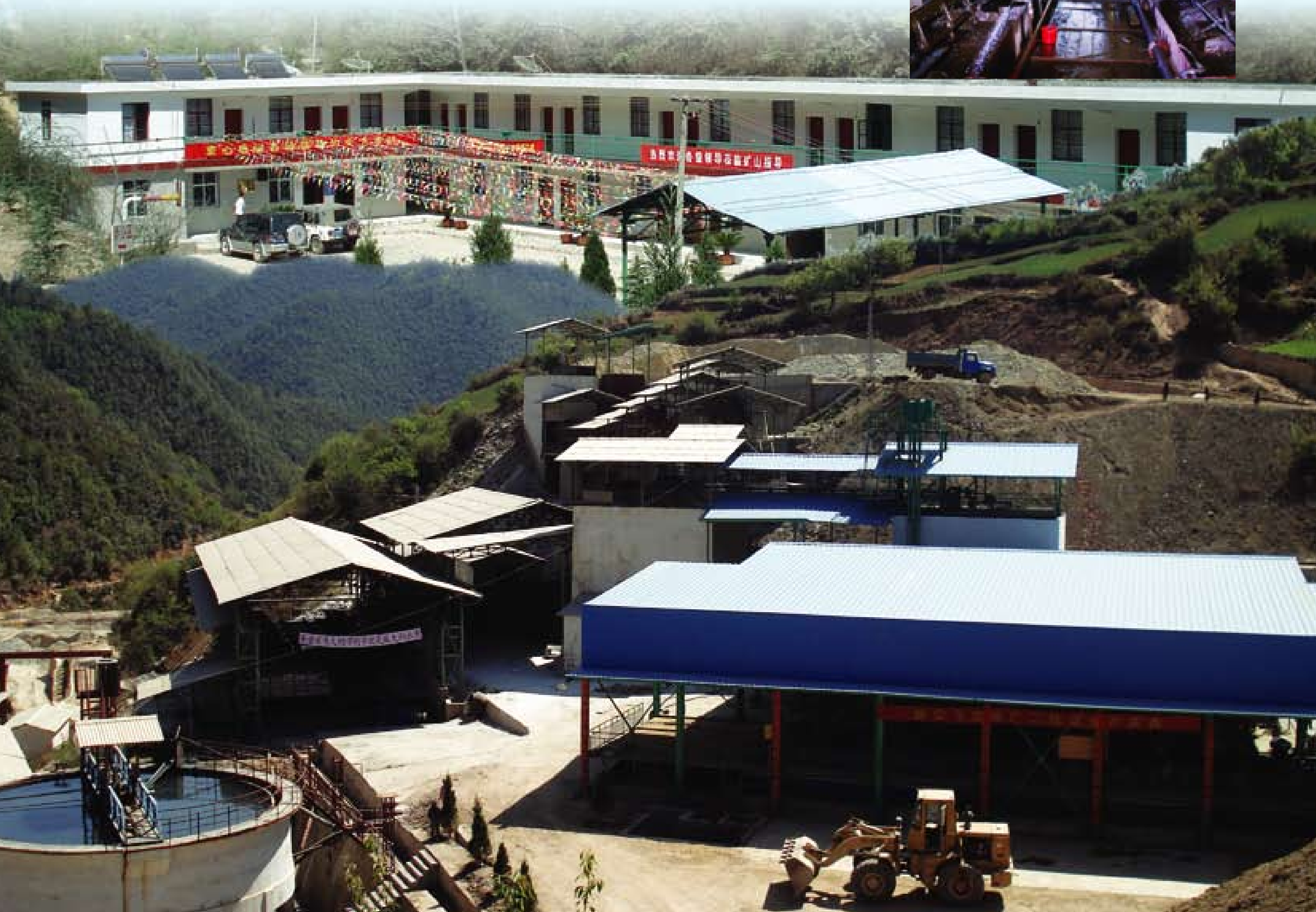
悅達礦業控股有限公司
Yue Da Mining Holdings Limited

Stock Code : 629

Annual Report 2008



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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 and Mr. Dong Li Yong

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. Liu Xiaoguang

COMPANY SECRETARY:

Mr. Ong Chi King

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:

Hong Kong Registrars Limited
Shop 1712–1716, 17/F,
Hopewell Centre,
183 Queen's Road East,
Wan Chai, 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

Hu You Lin
Chairman

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, 2008 (the "Year").

FINANCIAL PERFORMANCE

Turnover and gross operating profit of the Group for the Year amounted to RMB268,263,000 and RMB82,966,000, representing a decrease of approximately 8.74% and 47.51% respectively over the year ended 31st December, 2007 ("2007"). Affected by the impairment of mining rights ("Mining Rights Impairment") of the Group of approximately RMB214,142,000, audited loss attributable to shareholders amounted to RMB240,200,000, compared with the audited profit attributable to shareholders amounted to RMB7,571,000 in 2007. Basic loss per share was RMB75.1 cents for the Year.

BUSINESS DEVELOPMENT

The Group is principally engaged in the mining as well as cleansing and processing of metal minerals (the "Mining Operations"), and the operation of a toll road (the "Toll Road Operations").

Mining Operations

In view of the deterioration in the global capital market as well as the further deterioration of zinc and lead commodity market in late 2008, the Group has reduced and suspended the production at certain zinc and lead mining sites on a temporary basis as cost-control measures. For zinc and lead mining sites where outputs are of relatively higher quality and price which can cover production costs, measures of temporary reduction in production were implemented, while for zinc and lead mining sites with smaller capacity and lower quality output, measures of temporary suspension in production were implemented (collectively the "Temporary Measures"). However, the exploration activities and technical innovation works of the above mines were still being carried out during the Year for the purpose of future business development.

The iron and zinc mining site the mining rights of which are held by Tengchong Ruitu Mining and Technology Company Limited (騰沖縣瑞土礦業有限責任公司) ("Tengchong Ruitu") has a relatively high quality and rich material contents. The costs of cleansing and processing are relatively lower than that of other mining sites of the same nature in the market and Tengchong Ruitu continues to carry out operation in normal scale and is generating a reasonable source of profit and cashflow to the Group. The Group has completed expanding the production capacity of this mining site now and output is expected to be doubled after such expansion. To maintain a recurring sales and cashflow to

Chairman's Statement

the Group, two strategic co-operation agreements with a term of 10 years were entered with Panzhihua Steel Group International Economic Trading Company Limited ("Panzhihua Steel Company") and Wugang Group Kunming Iron and Steel Company Limited ("Kunming Steel Company"), a subsidiary of Wuhan Iron and Steel (Group) Corp., details of which were included in the announcements of the Company dated 21st November, 2008 and 9th December, 2008, respectively.

Further, in view of the deterioration in the global capital market and the further deterioration of the zinc and lead commodity market in late 2008, the Company considers that fundamental uncertainty has been created on the expected profitability of the Hong Ling Acquisition (as defined in the circular of the Company dated 5th February, 2008). To lessen the financial burden and improve the liquidity position of the Group, the Group has on 9th December, 2008 entered into the termination agreement for the Hong Ling Acquisition. Despite the termination, certain fees to professional parties and interests arising from bank borrowings have already incurred under the Hong Ling Acquisition. Such expenses were recorded as the Group's expenses in the income statement for the Year upon termination of the Hong Ling Acquisition. For the same reason above, a Mining Right Impairment of RMB214,142,000 was made for the Year.

Toll Road Operations

The effect of recent economic downturn does not has material impact on the Toll Road Operations and such operation continues to provide stable recurring income and cashflow to the Group.

PROSPECTS

Looking forward, the environment of mining business is expected to be difficult in year 2009. However, 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 iron, lead and zinc, due to the unsustainable nature of mineral resources. With the adoption of the Temporary Measures, we are positive on the business development of the Group in the future. In 2009, the Company's strategy is to realize its potential drilling capacity as well as further enhancing its production processes and technology improvements for achieving cost efficiency. Furthermore, the Group is committed to continue to explore for mineral assets with rich mineral resources and high returns, in order for the Company to further expand its scale of production, diversify its profit streams and deliver higher returns to our shareholders.

APPRECIATION

Finally, I would like to take this opportunity to express my gratitude to the Directors, management personnel and all staff for their 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, 17th April, 2009

Management Discussion and Analysis

FINANCIAL HIGHLIGHTS

The Group recorded an operating revenue of RMB268,263,000 in the Year, representing a decrease of approximately 8.74% over RMB293,960,000 in 2007. Gross operating profit amounted to RMB82,966,000, representing a decrease of approximately 47.51% as compared to RMB158,060,000 in 2007.

As a result of the Mining Rights Impairment, the audited loss attributable to the equity holders of the Group for the Year amounted to RMB240,200,000, compared with the audited profit attributable to shareholders amounted to RMB7,571,000 and basic loss per share amounted to RMB75.1 cents for the Year.

DIVIDENDS

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

BUSINESS REVIEW

Overview

The Group is principally engaged in Mining Operations and Toll Road Operations. During the Year, the Mining Operations realized an operating revenue of RMB213,790,000 with a segment loss of RMB234,108,000, which represented a segment profit of RMB8,357,000 for the Mining Operations after deducting the amortisation charges of mining rights and Mining Rights Impairment of RMB28,323,000 and RMB214,142,000, respectively. The Toll Road Operations recorded a net operating revenue of RMB54,473,000 and a segment profit of RMB16,121,000, respectively.

Management Discussion and Analysis

Mining Operations

During the Year, the Mining Operations recorded an operating revenue of RMB213,790,000 with a gross profit of RMB60,625,000 and gross profit margin of approximately 28.36%. The ores extracted during the Year amounted to 727,489 tons with a unit mining cost of approximately RMB94 per ton (2007: RMB75 per ton) and a unit processing cost of approximately RMB67 per ton (2007: RMB67 per ton). The Mining Operations included the processing of such metal ore concentrates as zinc ore concentrates of 8,697 metal tons, lead ore concentrates of 4,180 metal tons, silver of 4,131 kilograms and iron ore concentrates of 177,394 tons. During the Year, the metal ore concentrates were sold at an average price of RMB7,203 per metal ton for zinc ore concentrates, RMB13,193 per metal ton for lead ore concentrates (with silver content), and RMB543 per ton for iron ore concentrates.

During the Year, Tengchong Ruitu completed the project of upgrading the technology and enhancing the production capacity of its plant and its operations have commenced as planned. Currently, average daily ores cleansing and processing volume of the plant is 2,000 tons and the newly explored mine No. 10 has commenced its production representing a majority of ore supply of Tengchong Ruitu.

Toll Road Operations

Wen An Section of the National Highway 106 in Hebei Province (the “Wen An Section”) is located in Langfang, Hebei and is in the proximity to Beijing. It has a toll collection station at Wen An. Annual average daily traffic (AADT) reached 19,150 during the Year (2007: 16,045) while the operating revenue achieved RMB54,473,000, which represented a decrease of approximately 5.36% over RMB57,560,000 in 2007. During the Year, certain impacts on our revenue have been created by the toll-free “Green Channel” developed by the Company in accordance with relevant regulations of the PRC. 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 Year. Regular maintenance and repair works were carried out on the Wen An Section to maintain the quality of the road during the Year. However, no large-scale maintenance works have been carried out.

Inner Mongolia Acquisition

During the Year, the Group has completed the Weng Qi Acquisition (as defined in the circular of the Company dated 5th February, 2008) for the acquisition of exploration and/or mining rights of mines located in Inner Mongolia (details set out in the announcement and circular of the Company dated 30th November, 2007 and 5th February, 2008 respectively). The Weng Qi Acquisition has been approved in the extraordinary general meeting of the shareholders of the Company on 22nd February, 2008. Weng Qi Acquisition has been completed on 31st March, 2008.

The completion of Weng Qi Acquisition has further increased the Group’s metal ore reserve and enhanced its metal ore production capacity. Weng Qi Mines are equipped with abundant lead and zinc ore resources and also a satisfactory production environment and are thus qualified for a large scale production.

Management Discussion and Analysis

PROSPECT

The Group has always sought to enhance its exploration and mining technologies by identifying reasonable exploration and mining methods, improve and enhance explosive and blasting technology by setting up reasonable explosive and blasting method in order to maximize explosive effects. As a result, the Group would raise production capacity of its existing mines as well as reducing its mining costs. To reduce cleansing and processing costs, the Group will put emphasis on technology improvements, optimize production processes of processing plant and maximize grade and recovery of ore concentrates.

The completion of the project of upgrading technology and enhancing production capacity of the processing plant operated by Tengchong Ruitu, commencement of production of mine No. 10 as planned and the entering of the long-term strategic co-operation agreements with Panzhihua Steel Company and Kunming Steel Company have built a concrete foundation for the Group to have steady cash flow and reasonable level of profit. In addition, Zhen'an County Daqian Mining Development Co., Ltd. in Shaanxi ("Daqian Mining") has expanded its exploration activities as planned by accelerating the construction of a new processing plant with a daily processing volume of 1,200 tons in order to increase the exploration of mineral assets. Upon completion of the construction of the processing plant, the annual mining and processing capacity of Daqian Mining is expected to reach 300,000 tons. Also, Baoshan Feilong Nonferrous Metal Co., Ltd. ("Baoshan Feilong") has made progress in exploration activities as planned and the technology improvements of its processing plant are in progress. Yaoan Feilong Mining Co., Ltd. ("Yaoan Feilong") is accelerating the mining activities of mine No. 8 for increasing recovery. Meanwhile, the optimization of its operation flow is in progress.

Looking forward, the environment of mining business is expected to be difficult in 2009. However, 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 iron, lead and zinc, due to the unsustainable nature of mineral resources. With the adoption of the Temporary Measures, we are positive on the business development of the Group in the future. The Group is committed to continue to explore for mineral assets with rich mineral resources and high returns, in order for the Company to further expand its scale of production, diversify its profit streams and deliver higher returns to our shareholders.

On the other hand, the pace of Toll Road Operations' growth is relatively slow, thus, this affects the investment returns for the Toll Road Operations.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 27th May, 2009 to 3rd June, 2009, both days inclusive, during which period no transfer of shares in the Company will be registered. In order to determine the identity of members who are entitled to attend and vote at the annual general meeting of the Company to be held on 3rd June, 2009, all transfer of shares in the Company accompanied by the relevant share certificates must lodged with the Company's branch shares registrar in Hong Kong, Hong Kong Registrars Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 26th May, 2009.

Management Discussion and Analysis

FINANCIAL POSITION

Liquidity and Financial Resources

As at 31st December, 2008, the Group's current assets were RMB185,057,000 (2007: RMB215,645,000), of which RMB128,856,000 (2007: RMB128,952,000) were bank balances and cash on hand. As at 31st December, 2008, the net asset value of the Group amounted to RMB691,055,000, representing approximately 12.84% decrease as compared with RMB792,828,000 in 2007. The gearing ratio (total liabilities/total assets) of the Group was approximately 58.31% (2007: 50.31%). The increase in liabilities is mainly due to new bank borrowings of RMB100,000,000 for funding acquisitions and operation requirements and an increase in deferred taxation liabilities of RMB30,367,000 over the corresponding period of 2007.

As at 31st December, 2008, the share capital of the Company was RMB33,122,000 (2007: RMB31,208,000). The increase in share capital is mainly due to the issue of 20,000,000 new shares during the Year. The Company's reserve and minority interests were RMB530,928,000 (2007: RMB648,606,000) and RMB127,005,000 (2007: RMB113,014,000), respectively. As at 31st December, 2008, the Group had total current liabilities of RMB184,719,000 (2007: RMB211,543,000), mainly comprising bank borrowing, the promissory notes, consideration payable for acquisition of subsidiaries and other payables. The total non-current liabilities of the Group amounted to RMB781,895,000 (2007: RMB591,214,000), 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 and Hong Kong dollars. During the Year, 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 RMB23,910,000 during the Period due to the appreciation of Renminbi.

CONTINGENT LIABILITIES AND CHARGE ON THE GROUP'S ASSETS

As at 31st December, 2008, 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.

EMPLOYEE AND REMUNERATION POLICY

As at 31st December, 2008, the Group had a total of approximately 1,355 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 Year, 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.

Management Discussion and Analysis

REPURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

In January, 2008, the Company repurchased 862,000 ordinary shares of the Company at a the highest price, lowest price and average price of approximately HK$6.19, HK$4.95 and HK$5.68 per share, respectively, and the aggregate amount paid was HK$4,894,470. 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 Year.

THE CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Group has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules (save for the recent amendments thereto which came into effect only on 1st January, 2009) throughout the Year, except that the Chairman of the Board was unable to attend the annual general meeting of the Company held in 2008 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

During the Year, the Company has adopted the Model Code for Securities Transactions by the Directors of the Listed Issuers set out in Appendix 10 to the Listing Rules (save for the recent amendments thereto which came into effect only on 1st January, 2009 and 1st April, 2009) (the "Model Code"). 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 Year.

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 17th April, 2009, the audit committee reviewed the accounting principles and practices adopted by the Group, the annual results of the Group for the Year, the 2008 audited annual financial report and the connected transactions carried out by the Group during the Year, 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 during the Year, 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 (other than the recent amendments thereto which came into effect only on 1st January, 2009), 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 26 May 2008 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 the Year 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 corporate 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 programs of the Company, such as investment plans, merger and acquisition or disposal of major assets, major capital expenditure and external borrowings.

Corporate Governance Report

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

	Board	Audit Committee	Remuneration Committee
Number of meetings held	9	2	3
Attendance			
Hu You Lin	0		
Dong Li Yong	8		2
Chen Gang (ceased to be a Director with effect from 26th May, 2008)	0		
Qi Guangya	7	2	
Liu Xiaoguang	9		
Cai Chuan Bing	8	2	3
Leung Mei Han	5	2	
Cui Shuming	5		3
Han Runsheng	5		

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.

Corporate Governance Report

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. The Board comprises 8 members, of whom 2 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:

Directors' Name	**Office**
Hu You Lin	*Executive director/Chairman*
Dong Li Yong	*Executive director/Vice Chairman*
Qi Guangya	*Non-executive director*
Liu Xiaoguang	*Non-executive director*
Leung Mei Han	*Independent non-executive director*
Cui Shuming	*Independent non-executive director*
Cai Chuan Bing	*Independent non-executive director*
Han Runsheng	*Independent non-executive director*

Audit Committee	
Cai Chuan Bing	*Chairman*
Qi Guangya	
Leung Mei Han	

Remuneration Committee	
Cui Shuming	*Chairman*
Dong Li Yong	
Cai Chuan Bing	

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 four 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 20 to 22 of this annual report.

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

Corporate Governance Report

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 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 26th May, 2008, Mr. Chen Gang retire in accordance with Article 108(A) of the Articles of Association of the Company and did not offer himself for re-election. Save for the retirement of Mr. Chen, there was no other change in the composition of the Board in the Year.

Corporate Governance Report

Mr. Hu You Lin, an executive director and Chairman of the Board of the Company, entered into a service agreement with the Company for a term of three years with effect from 1st November, 2008. Mr. Dong Li Yong, an executive director of the Company, entered into a service agreement with the Company for a term of three years with effect from 2nd January, 2009. Mr. Qi Guangya and Mr. Liu Xiaoguang have been appointed as non-executive directors respectively for a term of one year with effect from 2nd January, 2009 and Mr. Cai Chuan Bing, Ms. Leung Mei Han, Mr. Cui Shuming and Mr. Han Runsheng have been appointed as independent non-executive directors respectively for a term of one year with effect from 2nd January, 2009.

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 2008 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.

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.

During the Year, the Company had 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 which was on terms no less exacting 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 (save for the recent amendments thereto which came into effect only on 1st January, 2009 and 1st April, 2009) (the "Model Code"). In addition, the Company notified all directors, senior management and relevant employees to follow such guidelines, in particular the non-dealings in shares of the Company a month prior to the date of the Board meeting for considering the 2008 annual results of the Company.

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.

Corporate Governance Report

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. 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. 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;

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(2) to determine the specific remuneration packages of all executive directors and senior management, including any non-monetary 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;

(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 the Year. 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 38 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 2008, the directors of the Company:

(1) have applied appropriate accounting policies.

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

Corporate Governance Report

(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. 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. The members of the Audit Committee comprised Mr. Cai Chuan Bing and Ms. Leung Mei Han, independent non-executive directors, and Mr. Qi Guangya, non-executive director, with Mr. Cai Chuan Bing as the Chairman of the Committee.

During the Year, 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;

Corporate Governance Report

(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;

(6) to discuss the internal control system with the arrangement 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 2008, 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 2008, the fee incurred by the Company to the external auditor, Deloitte Touche Tohmatsu, for audit services was HK$5,750,000.

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

Corporate Governance Report

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.

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, 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 the Year, the Company held three general meetings (including the 2007 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 three on page 10, 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 59, 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 38, 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, Yue Da Infrastructure Limited and nine other subsidiaries of Yue Da Mining Limited incorporated in the British Virgin Islands, all being direct/indirect subsidiaries of the Company.

SENIOR MANAGEMENT

Mr. LI Biao, aged 42, joined the Group in January, 2007 and is a vice president of the Company. He is primarily responsible for 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 44, joined the Group in November 2007 and is a vice president of the Company. He is primarily responsible for project development. 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.

Mr Bai Zhaoxiang, aged 46, joined the Group in August 2008 and is the financial controller and assistant to the general manager of the Company. Mr. Bai is a college graduate majoring in industrial accounting and an accountant in the People's Republic of China ("PRC"). In 1994, Mr Bai obtained the "Qualification Certificate of Speciality and Technology" issued by the Ministry of Personnel, the Finance Department of the PRC. Mr. Bai is primarily responsible for accounting and financial matters. Mr Bai has over 26 years of experience in accounting. Prior to joining the Company, Mr Bai has worked as a financial controller of a foreign-invested enterprise in the PRC for about 13 years.

Biographical Details of Directors and Senior Management

NON-EXECUTIVE DIRECTORS

Mr. QI Guangya, aged 39, 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 19 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 55, 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 16 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 69, 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. Mr. Cai is an independent non-executive director of Beijing Beida Jade Bird Universal Sci-Tech Company Limited, the shares of which are listed on the Growth Enterprise Market of the Stock Exchange.

Ms. LEUNG Mei Han, aged 50, 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 24 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 71, 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 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 China LotSynergy Holdings Limited, the shares of which are listed on the Main Board and the Growth Enterprise Market of the Stock Exchange respectively.

Biographical Details of Directors and Senior Management

Mr. HAN Runsheng, aged 44, 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 Ong Chi King, aged 35, joined the Group in November 2008. Mr. Ong holds a Master degree of corporate finance from the Hong Kong Polytechnic University and a Bachelor degree in business administration from the Hong Kong University of Science and Technology. He is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. Mr. Ong has over 13 years of experience in accounting, auditing and finance.

Directors' Report

The board of directors presents its annual report and the audited consolidated financial statements for the year ended 31st December, 2008.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its principal subsidiaries are engaged in (i) 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 Note 41 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31st December, 2008 are set out in the consolidated income statement on page 35.

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 RMB51,297,000 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 15 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 37 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 and contributed surplus as at 31st December, 2008 was RMB778,344,000.

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	(resigned on 26th May, 2008)

Directors' Report

Non-executive directors:

Mr. Liu Xiaoguang
Mr. Qi Guangya

Independent non-executive directors:

Mr. Cai Chuan Bing
Ms. Leung Mei Han
Mr. Cui Shu Ming
Mr. Han Run Sheng

In accordance with Article 108(A) of the Company's Articles of Association, Mr. Qi Guangya, Ms. Leung Mei Han and Mr. Han Run Sheng will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company.

CONFIRMATION BY 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 still considers all the independent non-executive directors to be independent.

DIRECTORS' SERVICE CONTRACTS

None of the directors (including those being proposed for re-election at the forthcoming annual general meeting of the Company) 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 IN SHARES, UNDERLYING SHARES AND DEBENTURES OR ANY ASSOCIATED CORPORATION OF THE COMPANY

As at 31st December, 2008, the interests 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 of Hong Kong Limited (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 of ordinary shares subject to of securities** (note i)	**Approximate percentage of issued share capital of the Company** (note ii)	**Number of options granted and underlying shares** (note iii)
Hu You Lin	The Company	Beneficial Owner	3,960,000 (L)	1.22%	1,800,000
Dong Li Yong	The Company	Beneficial Owner	1,818,000 (L)	0.56%	900,000
Liu Xiaoguang	The Company	Beneficial Owner	—	—	600,000
Qi Guangya	The Company	Beneficial Owner	—	—	600,000

notes:

i. The letter "L" represents the Director's interests in the ordinary shares of the Company.

ii. The percentage of issued share capital of the Company is calculated by reference to 325,569,333 shares in issue as at 31st December, 2008.

iii. These represent shares which would be allotted and issued upon the exercise in full of the options granted to the directors on 25th May, 2008 under the share option scheme of the Company. These options were exercisable at the subscription price of HK$4.85 per share during the period from 25th May, 2008 to 24th May, 2018.

Save as disclosed above and in this annual report, as at 31st December, 2008, 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.

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 in the Company:

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

Directors' Report

(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 in the Company or other securities of the Group to any person who fall within any of the above classes of participants shall not, solely 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 might be granted under the Scheme and any other share option scheme of the Group was 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.

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 in the Company in issue and with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Directors' Report

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 Scheme are set out in Note 38 to the consolidated 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, 2008	Granted during the Year	Exercised during the Year	Forfeited during the Year	Outstanding at 31st December, 2008	Closing price per share immediately before the date of grant HK$
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
	25th May, 2008 to 24th May, 2018	4.85	–	1,800,000	–	–	1,800,000	4.89
Mr. Dong Li Yong	25th May, 2008 to 24th May, 2018	4.85	–	900,000	–	–	900,000	4.89
Mr. Liu Xiaoguang	25th May, 2008 to 24th May, 2018	4.85	–	600,000	–	–	600,000	4.89
Mr. Qi Guangya	25th May, 2008 to 24th May, 2018	4.85	–	600,000	–	–	600,000	4.89
Total for directors of the Company			1,980,000	3,900,000	(1,980,000)	–	3,900,000	
Other employees of the Company:								
In aggregate	9th March, 2007 to 8th March, 2017	3.00	220,000	–	(220,000)	–	–	2.97
	25th May, 2008 to 24th May, 2018	4.85	–	4,800,000	–	–	4,800,000	4.89
Total for other employees of the Company			220,000	4,800,000	(220,000)	–	4,800,000	
Other employees of the Company's subsidiaries:								
In aggregate	16th May, 2003 to 28th April, 2013	0.40	450,000	–	–	(450,000)	–	0.40
	25th May, 2008 to 24th May, 2018	4.85	–	3,600,000	–	–	3,600,000	4.89
Total for other employees of the Company's subsidiaries			450,000	3,600,000	–	(450,000)	3,600,000	
Total			2,650,000	12,300,000	(2,200,000)	(450,000)	12,300,000	

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 was 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

The following are the connected transactions and continuing connected transactions that took place during the year ended 31st December, 2008 and which were not exempted under Rule 14A.31, Rule 14A.33 or Rule 14A.65 of the Listing Rules.

i. Tenancy agreement ("HK Office Tenancy Agreement") with Yue Da Group (H.K.) Co., Limited ("Yue Da HK") and Yue Da Enterprise (Group) H.K. Co. Ltd. ("Yue Da Enterprise")

On 24th August, 2007, the Company (as tenant) entered into the HK Office Tenancy Agreement with Yue Da HK (as landlord) for renting the Company's office in Hong Kong for a term of three years from 1st September, 2007 to 31st August, 2010. The rental payable to Yue Da HK is HK$200,000 per month (excluding rates, management fees and utility charges). Yue Da HK 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 HK and Yue Da Enterprise for staff 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. During the year ended 31st December, 2008, the total rentals paid by the Company to Yue Da HK and Yue Da Enterprise are RMB2,412,000 and RMB215,000, respectively. Yue Da Enterprise is a fellow subsidiary of the Company and deemed to be a connected party. These 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 were disclosed in the announcement of the Company dated 27th August, 2007.

Directors' Report

ii. Ore supply agreement and composite services agreement with Xiangyun County Feilong Industrial Co., Ltd. ("Feilong Industrial")

On 30th November, 2007, Baoshan Feilong Nonferrous Metal Co. Ltd. ("Baoshan Feilong"), Puer Feilong Mining Co., Ltd. ("Puer Feilong"), Yaoan Feilong Mining Co. Ltd.("Yaoan Feilong") and Tengchong Ruitu Mining and Technology Company Limited, all being subsidiaries of the Company, entered into an ore supply agreement and composite services agreement with Feilong Industrial, both for a term of three years commencing 1st January, 2008 and expiring on 31st December, 2010. As the controlling shareholder of Feilong Industrial, Mr. Yang Long, is also a substantial shareholder of the Company, the above transactions constituted non-exempt connected transactions and were 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 each of 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 each of 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. During the year ended 31st December, 2008, the sales of finished goods in relation to the ore supply agreement and purchase of materials in relation to the composite services agreement by the Group to Feilong Industrial and its affiliates are RMB104,503,000 and RMB2,612,000, respectively.

iii. Profit distribution agreement with Feilong Holdings Limited ("Feilong Holdings") and Mr. Yang Long

Pursuant to the sales and purchase agreements in relation to the acquisition of Baoshan Feilong, Puer Feilong and Yaoan Feilong in 2006 and 2007, the vendor of the acquisition, Mr. Yang Long and his affiliates, have given in favour of the Group a representation, warranty and undertaking that the said three companies had fully paid all mining rights fees and other relevant fees as required by PRC rules and regulations. On 14th July, 2008, the Group entered into an agreement with Mr. Yang Long and his affiliates, pursuant to which the Group has agreed to waive the obligations of the payment of the said fees in exchange for (a) the transfer by Mr. Yang Long and his affiliates of their distributable profits in Baoshan Feilong for the period from 2008 to 2015 to the Group; and (b) RMB5,000,000 cash paid by Mr. Yang Long and his affiliates to the Group. The transactions constituted non-exempt connected transactions and were subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Details of the transactions were disclosed in the circular of the Company dated 25th July, 2008. The transactions were approved in the extraordinary general meeting of the Company held on 12th August, 2008.

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 certain continuing connected transactions of the Group. The auditor has reported to the board of directors the factual findings arising on these procedures. The independent non-executive directors have reviewed the continuing connected transactions and the report of the auditor and have confirmed that the continuing connected transactions entered into by the Group were in the ordinary and usual 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.

Details of the above continuing connected transactions and other discloseable connected transactions are set out in Note 45 to the consolidated financial statements.

Directors' Report

CONTROLLING AND SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTEREST

The register of controlling and substantial shareholders maintained by the Company pursuant to section 336 of the SFO shows that, as at 31st December, 2008, the following shareholders had an interest of 5% or more in the issued share capital of the Company:

Name	Name of the company/ associated corporation	Capacity	Number of issued ordinary shares held (note i)	Percentage of the issued share capital of the Company (note ii)
Yue Da Group (H.K.) Co., Limited	The Company	Beneficial owner	120,257,000 (L)	36.94%
Jiangsu Yue Da Group Company Limited (note iii)	The Company	Interest of a controlled corporation	120,257,000 (L)	36.94%
Feilong Holdings Limited	The Company	Beneficial owner	33,333,333 (L)	10.24%
Pure Talent Investments Limited (note iv)	The Company	Interest of a controlled corporation	33,333,333 (L)	10.24%
Mr. Yang Long (note v)	The Company	Interest of a controlled corporation	33,333,333 (L)	10.24%
Keywise Capital Management (HK) Limited	The Company	Investment manager	33,609,000 (L)	10.32%
Cheah Cheng Hye (note vi)	The Company	Founder of a discretionary trust	30,421,000 (L)	9.34%
To Hau Yin (note vi)	The Company	Interest of spouse of a substantial shareholder	30,421,000 (L)	9.34%
Hang Seng Bank Trustee International Limited (note vi)	The Company	Trustee	30,421,000 (L)	9.34%
Cheah Company Limited (note vi)	The Company	Interest of a controlled corporation	30,421,000 (L)	9.34%
Cheah Capital Management Limited (note vi)	The Company	Interest of a controlled corporation	30,421,000 (L)	9.34%
Value Partners Group Limited (note vi)	The Company	Interest of controlled corporation	30,421,000 (L)	9.34%
Value Partners Limited (note vi)	The Company	Investment manager	30,421,000 (L)	9.34%
Keywise Greater China Opportunities Master Fund	The Company	Beneficial owner	21,275,000 (L)	6.53%
DnB NOR Asset Management (Asia) Limited	The Company	Investment manager	20,486,000 (L)	6.29%

Directors' Report

notes:

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

ii. The percentage of issued share capital of the Company is calculated by reference to 325,569,333 shares in issue as at 31st December, 2008.

iii. 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 SFO.

iv. Pure Talent Investments Limited holds 100% interest in Felong Holdings Limited.

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

vi. These shares are held by Value Partners Limited as investment manager. Value Partners Limited is wholly controlled by Value Partners Group Limited, which in turn is controlled as to 35.65% by Cheah Capital Management Limited. Cheah Capital Management Limited is wholly controlled by Cheah Company Limited, which in turn is wholly controlled by Hang Seng Bank Trustee International Limited (as trustee of The C H Cheah Family Trust). Cheah Cheng Hye is the founder of the said trust while To Hau Yin is the spouse of Cheah Cheng Hye.

Other than as disclosed above, the Company has not been notified of any other persons who, as at 31st December, 2008, had interests of 5% or more in any shares or underlying shares of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers during the Year accounted for approximately 56% of the Group's total revenue and the largest customer accounted for approximately 19% of the Group's total revenue. The aggregate purchases attributable to the Group's five largest suppliers during the Year accounted for approximately 53% of the Group's total purchases and the largest suppliers accounted for approximately 20% of the Group's total purchases.

At 31st December, 2008, Mr. Yang Long, a shareholder holding more than 5% of the Company's share capital, had beneficial interest in one of the Group's five largest customers. All transactions between the Group and the customer concerned were carried out on normal commercial terms.

REPURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

In January 2008, the Company repurchased 862,000 ordinary shares in the Company at an average price of approximately HK$5.68 per share, and the aggregate amount paid was approximately HK$4,894,000 (equivalent to RMB4,489,000). 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 in the Company during the Year.

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.

Directors' Report

The Company has adopted a share option scheme as an incentive for directors and eligible employees. Details of the scheme are set out in the section headed "Share Options" in this report.

PLACING OF SHARES

Pursuant to the placing agreement dated 19th March, 2008, the Company raised net proceeds of approximately HK$100 million by issuing 20 million new 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$5.00 each to independent placees, while the net price to the Company of each share issued is HK$4.90. The independent placees 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 purpose for such placing was to raise capital from the equity market in order to finance the mining acquisition projects carried out by the Company during the year ended 31st December, 2008. The placing price of HK$5.00 per share represented neither discount to nor premium over the closing price of HK$5.00 per share as quoted on the Stock Exchange on 18th March, 2008, being the last trading day before the release of the announcement of the Company in relation to the above placing on 19th March, 2008.

Particulars of the placing are also set out in Note 37 to the financial statements.

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

Based on information that is publicly available to the Company and within the knowledge of its directors as at the latest practicable date prior to the issue of this annual report, the Company has maintained a sufficient public float throughout the year ended 31st December, 2008.

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
17th April, 2009

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 35 to 103, which comprise the consolidated balance sheet as at 31st December, 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the 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, 2008 and of the Group's loss and cash flows for the year 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
17 April 2009

Consolidated Income Statement

For the Year ended 31st December, 2008

	NOTES	2008 RMB'000	2007 RMB'000
Revenue	6	**268,263**	293,960
Cost of sales		**(153,165)**	(102,508)
Direct operating costs		**(32,132)**	(33,392)
Gross profit		**82,966**	158,060
Other income, gains and losses		**29,386**	28,966
Gain on redemption of convertible bonds	36	**–**	30,104
Discount on acquisition of additional interests in mining subsidiaries	41	**–**	17,942
Impairment losses on assets	8	**(261,296)**	(3,235)
Loss from fair value changes of convertible bonds' embedded derivatives	36	**–**	(101,608)
Administrative expenses		**(79,421)**	(56,554)
Interest expense	10	**(23,974)**	(20,628)
Other expenses	11	**(18,443)**	–
(Loss) profit before tax		**(270,782)**	53,047
Income tax credit (expense)	12	**31,032**	(54,404)
Loss for the year	13	**(239,750)**	(1,357)
Attributable to:			
— Equity holders of the Company		**(240,200)**	7,571
— Minority interests		**450**	(8,928)
		(239,750)	(1,357)
(Loss) earning per share	14		
— Basic		**(75.1) cents**	2.8 cents
— Diluted		**N/A**	2.8 cents

Consolidated Balance Sheet

At 31st December, 2008

	NOTES	2008 RMB'000	2007 RMB'000 (restated)
Non-current Assets			
Property, plant and equipment	15	**179,880**	132,844
Prepaid lease payments	16	**2,884**	2,887
Mining rights	17	**1,158,096**	1,117,573
Goodwill	19	**482**	7,298
Other intangible assets	20	**100,824**	117,416
Long term deposits	21	**3,525**	—
Deposits paid for acquisition of property, plant and equipment	22	**—**	1,922
Other financial asset	23	**26,921**	—
		1,472,612	1,379,940
Current Assets			
Prepaid lease payments	16	**232**	229
Inventories	24	**20,720**	23,931
Trade and other receivables	25	**18,196**	7,977
Amounts due from related companies	26	**17,053**	54,556
Bank balances and cash	27	**128,856**	128,952
		185,057	215,645
Current Liabilities			
Trade and other payables	28	**42,101**	100,195
Amounts due to related companies	26	**5,168**	6,231
Amounts due to directors	29	**352**	—
Taxation payable		**1,539**	1,908
Promissory notes — due within one year	30	**8,320**	68,716
Bank borrowings — due within one year	31	**53,465**	34,493
Consideration payable for acquisition of subsidiaries	32	**73,774**	—
		184,719	211,543
Net Current Assets		**338**	4,102
Total Assets Less Current Liabilities		**1,472,950**	1,384,042

Consolidated Balance Sheet

At 31st December, 2008

	NOTES	2008 RMB'000	2007 RMB'000 (restated)
Capital and Reserves			
Share capital	37	**33,122**	31,208
Reserves		**530,928**	648,606
Equity attributable to equity holders of the Company		**564,050**	679,814
Minority interests		**127,005**	113,014
Total equity		**691,055**	792,828
Non-current Liabilities			
Other payables	28	**21,266**	—
Amounts due to related companies	26	**62,961**	—
Promissory notes — due after one year	30	**74,554**	53,384
Bank borrowings — due after one year	31	**319,924**	302,251
Provisions	33	**1,862**	—
Deferred tax liabilities	34	**265,946**	235,579
Deferred income	35	**35,382**	—
		781,895	591,214
		1,472,950	1,384,042

The consolidated financial statements on pages 35 to 103 were approved and authorised for issue by the Board of Directors on 17th April, 2009 and are signed on its behalf by:

Dong Li Yong
DIRECTOR

Liu Xiaoguang
DIRECTOR

Consolidated Statement of Changes in Equity

For the Year ended 31st December, 2008

	Attributable to equity holders of the Company										
	Share capital	Share premium	Non-distributable reserves	Special reserve	Capital contribution	Share options reserve	Other reserve	Accumulated profits (losses)	Total	Minority interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(note i)	(note ii)	(note iii)		(note iv)				
At 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 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 and 1st January, 2008	31,208	401,873	7,442	157,178	–	714	(59,372)	140,771	679,814	113,014	792,828
Loss for the year, representing total recognised expense for the year	–	–	–	–	–	–	–	(240,200)	(240,200)	450	(239,750)
Shares repurchased and cancelled	(79)	(4,410)	–	–	–	–	–	–	(4,489)	–	(4,489)
Exercise of share options	196	2,085	–	–	–	(745)	–	–	1,536	–	1,536
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	21,981	21,981
Placing of new shares	1,797	89,598	–	–	–	–	–	–	91,395	–	91,395
Transaction costs attributable to placing of new shares	–	(1,824)	–	–	–	–	–	–	(1,824)	–	(1,824)
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	–	(8,440)	(8,440)
Recognition of equity-settled share-based payments	–	–	–	–	–	15,096	–	–	15,096	–	15,096
Deemed contribution from a fellow subsidiary	–	–	–	–	13,270	–	–	–	13,270	–	13,270
Deemed contribution from a shareholder	–	–	–	–	9,452	–	–	–	9,452	–	9,452
Transfer	–	–	14,035	–	–	–	–	(14,035)	–	–	–
At 31st December, 2008	33,122	487,322	21,477	157,178	22,722	15,065	(59,372)	(113,464)	564,050	127,005	691,055

notes:

(i) 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.

(ii) 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.

Consolidated Statement of Changes in Equity

For the Year ended 31st December, 2008

(iii) The capital contribution represented deemed capital contribution arising from:

(a) compensation in relation to the termination of the acquisition of Balin Zuo Qi Hong Ling Lead and Zinc Mine ("Hong Ling") paid on behalf of the Group without any consideration by Yue Da Enterprise (Group) HK Co. Ltd. ("Yue Da Enterprise"), which is a fellow subsidiary of the Company and deemed to be a connected party under the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as it is a subsidiary of the ultimate holding company, Jiangsu Yue Da Group Company Limited ("Jiangsu Yue Da"). On 8th November, 2008, a settlement deed was entered with the vendor of Hong Ling and the Group agreed to pay compensation of RMB7,827,000 for the termination of the acquisition. The entire amount was subsequently paid by Yue Da Enterprise for the Group without any consideration;

(b) a non-current interest free loan granted by Yue Da Enterprise. The difference of the nominal value and the fair value of the non-current interest free loans on its inception date amounting to RMB5,443,000 was recognised as a deemed contribution by Yue Da Enterprise. Details are set out in Note 26;

(c) extension of repayment date of the promissory notes by an affiliate of Mr. Yang Long. The difference of carrying value and the fair value of the promissory notes on its extension date amounting to RMB9,452,000 was recognised as a deemed contribution by Mr. Yang Long. Mr. Yang Long is a substantial shareholder of the Company and the minority shareholder of the Company's mining subsidiary, Baoshan Feilong Nonferrous Metal Co., Ltd. ("Baoshan Feilong"). The companies controlled by Mr. Yang Long are deemed to be connected parties under the Listing Rules. Details are set out in Note 30.

(iv) 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, 2008

	NOTE	2008 RMB'000	2007 RMB'000
OPERATING ACTIVITIES			
(Loss) profit before tax		**(270,782)**	53,047
Adjustments for:			
Impairment losses on assets		**261,296**	3,235
Amortisation of mining rights		**28,323**	22,217
Interest expense		**23,974**	20,628
Depreciation of property, plant and equipment		**23,129**	14,586
Amortisation of other intangible assets		**16,592**	16,586
Share-based payment expenses		**15,096**	644
Write-down of inventories		**1,716**	—
Change in fair value of financial asset designated as at fair value through profit or loss		**2,936**	—
Release of prepaid lease payments		**134**	157
Loss on disposal of property, plant and equipment		**63**	1,778
Interest income		**(3,082)**	(790)
Loss from fair value changes of convertible bonds' embedded derivatives		**—**	101,608
Gain on redemption of convertible bonds		**—**	(30,104)
Discount on acquisition of additional interest in mining subsidiaries		**—**	(17,942)
Operating cash flows before movements in working capital		**99,395**	185,650
Increase in long term deposits		**(3,525)**	—
Decrease (increase) in inventories		**4,375**	(12,453)
Decrease (increase) in trade and other receivables		**12,693**	(2,180)
Decrease (increase) in amounts due from related companies		**5,582**	(18,037)
Decrease in trade and other payables		**(12,661)**	(6,226)
Decrease in amounts due to related companies		**(3,599)**	(2,412)
Cash generated from operations		**102,260**	144,342
Income tax paid		**(4,906)**	(6,180)
NET CASH FROM OPERATING ACTIVITIES		**97,354**	138,162

Consolidated Cash Flow Statement

For the Year ended 31st December, 2008

	NOTE	2008 RMB'000	2007 RMB'000
INVESTING ACTIVITIES			
Acquisition of subsidiaries/additional interests in subsidiaries	41	**(193,617)**	(370,696)
Purchase of property, plant and equipment		**(49,375)**	(46,315)
Prepaid lease payments		**(134)**	(1,310)
Proceeds from disposal of property, plant and equipment		**322**	358
Interest received		**146**	790
Deposits paid for acquisition of property, plant and equipment		**—**	(1,922)
Purchase of exploration and evaluation assets		**—**	(1,839)
NET CASH USED IN INVESTING ACTIVITIES		**(242,658)**	(420,934)
FINANCING ACTIVITIES			
Bank borrowing raised		**100,000**	338,744
Proceeds on placing of new shares		**91,395**	125,387
Advance from a related companies		**78,767**	—
Proceeds from issue of shares upon exercise of share options		**1,536**	2,460
Advance from directors		**352**	—
Bank borrowing repaid		**(62,095)**	(74,000)
Repayment of promissory notes		**(26,802)**	(9,753)
Interest paid		**(15,503)**	(16,601)
Dividend paid to minority shareholders		**(8,440)**	(33,036)
Payments on repurchase of shares		**(4,489)**	(4,646)
Expenses on placing of new shares		**(1,824)**	(4,304)
NET CASH FROM FINANCING ACTIVITIES		**152,897**	324,251
NET INCREASE IN CASH AND CASH EQUIVALENTS		**7,593**	41,479
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**128,952**	102,094
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(7,689)**	(14,621)
CASH AND CASH EQUIVALENTS AT END OF YEAR, represented by bank balances and cash		**128,856**	128,952

Notes to the Consolidated Financial Statements

For the Year ended 31st December, 2008

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. The Company's immediate holding company is Yue Da Group (H.K.) Co., Limited ("Yue Da HK"), a company incorporated in Hong Kong with limited liability. The Company's ultimate holding company is Jiangsu Yue Da, a state-owned enterprise established with limited liability in 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 (i) mining and processing of zinc, lead and iron; and (ii) management and operation of 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. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements, the directors of the Company have given consideration to the future liquidity of the Group in light of its loss of approximately RMB240 million reported for the current year and accumulated losses of approximately RMB113 million as at 31st December, 2008. The directors are satisfied that with its existing resources, available banking facilities and future operating cash flows, the Group will have sufficient working capital to meet in full its financial obligations as they fall due for the foreseeable future and be able to continue to operate with no significant financial difficulties. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

3A. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) — Int 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) — Int 12	Service Concession Arrangements
HK(IFRIC) — Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Except for HK(IFRIC) — Int 12, the adoption of the new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting years. Accordingly, no prior year adjustment has been recognised.

The effects of adoption by the Group of HK(IFRIC) — Int 12 "Service Concession Arrangements", which is effective for annual periods beginning on or after 1st January, 2008, are described below.

Notes to the Consolidated Financial Statements

For the Year ended 31st December, 2008

3A. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

HK(IFRIC) — Int 12 provides guidance on the accounting by an operator of a service concession arrangement which involves the provision of public sector services. As a toll highway and bridge operator, the Group has the access to operate an infrastructure to provide public service on behalf of the grantor in accordance with the terms specified in a service concession arrangement contract.

In prior years, the Group's toll highway and bridge infrastructure, which included construction costs incurred on toll highway and bridge infrastructure work that entitled the Group the operating rights of the toll highway and bridge for the specified concession period, were recorded as property, plant and equipment and were stated at cost less accumulated depreciation and impairment losses. Depreciation of the toll highway and bridge infrastructure was calculated to write off their cost, over their expected useful lives or the remaining concession period, whichever was shorter, commencing from the date of commencement of commercial operation 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 toll highway and bridge.

In accordance with HK(IFRIC) — Int 12, infrastructure within the scope of this interpretation is not recognised as property, plant and equipment of the operator as the contractual service arrangement does not convey the right to control the use of the public service infrastructure to the operator. If the operator provides construction and upgrade services of the infrastructure, this interpretation requires the operator to account for its revenue and costs in accordance with HKAS 11 "Construction Contracts" for the construction and upgrade services of the infrastructure and to account for the fair value of the consideration received and receivable for the construction and upgrade services as an intangible asset in accordance with HKAS 38 "Intangible Assets" to the extent that the operator receives a right to charge users of the public service, which amounts are contingent on the extent that the public uses the service. In addition, the operator accounts for the revenue from provision of services in relation to the operation of the infrastructure in accordance with HKAS 18 "Revenue".

As it is impracticable to determine the fair value of the consideration received for the construction services carried out by the Group in connection with the construction of the toll highway and bridge infrastructure, the Group does not apply this interpretation retrospectively. For the year beginning 1st January, 2007, the Group has applied the transitional provisions given in the interpretation with recognition of an intangible asset on 1st January, 2007 by using the previous carrying amount of the toll highway and bridge infrastructure as its carrying amount as at 1st January, 2007. The financial impact on application of this interpretation is summarised below.

Notes to the Consolidated Financial Statements

For the Year ended 31st December, 2008

3B. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES AND RESTATEMENTS

The effect of changes described above on the results for the current and prior year by line items presented according to their function are as follows:

	2008 RMB'000	2007 RMB'000
Decrease in depreciation expense (included in direct operating costs)	**(16,592)**	(16,586)
Increase in amortisation expense (included in direct operating costs)	**16,592**	16,586
Increase/decrease in loss for the year	**—**	—

Other than the adoption of the new HKFRSs, the Group has recognised additional assets and liabilities of prior year in connection with the compliance of certain PRC rules and regulations in relation to mining fee. Accordingly, certain comparative amounts have been restated.

The effect of the changes described above on the Group's balance sheet items as at 31st December, 2007 are summarised below:

	As at 31st December, 2007 (originally stated) RMB'000	Adjustments RMB'000	As at 31st December, 2007 (restated) RMB'000
Balance sheet items			
Property, plant and equipment	250,260	(117,416)	132,844
Mining rights	1,081,953	35,620	1,117,573
Other intangible assets	—	117,416	117,416
Trade and other receivables	13,857	(5,880)	7,977
Amounts due from related companies	22,635	31,921	54,556
Trade and other payables	(38,534)	(61,661)	(100,195)
Total effects on net assets	1,330,171	—	1,330,171
Accumulated profits, total effects on equity	—	—	—

Notes to the Consolidated Financial Statements

For the Year ended 31st December, 2008

3C. NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS NOT YET EFFECTIVE

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC) — Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]
HK(IFRIC) — Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) — Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation[6]
HK(IFRIC) — Int 17	Distribution of Non-cash Assets to Owners[3]
HK(IFRIC) — Int 18	Transfers of Assets from Customers[7]

1 Effective for annual periods beginning on or after 1st January, 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1st July, 2009

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

3 Effective for annual periods beginning on or after 1st July, 2009

4 Effective for annual periods ending on or after 30th June, 2009

5 Effective for annual periods beginning on or after 1st July, 2008

6 Effective for annual periods beginning on or after 1st October, 2008

7 Effective for transfers on or after 1st July, 2009

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1st January, 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

Notes to the Consolidated Financial Statements

For the Year ended 31st December, 2008

4. 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 Listing Rules and by the Hong Kong Companies Ordinance.

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 (other than those under common control) 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, 2008

4. 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 the 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 the 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, 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.

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.

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.

Notes to the Consolidated Financial Statements

For the Year ended 31st December, 2008

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Exploration and evaluation assets (continued)

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).

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.

Notes to the Consolidated Financial Statements

For the Year ended 31st December, 2008

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill (continued)

Goodwill arising on acquisitions on or after 1st January, 2005 (continued)

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.

Other intangible assets

Other intangible assets, which represent the cost incurred to obtain the right to operate a highway and bridge infrastructure, are stated at cost less amortisation and any accumulated impairment losses. Amortisation is provided to write off the cost of other intangible assets on a units-of-usage basis, calculated based on the ratio of estimated traffic volume for a particular period to the projected total traffic volume over the periods for which the Group is granted the rights to operate the toll road.

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 a 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.

Financial assets

The Group's financial assets are classified as financial assets at fair value through profit or loss ("FVTPL") and loans and receivables.

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.

Notes to the Consolidated Financial Statements

For the Year ended 31st December, 2008

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets at fair value through profit or loss

Financial assets at FVTPL are those designated as at FVTPL on initial recognition.

A financial asset may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

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 (including long term deposits, trade and other receivables, amounts due from related companies and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment of financial assets

Financial assets, other than those at FVTPL, 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 affected.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of issuer or counterparty; or

- default or delinquency in interest or principal payments; or

- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Notes to the Consolidated Financial Statements

For the Year ended 31st December, 2008

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

***Financial assets at fair value through profit or loss* (continued)**

Impairment of financial assets (continued)

Trade receivables 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, observable changes in national or local economic conditions that correlate with default on receivables.

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

The carrying amount of loans and receivables is reduced by the impairment loss directly with the exception of trade receivables, 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 a trade receivable 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 loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of loans and receivables 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 those 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, 2008

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity **(continued)**

Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL mainly include those designated as at FVTPL on initial recognition.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

At each balance sheet date subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities.

Other financial liabilities

The Group's other financial liabilities (including trade and other payables, amounts due to related companies/directors, promissory notes, bank borrowings and consideration payable for acquisition of subsidiaries) are subsequently measured at amortised cost, using the effective interest method.

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 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.

Notes to the Consolidated Financial Statements

For the Year ended 31st December, 2008

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity (continued)

Equity instruments

Equity instruments issued by the Company are record at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instrument is recognised and deducted directly in share capital for par value and in share premium for total amount paid in excess of par value.

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.

Provisions

The Group is required to make payments for restoration and rehabilitation of certain land after the underground sites have been mined. Provision for restoration, rehabilitation and environmental cost is required when the Group has a present obligation as a result of past event, and it is probable that the Group will be required to settle that obligation. Provision is measured in accordance with the relevant rules and regulations applicable in the PRC at the balance sheet date, and is discounted to their present value where the effect is material.

Provision for restoration, rehabilitation and environmental expenses is recognised as part of the cost of mining shafts based on estimation of future restoration costs. This cost is charged to profit or loss through amortisation of the assets, which are amortized using the unit of production method based on the estimated production volume over the estimated total proved and probable reserves of the ore mines.

Notes to the Consolidated Financial Statements

For the Year ended 31st December, 2008

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to imputed interest on interest-free advances/payables are recognised in the same period as those imputed interest are charged to the consolidated income statement and are deducted in reporting the related expense.

Impairment losses on assets other than goodwill (see the accounting policy in respect of goodwill above)

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.

Notes to the Consolidated Financial Statements

For the Year ended 31st December, 2008

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing

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

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification. To the extent the allocation of the lease payments can be made reliably, leasehold interest in land are accounted for as operating leases.

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 each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in the share options 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 be transferred to accumulated losses.

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.

Notes to the Consolidated Financial Statements

For the Year ended 31st December, 2008

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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 exchange 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 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.

Notes to the Consolidated Financial Statements

For the Year ended 31st December, 2008

5. 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 property, plant and equipment and mining rights

When there is objective evidence of impairment losses on property, plant and equipment and mining rights, the Group takes into consideration of the recoverable amounts of the relevant CGUs which comprise production assets. The recoverable amounts of the relevant CGUs are determined on the basis of their value in use which is calculated by estimating the future cash flows expected to arise from the CGU and a suitable discount rate. Where the recoverable amount is less or higher than its carrying amount, a material impairment loss or impairment written-back may arise. As at 31st December, 2008, the carrying amounts of property, plant and equipment and mining rights were RMB179,880,000 (2007: RMB132,844,000 (restated)) and RMB1,158,096,000 (2007: RMB1,117,573,000 (restated)), respectively, after providing for impairment losses of RMB40,338,000 (2007: nil) and RMB214,142,000 (2007: nil), respectively, for the year.

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. 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 licences of the respective mining subsidiaries without significant costs. Accordingly, the Group has used the proven and probable reserves as a 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 licences is changed.

Notes to the Consolidated Financial Statements

For the Year ended 31st December, 2008

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

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. As at 31st December, 2008, the carrying amount of goodwill is RMB482,000 (2007: RMB7,298,000), after providing for an impairment loss of RMB6,816,000 (2007: RMB 3,235,000) for the year.

Operation period of toll highway and bridge

The operating 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 operating period for a further 10 years to end in 2023. The operation rights of the toll highway and bridge is being amortised on the basis that the operating period will end in 2013. Should there be an extension of the operating period, the basis of the amortisation will be revised.

Provisions for restoration, rehabilitation and environmental costs

Provisions for restoration, rehabilitation and environmental costs are discounted to their present value where the effect is material. However, significant changes in the estimation of restoration standard or the changes in timing of the performance of reclamation activities will result in changes to the provision amounts from period to period.

6. REVENUE

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

	2008 **RMB'000**	2007 RMB'000
Toll revenue	**54,473**	57,560
Sale of zinc, lead and iron ore concentrates	**213,790**	236,400
	268,263	293,960

Notes to the Consolidated Financial Statements

For the Year ended 31st December, 2008

7. 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

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

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

Year ended 31st December, 2008

	Toll Road Operations RMB'000	Mining Operations RMB'000	Consolidated RMB'000
REVENUE			
External sales	**54,473**	**213,790**	**268,263**
RESULTS			
Segment results	**16,121**	**(234,108)**	**(217,987)**
Unallocated corporate income			**29,504**
Unallocated corporate expenses			**(58,325)**
Interest expense			**(23,974)**
Loss before tax			**(270,782)**
Income tax credit			**31,032**
Loss for the year			**(239,750)**

As at 31st December, 2008

	Toll Road Operations RMB'000	Mining Operations RMB'000	Consolidated RMB'000
ASSETS			
Segment assets	**112,687**	**1,384,774**	**1,497,461**
Unallocated corporate assets			**160,208**
Consolidated total assets			**1,657,669**
LIABILITIES			
Segment liabilities	**1,934**	**92,468**	**94,402**
Unallocated corporate liabilities			**872,212**
Consolidated total liabilities			**966,614**

Notes to the Consolidated Financial Statements

For the Year ended 31st December, 2008

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Business segments (continued)

As at 31st December, 2008

	Toll Road Operations RMB'000	Mining Operations RMB'000	Unallocated RMB'000	Consolidated RMB'000
OTHER INFORMATION				
Capital additions	**1,049**	**392,812**	**15**	**393,876**
Prepaid lease payments additions	**—**	**134**	**—**	**134**
Depreciation and amortisation	**17,888**	**50,267**	**23**	**68,178**
Impairment losses on assets	**—**	**261,296**	**—**	**261,296**

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)

Notes to the Consolidated Financial Statements

For the Year ended 31st December, 2008

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (CONTINUED)

Business segments (continued)

As at 31st December, 2007

	Toll Road Operations RMB'000	Mining Operations RMB'000	Consolidated RMB'000 (restated)
ASSETS			
Segment assets	139,223	1,320,930	1,460,153
Unallocated corporate assets			135,432
Consolidated total assets			1,595,585
LIABILITIES			
Segment liabilities	7,428	95,445	102,873
Unallocated corporate liabilities			699,884
Consolidated total liabilities			802,757

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 losses on assets	—	3,235	—	3,235

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, 2008

8. IMPAIRMENT LOSSES ON ASSETS

	2008 RMB'000	2007 RMB'000
Impairment losses on:		
— property, plant and equipment (Note 15)	40,338	—
— mining rights (Note 17)	214,142	—
— goodwill (Note 19)	6,816	3,235
	261,296	3,235

9. DIRECTORS AND EMPLOYEES' REMUNERATION

The emoluments paid or payable to each of the nine (2007: fifteen) directors were as follows:

2008

	Executive directors			Non-executive directors						
	Mr. Hu You Lin RMB'000	Mr. Dong Li Yong RMB'000	Mr. Chen Gang RMB'000 (note i)	Mr. Liu Xiaoguang RMB'000	Mr. Qi Guangya RMB'000	Mr. Cai Chuan Bing RMB'000	Ms. Leung Mei Han RMB'000	Mr. Cui Shu Ming RMB'000	Mr. Han Run Sheng RMB'000	Total RMB'000
Fees	–	–	–	–	–	134	223	223	134	714
Other emoluments										
Salaries and other benefits	1,965	1,241	–	–	–	–	–	–	–	3,206
Contributions to retirement benefits schemes	–	124	–	–	–	–	–	–	–	124
Share-based payments	2,210	1,105	–	736	736	–	–	–	–	4,787
Total emoluments	4,175	2,470	–	736	736	134	223	223	134	8,831

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 (note ii)	Mr. Gao Yi Shan RMB'000 (note ii)	Mr. Liu Xiaoguang RMB'000	Mr. Qi Guangya RMB'000	Mr. Shen Xiao Zhong RMB'000 (note ii)	Mr. Pan Wan Qu RMB'000 (note ii)	Mr. Cai Chuan Bing RMB'000	Ms. Leung Mei Han RMB'000	Mr. Cui Shu Ming RMB'000	Mr. Han Run Sheng RMB'000	Ms. Yu Chor Woon, Carol RMB'000 (note ii)	Mr. Yu Zheng Hua RMB'000 (note ii)	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

Notes to the Consolidated Financial Statements

For the Year ended 31st December, 2008

9. DIRECTORS AND EMPLOYEES' REMUNERATION (CONTINUED)

notes:

(i) This director resigned on 26th May, 2008

(ii) These directors resigned on 2nd January, 2007

Of the five individuals with the highest emoluments in the Group, two (2007: three) were directors of the Company whose emoluments are included in the disclosures above. The emoluments of the remaining three (2007: two) individuals, none of which exceeded HK$1,000,000 individually, was as follows:

	2008 RMB'000	2007 RMB'000
Salaries and other benefits	**1,178**	759
Contributions to retirement benefits schemes	**45**	12
Share-based payments	**1,907**	—
	3,130	771

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

10. INTEREST EXPENSE

	2008 RMB'000	2007 RMB'000
Interest on bank borrowing wholly repayable within five years	**10,160**	11,448
Effective interest on:		
— promissory notes	**8,951**	6,153
— convertible bonds	**—**	3,027
Imputed interest on:		
— non-current consideration payable for acquisition of subsidiaries	**4,746**	—
— provisions	**117**	—
	23,974	20,628

11. OTHER EXPENSES

The amounts represented the professional fees of RMB10,616,000 in relation to the acquisition of Hong Ling and the compensation paid to vendor of RMB7,827,000 in relation of termination of the acquisition of Hong Ling pursuant to a settlement deed entered into with the vendor. The entire compensation amount was subsequently paid by a fellow subsidiary for the Group without any consideration. Therefore, the amount has been recognised as a deemed capital contribution from a fellow subsidiary of the Group.

Notes to the Consolidated Financial Statements

For the Year ended 31st December, 2008

12. INCOME TAX (CREDIT) EXPENSE

	2008	2007
	RMB'000	RMB'000
PRC Enterprise Income Tax		
— current year	**4,379**	3,708
— underprovision in prior years	**–**	152
Deferred tax (Note 34)		
— current year	**(35,411)**	(6,030)
— increase in deferred tax liabilities resulting from a change in tax rate enacted in March 2007	**–**	56,574
	(31,032)	54,404

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

Zhen'an County Daqian Mining Development Co., Ltd. ("Daqian Mining"), Weng Niu Te Qi San Xiang Mining Co., Ltd. ("San Xiang"), Weng Niu Te Qi Xiang Da Mining Co., Ltd. ("Xiang Da") and Chi Feng Yi Da mining Co., Ltd. ("Yi Da") were subject to PRC Enterprise Income Tax at a rate of 25% (2007: 33%) during the year ended 31st December, 2008.

Pursuant to the relevant regulations applicable to enterprises situated in the western region of the PRC, the Company's other PRC mining subsidiaries, except for those stated above, 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 year of these PRC subsidiaries, other than Baoshan Feilong, was 2007 and accordingly, they were within the tax exemption period and not subject to tax during the year ended 31st December, 2008. The first profit-making year of Baoshan Feilong was 2006 and accordingly, it was within the tax reduction period and was subject to PRC Enterprise Income Tax at a rate of 7.5% during the year ended 31st December, 2008.

Langfang Tongda Highway Co., Ltd. ("Langfang Tongda") was subject to PRC Enterprise Income Tax at a preferential rate of 15% for the year ended 31st December, 2007 as it was qualified as an enterprise investing in public infrastructure projects in the PRC. It was subject to the 18% tax rate during the year ended 31st December, 2008.

The newly promulgated Enterprise Income Tax Law ("Tax Law") of the PRC are effective on 1st January, 2008. In February 2008, the Ministry of Finance and the State Administration of Taxation issued several important tax circulars which clarify the implementation of the Tax Law and have an impact on certain of the Company's PRC subsidiaries. Those PRC subsidiaries situated in the western region of the PRC, which previously enjoyed fixed-term preferential enterprise income tax treatment in the form of tax reductions and exemptions, will continue to enjoy the preferential tax rate of 15% until 2010. Langfang Tongda, which previously enjoyed the preferential tax policies in the form of a reduced tax rate, will have a five-year period from the time when the Tax Law took effect to transition progressively to the legally prescribed tax rate. Langfang Tongda will be subject to 20% tax rate for the financial year 2009, 22% tax rate for the financial year 2010, 24% tax rate for the financial year 2011 and 25% tax rate for the financial year 2012.

Notes to the Consolidated Financial Statements

For the Year ended 31st December, 2008

12. INCOME TAX (CREDIT) EXPENSE (CONTINUED)

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

	2008 **RMB'000**	2007 RMB'000
(Loss) profit before tax	**(270,782)**	53,047
Tax at the domestic income tax rate of 15% (note)	**(40,617)**	7,957
Tax effect of expenses not deductible for tax purpose	**7,675**	9,450
Effect of tax exemption/reduction granted to PRC subsidiaries	**(9,346)**	(19,525)
Tax effect of income not taxable for tax purpose	**(4,169)**	(3,716)
Underprovision in respect of prior years	**—**	152
Tax effect of tax losses not recognised	**2,548**	—
Increase in opening deferred tax liabilities resulting from an increase in applicable tax rates	**—**	56,574
Deferred tax provided on dividends withholding tax on PRC subsidiaries	**4,992**	—
Effect of different tax rates of subsidiaries operating in other jurisdictions	**7,885**	3,512
Income tax (credit) expense	**(31,032)**	54,404

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

13. LOSS FOR THE YEAR

	2008 **RMB'000**	2007 RMB'000 (restated)
Loss for the year has been arrived at after charging:		
Cost of inventories sold	**151,449**	102,508
Employee benefit expense, including directors' remuneration (Note 9) and share-based payment expense (Note 38)	**78,871**	40,631
Amortisation of mining rights (included in cost of sales)	**28,323**	22,217
Depreciation of property, plant and equipment	**23,129**	14,586
Amortisation of other intangible assets (included in cost of sales)	**16,592**	16,586
Change in fair value of financial asset designated as at FVTPL	**2,936**	—
Auditors' remuneration	**2,000**	2,500
Write-down of inventories	**1,716**	—
Release of prepaid lease payments	**134**	157
Loss on disposal of property, plant and equipment	**63**	1,778
and after crediting:		
Net foreign exchange gain	**23,910**	25,948
Interest income	**3,082**	790

Notes to the Consolidated Financial Statements

For the Year ended 31st December, 2008

14. (LOSS) EARNING PER SHARE

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

	2008 RMB'000	2007 RMB'000
(Loss) earning		
(Loss) profit for the year attributable to equity holders of the Company and (loss) earning for the purposes of basic and diluted (loss) earning per share	**(240,200)**	7,571

	2008	2007
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earning per share	**319,917,010**	268,371,954
Effect of dilutive ordinary shares — share options	**–**	2,893,866
Weighted average number of ordinary shares for the purpose of diluted (loss) earning per share	**319,917,010**	271,265,820

The exercise of the Company's share options would result in a decrease in loss per share for the year ended 31st December, 2008. Accordingly, the relevant diluted loss per share is not presented.

The Company's convertible bonds were not included in the calculation of diluted earning per share as they are anti-dilutive for the year ended 31st December, 2007.

Notes to the Consolidated Financial Statements

For the Year ended 31st December, 2008

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvement	Mining shafts	Plant and machinery	Electricity generation plant	Furniture, fixtures and equipment	Motor vehicles	Toll highway and bridge	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST										
At 1st January, 2007 (originally stated)	25,112	–	8,859	22,095	1,450	3,175	5,054	247,798	5,294	318,837
Effects of changes in accounting policies	–	–	–	–	–	–	–	(247,798)	–	(247,798)
At 1st January, 2007 (restated)	25,112	–	8,859	22,095	1,450	3,175	5,054	–	5,294	71,039
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 (restated)	47,269	–	24,249	43,170	1,450	7,989	7,673	–	20,299	152,099
Additions	217	1,792	3,859	6,213	–	2,397	1,925	–	34,894	51,297
Acquired on acquisition of subsidiaries	1,225	7,399	13,069	36,054	–	–	1,605	–	239	59,591
Disposals	–	–	–	–	–	(104)	(410)	–	–	(514)
Transfer	743	15,726	5,143	1,543	–	710	–	–	(23,865)	–
At 31st December, 2008	49,454	24,917	46,320	86,980	1,450	10,992	10,793	–	31,567	262,473
DEPRECIATION AND IMPAIRMENT										
At 1st January, 2007 (originally stated)	1,174	–	209	1,114	211	2,397	979	113,796	–	119,880
Effects of changes in accounting policies	–	–	–	–	–	–	–	(113,796)	–	(113,796)
At 1st January, 2007 (restated)	1,174	–	209	1,114	211	2,397	979	–	–	6,084
Charge for the year	2,976	–	2,287	6,190	258	1,436	1,439	–	–	14,586
Eliminated on disposals	(105)	–	–	(276)	–	(15)	(1,019)	–	–	(1,415)
At 31st December, 2007 (restated)	4,045	–	2,496	7,028	469	3,818	1,399	–	–	19,255
Charge for the year	2,790	1,248	7,187	7,771	119	1,999	2,015	–	–	23,129
Impairment loss recognised in the consolidated income statement	7,355	1,254	7,071	11,217	–	152	–	–	13,289	40,338
Eliminated on disposals	–	–	–	–	–	(48)	(81)	–	–	(129)
At 31st December, 2008	14,190	2,502	16,754	26,016	588	5,921	3,333	–	13,289	82,593
CARRYING VALUE										
At 31st December, 2008	35,264	22,415	29,566	60,964	862	5,071	7,460	–	18,278	179,880
At 31st December, 2007 (restated)	43,224	–	21,753	36,142	981	4,171	6,274	–	20,299	132,844

The buildings are situated in the PRC under medium-term leases.

Notes to the Consolidated Financial Statements

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15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, 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
Leasehold improvement	Over the shorter of 20 years or the joint venture period of the relevant company
Mining shafts	5 years
Plant and machinery	5–10 years
Electricity generation plant	5–10 years
Furniture, fixtures and equipment	5 years
Motor vehicles	5 years

During the year, management conducted impairment review of the CGUs which comprise goodwill, mining rights and production assets and noted that the recoverable amounts of the relevant CGUs are less than their carrying amounts due to the decline of the market price of minerals and operating losses incurred by certain CGUs. Accordingly, an impairment loss of RMB40,338,000 (2007: Nil) in respect of production assets, which are used in the mining operations segment of the Group, was recognised in the consolidated income statement. The recoverable amounts of the relevant CGUs were determined on the basis of their value in use. The discount rate in measuring the amounts of value in use was 25% in relation to the relevant CGUs.

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, 2008, the carrying value of such buildings amounted to RMB30,238,000 (2007: RMB41,967,000). 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.

In prior years, the toll highway and bridge were recognised as property, plant and equipment and were stated at cost less accumulated depreciation and accumulated impairment losses.

In the current year, the Group has applied HK(IFRIC) — Int 12 “Service Concession Arrangements” retrospectively and accordingly, the Group’s toll highway and bridge infrastructure with a carrying value of RMB134,002,000 as at 1st January, 2007 that had previously been recognised as property, plant and equipment was derecognised from that category of assets and reclassified as other intangible assets retrospectively. The financial impact on application of this interpretation is summarised in Note 3b.

Notes to the Consolidated Financial Statements

For the Year ended 31st December, 2008

16. PREPAID LEASE PAYMENTS

	2008 RMB'000	2007 RMB'000
The Group's prepaid lease payments comprise:		
Leasehold land outside Hong Kong:		
Medium-term lease	**3,116**	3,116
Analysed for reporting purposes as:		
Current asset	**232**	229
Non-current asset	**2,884**	2,887
	3,116	3,116

As at 31st December, 2008, the carrying value of land use rights in respect of which the Group had not been granted formal title of ownership amounted to RMB1,021,000 (2007: RMB887,000). 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.

17. MINING RIGHTS

	RMB'000
COST	
At 1st January, 2007 (originally stated)	961,442
Restatement (Note 3b)	35,620
At 1st January, 2007 (restated)	997,062
Acquired on acquisition of subsidiaries	151,056
At 31st December, 2007 (restated)	1,148,118
Acquired on acquisition of subsidiaries	282,988
At 31st December, 2008	1,431,106
AMORTISATION AND IMPAIRMENT	
At 1st January, 2007	8,328
Charge for the year	22,217
At 31st December, 2007	30,545
Charge for the year	28,323
Impairment loss recognised in the consolidated income statement	214,142
At 31st December, 2008	273,010
CARRYING VALUE	
At 31st December, 2008	1,158,096
At 31st December, 2007 (restated)	1,117,573

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17. MINING RIGHTS (CONTINUED)

The mining rights represent the rights to conduct mining activities in various locations in the PRC, and have legal lives of two to eight years, expiring in the period from June 2010 to December 2014. In the opinion of the directors, the Group will be able to renew the mining rights with the relevant government authorities continuously.

The mining rights are amortised over a period between 9 and 25 years using the units of production method based on the proven and probable mineral reserves under the assumption that the Group can renew the mining rights indefinitely till all proven reserves have been mined.

During the year, the management conducted impairment review of the CGUs which comprise goodwill, mining rights and production assets and noted that the recoverable amounts of the relevant CGUs are less than their carrying amounts due to the decline of the market price of minerals and operating losses incurred by certain CGUs. Accordingly, an impairment loss of RMB214,142,000 (2007: Nil) in respect of mining rights, which are included in the mining operations segment of the Group, was recognised in the consolidated income statement. The recoverable amounts of the relevant CGUs were determined on the basis of their value in use. The discount rate in measuring the amounts of value in use was 25% in relation to the relevant CGUs.

18. EXPLORATION AND EVALUATION ASSETS

	RMB'000
COST	
At 1st January, 2007	9,248
Additions	1,839
Transfer to property, plant and equipment	(11,087)
At 31st December, 2007	—
CARRYING VALUE	
At 31st December, 2007	—

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For the Year ended 31st December, 2008

19. GOODWILL

	RMB'000
COST	
At 1st January, 2007	5,474
Acquisition of a subsidiary	3,235
Adjustment of the purchase consideration (note i)	1,824
At 31st December, 2007 and 2008	10,533
IMPAIRMENT	
At 1st January, 2007	—
Recognised for the year (note ii)	3,235
At 31st December, 2007	3,235
Recognised for the year (note iii)	6,816
At 31st December, 2008	10,051
CARRYING VALUE	
At 31st December, 2008	482
At 31st December, 2007	7,298

notes:

(i) During the year ended 31st December, 2007, management adjusted the purchase consideration for the acquisition of certain PRC mining subsidiaries of RMB1,824,000 due to reversal of an adjustment to a profit guarantee by the vendor in the prior year.

(ii) During the year ended 31st December, 2007, 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 could not support the carrying value of the goodwill. In October 2007, Tengchong Ruilong transferred all the assets to its immediate holding company and then was closed down.

(iii) During the year ended 31st December, 2008, the Group recognised an impairment loss of RMB6,816,000 in relation to goodwill because of the decline of the market price of minerals and/or the operating losses incurred by the CGUs of Baoshan Feilong, Puer Feilong Mining Co., Ltd.("Puer Feilong") and Yaoan Feilong Mining Co. Ltd.("Yaoan Feilong").

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For the Year ended 31st December, 2008

19. 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 (net of accumulated impairment losses) is allocated to the following CGUs:

	2008 RMB'000	2007 RMB'000
Toll Road Operations	**482**	482
Mining Operations		
— Baoshan Feilong mining operation	**–**	6,461
— Yaoan Feilong mining operation	**–**	324
— Puer Feilong mining operation	**–**	31
	482	7,298

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% (2007: 18%). The key assumption for the value in use calculation relates to the forecast traffic flows. Management of the Group has determined that no impairment needs to be recognised in respect of the CGU containing the Toll Road Operations goodwill.

Mining Operations

The recoverable amounts of the relevant 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 a five-year period, and a discount rate of 25% (2007: 21%). The cash flows beyond the five-year period are extrapolated using a steady 3% 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, 2008, the carrying amount of certain CGUs of mining operation exceeded its recoverable amount. Accordingly, an impairment loss of RMB6,816,000 in respect of goodwill derived from these mining operation units was recognised in the consolidated income statement. The impairment losses in respect of property, plant and equipment of mining operation and mining rights are disclosed in Note 15 and Note 17 respectively.

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20. OTHER INTANGIBLE ASSETS

	RMB'000
COST	
At 1st January, 2007 (originally stated)	—
Effect of change in accounting policies (Note 3b)	247,798
At 1st January, 2007 (restated), 31st December, 2007 (restated) and 2008	247,798
AMORTISATION	
At 1st January, 2007 (originally stated)	—
Effect of change in accounting policies (Note 3b)	(113,796)
At 1st January, 2007 (restated)	(113,796)
Provided for the year	(16,586)
At 31st December, 2007 (restated)	(130,382)
Provided for the year	(16,592)
At 31st December, 2008	(146,974)
CARRYING VALUE	
At 31st December, 2008	100,824
At 31st December, 2007 (restated)	117,416

The above operating rights of toll highway and bridge were granted by the Hebei Provincial Government to the Group for 16 years, which is from 1997 to 2013. During the concessionary period, the Group has the rights of operation and management of Wen An section of National Highway 106 and the toll-collection rights thereof. The Group is required to manage and operate the toll highway and bridge in accordance with the regulations promulgated by the Ministry of Transport of PRC and relevant government authorities. Upon the end of the respective concession service period, the toll highway and bridge and their toll station facilities will be returned to the grantor at nil consideration.

The Group's right to operate the toll highway and bridge is amortised on a units-of-usage basis, using the ratio of estimated traffic volume for a particular period to the projected total traffic volume over the period of 16 years.

The Group is currently negotiating with relevant authorities to extend the operation period for a further 10 years to end in 2023. As at 31st December, 2008, the applications with the relevant governmental authorities for toll collection was still in progress.

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For the Year ended 31st December, 2008

21. LONG TERM DEPOSITS

Long term deposits represent environmental rehabilitation deposits paid to the local government in the PRC. The amounts and its related interest are not expected to be refunded within the next twelve months.

22. 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 44.

23. OTHER FINANCIAL ASSET

	2008	2007
	RMB'000	RMB'000
Financial asset designated as at FVTPL	**26,921**	–

The asset relates to a receivable due from Mr. Yang Long and his affiliates (Note 26(i)). During the year, Mr. Yang Long and his affiliates entered into a profit distribution agreement with the Group to settle the mining fee payable by giving up the distributable profits of Baoshan Feilong to the Group for the period from 2008 to 2015. At initial recognition, the financial asset is measured based on the estimated distributable profits of Baoshan Feilong given up by Mr. Yang Long and his affiliates for the period from 2008 to 2015 at an effective interest rate of 22.9%. The fair value of the financial asset varies depending on the estimated distributable profits of Baoshan Feilong and the effective interest rate. Accordingly, the entire combined contract has been designated as financial asset at FVTPL on initial recognition.

24. INVENTORIES

	2008	2007
	RMB'000	RMB'000
Raw materials	**10,762**	14,354
Finished goods	**9,958**	9,577
	20,720	23,931

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25. TRADE AND OTHER RECEIVABLES

	2008 **RMB'000**	2007 RMB'000 (restated)
Trade receivables	**7,940**	200
Other receivables	**10,256**	7,777
	18,196	7,977

The Group allows an average credit period of 60 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

	2008 **RMB'000**	2007 RMB'000
0–30 days	**7,940**	–
30–180 days	**–**	–
180–360 days	**–**	200
	7,940	200

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines its credit limits. Credit sales are made to customers with a satisfactory trustworthy history. Credit limits attributed to customers are reviewed regularly. At 31st December, 2008, the entire trade receivable balance was neither past due nor impaired and had no default record based on historical information.

At 31st December, 2007, included in the Group's trade receivables balance were debtors with an aggregate carrying amount of RMB200,000 which aged between 180 days to 360 days and were past due at the balance sheet date for which the Group had not provided for impairment loss, as the Group considered such balance would be fully recoverable based on historical experience. The Group did not hold any collateral over these balances.

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For the Year ended 31st December, 2008

26. AMOUNTS DUE FROM/TO RELATED COMPANIES

	Due from	
	2008	2007
	RMB'000	RMB'000 (restated)
Mr. Yang Long and his affiliates	**9,411**	49,341
Langfang Municipal Communications Bureau ("Langfang Bureau") and its affiliate (note ii)	**7,642**	5,215
	17,053	54,556
Trade nature	**17,053**	22,635
Non-trade nature (note i)	**–**	31,921
	17,053	54,556

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 which are principally trade nature at the balance sheet date:

	2008	2007
	RMB'000	RMB'000
0–30 days	**17,053**	19,700
30–60 days	**–**	2,935
	17,053	22,635

At the balance sheet date, the entire balances due from related parties were neither past due nor impaired and had no default record based on historical information.

	Due to	
	2008	2007
	RMB'000	RMB'000
Current		
Mr. Yang Long and his affiliates (note iii)	**3,260**	3,599
Langfang Bureau and its affiliate (note ii & iii)	**1,908**	2,632
	5,168	6,231
Non-current		
Yue Da Enterprise (note iv)	**62,961**	–
	68,129	6,231
Trade nature	**–**	3,599
Non-trade nature	**68,129**	2,632
	68,129	6,231

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For the Year ended 31st December, 2008

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

The Group is allowed an average credit period of 60 days by its related companies. The following is an aged analysis of amounts due to related companies which were trade nature at the balance sheet date:

	2008 **RMB'000**	2007 RMB'000
0–60 days	**–**	3,599

The Group has financial risk management policies in place to ensure that all payables are within the allowable credit period.

The Group's amounts due to related companies that are denominated in a currency other than the functional currency of the relevant group entity are set out below:

	2008 **RMB'000**	2007 RMB'000
HKD	**66,221**	2,571

notes:

(i) As at 31st December, 2007, the amount represented the receivable from Mr. Yang Long and his affiliates in relation to mining rights fees and other relevant fees which is undertaken by them pursuant to the sales and purchase agreements entered in 2006 and 2007 in connection with acquisition of Baoshan Feilong, Puer Feilong and Yaoan Feilong. During the year, the Group and Mr. Yang Long and his affiliates have entered into an agreement, pursuant to which this receivable was agreed to be waived in exchange for the distributable profits of Baoshan Feilong for the period from 2008 to 2015 given up by Mr. Yang Long and his affiliates (Note 23) and RMB 5,000,000 cash paid by Mr. Yang Long and his affiliates to the Group. Accordingly, this receivable was derecognized during the year.

(ii) Langfang Bureau is a minority shareholder with 49% equity interest of the Company's toll highway and bridge subsidiary, Langfang Tongda. Langfang Bureau and its affiliate are also deemed to be connected parties under Listing Rules as Langfang Bureau and the Company are indirectly controlled by the PRC government.

(iii) The amounts are unsecured, interest-free and repayable on demand, except for the trade nature amounts which are payable within the allowable credit period.

(iv) The amount represented a loan granted by a fellow subsidiary. It is unsecured, interest-free and repayable in 2010. The amount was initially recognised at a fair value of RMB62,961,000, determined using cash flows discounted at an effective interest rate of 9.3% per annum. The difference of RMB5,443,000 between the nominal value and the fair value of the amount on its inception date was recognised as a deemed capital contribution from a fellow subsidiary.

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27. 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 0.36% to 0.72% (2007: 0.72% to 1.50%) per annum.

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

	2008 RMB'000	2007 RMB'000
HKD	**1,389**	107,009

28. TRADE AND OTHER PAYABLES

	2008 RMB'000	2007 RMB'000 (restated)
Current		
Trade payables	**2,395**	476
Other payables (note)	**39,706**	99,719
	42,101	100,195
Non-current		
Other payables (note)	**21,266**	—
	63,367	100,195

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

	2008 RMB'000	2007 RMB'000
0–60 days	**2,395**	476

The average 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.

note:

At 31st December, 2008, included in the other payable is a mining fee payable of RMB23,497,000 (2007: RMB61,661,000) in which RMB21,266,000 (2007: Nil) is classified as non-current and RMB2,231,000 (2007: RMB61,661,000) is classified as current. It is unsecured, interest-free and repayable in accordance with the requirement of the PRC rules and regulations. During the year, due to the economy crisis, the payment method of the mining fee is allowed to be based on the annual actual extraction volume rather than payable on demand. Due to this change of the PRC rules and regulations, the carrying amount was adjusted from RMB58,878,000 to RMB23,497,000 to reflect the effect of imputed interest at the date of the change, determined using estimated cash flows discounted at an effective interest rate of 9.3% per annum. The difference of RMB 35,382,000 is considered as government grant and has been recognised as deferred income (Note 35).

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29. AMOUNTS DUE TO DIRECTORS

The amounts are unsecured, interest-free and repayable on demand. The entire amounts are denominated in HKD, a currency other than the functional currency of the relevant group entity.

30. PROMISSORY NOTES

The promissory notes were issued to Feilong Holdings Limited ("Feilong Holdings"), a company beneficiary owned by Mr. Yang Long, and are unsecured, interest-bearing at 3.5% (2007: 3.5%) per annum and repayable on the following terms:

	2008 **RMB'000**	2007 RMB'000
Carrying amount repayable:		
Within one year	**8,320**	68,716
More than one year, but not more than two years	**26,898**	53,384
More than two years, but not more than five years	**47,656**	—
	82,874	122,100
Less: Amounts due within one year shown under current liabilities	**(8,320)**	(68,716)
	74,554	53,384

On 9th December, 2008, the Group agreed with Feilong Holdings to extend the repayment date of the promissory notes to 31st December, 2009, 31st December, 2010 and 31st December, 2011, respectively, without consideration. The amount was recognised at a fair value of RMB86,153,000 at the date of the settlement deed, determined using cash flows discounted at an effective interest rate of 9.3% per annum. The difference of RMB9,452,000 between the carrying value and the fair value of the promissory notes at the date of the settlement deed was recognised as a deemed capital contribution from a shareholder.

The entire balance is denominated in HKD, a currency other than the functional currency of the relevant group entity.

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31. BANK BORROWINGS

	2008 **RMB'000**	2007 RMB'000
Secured floating-rate bank loans are repayable:		
Within one year	**53,465**	34,493
More than one year, but not exceeding two years	**105,040**	68,986
More than two years, but not exceeding five years	**214,884**	233,265
	373,389	336,744
Less: Amount due within one year shown under current liabilities	**(53,465)**	(34,493)
	319,924	302,251

During the year, the Group obtained a 2-year and a 3-year term loans ("2008 Term Loans") with an aggregate amount of RMB100,000,000, carrying interest at 105% of The People's Bank of China Base Lending Rate ("PBCBLR") per annum. The effective interest rate was 5.67% per annum. The bank loans are repayable in two instalments on 29th December, 2010 and 29th December, 2011.

In the prior year, the Group obtained a 5-year term loan ("2007 Term Loan") in the amount of HK$360,000,000 (equivalent to RMB336,744,000) carrying interest at Hong Kong Interbank Offered Rate ("HIBOR") plus 1% per annum. The effective interest rate was 3.35% (2007: 4.63%) per annum. The bank loan is repayable in eight semi-annual instalments commencing on 26th December, 2008 to 26th June, 2012.

The 2008 Term Loans were raised for general working capital while the 2007 Term Loan was used to finance the acquisition of subsidiaries that are engaged in mining operations. They are secured by the Company's equity interests in certain subsidiaries and guaranteed by Jiangsu Yue Da.

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:

	2008 **RMB'000**	2007 RMB'000
HKD	**273,389**	336,744

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32. CONSIDERATION PAYABLE FOR ACQUISITION OF SUBSIDIARIES

In March, 2008, the Group completed the acquisition of certain subsidiaries and part of the consideration is payable on 30th September, 2009. The consideration payable is unsecured and interest-free and the amount was initially recognised at a fair value of HKD78,340,000 (equivalent to RMB68,877,000), determined using cash flows discounted at an effective interest rate of 8.7% per annum. The difference of HKD10,636,000 (equivalent to RMB9,351,000) between the nominal value and the fair value of the consideration payable on its inception date is reflected in the determination of the amount of the purchase consideration for acquisition of subsidiaries as detailed in Note 41.

The entire balance of consideration payable for acquisition of subsidiaries is denominated in HKD, a currency other than the functional currency of the relevant group entity.

33. PROVISIONS

	2008 RMB'000
Restoration, rehabilitation and environmental costs	
At 1st January, 2008	–
Acquired on an acquisition of a subsidiary	1,745
Imputed interest	117
At 31st December, 2008	1,862

In accordance with relevant PRC rules and regulations, the Group is obliged to accrue the costs for land reclamation and mine closures for certain of the Group's existing mines. The provision for restoration, rehabilitation and environmental costs has been determined by the directors based on their best estimates and the effective interest rate is 8.7% per annum.

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34. 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	Amortisation of other intangible assets RMB'000	Dividends withholding tax RMB'000	Total RMB'000
At 1st January, 2007	142,478	(96)	4,889	—	147,271
Acquisition of subsidiaries	37,764	—	—	—	37,764
Credit to consolidated income statement for the year	(4,710)	(1,256)	(64)	—	(6,030)
Increase in deferred tax liabilities resulting from a change in tax rate enacted in March 2007	53,379	(64)	3,259	—	56,574
At 1st January, 2008	228,911	(1,416)	8,084	—	235,579
Acquisition of subsidiaries	65,778	—	—	—	65,778
(Credit) charge to consolidated income statement for the year	(31,144)	(7,868)	(1,391)	4,992	(35,411)
At 31st December, 2008	263,545	(9,284)	6,693	4,992	265,946

At the balance sheet dates, the Group had unused tax losses of approximately RMB17,000,000 (2007: Nil) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Such tax losses can be carried forward for five years following the loss year.

In addition, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have been recognised was RMB80,778,000 (2007: Nil).

35. DEFERRED INCOME

The amount represents the imputed interest portion of interest-free mining fees payables (Note 28). The amount will be released to income over the expected payment period of the mining fee payable upon the recognition of imputed interest expense.

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36. CONVERTIBLE BONDS

The movement of the convertible bonds was as follows:

	Liability portion RMB'000	Embedded derivatives portion RMB'000	Total RMB'000
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	—	—	—

On 23rd June, 2006, the Company issued 3.5% convertible bonds at a nominal value of HK$75,000,000 (equivalent to RMB72,750,000). Interest was to be payable annually. During the year ended 31st December, 2007, the 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 and the convertible bonds with an aggregate principal amount of HK$35,000,000 (equivalent to RMB33,950,000) were redeemed at a consideration 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) at a fair value of HKD62,390,000 (equivalent to RMB60,518,000) at the redemption date. The loss from fair value changes of convertible bonds embedded derivatives amounted to RMB101,608,000 and the gain on redemption of convertible bonds amounted to RMB30,104,000.

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37. SHARE CAPITAL

	Number of shares	Amount	Shown in the consolidated financial statements
		HK$'000	RMB'000
Ordinary shares of HK$0.10 each:			
Authorised			
At 1st January, 2007, 31st December, 2007 and 31st December, 2008	2,000,000,000	200,000	N/A
Issued and fully paid			
At 1st January, 2007	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
Share repurchased and cancelled (note i)	(862,000)	(86)	(79)
Exercise of share options	2,200,000	220	196
Placing of new shares (note iv)	20,000,000	2,000	1,797
At 31st December, 2008	325,569,333	32,557	33,122

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$0.1 each	Price per share		Total consideration paid
		Highest	Lowest	
		HK$	HK$	RMB'000
Year ended 31st December, 2008				
January	(862,000)	6.19	4.95	4,489
Year ended 31st December, 2007				
January	(1,314,000)	3.60	3.44	4,646

(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.

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37. SHARE CAPITAL (CONTINUED)

notes: (continued)

(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 approximately RMB125 million). The proceeds were used to finance the Group's acquisition as set out in Note 41. Arrangement fees of approximately HK$5 million (equivalent to approximately RMB4 million) were set-off against share premium.

(iv) Pursuant to a placing agreement dated 19th March, 2008, the Company placed 20 million shares of the Company at a price of HK$5.00 per share, resulting in gross proceeds to the Company of approximately HK$100 million (equivalent to approximately RMB91 million). The placement was made to independent investors. The placing price represented neither discount to nor premium over the closing price of HK$5.00 per share as quoted on the Stock Exchange on 18th March, 2008, being the date on which the terms of placing was fixed. Arrangement fees of approximately HK$2 million (equivalent to approximately RMB1.8 million) were set off against share premium. The proceeds were used to finance the Group's acquisition as set out in Note 41.

38. 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 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, 2008, the number of shares in respect of which options were outstanding under the Scheme was 12,300,000 (2007: 2,650,000), representing 4% (2007: 1%) of the shares of the Company in issue at that date.

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For the Year ended 31st December, 2008

38. SHARE OPTION SCHEME (CONTINUED)

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

	Date of grant	Exercise price per share HK$	Exercisable period	Outstanding at 1st January, 2008	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31st December, 2008
Directors of the Company	26th September, 2005	0.53	12th October, 2005 to 25th September, 2015	1,980,000	–	(1,980,000)	–	–
	25th May, 2008	4.85	25th May, 2008 to 24th May, 2018	–	3,900,000	–	–	3,900,000
				1,980,000	3,900,000	(1,980,000)	–	3,900,000
Other employees of the Company	9th March, 2007	3.00	9th March, 2007 to 8th March, 2017	220,000	–	(220,000)	–	–
	25th May, 2008	4.85	25th May, 2008 to 24th May, 2018	–	4,800,000	–	–	4,800,000
				220,000	4,800,000	(220,000)	–	4,800,000
Other employees of the Company's subsidiaries	29th April, 2003	0.40	16th May, 2003 to 28th April, 2013	450,000	–	–	(450,000)	–
	25th May, 2008	4.85	25th May, 2008 to 24th May, 2018	–	3,600,000	–	–	3,600,000
				450,000	3,600,000	–	(450,000)	3,600,000
				2,650,000	12,300,000	(2,200,000)	(450,000)	12,300,000
Exercisable at the end of the year								12,300,000
Weighted average exercise price (HK$)				0.71	4.85	0.78	0.40	4.85

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For the Year ended 31st December, 2008

38. 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, 2007	Granted during the year	Exercised 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

The fair value of the share options granted during the year was calculated using the Black-Scholes pricing model. 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. The inputs into the model were as follows:

	2008	2007
Grant date share price	**HK$4.89**	HK$3.00
Exercise price	**HK$4.85**	HK$3.00
Expected life	**2.36 years**	3 years
Expected volatility	**55.91%**	43.20%
Risk-free interest rate	**2.22%**	3.99%
Dividend yield	**4.00%**	1.33%

Expected volatility was determined by using the historical volatility of the Company's share price over the past 250 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.

Notes to the Consolidated Financial Statements

For the Year ended 31st December, 2008

38. SHARE OPTION SCHEME (CONTINUED)

For the year ended 31st December, 2008, the closing price of the Company's shares immediately before the date of grant was HK$4.89 (2007: HK$3.00).

As all the options vested on the date of grant, the Group recognised total share option expense of RMB15,096,000 for the year ended 31st December, 2008 (2007: RMB644,000) 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, 2008 was HK$4.99 (2007: HK$5.02).

39. 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 debt, which includes the promissory notes and bank borrowings, 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 debt.

40. FINANCIAL INSTRUMENTS

(i) Categories of financial instruments

	2008 **RMB'000**	2007 RMB'000
Financial assets		
Financial asset designated as at FVTPL	**26,921**	—
Loans and receivables (including cash and cash equivalents)	**157,387**	183,708
Financial liabilities		
Amortised cost	**624,410**	530,850

For the financial asset designated as at FVTPL, the cumulative change in fair value and the change in fair value recognised during the year ended 31st December, 2008 of RMB2,936,000, is mainly attributable to changes in estimated distributable profits (Note 23).

Notes to the Consolidated Financial Statements

For the Year ended 31st December, 2008

40. FINANCIAL INSTRUMENTS (CONTINUED)

(ii) Financial risk management objectives and policies

The Group's major financial instruments include other financial asset, trade and other receivables, amounts due from related companies, bank balances and cash, trade and other payables, amounts due to related companies/directors, promissory notes, bank borrowings and consideration payable for acquisition of subsidiaries. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price 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.

Market risk

(a) Currency risk

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

	Liabilities		Assets	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
HKD	**496,610**	461,415	**1,389**	107,009

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 amounts due to related companies, amounts due to directors, promissory notes, bank borrowings consideration payable for acquisition of subsidiaries and bank balances that are denominated in HKD, the major foreign currency risk. On this basis, there will be a decrease in post-tax loss for the year where RMB strengthens against HKD by 5%, and vice versa.

	2008	2007
	RMB'000	RMB'000
Loss for the year	**21,047**	15,062

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

Notes to the Consolidated Financial Statements

For the Year ended 31st December, 2008

40. FINANCIAL INSTRUMENTS (CONTINUED)

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

Market risk (continued)

(b) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate promissory notes. Currently, the Group does not have a hedging policy. However, management monitors interest rate exposure and will consider hedging significant fixed rate borrowings should the need arise.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings. It is the Group's policy to keep its bank balances and bank borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR and PBCBLR arising from the Group's bank borrowings and bank balances.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for bank balances and bank borrowings at the balance sheet date. For variable-rate bank balances and bank borrowings, the analysis is prepared assuming the amount of asset and liability outstanding at the balance sheet date were outstanding for the whole year. 30 and 50 basis points increase or decrease are used for bank balances and bank borrowings respectively 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 30 and 50 basis points higher/lower for bank balances and bank borrowings respectively and all other variables were held constant, the Group's post-tax loss for the year ended 31st December, 2008 would increase/decrease by RMB1,261,000 (2007: loss increase/decrease by RMB1,102,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings and bank balances.

(c) Other price risk

The Group is exposed to changes in distributable profits of Baoshan Feilong in relation to other financial asset designated as at FVTPL.

Notes to the Consolidated Financial Statements

For the Year ended 31st December, 2008

40. FINANCIAL INSTRUMENTS (CONTINUED)

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

Market risk (continued)

(c) Other price risk (continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to other price risk if estimated distributable profits increased/decreased by 5% assuming other variables remain constant at the balance sheet date.

If the estimated distributable profits had been 5% higher/lower, the Group's post-tax loss for the year ended 31st December, 2008 would decrease/increase by RMB1,144,000 as a result of the change in fair value of other financial asset.

Credit risk

As at 31st December, 2008, 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 or related companies 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 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 trade receivables and amounts due from related companies. Trade receivables were solely due from one single external customer in PRC while amounts due from related companies in trade nature were attributed to 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. 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.

Notes to the Consolidated Financial Statements

For the Year ended 31st December, 2008

40. FINANCIAL INSTRUMENTS (CONTINUED)

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

Liquidity risk (continued)

Liquidity 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	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amounts RMB'000
2008								
Non-derivative financial liabilities								
Trade and other payables — current	–	3,935	691	–	–	–	4,626	4,626
Other payables — non-current	9.30	–	–	–	11,338	45,310	56,648	21,266
Amounts due to related companies — current	–	5,168	–	–	–	–	5,168	5,168
Amounts due to related companies — non-current	9.30	–	–	–	68,405	–	68,405	62,961
Amounts due to directors	–	352	–	–	–	–	352	352
Promissory notes	9.30	–	–	9,094	92,908	–	102,002	82,874
Bank borrowings — variable rate	3.97	766	3,707	63,472	341,967	–	409,912	373,389
Consideration payable for acquisition of subsidiaries	8.70	–	–	78,468	–	–	78,468	73,774
		10,221	4,398	151,034	514,618	45,310	725,581	624,410

	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	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amounts RMB'000
2007 (restated)								
Non-derivative financial liabilities								
Trade and other payables	–	63,445	2,034	296	–	–	65,775	65,775
Amounts due to related companies	–	2,632	3,599	–	–	–	6,231	6,231
Promissory notes	9.00	–	–	75,943	62,971	–	138,914	122,100
Bank borrowings — variable rate	4.63	1,299	2,599	46,186	334,462	–	384,546	336,744
		67,376	8,232	122,425	397,433	–	595,466	530,850

(iii) Fair value

The fair value of financial assets and financial liabilities, except other financial asset, are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions.

Other financial asset designated as at FVTPL is measured using a discounted cash flow model, which included some assumptions that are not supportable by observable market prices or rates (Note 23). In determining the fair value at the balance sheet date, a discount factor of 25% is used. The total amount of the change in fair value estimated using this valuation technique that was recognised in the consolidated income statement during the year is RMB2,936,000.

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.

Notes to the Consolidated Financial Statements

For the Year ended 31st December, 2008

41. BUSINESS COMBINATIONS

(i) Acquisition of subsidiaries

(a) On 18th November, 2007, the Group entered into a conditional agreement with an independent third party, pursuant to which the Group agreed to acquire 90.1% of the issued share capital of three companies together with their shareholders' loans. The consideration was satisfied as to (i) RMB191 million in cash through internal resources and (ii) the remaining balance as deferred consideration payable, the fair value of which on the date of completion was approximately RMB69 million.

The acquisition was completed on 31st March, 2008, which was also the date on which the Group effectively obtained control of the acquired subsidiaries.

This acquisition has been accounted for using the purchase method. The principal activities of the acquired companies' subsidiaries are mining and processing of zinc and lead in Inner Mongolia Self Autonomous Zone, the PRC. The fair values of the identifiable assets and liabilities of the subsidiaries acquired by the Group during the year ended 31st December, 2008 were as follows:

	Acquirees' carrying amounts before combination RMB'000	**Fair value adjustments** RMB'000	**Fair values** RMB'000
Net assets acquired:			
Property, plant and equipment	59,591	—	59,591
Mining rights	19,875	263,113	282,988
Inventories	2,880	—	2,880
Trade and other receivables	18,832	—	18,832
Bank balances and cash	550	—	550
Trade and other payables	(12,135)	—	(12,135)
Provisions	(1,745)	—	(1,745)
Amounts due to related parties	(62,987)	—	(62,987)
Taxation payable	(158)	—	(158)
Deferred tax liabilities	—	(65,778)	(65,778)
Fair value of net assets	24,703	197,335	222,038
Minority interests			(21,981)
Assignment of amounts due to related parties			62,987
			263,044
Consideration:			
Cash paid			191,202
Consideration payable			68,877
Transaction cost directly attributable to the acquisition			2,965
			263,044
Net cash outflow arising on acquisition:			
Cash consideration paid			194,167
Bank balances and cash acquired			(550)
			193,617

Notes to the Consolidated Financial Statements

For the Year ended 31st December, 2008

41. BUSINESS COMBINATIONS (CONTINUED)

(i) Acquisition of subsidiaries (continued)

(a) (continued)

The fair values of the mining rights acquired by the Group were determined on the basis of the Income Approach using the discounted cash flow analysis. An independent valuation was performed by LCH (Asia-Pacific) Surveyors Limited to determine the fair values of the mining rights. The effective date of the valuation is 31st March, 2008. The fair value calculation uses cash flow projections, based on financial budget approved by management covering a five-year period during the useful life of the mining rights and a discount rate of 22.9%. The key assumptions for the fair value calculation relate to the estimated mine reserves in the technical report and the estimated prices of mineral resources by reference to current market condition.

The subsidiaries acquired during the year contributed RMB9,508,000 to the Group's revenue and a loss of RMB10,960,000 to the Group's results for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1st January, 2008, Group's revenue for the year would have been RMB270,991,000, and the Group's loss for the year would have been RMB245,505,000. This pro forma information is for illustration purposes only and is not necessarily an indication of revenue and results of the operation of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2008, nor is it intended to be a projection of future results.

Notes to the Consolidated Financial Statements

For the Year ended 31st December, 2008

41. BUSINESS COMBINATIONS (CONTINUED)

(i) Acquisition of subsidiaries (continued)

(b) During the year ended 31st December, 2007, the Group completed two acquisitions, being the acquisition on 10th May, 2007 ("1st Acquisition") and the acquisition on 28th December, 2007 ("2nd Acquisition"). The fair value of the identifiable assets and liabilities of the subsidiaries acquired by the Group were as follows:

	1st Acquisition (note*)	2nd Acquisition (note**)			
	Acquirees' carrying amount before combination approximates fair value	Acquirees' carrying amount before combination	Fair value adjustment	Fair value	Total fair value
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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
Trade and other receivables	4,881	378	–	378	5,259
Bank balances and cash	508	2	–	2	510
Trade and other payables	(4,735)	(7,181)	–	(7,181)	(11,916)
Amounts 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 ***)	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

Notes to the Consolidated Financial Statements

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41. BUSINESS COMBINATIONS (CONTINUED)

(i) Acquisition of subsidiaries (continued)

notes:

(*) 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 was 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 would be offset against trade receivables, and repayable within one year, (ii) the remaining balance of RMB8 million in cash through internal resources.

The 1st Acquisition was completed on 10th May, 2007 which was also the date on which the Group effectively obtained control of the acquired subsidiaries.

(**) 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 Global Rise Investment Limited ("Global Rise") at a consideration of approximately RMB116 million. Global 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.

The 2nd Acquisition was completed on 28th December, 2007 which was also the date on which the Group effectively obtained control of the acquired subsidiaries.

(***) During the year ended 31st December, 2007, the Group recognised an impairment loss of RMB3,235,000 in relation to goodwill arising on acquisition of Tengchong Ruilong ((*) above) due to its loss of major customers as a result of which the projected future cash flow of Tengchong Ruilong could not support the carrying value of the goodwill. Details of impairment are set out in Note 19.

(ii) Acquisition of additional interests in subsidiaries

On 11th April, 2007, Yue Da Mining Limited ("Yue Da Mining"), 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.

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For the Year ended 31st December, 2008

41. BUSINESS COMBINATIONS (CONTINUED)

(ii) Acquisition of additional interests in subsidiaries (continued)

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 was 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. The fair value calculation uses cash flow projections based on financial budget approved by management covering a five-year period during the useful life of the intangible asset and a discount rate of 21%. The key assumptions for the fair value calculation relate to the estimated mine reserves and the estimated prices of mineral resources by reference to current market condition. 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 mining rights after the consideration was agreed, primarily due to increase in the market prices of the underlying mineral resources.

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42. RETIREMENT BENEFITS SCHEMES

The relevant PRC subsidiaries are required to make contributions to the state retirement schemes in the PRC based on 20% (2007: 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% (2007: 5% or 10%) of the relevant payroll costs to the scheme, which contribution is matched by employees.

The total cost of RMB1,376,000 (2007: RMB954,000) recognised to consolidated income statement represents contributions payable to these schemes by the Group in respect of current year.

43. OPERATING LEASE COMMITMENTS

The minimum lease payments paid under operating leases in respect of rented premises during the year amounted to RMB3,018,000 (2007: RMB1,629,000).

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:

	2008 **RMB'000**	2007 RMB'000
Within one year	**3,954**	2,753
In the second to fifth year inclusive	**6,349**	4,246
	10,303	6,999

Included in the above are lease commitment to a fellow subsidiary of RMB4,246,000 (2007: RMB6,996,000) 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.

44. CAPITAL COMMITMENTS

	2008 **RMB'000**	2007 RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**14,258**	2,186

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45. CONNECTED AND RELATED PARTY DISCLOSURES

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

Relationship	Nature of transactions	2008 RMB'000	2007 RMB'000
Mr. Yang Long and his affiliates	Sale of finished goods by the Group (note a)	**104,503**	211,993
	Deemed capital contribution arising from an extension of repayment date of the promissory notes (Note 30)	**9,452**	—
	Interest on promissory notes (Note 10)	**8,951**	6,153
	Deemed capital contribution arising from non-current interest free loan granted to the Group (Note 26)	**5,443**	—
	Purchase of materials by the Group (note a)	**2,612**	11,179
	Materials supplied and construction and maintenance services of fixed assets provided to the Group (note b)	**206**	334
	Acquisition of Joy East, Merry Best Joy Pride by the Group (Note 41)	**—**	242,500
	Early redemption of convertible bonds by issuing promissory notes (Note 36)	**—**	67,250
	Sub-contracting fee paid by the Group (note c)	**—**	243
Langfang Bureau and its affiliates	Repairs and maintenance charges paid by the Group (note d)	**8,601**	9,088
Yue Da HK	Rentals paid on office premises and staff quarters by the Group (note e)	**2,412**	1,291
Yue Da Enterprise	Rentals paid on staff quarters by the Group (note e)	**215**	235
	Compensation paid to vendor on behalf of the Group in relation to the termination of acquisition of Hong Ling (note f)	**7,827**	—

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For the Year ended 31st December, 2008

45. CONNECTED AND RELATED PARTY DISCLOSURES (CONTINUED)

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

notes:

(a) 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 trade zinc and lead ore concentrates and related products with the minority shareholders and its associates.

(b) Certain of the Group's subsidiaries have each entered into a composite service agreement with their minority shareholders, pursuant to which the minority shareholders 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 shareholders.

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

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

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

(f) The compensation was paid to the vendor on behalf of the Group without consideration.

(ii) Details of the Group's outstanding balances with related parties are set out in Notes 26, 29 and 30.

(iii) Details of operating lease commitment with a related party are set out in Note 43.

(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.

(v) As at 31st December, 2008, Jiangsu Yue Da Group Company Limited had given corporate guarantees to banks in the PRC to secure the loan facility granted to the Group to the extent of RMB100,000,000. The facility is a general working capital facility for three years from 29th December, 2008. As 31st December, 2008, the entire facility has been utilised by the Group.

(vi) Pursuant to the sales and purchase agreements in relation to the acquisition of Baoshan Feilong, Puer Feilong and Yaoan Feilong in 2006 and 2007, the vendor of the acquisition, Mr. Yang Long and his affiliates, have given in favour of the Group a representation, warranty and undertaking that the said three companies had fully paid all mining rights fees and other relevant fees as required by PRC rules and regulations. On 14th July, 2008, the Group entered into an agreement with Mr. Yang Long and his affiliates, pursuant to which the Group has agreed to waive the obligations of the payment of the said fees in exchange for (a) the transfer by Mr. Yang Long and his affiliates of their distributable profits in Baoshan Feilong for the period from 2008 to 2015 to the Group; and (b) RMB5,000,000 cash paid by Mr. Yang Long and his affiliates to the Group. Accordingly, the Group has recognised a financial asset designated as at FVTPL of RMB26,921,000 in connection with the right to share the distributable profits of Baoshan Feilong for the period from 2008 to 2015 (Note 23) and derecognised the amounts due from Mr. Yang Long and his affiliates of RMB31,921,000 (Note 26).

Notes to the Consolidated Financial Statements

For the Year ended 31st December, 2008

45. CONNECTED AND RELATED PARTY DISCLOSURES (CONTINUED)

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

The Group operates in an economic environment currently predominated by entities 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 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 Group does not differentiate whether the counter-party is a state-controlled entity or not.

(viii) 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:

	2008 **RMB'000**	2007 RMB'000
Short-term benefits (including share-based payments)	**9,885**	4,146
Post-employment benefits	**169**	48
	10,054	4,194

46. 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, 2008, an amount of RMB373,389,000 (2007: RMB336,744,000) of such facilities was utilised.

47. RESULTS OF THE COMPANY

The loss for the year of the Company was RMB32,794,000 (2007: RMB90,892,000).

Notes to the Consolidated Financial Statements

For the Year ended 31st December, 2008

48. PARTICULATES OF THE COMPANY'S PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December, 2007 and 31st December, 2008 are as follows:

Name of subsidiary	Country of establishment and operations	Registered capital	Attributable equity interest held indirectly by the Company		Principal activities
			2008 %	2007 %	
Baoshan Feilong (note i & ii)	PRC	Registered capital – RMB34,500,000	**91.5**	91.5	Mining and processing zinc and lead
Daqian Mining (note i)	PRC	Registered capital – RMB5,000,000	**100**	100	Mining and processing zinc and lead
Langfang Tongda	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**	100	Mining and processing zinc and lead
San Xiang (note i)	PRC	Registered capital – RMB14,500,000	**90.1**	–	Mining zinc and lead
Tengchong Ruitu Mining and Technology Company Limited (note i)	PRC	Registered capital – RMB11,000,000	**100**	100	Mining and processing iron and zinc
Xiang Da (note i)	PRC	Registered capital – RMB32,600,000	**90.1**	–	Processing zinc and lead
Yi Da (note i)	PRC	Registered capital – RMB20,300,000	**90.1**	–	Mining and processing zinc and lead
Yaoan Feilong (note i)	PRC	Registered capital – RMB17,400,000	**100**	100	Mining and processing zinc and lead

Notes to the Consolidated Financial Statements

For the Year ended 31st December, 2008

48. PARTICULATES OF THE COMPANY'S PRINCIPAL SUBSIDIARIES (CONTINUED)

notes:

(i) The companies are wholly foreign-owned enterprises.

(ii) Pursuant to the profit distribution agreement disclosed in Note 45(vi), all the profits will be shared by the Group from 2008 to 2015.

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.

None of the subsidiaries had issued any debt securities at the end of the year.

49. MAJOR NON-CASH TRANSACTIONS

During the year ended 31st December, 2007, 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 33,333,333 ordinary shares of HK$0.10 each in the Company and redeemed at a total consideration of HK$69,330,000 (equivalent to RMB67,250,000) which was satisfied by the issue of two promissory notes by the Group, respectively.

As set out in Note 45(vi), Mr. Yang Long and his affiliates have given a representation, warranty and undertaking that Baoshan Feilong, Puer Feilong and Yaoan Feilong have fully paid all mining rights fees and other relevant fees of RMB31,921,000 as required by PRC rules and regulations. During the year ended 31st December, 2008, Mr. Yang Long and his affiliates have entered into a profit distribution agreement with the Group pursuant to which the Group agreed to waive the obligation of the payment of the said fees in consideration of the distributable profits of Baoshan Feilong to the Group from 2008 to 2015 and paying cash of RMB5,000,000 to the Group. Accordingly, the Group has recognised a financial asset designated as at FVTPL of RMB26,921,000. Details are set out in Note 23 and 26(i).

Financial Summary

	Year ended 31st December,				
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2007 RMB'000	**2008 RMB'000**
Revenue	93,188	102,392	184,628	293,960	**268,263**
Cost of sales	—	—	(32,049)	(102,508)	**(153,165)**
Direct operating costs	(51,416)	(50,517)	(53,997)	(33,392)	**(32,132)**
Other income, gains and losses	362	564	2,349	28,966	**29,386**
Other expenses	—	—	—	—	**(18,443)**
Gain on redemption of convertible bonds	—	—	—	30,104	**—**
Discount on acquisition of additional interests in mining subsidiaries	—	—	56,532	17,942	**—**
Impairment loss on assets	—	—	(44,679)	(3,235)	**(261,296)**
Loss from fair value changes of convertible bonds' embedded derivatives	—	—	(39,873)	(101,608)	**—**
Loss on disposal of a subsidiary	—	—	(6,337)	—	**—**
Administrative expenses	(16,654)	(17,134)	(18,574)	(56,554)	**(79,421)**
Interest expense	(2,580)	(3,399)	(7,866)	(20,628)	**(23,974)**
Profit (loss) before tax	22,900	31,906	40,134	53,047	**(270,782)**
Income tax (expense) credit	(4,790)	(6,224)	(4,852)	(54,404)	**31,032**
Profit (loss) for the year	18,110	25,682	35,282	(1,357)	**(239,750)**
Attributable to:					
Equity holders of the Company	13,805	19,464	10,332	7,571	**(240,200)**
Minority interests	4,305	6,218	24,950	(8,928)	**450**
	18,110	25,682	35,282	(1,357)	**(239,750)**

	As at 31st December,				
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2007 RMB'000 (restated)	**2008 RMB'000**
Total assets	498,189	493,638	1,288,631	1,595,585	**1,657,669**
Total liabilities	(102,778)	(66,958)	(446,598)	(802,757)	**(966,614)**
	395,411	426,680	842,033	792,828	**691,055**
Equity attributable to equity holders of the Company	301,352	325,466	482,031	679,814	**564,050**
Minority interests	94,059	101,214	360,002	113,014	**127,005**
	395,411	426,680	842,033	792,828	**691,055**