007

21. ACCOUNTS AND OTHER RECEIVABLES (CONTINUED)

Included in the Group's accounts receivables balance are debtors with an aggregate carrying amount of RMB200,000 (2006: Nil) which are aged between 180 days to 360 days and are past due at the reporting date and for which the Group has not provided for impairment loss, as the Group considered such balance will be fully recoverable based on historical experience. The Group does not hold any collateral over these balances. The Group takes into consideration the estimated cash flows when determining evidence of impairment loss. The amount of the impairment 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.

The Group's accounts and other receivables that are denominated in a currency other than the functional currency of the relevant group entity are set out below:

	2007 **RMB'000**	2006 RMB'000
HKD	**935**	—

22. AMOUNTS DUE FROM/TO RELATED COMPANIES

	Due from	
	2007 **RMB'000**	2006 RMB'000
Mr. Yang Long and his affiliates (note i)	**17,420**	4,598
Langfang Municipal Communications Bureau and its affiliate (note ii)	**5,215**	—
	22,635	4,598

Notes to the Consolidated Financial Statements

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22. AMOUNTS DUE FROM/TO RELATED COMPANIES (CONTINUED)

The Group allows an average credit period of 60 days to its related companies. The following is an aged analysis of amounts due from related companies at the reporting date. The following is an aged analysis of amounts due from related companies, which are principally trading in nature, at the reporting date:

	2007	2006
	RMB'000	RMB'000
0 – 30 days	**19,700**	4,598
30 – 60 days	**2,935**	—
	22,635	4,598

	Due to	
	2007	2006
	RMB'000	RMB'000
Mr. Yang Long and his affiliates (note i)	**3,599**	3,982
Langfang Municipal Communications Bureau and its affiliate (note ii)	**2,632**	4,661
	6,231	8,643
Trade nature	**3,600**	8,643
Non-trade nature	**2,631**	—
	6,231	8,643

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22. AMOUNTS DUE FROM/TO RELATED COMPANIES (CONTINUED)

The following is an aged analysis of amounts due to related companies at the reporting date:

	2007 RMB'000	2006 RMB'000
0 – 60 days	**3,600**	8,643

The amounts are unsecured, interest-free and repayable on demand. The Group has financial risk management policies in place to ensure that all payables are within the allowable credit period.

Notes:

(i) Mr. Yang Long and his affiliates are the minority shareholders of the Company's mining subsidiaries, Boshan Feilong Nonferrous Metal Co., Ltd. ("Feilong Nonferrous"), Puer Feilong Mining Co., Ltd. ("Puer Feilong") and Yaoan Feilong Mining Co., Ltd. ("Yaoan Feilong") during the year. As at 31st December 2007, Puer Feilong and Yaoan Feilong are wholly owned subsidiaries of the Company.

(ii) These entities are the minority shareholder of the Company's toll highway and bridge subsidiary, Langfang Tongda.

23. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. The bank balances carry interest at market rates which range from 0.72% to 1.50% (2006: 0.72% to 2.80%) per annum.

The Group's bank balances and cash that are denominated in a currency other than the functional currency of the relevant group entities are set out below:

	2007 RMB'000	2006 RMB'000
HKD	**107,009**	8,200

24. ACCOUNTS AND OTHER PAYABLES

The following is an aged analysis of accounts payables at the balance sheet date:

	2007 RMB'000	2006 RMB'000
0 – 60 days	**476**	–

The average allowable credit period on purchases of goods is 30 days. The Group has financial risk management policies in place to ensure that all payables are within the allowable credit period.

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25. CONVERTIBLE BONDS

On 23rd June, 2006 ("Issue date"), the Company issued 3.5% convertible bonds at a nominal value of HK$75 million (equivalent to RMB72.75 million). Interest was to be payable annually. The convertible bonds had a maximum maturity period of three years from the Issue Date and were convertible into ordinary shares of HK$0.1 each in the Company at the holders' option as follows:

	Principal amount of convertible bonds	Conversion period(s) in which the convertible bonds were convertible into share		Conversion price
1st tranche convertible bonds	HK$40,000,000	1st conversion period	12th month after Issue Date	HK$ 1.2 per share
		2nd conversion period	24th month after Issue Date	HK$ 1.5 per share
		3rd conversion period	36th month after Issue Date	HK$ 1.8 per share
2nd tranche convertible bonds	HK$ 20,000,000	2nd conversion period	24th month after Issue Date	HK$ 1.5 per share
		3rd conversion period	36th month after Issue Date	HK$ 1.8 per share
3rd tranche convertible bonds	HK$15,000,000	3rd conversion period	36th month after Issue Date	HK$ 1.8 per share
Total	HK$75,000,000			
Equivalent to	RMB72,750,000			

At any time before maturity, the holders of the convertible bonds had the right to demand for early redemption at the consideration to be determined on arm-length basis between the Company and the holders.

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

On 21st June, 2007 ("Conversion Date"), the 1st Tranche convertible bonds with a principal amount of HK$40,000,000 (equivalent to RMB38,800,000) were converted into the Company's shares at the conversion price of HK$1.20 per share. Accordingly, 33,333,333 ordinary shares of HK$0.10 each in the capital of the Company were issued.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

25. CONVERTIBLE BONDS (CONTINUED)

On 28th June, 2007 ("Redemption date"), pursuant to a redemption agreement dated 11th April, 2007, the 2nd and 3rd Tranche convertible bonds with principal amounts of HK$20,000,000 (equivalent to RMB19,400,000) and HK$15,000,000 (equivalent to RMB14,550,000), respectively, were redeemed at a total consideration of HK$69,330,000 (equivalent to RMB67,250,000). The redemption consideration was determined based on the market prices of the Company's shares for the period from 2nd January, 2007 to 11th April, 2007 (both dates inclusive) as quoted by the Stock Exchange (the average closing prices for such trading days being HK$3.21 per share) and the maximum number of shares which could fall to be issued upon the exercise in full of the conversion rights attaching to the 2nd Tranche and the 3rd Tranche convertible bonds. The redemption was satisfied by the issue by the Group of two promissory notes with a total principal sum of HK$69,330,000 (equivalent to RMB67,250,000). The total fair value of these two promissory notes on the date of the issue was RMB60,518,000, further details of which are set out in note 26.

The movement of the convertible bonds is as follows:

	Liability portion RMB'000	Embedded derivatives portion RMB'000	Total RMB'000
Fair value of convertible bonds on Issue Date	63,752	17,493	81,245
Interest amortised	3,092	—	3,092
Net increase in fair value	—	39,873	39,873
Carrying amount of convertible bonds at 1st January, 2007	66,844	57,366	124,210
Exchange realignment	(2,014)	(3,573)	(5,587)
Interest paid	(2,593)	—	(2,593)
Interest amortised	3,027	—	3,027
Increase in fair value	—	101,608	101,608
Conversion during the year	(34,807)	(95,236)	(130,043)
Redemption during the year	(30,457)	(60,165)	(90,622)
Carrying amount of convertible bonds at 31st December, 2007	—	—	—

The loss from fair value changes of embedded derivatives of convertible bonds during the year amounted to RMB101,608,000 (2006: RMB39,873,000). The gain on redemption of convertible bonds during the year amounted to RMB30,104,000 (2006: Nil).

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

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

25. CONVERTIBLE BONDS (CONTINUED)

The inputs used in the model adopted by the management in determining the fair values at the respective dates were as follows:

	31st December, 2006	Conversion date	Redemption date
Credit risk premium	5.3%	4.37% – 4.5%	4.37% – 4.5%
Closing share price at date of valuation	HK$3.55	HK$ 4.95	HK$ 4.65
Conversion price	HK$1.2, HK$1.5 and HK$1.8 for 1st, 2nd and 3rd tranche, respectively	HK$1.2 for 1st tranche	HK$1.5 and HK$1.8 for 2nd and 3rd tranche respectively
Expected Volatility (note a)	32%	46.24%	45.68%
Risk-free interest rate (note b)	3.53%	3.64% – 4.31%	3.64% – 4.31%
Expected annual dividend yield	3%	4%	4%

Notes:

(a) Expected volatility was determined by using the historical volatility of the price return of the ordinary shares of the Company over 180 days from the valuation date.

(b) The risk-free rate interest was based on the yield of Exchange Fund Note.

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

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For the year ended 31st December, 2007

26. PROMISSORY NOTES

The promissory notes are unsecured, interest-bearing at 3.5% (2006: 3.5%) per annum and are repayable on the following terms:

	2007 RMB'000	2006 RMB'000
Carrying amount repayable:		
Within one year	**68,716**	14,716
More than one year, but not exceeding two years	**53,384**	29,874
More than two years, but not exceeding five years	**—**	27,362
	122,100	71,952
Less: Amounts due within one year shown under current liabilities	**(68,716)**	(14,716)
	53,384	57,236

(i) In June 2006, the Group acquired the initial 52% equity interest in certain PRC mining subsidiaries and issued three promissory notes (the "2006 Promissory Notes") as part of the purchase consideration (the "Initial Purchase Consideration"). Pursuant to the relevant acquisition agreements, the vendor guaranteed a pre-determined amount of minimum profit that each of these PRC mining subsidiaries had to achieve for a two-year period after the date of the acquisition (the "Guaranteed Profits"). The Group had the right to adjust the Initial Purchase Consideration to the extent of the shortfall in the Guaranteed Profits by adjusting the amount of the 2006 Promissory Notes. Such adjustments of RMB1,824,000 were made during the year ended 31st December, 2006 based on management's best estimate at that time. During the year ended 31st December, 2007, management reviewed these adjustments and RMB1,824,000 was adjusted (Note 18). In addition, upon acquisition by the Group of further interests in these PRC mining subsidiaries, the obligation of the vendor (now a fellow subsidiary of a minority shareholder of these PRC mining subsidiaries) under the Guaranteed Profits was released.

(ii) On 28th June, 2007, the Group issued two promissory notes with a total principal amount of HK$69,330,000 (equivalent to RMB67,250,000, the "2007 Promissory Notes") as consideration for the redemption of certain convertible bonds (Note 25). The 2007 Promissory Notes carry a coupon interest rate of 3.5% per annum and will be repayable by two installments of HK$42,670,000 and HK$26,660,000 on 31st December, 2008 and 2009, respectively. The effective interest rate is 9%. The total fair value of these two 2007 Promissory Notes on the date of the issue was RMB60,518,000, determined using cash flows discounted at the interest rate of 9%.

(iii) As at 31st December, 2007, the total fair value of all the promissory notes of the Group amounted to RMB122,100,000 (2006: RMB71,952,000), determined using cash flows discounted at the interest rate of 9%.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

27. BANK BORROWING

	2007 RMB'000	2006 RMB'000
Secured floating-rate bank loan is repayable:		
On demand or within one year	**34,493**	18,750
More than one year, but not exceeding two years	**68,986**	56,250
More than two years, but not exceeding five years	**233,265**	—
	336,744	75,000
Less: Amount due within one year shown under current liabilities	**(34,493)**	(18,750)
	302,251	56,250

During the year, the Group obtained a 5 year term loan in the amount of HK$360,000,000 (equivalent to RMB338,744,000) carrying interest at Hong Kong Interbank Offered Rate ("HIBOR") plus 1% per annum. The effective interest rate is 4.63% per annum. The bank loan is repayable in eight semi-annual instalments commencing on 26th December, 2008 to 26th June, 2012.

In the prior year, the Group obtained a 2 year term loan in the amount of HK$75,000,000 (equivalent to RMB77,635,000), carrying interest at HIBOR plus 1% per annum. The effective interest rate is 6.00% per annum.

Both bank loans were used to finance the acquisition of subsidiaries which are engaged in mining operations and for general working capital. They are secured by the Company's equity interests in certain subsidiaries.

The Group's bank borrowing that is denominated in a currency other than the functional currency of the relevant group entity is set out below:

	2007 RMB'000	2006 RMB'000
HKD	**336,744**	75,000

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28. SHARE CAPITAL

	Number of shares	Amount HK$'000	Shown in the financial statements RMB'000
Ordinary shares of HK$0.10 each:			
Authorised			
At 1st January, 2006, 31st December, 2006 and 31st December, 2007	2,000,000,000	200,000	N/A
Issued and fully paid			
At 1st January, 2006	200,000,000	20,000	21,000
Exercise of share options	11,700,000	1,170	1,170
Placing of new shares (note iv)	40,000,000	4,000	4,000
Shares repurchased and cancelled (note i)	(1,938,000)	(194)	(194)
At 31st December, 2006	249,762,000	24,976	25,976
Share repurchased and cancelled (note i)	(1,314,000)	(131)	(132)
Conversion of convertible bonds (note ii)	33,333,333	3,333	3,233
Exercise of share options	2,450,000	245	240
Placing of new shares (note iii)	20,000,000	2,000	1,891
At 31st December, 2007	304,231,333	30,423	31,208

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28. SHARE CAPITAL (CONTINUED)

Notes:

(i) In both years, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	Number of ordinary shares of HK$0.1 each	Price per share Highest HK$	Lowest HK$	Total consideration paid RMB'000
Year ended 31st December, 2007				
January	(1,314,000)	3.60	3.44	4,646
Year ended 31st December, 2006				
November	(828,000)	3.85	3.50	2,470
December	(1,110,000)	3.90	3.40	4,684
	(1,938,000)			7,154

(ii) On 21st June, 2007, convertible bonds with a principal amount of HK$40,000,000 (equivalent to RMB38,800,000) were converted into shares of HK$0.10 each in the Company at the conversion price of HK$1.20 per share. Accordingly, a total of 33,333,333 ordinary shares of HK$0.10 per share were issued.

(iii) Pursuant to a placing and subscription agreement dated 6th December, 2007, Yue Da HK placed 20 million shares of the Company at a price of HK$6.63 per share. The placement was made to independent investors. The placing price represented a discount of 16.39% to the closing price of HK$7.93 per share as quoted on the Stock Exchange on 5th December, 2007, being the date on which the terms of the placing and subscription were fixed.

Pursuant to the same placing and subscription agreement, Yue Da HK subscribed for 20 million new shares of HK$0.1 per share in the Company at HK$6.63 per share, resulting in gross proceeds to the Company of approximately HK$133 million (equivalent to RMB125 million). The proceeds were used to finance the Group's 2nd Acquisition as set out in note 31. Arrangement fees of approximately HK$5 million (equivalent to approximately RMB4 million) was set-off against share premium.

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

Pursuant to the same placing and subscription agreement, Yue Da HK subscribed for 40 million new shares of HK$0.1 per share in the Company at HK$3.80 per share, resulting in net proceeds to the Company of approximately HK$146 million (equivalent to RMB152 million). The proceeds were used to finance the Group's 2006 2nd Acquisition as set out in note 31.

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29. SHARE OPTION SCHEME

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

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

At 31st December, 2007, the number of shares in respect of which options were outstanding under the Scheme was 2,650,000 (2006: 4,380,000), representing 1% (2006: 2%) of the shares of the Company in issue at that date.

The following table discloses details of the Company's share options held by directors and employees during the year:

	Date of grant	Exercised price per share HK$	Exercisable period	Outstanding at 1st January, 2007 (Note)	Granted during the year	Exercise during the year	Outstanding at 31st December, 2007
Directors of the Company	26th September, 2005	0.53	12th October, 2005 to 25th September, 2015	2,490,000	–	(510,000)	1,980,000
Other employees of the Company	26th September, 2005	0.53	12th October, 2005 to 25th September, 2015	1,290,000	–	(1,290,000)	–
	9th March, 2007	3.00	9th March, 2007 to 8th March, 2017	–	720,000	(500,000)	220,000
				1,290,000	720,000	(1,790,000)	220,000
Other employees of the Company's subsidiaries	29th April, 2003	0.40	16th May, 2003 to 28th April, 2013	600,000	–	(150,000)	450,000
				4,380,000	720,000	(2,450,000)	2,650,000
Exercisable at the end of the year							2,650,000
Weighted average exercise price (HK$)				0.51	3.00	1.03	0.71

Note: One of the directors resigned as a director during the year ended 31st December, 2006 and became employee of the Company. Therefore, her related share option balance was reclassified from the category of directors of the Company to the category of other employees of the Company.

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29. SHARE OPTION SCHEME (CONTINUED)

The following table discloses details of the Company's share options held by directors and employees during the prior year:

	Date of grant	Exercise price per share HK$	Exercisable period	Outstanding at 1st January, 2006	Exercised during the year	Outstanding at 31st December, 2006
Directors of the Company	29th April, 2003	0.40	16th May 2003 to 28th April, 2013	5,250,000	(5,250,000)	–
	26th September, 2005	0.53	12th October, 2005 to 25th September, 2015	6,480,000	(3,390,000)	3,090,000
				11,730,000	(8,640,000)	3,090,000
Other employees of the Company	29th April, 2003	0.40	9th May, 2003 to 28th April, 2013	1,260,000	(1,260,000)	–
	26th September, 2005	0.53	12th October, 2005 to 25th September, 2015	1,140,000	(450,000)	690,000
				2,400,000	(1,710,000)	690,000
Other employees of the Company's subsidiaries	29th April, 2003	0.40	16th May, 2003 to 28th April, 2013	1,650,000	(1,050,000)	600,000
	26th September, 2005	0.53	12th October, 2005 to 25th September, 2015	300,000	(300,000)	–
				1,950,000	(1,350,000)	600,000
				16,080,000	(11,700,000)	4,380,000
Exercisable at the end of the year						4,380,000
Weighted average exercise price (HK$)				0.46	0.45	0.51

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29. SHARE OPTION SCHEME (CONTINUED)

During the year ended 31st December, 2007, options were granted on 9th March, 2007. The estimated fair value of the options granted on those dates is RMB644,000.

The fair values was calculated using The Black-Scholes pricing model. The inputs into the model were as follows:

Grant date share price	HK$3.00
Exercise price	HK$3.00
Expected life	3 years
Expected volatility	43.20%
Risk-free interest rate	3.99%
Dividend yield	1.33%

Expected volatility was determined by using the historical volatility of the Company's share price over the past 180 days to the date of grant. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The closing price of the Company's shares immediately before the date of grant was HK$2.97.

The Group recognised the total expense of RMB644,000 for the year ended 31st December, 2007 (2006: Nil) in relation to share options granted by the Company.

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised during the year ended 31st December, 2007 was HK$5.02 (2006: HK$3.48).

The Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

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30. DEFERRED TAX LIABILITIES

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

	Fair value adjustment on mining rights RMB'000	Accelerated tax depreciation RMB'000	Total RMB'000
At 1st January, 2006	—	9,986	9,986
Acquisition of subsidiaries	143,641	—	143,641
Eliminated on disposal of a subsidiary	—	(4,590)	(4,590)
Credit to consolidated income statement for the year	(1,163)	(603)	(1,766)
At 1st January, 2007	142,478	4,793	147,271
Acquisition of subsidiaries (note 31a)	37,764	—	37,764
Credit to consolidated income statement for the year	(4,710)	(1,320)	(6,030)
Increase in deferred tax liabilities resulting from a change in tax rate enacted in March 2007	53,379	3,195	56,574
At 31st December, 2007	228,911	6,668	235,579

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For the year ended 31st December, 2007

31. BUSINESS COMBINATIONS

(a) Acquisition of business

During the year ended 31st December, 2007, the Group completed two acquisitions, being the 1st Acquisition and the 2nd Acquisition, as defined below. The fair value of the identifiable assets and liabilities of the subsidiaries assumed by the Group were as follows:

	1st Acquisition (note i)	2nd Acquisition (note ii)			
	Acquirees' carrying amount before combination approximates fair value RMB'000	Acquirees' carrying amount before combination RMB'000	Fair value adjustment RMB'000	Fair value RMB'000	Total fair value RMB'000
Net (liabilities) assets acquired:					
Property, plant and equipment	19,980	7,229	–	7,229	27,209
Prepaid lease payments	1,093	–	–	–	1,093
Mining rights	–	1,600	149,456	151,056	151,056
Inventories	411	3,209	–	3,209	3,620
Accounts and other receivables	4,881	378	–	378	5,259
Bank balances and cash	508	2	–	2	510
Accounts and other payables	(4,735)	(7,181)	–	(7,181)	(11,916)
Amount due to related parties	(23,918)	(52,382)	–	(52,382)	(76,300)
Taxation payable	(373)	(177)	–	(177)	(550)
Deferred tax liabilities	–	(533)	(37,231)	(37,764)	(37,764)
Fair value of net (liabilities) assets	(2,153)	(47,855)	112,225	64,370	62,217
Goodwill (note iii)	3,235			–	3,235
Assignment of amounts due to related parties	23,918			52,382	76,300
	25,000			116,752	141,752
Consideration:					
Cash paid	8,000			115,584	123,584
Consideration payable	17,000			–	17,000
Transaction costs directly attributable to acquisition	–			1,168	1,168
	25,000			116,752	141,752
Net cash outflow arising on acquisition:					
Cash consideration paid	8,000			116,752	124,752
Bank balances and cash acquired	(508)			(2)	(510)
Net cash outflow	7,492			116,750	124,242

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For the year ended 31st December, 2007

31. BUSINESS COMBINATIONS (CONTINUED)

(a) Acquisition of business (continued)

During the year ended 31st December, 2006, the Group completed the following acquisitions:

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

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

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

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

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

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31. BUSINESS COMBINATIONS (CONTINUED)

(a) Acquisition of business (continued)

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

	2006 1st Acquisition			2006 2nd Acquisition			
	Acquirees' carrying amount before combination RMB'000	Fair value adjustment RMB'000	Fair value RMB'000	Acquirees' carrying amount before combination RMB'000	Fair value adjustment RMB'000	Fair value RMB'000	Total fair value RMB'000
Net assets acquired:							
Property, plant and equipment	46,332	–	46,332	11,318	–	11,318	57,650
Mining rights	3,335	604,758	608,093	8	352,941	352,949	961,042
Prepaid lease payments	203	–	203	678	–	678	881
Exploration and evaluation assets	4,800	–	4,800	–	–	–	4,800
Inventories	6,667	–	6,667	1	–	1	6,668
Accounts and other receivables	254	–	254	1,487	–	1,487	1,741
Bank balances and cash	6,832	–	6,832	2,342	–	2,342	9,174
Amounts due from related companies	–	–	–	3,743	–	3,743	3,743
Accounts and other payables	(7,657)	–	(7,657)	(3,115)	–	(3,115)	(10,772)
Amount due to vendor	(31,356)	–	(31,356)	(11,110)	–	(11,110)	(42,466)
Amount due to a related company	(273)	–	(273)	(2,488)	–	(2,488)	(2,761)
Taxation payable	–	–	–	(809)	–	(809)	(809)
Deferred tax liabilities	–	(90,700)	(90,700)	–	(52,941)	(52,941)	(143,641)
Fair value of net assets	29,137	514,058	543,195	2,055	300,000	302,055	845,250
Minority interests			(275,784)			–	(275,784)
Goodwill on acquisition			4,992			–	4,992
Discount on acquisition			–			(56,532)	(56,532)
Assignment of amount due to related parties			31,356			11,110	42,466
Shortfall of minimum guaranteed profit (note)			1,824			–	1,824
			305,583			256,633	562,216
Consideration:							
Cash paid			144,000			250,000	394,000
Convertible bonds – at fair value			81,245			–	81,245
Promissory notes – at fair value			71,446			–	71,446
			296,691			250,000	546,691
Transaction costs directly attributable to acquisition			8,892			6,633	15,525
			305,583			256,633	562,216
Net cash outflow arising on acquisition:							
Cash consideration paid			152,892			256,633	409,525
Bank balances and cash acquired			(6,832)			(2,342)	(9,174)
Net cash outflow			146,060			254,291	400,351

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For the year ended 31st December, 2007

31. BUSINESS COMBINATIONS (CONTINUED)

(a) Acquisition of business (continued)

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

The goodwill arising on the 2006 1st Acquisition was attributable to the anticipated profitability from the operations of the relevant mines. The acquisition consideration of RMB250 million for the 2006 2nd Acquisition was agreed on an arm's length basis. The discount on acquisition arose as a result of an increase in value of the underlying mines after the consideration was agreed.

The subsidiaries acquired during the year contributed RMB80.9 million to the Group's revenue and a profit of RMB41.8 million to the Group's results for the period between the date of acquisition and 31st December, 2006.

If the acquisitions had been completed on 1st January, 2006, total group revenue for the year ended 31st December, 2006 would have been RMB257.4 million, and profit for the year ended 31st December, 2006 would have been RMB58.1 million. This pro forma information was for illustration purposes only and is not necessarily indicative of the revenue and results of operations of the Group that actually would have been achieved had the acquisition was completed on 1st January, 2006, nor was it intended to be a projection of future results.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

31. BUSINESS COMBINATIONS (CONTINUED)

(a) Acquisition of subsidiaries (continued)

Notes:

(i) On 6th April, 2007, the Company entered into a conditional agreement pursuant to which the Group agreed to acquire the entire equity interest of Tengchong Ruilong at a consideration of RMB25 million. Tengchong Ruilong is a limited liability company established in the PRC and engaged in the processing of zinc and lead.

The consideration was satisfied as to (i) RMB17 million of consideration payable by the Company and will be offset against trade receivables, and repayable within one year, (ii) the remaining balance of RMB8 million in cash through internal resources.

This acquisition was completed on 10th May, 2007 (the "1st Acquisition").

(ii) On 15th October, 2007, the Company entered into another conditional agreement pursuant to which the Group agreed to acquire the entire issued share capital of Long Grand Investments Limited together with the outstanding loans due to Globe Rise Investment Limited ("Globe Rise") at a consideration of approximately RMB116 million. Globe Rise is a limited liability company incorporated in British Virgin Islands (the "BVI") and holds the entire equity interest of a company established in the PRC which has mining rights of lead and zinc in the PRC. The consideration was satisfied in cash through internal resources.

This acquisition was completed on 28th December, 2007 (the "2nd Acquisition").

(iii) During the year, the Group recognised an impairment loss of RMB3,235,000 in relation to goodwill arising on acquisition of Tengchong Ruilong due to the loss of major customers which leads Tengchong Ruilong not being able to substantiate a future profit. Details of impairment are set out in note 18.

(iv) The subsidiaries acquired during year contributed RMB1,600,000 to the Group's revenue and a loss of RMB300,000 to the Group's results for the period between the date of acquisition and the balance sheet date.

(v) If the acquisitions had been completed on 1st January, 2007, total group revenue for the year would have been RMB312,010,000, and profit for the year would have been RMB1,965,000. The pro forma information is for illustration purposes only and is not necessarily an indication of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2007, nor is it intended to be a projection of future results.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

31. BUSINESS COMBINATIONS (CONTINUED)

(b) Acquisition of additional interests in subsidiaries

On 11th April, 2007, Yue Da Mining Limited, a wholly-owned subsidiary of the Company, entered into a conditional agreement pursuant to which the Group agreed to acquire the entire issued share capital of Joy East Group Limited ("Joy East"), Joy Pride International Limited ("Joy Pride") and Merry Best Investments Limited ("Merry Best") together with the shareholder's loans for an aggregate consideration of HK$250 million (equivalent to RMB242.5 million). Joy East, Joy Pride and Merry Best are limited liability companies incorporated in the BVI and held the minority interests in certain mining subsidiaries of the Group. The consideration was satisfied by cash. The acquisition was completed on 28th June, 2007.

The fair values of the identifiable assets and liabilities attributable to the minority interests of the relevant mining subsidiaries acquired by the Group were determined on the basis of the Income Approach using the discounted cash flow analysis. An independent valuation of the Group's mining rights has been performed by LCH (Asia Pacific) Surveyors Limited to determine the fair value of the mining rights. The effective date of the valuation is 28th June, 2007. That calculation uses cash flow projections during the useful life of the intangible asset and a discount rate of 18.6%. The key assumptions for the value in use calculation relate to the estimated mine reserves and the estimated prices of mineral resources. The fair value estimated by the valuer on 28th June, 2007 exceeds the carrying amounts of the mining rights, thus giving rise to the recognition by the Group of increase in fair value of mining rights attributable to the minority interests acquired of RMB59,372,000.

	RMB'000
Increase in fair value of mining rights attributable to the minority interests acquired	59,372
Amounts due to related parties	(27,600)
Minority interests acquired	205,024
Fair value of net assets acquired	236,796
Discount on acquisition	(17,942)
Assignment of amounts due to related parties	27,600
	246,454
Consideration:	
Cash paid	242,500
Transaction costs directly attributable to the acquisition	3,954
	246,454
Net cash outflow arising on acquisition:	
Cash consideration paid	246,454

The discount on acquisition arose as a result of an increase in value of the underlying mines after the consideration was agreed, primarily due to increase in the market prices of the underlying mineral resources.

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For the year ended 31st December, 2007

32. DISPOSAL OF A SUBSIDIARY

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

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

During the year ended 31st December, 2006, Yanchang Tongda contributed approximately RMB49,837,000 to the Group's turnover and a loss of approximately RMB26,435,000 to the Group's profit for that year.

Yancheng Tongda also contributed approximately RMB30,886,000 to the Group's net operating cash inflows, RMB796,000 to the Group's net financing activities cash outflows and RMB33,918,000 to the Group's net cash outflows from investing activities during the year ended 31st December, 2006.

Notes to the Consolidated Financial Statements

For the year ended 31st December, 2007

33. RETIREMENT BENEFITS SCHEMES

The relevant PRC subsidiaries are required to make contributions to the state retirement schemes in the PRC based on 20% (2006: 20%) of the monthly salaries of their current employees to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations. The PRC government is responsible for the pension liability to these retired staff.

In addition, the Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes either 5% or 10% (2006: 5% or 10%) of the relevant payroll costs to the scheme, which contribution is matched by employees.

The total cost of RMB954,000 (2006: RMB1,582,000) recognised to profit or loss represents contributions payable to these schemes by the Group in respect of current year.

34. OPERATING LEASE COMMITMENTS

The minimum lease payments paid under operating leases in respect of rented premises during the year amounted to RMB1,629,000 (2006: RMB928,000).

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

	2007 **RMB'000**	2006 RMB'000
Within one year	**2,753**	822
In the second to fifth year inclusive	**4,246**	300
	6,999	1,122

Included in the above are rentals commitments to a fellow subsidiary of RMB6,996,000 (2006: RMB1,075,000) by the Group for certain of its office premises and staff quarters. Leases are negotiated for an average term of three years and rentals are fixed for an average of three years.

35. CAPITAL COMMITMENTS

	2007 **RMB'000**	2006 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**2,186**	6,324

In November, 2007, the Group entered into conditional agreements to acquire further mining interests in the PRC for an aggregate consideration of approximately HK$1,220 million, subject to shareholders' approval and fulfilment of certain condition precedents (see note 41).

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36. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

(i) The Group had the following transactions with connected parties and related parties:

Relationship	Nature of transactions	2007 RMB'000	2006 RMB'000
Connected parties:			
Minority shareholders and their affiliates (Note a)	Acquisition of Fly Ascent Group Limited by the Group	–	250,000
	Acquisition of Joy East, Merry Best Joy Pride by the Group (Note 31b)	**242,500**	–
	Early redemption of convertible bonds by issuing promissory note (Note 26)	**67,250**	–
	Interest charged to the Group (Note d)	–	2,444
	Maintenance charges paid by the Group (Note e)	–	1,801
	Management fee paid by the Group (Note f)	–	334
	Purchase of materials by the Group (Note g)	**11,179**	7,284
	Materials supplied and construction and maintenance services of fixed assets provided to the Group (Note g)	**334**	1,195
	Rentals paid on office premises by the Group (Note h)	–	80
	Repairs and maintenance charges paid by the Group (Note i)	**9,088**	8,510
	Sale of finished goods by the Group (Note j)	**211,993**	80,894
	Sub-contracting fee paid by the Group (Note k)	**243**	135
An associate of ultimate holding company (Note b)	Rentals paid on office premises by the Group (Note h)	–	466
Connected and related parties:			
Fellow subsidiaries (Note c)	Rentals paid on office premises by the Group (Note h)	**1,526**	870

Notes to the Consolidated Financial Statements

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

Notes:

(a) These companies are deemed to be connected parties under the Listing Rules as Mr. Yang Long, a substantial shareholder of the Company, has beneficial interest in them.

(b) This company is deemed to be connected party under the Listing Rules as it is an associate of ultimate holding company, Jiangsu Yue Da.

(c) These companies are deemed to be connected parties under the Listing Rules as they are the subsidiaries of ultimate holding company, Jiangsu Yue Da.

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

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

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

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

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

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

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

(k) One of the Group's subsidiaries has signed a processing agreement with the affiliate of minority shareholder, pursuant to which the affiliate has agreed to process the ore at RMB120 per tone.

(ii) Details of the Group's outstanding balances with related parties are set out in note 22.

(iii) Details of operating lease commitment with a related party are set out in note 34.

(iv) In addition, pursuant to the agreements between the Group, the minority shareholder of the Group's toll highway and bridge subsidiary and the relevant government bureaus, the parties have agreed and confirmed that the Group has the right to use the land on which the toll highway and bridge is situated at no cost for the duration of the relevant joint venture term.

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For the year ended 31st December, 2007

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

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

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

In establishing its pricing strategies and approval process for transactions with other State-Controlled Entities, the directors are of the opinion that it is impracticable and of no real value to ascertain the identity of, and the quantum of transactions with, the counterparties.

(vi) Compensation of key management personnel

The remuneration of key management during the year, which is determined by the remuneration committee having regard to the performance of individuals and market trends, is as follows:

	2007 **RMB'000**	2006 RMB'000
Short-term benefits	**3,558**	4,314
Post-employment benefits	**24**	169
	3,582	4,483

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37. PLEDGE OF ASSETS

At the balance sheet date, the Company's equity interests in certain subsidiaries were pledge to a bank for credit facilities granted to the Group. At 31st December, 2007, an amount of RMB336,744,000 (2006: RMB75,000,000) of such facilities was utilised.

38. BALANCE SHEET OF THE COMPANY

The balance sheet of the Company as at 31st December, 2007 is as follows:

		2007	2006
		RMB'000	RMB'000
Total assets			
Equipment		**73**	34
Investments in subsidiaries		**220,994**	220,994
Other receivables		**7,415**	—
Amount due from a subsidiary	(a)	**805,061**	461,561
Bank balances and cash		**106,474**	7,882
		1,140,017	690,471
Total liabilities			
Accruals and other payables		**5,364**	2,355
Amounts due to subsidiaries	(a)	**208,443**	132,169
Amount due to a related party	(a)	**2,571**	—
Convertible bonds' embedded derivatives		**—**	57,366
Convertible bonds' liabilities portion		**—**	66,844
Promissory notes		**61,466**	—
Bank borrowing		**336,744**	75,000
		614,588	333,734
		525,429	356,737
Capital and reserves			
Share capital		**31,208**	25,976
Reserves	(b)	**494,221**	330,761
		525,429	356,737

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38. BALANCE SHEET OF THE COMPANY (CONTINUED)

Notes:

(a) The amounts are unsecured, interest-free and repayable within one year.

(b) Reserves

	Share premium RMB'000	Contributed surplus RMB'000	Share options reserve RMB'000	Accumulated earnings RMB'000	Total RMB'000
At 1st January, 2006	15,897	231,749	2,193	3,440	253,279
Loss for the year	—	—	—	(62,663)	(62,663)
Exercise of share options	5,194	—	(1,146)	—	4,048
Placing of new shares	148,000	—	—	—	148,000
Transaction costs attributable to placing of new shares	(4,943)	—	—	—	(4,943)
Shares repurchased and cancelled	(6,960)	—	—	—	(6,960)
At 31st December, 2006 and 1st January, 2007	157,188	231,749	1,047	(59,223)	330,761
Loss for the year	—	—	—	(80,892)	(80,892)
Shares repurchased and cancelled	(4,514)	—	—	—	(4,514)
Recognition of equity-settled share-based payments	—	—	644	—	644
Conversion of convertible bonds	126,810	—	—	—	126,810
Exercise of share options	3,197	—	(977)	—	2,220
Placing of new shares	123,496	—	—	—	123,496
Transaction costs attributable to placing of new shares	(4,304)	—	—	—	(4,304)
At 31st December, 2007	401,873	231,749	714	(140,115)	494,221

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39. PARTICULARS OF THE COMPANY'S PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December, 2006 and 31st December, 2007 are as follows:

Name of subsidiary	Country of incorporation/ establishment and operations	Nominal value of issued and paid-up share capital/ registered capital	Attributable equity interest held by the Company				Principal activities
			Directly		Indirectly		
			2007 %	2006 %	**2007** %	2006 %	
Daqian Mining (note i)	PRC	Registered capital – RMB5,000,000	**–**	–	**100**	–	Exploration, mining and processing zinc and lead
Feilong Nonferrous (note i)	PRC	Registered capital – RMB34,500,000	**–**	–	**91.5**	52	Exploration, mining and processing zinc and lead
Langfang Tongda (note ii)	PRC	Registered capital – US$11,250,000	**–**	–	**51**	51	Management and operation of the Wen An section of National Highway 106
Puer Feilong (note i)	PRC	Registered capital – RMB5,500,000	**–**	–	**100**	52	Exploration, mining and processing zinc and lead
Tengchong Ruitu Mining and Technology Company Limited (note i)	PRC	Registered capital – RMB11,000,000	**–**	–	**100**	100	Exploration, mining and processing iron and zinc
Yaoan Feilong (note i)	PRC	Registered capital – RMB17,400,000	**–**	–	**100**	52	Exploration, mining and processing zinc and lead
Yue Da Infrastructure Limited	BVI	Shares – US$10,000	**100**	100	**–**	–	Investment holding
Yue Da Mining	BVI	Shares – US$100	**100**	100	**–**	–	Investment holding
High Boom Limited	BVI	Shares – US$100	**100**	–	**–**	–	Investment holding

Notes to the Consolidated Financial Statements

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39. PARTICULARS OF THE COMPANY'S PRINCIPAL SUBSIDIARIES (CONTINUED)

Notes:

i. The companies are wholly foreign-owned enterprises.

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

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

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

40. MAJOR NON-CASH TRANSACTIONS

During the year, the principal amounts of HK$40,000,000 (equivalent to RMB38,800,000) and HK$35,000,000 of the convertible bonds were converted into the Company's 33,333,333 ordinary shares of HK$0.10 each and redeemed at a total consideration of HK$69,330,000 (equivalent to RMB67,250,000) which is satisfied by the issue by the Group of two promissory notes respectively. Further details of conversion and redemption are set out in note 25 above.

41. POST BALANCE SHEET EVENTS

The following significant events took place subsequent to the balance sheet date:

(a) On 24th January, 2008, the Company, Yue Da HK and SBI E2-Capital Securities Limited entered into a placing agreement in relation to the placing of 20,000,000 shares of HK$0.10 each in the Company owned by Yue Da HK to Carlson Fund China Micro Capital and Carlson Fund Equity Asian Small Capital, who are independent individuals and institutional investors at a price of HK$5.4 per share. Yue Da HK has undertaken to advance the entire proceeds of the said placing (approximately HK$104 million) to the Company on an interest-free basis for a term of no less than 12 months from the date of completion of the said placing agreement. Details of the placing are set out in the Company's announcement dated 29th January, 2008.

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For the year ended 31st December, 2007

41. POST BALANCE SHEET EVENTS (CONTINUED)

(b) On 22nd February, 2008, shareholders at an extraordinary general meeting of the Company approved the acquisition of further mining interests in the PRC for an aggregate consideration of approximately HK$1,220 million, subject to fulfilment of conditions precedents as set out in the relevant acquisition agreements. Further details of the acquisitions are set out in the Company's circular dated 5th February, 2008.

(c) On 19th March, 2008, the Company entered into a placing agreement with Value Partners Limited in relation to the placing of 20,000,000 new shares of HK$0.10 each in the Company to six placees who are independent individuals and institutional investors at a price of HK$5 per share. The net proceeds from the placing were approximately RMB90 million and will be used for general working capital of the Group. Details of the placing are set out in the Company's announcement dated 19th March, 2008.

Financial Summary

	Year ended 31st December,				
	2003 RMB'000	2004 RMB'000	2005 RMB'000	2006 RMB'000	**2007 RMB'000**
Revenue	70,961	93,188	102,392	184,628	**293,960**
Cost of sales	—	—	—	(32,049)	**(102,508)**
Operating costs	(37,904)	(51,416)	(50,517)	(53,997)	**(33,392)**
Other income	440	362	564	2,349	**28,966**
Gain on redemption of convertible bonds	—	—	—	—	**30,104**
Discount on acquisition of additional interests in mining subsidiaries	—	—	—	56,532	**17,942**
Impairment loss recognised in respect of property, plant and equipment	—	—	—	(44,679)	**—**
Impairment loss recognised in respect of goodwill	—	—	—	—	**(3,235)**
Loss from fair value changes of convertible bonds' embedded derivatives	—	—	—	(39,873)	**(101,608)**
Loss on disposal of a subsidiary	—	—	—	(6,337)	**—**
Administrative expenses	(13,537)	(16,654)	(17,134)	(18,574)	**(56,554)**
Interest expense	(3,090)	(2,580)	(3,399)	(7,866)	**(20,628)**
Profit before tax	16,870	22,900	31,906	40,134	**53,047**
Income tax expense	(3,165)	(4,790)	(6,224)	(4,852)	**(54,404)**
Profit (loss) for the year	13,705	18,110	25,682	35,282	**(1,357)**
Attributable to:					
Equity holders of the Company	11,603	13,805	19,464	10,332	**7,571**
Minority interests	2,102	4,305	6,218	24,950	**(8,928)**
	13,705	18,110	25,682	35,282	**(1,357)**

	As at 31st December,				
	2003 RMB'000	2004 RMB'000	2005 RMB'000	2006 RMB'000	**2007 RMB'000**
Total assets	489,450	498,189	493,638	1,288,631	**1,533,924**
Total liabilities	107,419	102,778	66,958	446,598	**741,096**
	382,031	395,411	426,680	842,033	**792,828**
Equity attributable to equity holders of the Company	291,747	301,352	325,466	482,031	**679,814**
Minority interests	90,284	94,059	101,214	360,002	**113,014**
	382,031	395,411	426,680	842,033	**792,828**