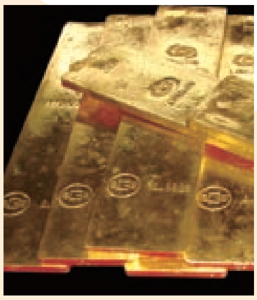
# Lingbao Gold Company Ltd.

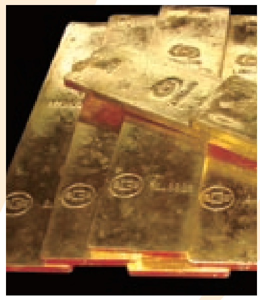
# 靈寶黃金股份有限公司

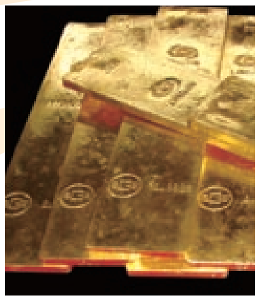
LINGJIN
灵 金

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

*(Stock Code: 3330)*

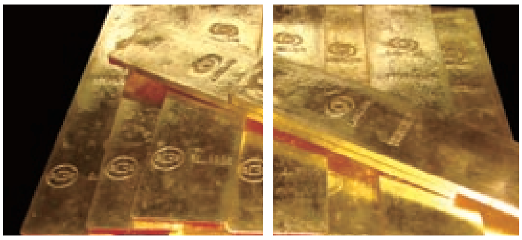






*Growth Innovation Progress*

Annual Report 2008



# Contents



# Corporate Information

## Directors

**Executive Directors**
Xu Gaoming *(Chairman)*
Wang Jianguo
Lu Xiaozhao
Jin Guangcai
Liu Pengfei
Zhang Guo

**Non-executive Director**
Wang Yumin

**Independent Non-executive Directors**
Niu Zhongjie
Wang Han
Yan Wanpeng
Du Liping

## Supervisors

Liu Shengmin
*(Chairman of the Supervisory Committee)*
Meng Fanrui
Guo Xuchang
Zhu Yusheng
Yang Bo
Hang Zhanping
Jiao Xiaoxiao

## Audit Committee

Yan Wanpeng *(Chairman of Audit Committee)*
Wang Yumin
Niu Zhongjie
Wang Han
Du Liping

## Joint Company Secretaries

Poon, Lawrence Chi Leung *(ASCPA, HKICPA)*
Qi Haihua

## Qualified Accountant

Poon, Lawrence Chi Leung *(ASCPA, HKICPA)*

## Authorised Representatives

Jin Guangcai
Qi Haihua

## Alternate Authorised Representative

Poon, Lawrence Chi Leung *(ASCPA, HKICPA)*

## International Auditor

KPMG

## PRC Auditor

Peking Certified Public Accountants

## Legal Adviser

DLA Piper Hong Kong

## Principal Bankers

Bank of China, Lingbao City Branch
Agricultural Bank of China, Lingbao City Branch
China Construction Bank, Lingbao City Branch
Industrial Bank, Zhengzhou Branch
Bank of Communications, Zhengzhou Branch

## Share Registrar and Transfer Office for H Shares

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## Registered Office of the Company

Xin Village, Yinzhuang Town
Daonan Industrial Area
Lingbao
Henan
The PRC

## Principal Place of Business in Hong Kong

Room 1902, 19th Floor
MassMutual Tower
38 Gloucester Road
Wanchai
Hong Kong



## Stock Information

Stock Code : 3330
Listing Date : 12 January 2006
Issued Shares : 297,274,000 shares (H Shares)
472,975,091 shares (Domestic Shares)
Nominal Value : RMB0.20 per share
Stock Name : Lingbao Gold
Website of the Company : www.lbgold.com

## Investor Relations

Mr. Poon, Lawrence Chi Leung
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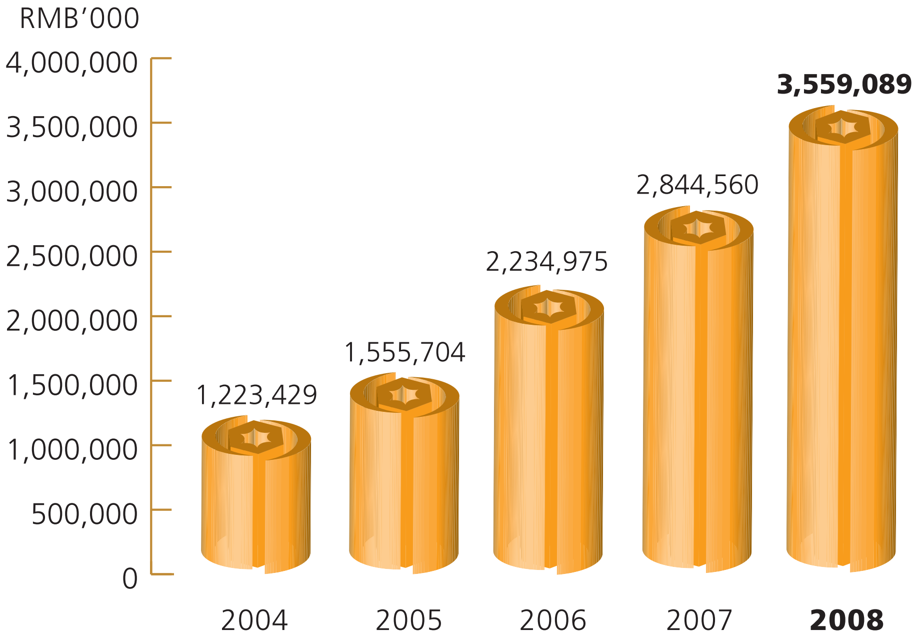
Room 1902, 19th Floor
MassMutual Tower
38 Gloucester Road
Wanchai
Hong Kong
Email: lingbaogold@vip.sina.com

Ms. Qi Haihua
PRC Office
Xin Village, Yinzhuang Town
Daonan Industrial Area
Lingbao
Henan
The People's Republic of China
(Postcode: 472500)
Tel: (86-398) 2296880
Fax: (86-398) 8860-166
Email: lingbaogold@vip.sina.com

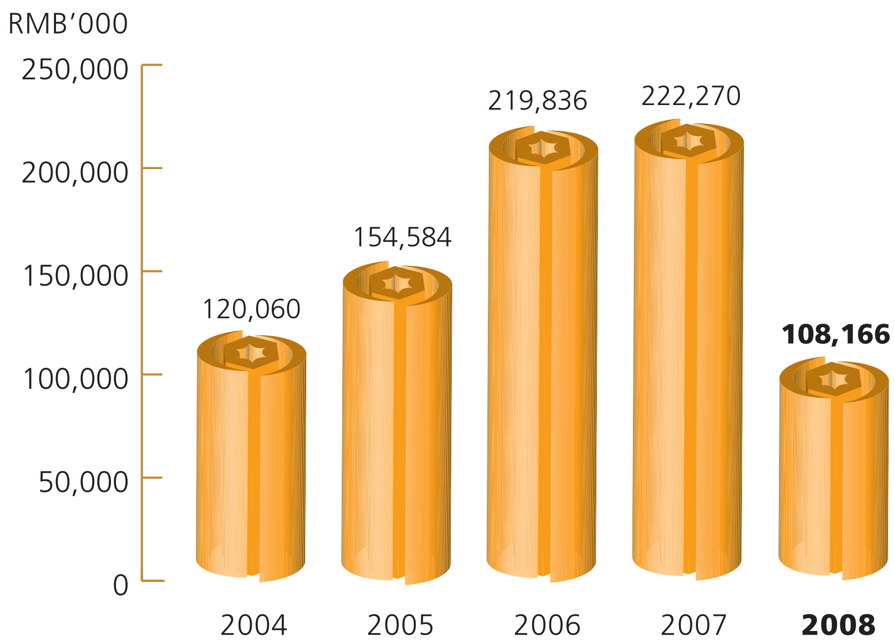


# Financial Highlights

## Turnover

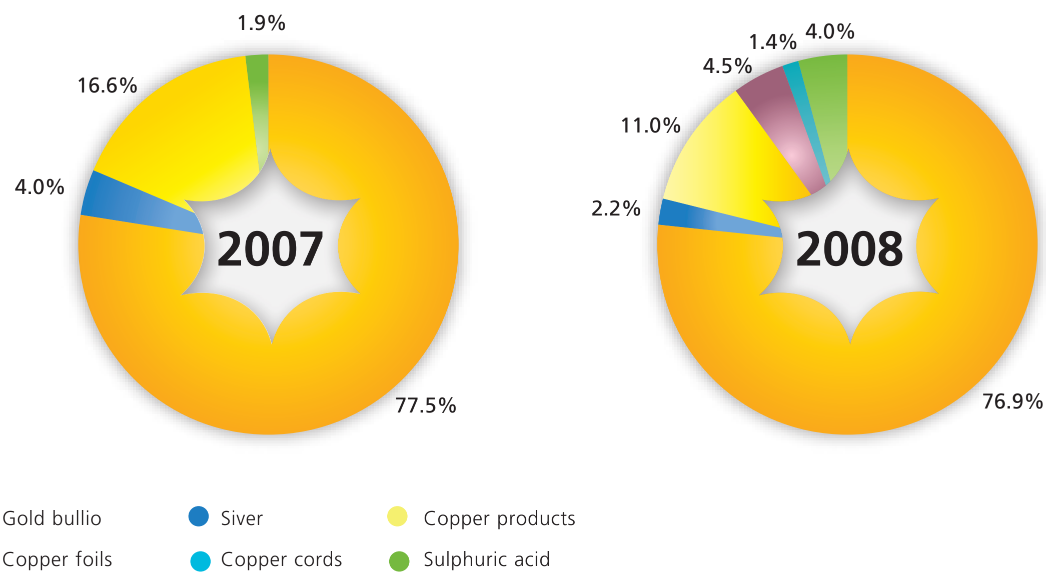



## Profit Attributable to Equity Shareholders





## Sales Analysis by Products




## Capital Resources

| | 2004 RMB'000 | 2005 RMB'000 | 2006 RMB'000 | 2007 RMB'000 | **2008 RMB'000** |
|---|---|---|---|---|---|
| Total assets | 809,907 | 1,055,462 | 2,774,925 | 3,400,303 | **4,085,156** |
| Cash and cash equivalents | 76,506 | 117,861 | 431,647 | 389,651 | **575,478** |
| Bank and other borrowings | 294,750 | 405,420 | 938,270 | 1,303,131 | **1,738,430** |
| Shareholder equity | 337,715 | 492,618 | 1,516,213 | 1,672,046 | **1,703,437** |



# Corporate Profile

**Lingbao Gold Company Ltd.** ("Lingbao Gold" or the "Company" and together with its subsidiaries, the "Group") is listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 12 January 2006.

The Group is an integrated gold mining enterprise in the People's Republic of China ("PRC"), and is mainly engaged in gold mining, smelting and refining. The products of the Group are gold, silver, copper products, copper foils, copper cords and sulphuric acid. The Shanghai Gold Exchange certified the Group as a standard gold bullion production enterprise. The Group's mineral resources are scattered in the PRC regions of Henan, Xinjiang, Jiangxi, Inner Mongolia, Gansu and Kyrgyz Republic with 55 mining and exploration rights with a total area of 1,310.84 sq. km. The total gold reserve and resources as at 31 December 2008 was approximately 125.49 tonnes (approximately 4,034,597 ounce). In 2008, approximately 14,001 kg (approximately 450,143 ounce) of gold was produced with the profit for the year amounting to RMB106,761,000.

The objective of the Group's strategy in the future is continuous expansion, to become the leading integrated gold mining enterprise in the PRC and gradually promote our brand in the international market. The Group will focus on the exploration and expansion of production scale and continue to acquire gold resources with potential, in order to increase the self-produced gold and gold reserve and resources and enhance the Group's self-sufficiency rate.



## Dear Shareholders,

I am pleased to report the profit before tax of the Group of RMB122,244,000 for the year ended 31 December 2008, representing a year-on-year decrease of 63.9%. Profit for the year of the Group amounted to RMB106,761,000, representing a year-on-year decrease of 52.2%. Earnings per share of the Group was RMB0.14. The decrease in profit of the Group in 2008 as compared with the previous year was mainly attributed to the sharp fall in prices of silver, copper and sulphuric acid in the second half of 2008, which had a negative impact on the earnings of the Group.

After discussion by the board (the "Board") of directors (the "Directors") of the Company, the Directors do not recommend the payment of any final dividend for the year ended 31 December 2008.

## Review for the Year 2008

In 2008, the international gold price rose to a closing price of approximately US$882 per ounce from an opening price of approximately US$841 per ounce. Gold price approached the historical high of approximately US$1,032 per ounce in the first quarter of 2008, mainly aroused by the dumping of US dollar and the sharp increase of global commodity prices. Crisis in the international financial market, which was triggered by the financial storm that raged in the second half of 2008, led to credit crunch, downturn of economies, and plummeting of the stock markets and the bulk commodity markets. Among the four major products of the Company, namely gold bullion, silver, copper and sulphuric acid, three of them (silver, copper and sulphuric acid) underwent severe price decline, therefore the gross profit margin of our smelting segment suffered a severe impact.

### I. Production Scale of the Mines Operated by the Group

In 2008, Lingbao Hongxin Mining Limited Liability Company successfully completed the reconstruction of its processing plant, and thus the Group now has the ability to process molybdenum. The acquisition of a 100-tonne/day processing plant by Chifeng Jinchan Mining Company Limited ("Chifeng Jinchan") further expanded the production capacity of the Group. In addition, Full Gold Mining Limited Liability Company ("Full Gold") also completed the ore-processing test, which laid a solid foundation for the construction of a processing plant.

In respect of smelting, after the relocation of the fine-smelting workshop, the integrated management of refinery and smelting operation was achieved. The fully automated flow process further enhanced our production capacity and the quality of our gold bullion.

### II. Expansion of the Group's Resources

In 2008, after acquiring Hejiagou mine region, the Group already paved the way for effective control of the in-depth deposits of Xiaoqinling Mountain. The Group also acquired the entire interest in Lingbao Wason Copper-Foil Co., Ltd. ("Wason Copper-Foil"), which is principally engaged in the further processing of copper products. Meanwhile, a rigorous inspection and data collection on mineral resources in provinces such as Xinjiang, Gansu, Qinghai, Hunan, Yunnan, Sichuan and Jiangxi was carried out. In overseas operations, the Group acquired mining rights of Istanbul Gold Mine in the Kyrgyz Republic. Currently, the Group controls seven major development bases, including Lingbao, Nanyang Tongbai, Jiangxi Wuyuan, Xinjiang, Inner Mongolia Chifeng, Gansu Tianshui and Kyrgyz Republic.



**III. Continued the Efforts in Exploration to Increase the Group's Reserves**

Lingbao Gold continued to strengthen its technological management, and enhance its geological fundamental works. In 2008, the geological investigation design of 5 gold mines in Xinjiang, including Kangcun Copper Mine, Hamijiyuan Mine, Shuangqing Copper Mine, Aketubai Mine, and Tikebulakexi Mine, were completed. Exploration activities in the neighbouring area of the Chifeng Jinchan and geological inspection and drilling in Xiaobeigou Multi-Metal Mine of Chifeng Lingjin in Inner Mongolia were in progress. In Jiangxi Province, the geological investigation for the Jinjingdong Mine (owned by Jiangxi Mingxin Mining Company Limited) and the neighbouring area of Shanzaoling Mountain (owned by Wuyuan County Jincheng Mining Company Limited) were completed. In addition, the systematic geological investigation in the mine area of the Shangshanghe River (operated by Tongbai Xingyuan Mining Company Limited) was carried out, and the exploration design in its neighbouring area was completed.

**IV. Environmental Protection**

By sticking to the operational policy of "Safety First, Emphasis on Precaution and Integrated Management", the Company implemented accountability system for safety and environment protection. In 2008, there was no significant liability issue against the Company due to its meticulous inspection on rectification tasks.

## Business Outlook of 2009

In 2009, the Group will accelerate its overseas expansion, optimise its financial structure, strengthen its corporate governance, implement stringent cost control, and improve its production and operation, in order to tackle the current economic crisis. Our first priority is to expand production capacity of mining, to focus on exploration and expansion of resources in prime regions, to tighten cost control and to improve quality management. For the Group, 2009 is full of challenges, opportunities, pressure and hope.

The business strategies of the Company in 2009 include:

1. To focus on gold production while diversifying our operations. The Group will accelerate exploration of its mines, strengthen exploration efforts and ensure maximum effectiveness in order to build up its gold reserves. To secure rapid economic returns, the Company will also increase exploration capacity, raise selection standards, expand production plants, and ensure satisfactory operation rate and recovery rate.

2. To implement stringent cost control to improve management efficiency. The Company will enhance its corporate management by implementing the so-called "6 guaranteed and 4 lower" measures as follows: guaranteed quantity purchased from mines, guaranteed quantity leached from plants, guaranteed operation rate, guaranteed recovery rate, guaranteed mines grade and guaranteed annual production; and lower loss rate, lower depletion ratio, lower production cost and lower administrative expenses. The Company aims to increase corporate efficiency through implementation of above measures, so as to tackle the current economic crisis proactively.



3. The Company will accelerate the development of gold mines in Kyrgyz Republic to yield good returns as soon as possible. To achieve this goal, the Company needs to reduce unpredictable risks and make overseas gold mines as a significant supportive factor, so as to lay a solid foundation and create a buoyant environment for the future development of the Group.

4 The Company will continue to recruit experts, to introduce excellent, professional and highly educated experts, among whom, those who are specialised in technology, securities, capital operation, foreign trade and management are our most important assets. The Group will establish and complete an expert evaluation and assessment system, and will improve its management measures and assessment mechanisms, so as to attract the real experts to join, to stay and do good job for the Group. The Company will also offer more training for staff at different levels and positions, so as to improve the quality of our staff.

## Appreciation

On behalf of the Board, I wish to express our sincere gratitude to all the shareholders for their support and trust, and to the management and all the staff for their dedication and hard work over the past year.

By order of the Board
**Xu Gaoming**
*Chairman*

Hong Kong
24 April 2009



## Review of Business and Prospect

In 2008, the Group produced approximately 14,001 kg (equivalent to approximately 450,143 ounce) gold, representing an increase of approximately 1,009 kg (equivalent to approximately 32,440 ounce) or 7.8% as compared with the previous year. The Group's turnover for 2008 increased by 25.1% to approximately RMB3,559,089,000. The profit for the year was approximately RMB106,761,000, representing a decrease of approximately 52.2% as compared with the previous year. The Company's basic earnings per share decreased to RMB0.14 in 2008. The decrease was mainly attributable to decline in commodity prices in the second half of 2008, and this adversely affected the profit of the Group.

Given that raw materials accounted for over 80% of total production cost, the Group intends to increase its self-produced output of mineral sand through acquisition and expansion of mining operation, thereby uplifting the overall production and operation targets so as to minimise the risks associated with the raw materials purchased from outsiders.

### 1. Mining Segment

***Turnover and production***

Our mining business mainly comprises the sales of gold concentrates and compound gold. Most of the gold concentrates and compound gold were sold to the Group's smelting plants as inter-segment sales.

The following table sets forth the analysis on the production and sales volume of the mining segment by product category:

| | | **2008** | | 2007 | |
|---|---|---|---|---|---|
| | Unit | **Approximate production volume** | **Approximate sales volume** | Approximate production volume | Approximate sales volume |
| Gold concentrates | kg | **1,711** | **1,650** | 1,912 | 1,864 |
| Compound gold | kg | **1,222** | **1,228** | 1,039 | 1,039 |
| From: Henan region | | **128** | **119** | 241 | 241 |
| Xinjiang region | | **728** | **748** | 519 | 519 |
| Inner Mongolia region | | **366** | **361** | 279 | 279 |
| Total | kg | **2,933** | **2,878** | 2,951 | 2,903 |
| Total | ounce | **94,298** | **92,530** | 94,875 | 93,334 |



The Group's total turnover of the mining segment for 2008 was approximately RMB517,966,000, representing an increase of approximately 11.6% from approximately RMB464,056,000 in 2007. During the year, turnover of gold mines in Henan, Xinjiang and Inner Mongolia represented approximately 56.1%, 28.3% and 15.6% of the total turnover of the mining segment respectively. The production volume of compound gold increased by approximately 183 kg to approximately 1,222 kg while the production volume of gold concentrates decreased by approximately 201 kg to approximately 1,711 kg. This was mainly due to the commencement of production of Henan's Tongbai Xingyuan Mining Company Limited ("Tongbai Xingyuan") in July 2007 and the construction of the new processing plant in Xinjiang mining region with a daily processing capacity of 1,000 tonnes of mined ores, which together brought greater contribution to the Group's mining operation in 2008 and led to an increase in the gold production.

***Segment results***

The Group's results of the mining segment for 2008 was approximately RMB33,816,000, representing a decrease of approximately 57.2% from approximately RMB78,971,000 in 2007. The segment result to segment turnover ratio of the Group's mining segment in 2008 was approximately 6.5%, resulting in a decrease of approximately 10.5% from approximately 17.0% in 2007.

***Capital expenditure***

During the year 2008, the Group's capital expenditure was approximately RMB539,924,000, representing a decrease of approximately 12.5% from approximately RMB617,378,000 in 2007.

The Group's capital expenditure mainly relates to the construction of mining shafts, purchase of exploration rights and mining rights.

***Prospect***

In view of global financial crisis and the fluctuation in gold price, Lingbao Gold will continue to explore gold mines, such as Lingbao Nanshan Mine Region, Hongxin Mine Region, Xinjiang Habahe, Nanyang Xingyuan and Jinchan in Inner Mongolia, to conduct geographical and geological exploration for mineral deposits and to research on mineralization across these regions. Meanwhile, the Group will also continue to improve the gold production capacity in our gold mines, and to further reduce the cost of extraction and supply. The Group will complete the plant construction project of Full Gold Mining Limited Liability Company ("Full Gold") in 2009 and planned to commence production in late 2009 as scheduled.



## 2. Smelting Segment

Our smelting plant is situated in Henan Province, and is capable of processing gold, silver, copper and sulphur. Its main products include gold bullion, silver, copper products and sulphuric acid. The following table sets forth the analysis on the production and sales volume of the smelting segment by product category:

| | | **2008** | | 2007 | |
|---|---|---|---|---|---|
| Product | Unit | **Approximate production volume** | **Approximate sales volume** | Approximate production volume | Approximate sales volume |
| Gold bullion | kg | **14,001** | **13,956** | 12,992 | 12,803 |
| | ounce | **450,143** | **448,696** | 417,703 | 411,626 |
| Silver | kg | **40,157** | **22,521** | 40,005 | 37,601 |
| | ounce | **1,291,078** | **724,067** | 1,286,191 | 1,208,900 |
| Copper products | tonne | **12,193** | **11,344** | 9,940 | 8,771 |
| Sulphuric acid | tonne | **177,491** | **176,824** | 150,846 | 149,397 |

### *Sales and production*

The Group's total turnover from the smelting segment for 2008 was approximately RMB3,527,681,000, representing an increase of approximately 23.4% from approximately RMB2,859,283,000 in 2007. Such increase was principally attributable to the increase in the sales of gold bullion as a result of an approximate 14.0% increase in selling price of gold bullion as compared with the previous year, and an increase in sales volume of 1,153kg to 13,956kg in 2008 from 12,803kg in the previous year.

The daily processing capacity of the Group is approximately 960 tonnes of gold concentrates, and the utilisation rate for production was approximately 100%. This resulted in an increase of approximately 7.8%, 0.4%, 22.7% and 17.7% in the Group's production volume for gold, silver, copper and sulphuric acid respectively as compared with the previous year. During the year, gold recovery rate was approximately 96.5%, silver recovery rate was approximately 73.1% and the copper recovery rate was approximately 95.2%. The Group continued to maintain the recovery rates at a high level.



***Segment results***

Our smelting segment results for 2008 was approximately RMB241,840,000, representing an approximate 16.6% decrease from approximately RMB290,129,000 in 2007. The segment results to segment turnover ratio of our smelting business in 2008 was approximately 6.9%, decreasing by approximately 3.2% from approximately 10.1% in 2007.

***Capital expenditures***

During the year 2008, the capital expenditure of the Group was approximately RMB68,116,000, a decrease of approximately 56.3% from approximately RMB155,827,000 in 2007.

Our principal capital expenditure relates to the smelting plant's construction work, purchase of equipment with regard to its expansion projects, and upgrading of production equipment.

***Prospect***

For smelting segment, the Group will continue to increase gold production, to strengthen production and operation management, to improve raw material quality, to stabilise raw material procurement, and to reduce smelting cost to fully leverage on the recent high gold price. Meanwhile, we will monitor copper price in the market, actively to carry out sales of copper, and will conduct market survey for sulphuric acid, to maximise sale.



## Financial Condition

### 1. Combined Operating Results

***Turnover***

The Group's sales analysis by products is shown as follows:

| | **2008** | | | 2007 | | |
|---|---|---|---|---|---|---|
| | **Amount RMB'000** | **Sales volume kg/tonne** | **Unit price RMB per kg/tonne** | Amount RMB'000 | Sales volume kg/tonne | Unit price RMB per kg/tonne |
| Gold bullion | **2,743,352** | **13,956 kg** | **196,572** | 2,208,327 | 12,803 kg | 172,485 |
| Silver | **76,991** | **22,521 kg** | **3,419** | 113,936 | 37,601 kg | 3,030 |
| Copper products | **394,151** | **8,074 tonnes** | **48,817** | 472,587 | 8,771 tonnes | 53,881 |
| Copper foils | **161,535** | **2,249 tonnes** | **71,825** | – | – | – |
| Copper cords | **48,973** | **940 tonnes** | **52,099** | – | – | – |
| Sulphuric acid | **142,846** | **176,824 tonnes** | **808** | 55,637 | 149,397 tonnes | 372 |
| Turnover before sales tax | **3,567,848** | | | 2,850,487 | | |
| Less: Sales tax | **(8,759)** | | | (5,927) | | |
| | **3,559,089** | | | 2,844,560 | | |

The Group's turnover for 2008 was approximately RMB3,559,089,000, representing an approximate 25.1% increase as compared with the previous year. Such increase was mainly attributable to the increase of approximately 24.2% in the sales of gold bullion, as a result of the increase in our average selling price and quantity of gold bullion sold of approximately 14.0% and 9.0% respectively during the year.

During March 2008, the Group has acquired the entire interest in Lingbao Wason Copper-Foil Co., Ltd ("Lingbao Wason") for a consideration of RMB27,900,000. Lingbao Wason is principally engaged in production of copper foil and copper cord. During 2008, production volume of copper foil and copper cord were 2,330 tonnes and 1,013 tonnes respectively; sales volume of copper foil and copper cord were 2,249 tonnes and 940 tonnes respectively.



***Cost of sales***

The Group's cost of sales for 2008 was approximately RMB3,177,792,000, representing an approximate 32.9% increase from approximately RMB2,391,647,000 for 2007. Such increase was principally attributable to the increase of approximate 30.1% in the cost of raw materials, to RMB2,621,018,000 as a result of the increase in production capacity, the growth of purchase volume and the increase in gold price. Owing to the rise in gold price, the unit purchase price of gold concentrates increased by approximately 16.4%, that is, from approximately RMB152,000 per kg in 2007 to RMB177,000 per kg in 2008.

***Gross profit and gross profit margin***

The Group's gross profit and gross profit margin for 2008 were approximately RMB381,297,000 and approximately 10.7% respectively, representing a decrease of approximately 15.9% and a decrease of 5.2% respectively as compared to 2007. As a result of the decrease in copper and other metal prices, the Group had recognised an impairment loss on inventories of approximately RMB36,112,000 during the year.

***Other revenue***

The Group's other revenue for 2008 was approximately RMB18,180,000, representing an approximate 87.3% decrease as compared with approximately RMB142,861,000 for 2007. Such change was principally attributable to the fact that the Group terminated the acquisition of Shaanxi Jiusheng in 2007. Due to the termination of the proposed acquisition, the Group received a compensation of RMB112,900,000 in 2007.

***Other net gain/(loss)***

The Group's other net gain for 2008 was approximately RMB31,992,000 and net loss of approximately RMB4,494,000 for 2007. Such variance was mainly attributable to the realised gain from derivative financial instruments of approximately RMB45,421,000.

***Selling and distribution expenses***

The Group's selling and distribution expenses for 2008 were approximately RMB19,881,000, representing an increase of approximately 38.6% as compared with the previous year. Such increase was principally attributable to the commencement of production in Tongbai Xingyuan in July 2007 and the acquisition of Lingbao Wason in March 2008.

***Administrative expenses and other operating expenses***

The Group's administrative expenses and other operating expenses in 2008 were approximately RMB174,082,000, representing an approximate 27.7% increase from approximately RMB136,329,000 in 2007. The increase was mainly attributable to the expansion of the production and operation scale of the Group.

***Finance costs***

The Group's finance costs in 2008 was approximately RMB115,262,000, representing an approximate 13.4% increase from approximately RMB101,613,000 for 2007. The increase was principally attributable to the increase in bank and other borrowings of approximately RMB435,299,000 for the year ended 31 December 2008 as compared with the previous year.



***Profit attributable to the Company's equity shareholders***

The Group's profit attributable to our equity shareholders in 2008 was approximately RMB108,166,000, representing an approximate 51.3% decrease from approximately RMB222,270,000 in 2007. The net profit margin for 2008 was approximately 3.0%, representing a decrease of 4.8% to that of approximately 7.8% in 2007. The Company's basic earning per share was RMB0.14. The Group does not recommend the payment of dividend for the year.

**2. Liquidity and Financial Resources**

The Group generally finances its acquisition and operations with internally generated funds and interest bearing borrowings. The cash and bank balances as at 31 December 2008 amounted to RMB575,478,000, of which 8.1% was denominated in Hong Kong dollars.

The shareholders' equity of the Group as at 31 December 2008 amounted to RMB1,729,131,000 (31 December 2007: RMB1,698,383,000). As at 31 December 2008, the Group had current assets of RMB1,854,974,000 (31 December 2007: RMB1,866,436,000) and current liabilities of RMB1,785,865,000 (31 December 2007: RMB1,554,953,000). The current ratio was 1.04 (31 December 2007: 1.20).

As at 31 December 2008, the Group had total outstanding bank loans and other loan of approximately RMB1,738,430,000 with interest rates ranged from 4.86% to 6.93% per annum, of which approximately RMB1,280,000,000 was repayable within one year, approximately RMB455,160,000 was repayable after one year but within two years while approximately RMB3,270,000 was repayable after two years. The gearing ratio as at 31 December 2008 was 42.6% (31 December 2007: 38.3%) which was calculated by total borrowings divided by total assets.

**3. Security**

As at 31 December 2008, the mining right of Istanbul Gold Mine amounting to RMB145,328,000 at carrying value and the ordinary shares of Full Gold were pledged for the borrowings from the National Development Bank.

**4. Material Acquisition**

On 27 February 2008, the Group acquired the mining right of Istanbul Gold Mine located in Kyrgyz Republic at a cash consideration of US$25,300,000. For details in relation to the acquisition, please refer to the announcement of the Company dated 27 February 2008.

**5. Market risks**

The Group is exposed to various types of market risks, including fluctuations in gold price and other commodity prices, changes in interest rates and exchange rates.



***Gold price and other commodities price risk***

The Group's turnover and profit during the year are affected by fluctuations in the gold prices and other commodities price as all the products are sold at the market prices with fluctuation not subject to the control of the Group. We have not used and strictly prohibit the use of commodity derivative instruments or futures for speculation purpose, and all commodity derivative instruments are only used to minimise the potential price fluctuation of gold and other commodities.

***Interest rate***

The Group is exposed to risk resulting from the fluctuation in interest rates on our debt obligations. The Group undertakes debt obligations for supporting capital expenditure and general working capital. Our bank loans bear interest rates that are subject to adjustment made by our lenders in accordance with changes of the relevant People's Bank of China ("PBOC") regulations. If the PBOC increases the interest rates, our finance cost increases accordingly. In addition, to the extent that we may need to raise debt financing in the future, upward fluctuations in interest rates will increase the cost of new debt.

***Exchange rate risk***

The Group's transactions are mainly denominated in Renminbi. Fluctuations in exchange rates may affect the international and domestic gold price, which may impact our results of operation. Renminbi is not freely convertible and the currency would fluctuate against a basket of currencies. The PRC government may take further actions and implement new measures on free trade of Renminbi.

Apart from the above, the Group is also exposed to exchange rate risk primarily through bank deposits and other payables that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to risk are primarily Hong Kong dollars, United States dollars and Japanese Yen.

Fluctuations in exchange rates may adversely affect the value of our net assets, earnings and any dividends we declare when such are being converted to Hong Kong dollars.

**6. Contractual obligations**

As at 31 December 2008, capital commitments, including the construction costs not provided for in the financial statements, were approximately RMB176,184,000, representing an increase of approximately RMB152,702,000 from approximately RMB23,482,000 as at 31 December 2007.

As at 31 December 2008, our total future minimum lease payments under non-cancellable operating leases amounted to approximately RMB2,205,000, of which approximately RMB768,000 was payable within one year, approximately RMB1,104,000 was payable after one year but within five years, and approximately RMB333,000 was payable after five years.



**7. Contingent liabilities**

The Company has given guarantee to a bank to secure facilities of RMB100,000,000 (2007: RMB Nil) granted to a subsidiary and such facilities have been fully utilised at 31 December 2008.

**8. Human resources**

In 2008, the average number of employees of the Group was 4,339. The Company highly treasures its human resources and offers competitive remuneration to employees and provides employees with training programs.



## Directors

### Executive Directors

**Mr. Xu Gaoming（許高明先生）**, aged 50, chairman and an Executive Director. Mr. Xu completed a postgraduate course in politics and economics at Shaanxi Normal University（陝西師範大學）and obtained a MBA degree. Mr. Xu has 30 years' working experience in the mining and smelting industry and has overseen several smelting technology improvements. He was appointed as the chairman of the Company in June 2004.

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**Mr. Wang Jianguo（王建國先生）**, aged 50, general manager and an Executive Director. Mr. Wang completed a course in facility management at Zhengzhou Aviation Industry Management Institute（鄭州航空工業管理學院）and is an assistant environmental engineer. He has 27 years' working experience in the mining and smelting industry. Mr. Wang was appointed as a Director and general manager of the Company since June 2004.

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**Mr. Lu Xiaozhao（呂曉兆先生）**, aged 46, deputy general manager and an Executive Director. He completed a course in mining engineering at Shenyang Gold Institute（瀋陽黃金學院）. He is a mining engineer and a registered senior consultant with over 23 year's working experience in the mining and smelting industry. Mr. Lu was appointed as a Director and deputy general manager of the Company since September 2002.

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**Mr. Jin Guangcai（靳廣才先生）**, aged 42, deputy general manager and an Executive Director. He completed a postgraduate course in politics and economics at Shannxi Normal University（陝西師範大學）. He has approximately ten years' experience in the mining and smelting industry. Mr. Jin was appointed as a deputy general manager of the Company in May 2003 and a Director in October 2004.

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**Mr. Liu Pengfei（劉鵬飛先生）**, aged 34, deputy general manager and an Executive Director. He completed a course in corporate management at Henan School of Financial and Economics（河南省財經學院）. Mr. Liu has more than 17 years' experience in the mining and smelting industry. He was appointed as a Director and deputy general manager of the Company in January 2009.

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**Mr. Zhang Guo（張果先生）**, aged 42, deputy general manager and an Executive Director. He completed a course in mining engineering at Baotou Steel and Iron College（包頭鋼鐵學院）and obtained the qualification of mining engineer. He has more than 19 years of experiences in the mining industry. Mr. Zhang was appointed as a Director of the Company in January 2009.



### Non-executive Directors

**Mr. Wang Yumin（王育民先生）**, aged 49, a Non-executive Director. Mr. Wang obtained college education. He is currently the general manager of Lingbao State-owned Assets Operation Limited Liability Company. He was appointed as a Non-executive Director of the Company in January 2009.

### Independent Non-executive Directors

**Mr. Niu Zhongjie（牛鍾潔先生）**, aged 41, an independent Non-executive Director. He is an executive director of Vision Finance Capital Limited, a licensed corporation under the Securities and Futures Ordinance which is engaged in advising on merger and acquisition and corporate finance. Mr. Niu obtained a master degree in business administration. Mr. Niu has extensive experience in equity capital markets. He was appointed as an independent Director in June 2005.

**Mr. Wang Han（王瀚先生）**, aged 45, is currently deputy principal of Northwest University of Politics and Law（西北政法大學）and an arbitrator of Court of Arbitration of China International Commerce Chamber（中國國際商會仲裁院）. Mr. Wang obtained a bachelor degree from Northwest Normal University（西北師範大學）in 1984, a master degree in laws from Northwest University of Politics & Law in 1987 and a doctor degree in laws from School of Law at Wuhan University（武漢大學）in 1998. Mr. Wang was appointed as dean, deputy dean and faculty officer and various other positions in Northwest University of Politics and Law. In addition, he is also a legal consultant to Shaanxi provincial government, Xi'an municipal government and Baoji municipal government and an arbitrator to various arbitration committees. Mr. Wang is also writer of various publications mainly on law-related topics. Mr. Wang was appointed as an Independent Non-executive Director of the Company in January 2009.

**Mr. Yan Wanpeng（閆萬鵬先生）**, aged 43, is currently the chief accountant of Henan Investment Company Group. Mr. Yan graduated with a bachelor degree and qualified for certified public accountant, certified asset valuer and senior accountant. Mr. Yan was appointed as an Independent Non-executive Director of the Company in January 2009.

**Ms. Du Liping（杜莉萍女士）**,aged 45, is currently a professor of School of Economics and Management at Northwest University（西北大學）. Ms. Du obtained a bachelor degree in economics from Northwest University in 1984 and obtained a master degree from School of Management at Northwest University in 1987. She became a professor of Northwest University since obtaining her master degree. She is also an independent director of Xi'an Food and Beverage Company Limited (a company listed on the Shenzhen Stock Exchange), a committee member of Xi'an Trading and Commerce Bureau, Xi'an Tourism Bureau and Xi'an Association of Traders, and a consultant of various organizations such as Xi'an China Tourism Group. Ms. Du was appointed as an Independent Non-executive Director of the Company in January 2009.



## Supervisory Committee and Supervisors

**Mr. Liu Shengmin（劉勝民先生）**, aged 50, a Supervisor and chairman of the supervisory committee of the Company. He has been the chairman of Wason Copper-Foil since 2004. Mr. Liu studied chemical engineering in Zhengzhou College of Technology（鄭州工學院）from 1978 to 1982. Mr. Liu was appointed as chairman of the supervisory committee of the Company in January 2009.

**Mr. Zhu Yusheng（朱育生先生）**, aged 52, a Supervisor. He is currently the deputy secretary-general of Sanmen Xia Municipal CPC Party Committee and the chairman of Sanmen Xia Jin Qu Group Company Limited. Mr. Zhu completed his undergraduate studies in economics and management at the Party School of the CPC Central Committee（中央黨校）in 1995 and he graduated with a master degree from Shaanxi Normal University（陝西師範大學）in 1999. Mr. Zhu was appointed as a Supervisor of the Company in January 2009.

**Mr. Meng Fanrui（孟凡瑞先生）**, aged 54, a Supervisor. Mr. Meng is a senior economist in the PRC. He is the chairman and general manager of Henan Xuanrui. He was appointed as a Supervisor of the Company in September 2002.

**Mr. Guo Xuchang（郭續長先生）**, aged 47, a Supervisor. He completed his study of the economics management post-secondary course at Henan Provincial Committee Party School of the Chinese Communist Party（中共河南省委黨校）in 1995. He has been the chairman and general manager of Lingbao Guoshi Mining since September 1999. Mr. Gao was appointed as a Supervisor of the Company in September 2002.

**Mr. Hang Zhanping（杭占平先生）**, aged 46, a Supervisor. He is currently the chief of the sales team of Qiang Ma Gold Mine. Mr. Hang was appointed as a Supervisor of the Company in January 2009.

**Mr. Yang Bo（楊波先生）**, aged 41, a Supervisor. He is currently working in the quality testing section of the smelting branch of Lingbao Gold Company Ltd. and has been working in this section since 1992. Mr. Yang was appointed as a Supervisor of the Company in January 2009.

**Mr. Jiao Xiaoxiao（焦瀟霄先生）**, aged 26, is currently the deputy officer of integrated office of the Company. Mr. Jiao graduated with a degree in Chinese language from Henan University（河南大學）. Mr. Jiao was appointed as a Supervisor of the Company in January 2009.



## Senior Management

**Mr. Xing Jiangze（邢江澤先生）**, aged 41, financial controller of the Company. He is a registered certified public accountant, certified tax agent, senior accountant, senior consultant and economist in the PRC, having over 15 years' experience in finance, accounting and auditing. Mr. Xing was appointed as the financial controller of the Company in January 2009.

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**Ms. Qi Haihua（戚海花女士）**, aged 39, joint company secretary and secretary to the Board of Directors, is responsible for the company secretarial and investor relations affairs of the Company. Ms. Qi graduated with a bachelor degree in English Literature from Zhengzhou University（鄭州大學）. Ms. Qi joined the Company in June 2004 and was the manager of the securities department of the Company. Ms. Qi was appointed as the secretary to the Board of Directors and the joint company secretary of the Company in November 2008.

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**Mr. Poon, Lawrence Chi Leung（潘之亮先生）**, aged 34, joint company secretary, chief financial officer and qualified accountant of the Company, is responsible for company secretarial, financial and accounting management, and investor relations affairs of the Company. Mr. Poon graduated from Monash University, Australia, with a bachelor degree of Commerce. He is a certified practising accountant of CPA Australia and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Poon has over 10 years' experience in auditing, accounting and finance. Mr. Poon was appointed as the qualified accountant and the joint company secretary of the Company in March 2007.



Being one of the largest integrated gold mining companies based in PRC, the Company is committed to continually achieving high standards of corporate governance practices and has put in place a set of well-defined corporate governance procedures to ensure the transparency of the Company and protect the overall interest and rights of shareholders as well as employees.

After listing of its H Shares on the Stock Exchange on 12 January 2006, the Company has fully complied with the requirements under the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except for the code provisions A.2.1 (division of responsibilities between the chairman and chief executive officer) and A.4.2 (directors appointed to fill a casual vacancy be subject to election by shareholders at the first general meeting after appointment).

## The Board

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

The composition of the Board of Directors are set out in the following table:

| Director | Position |
|---|---|
| Mr. Xu Gaoming | Executive Director and Chairman |
| Mr. Wang Jianguo | Executive Director |
| Mr. Lu Xiaozhao | Executive Director |
| Mr. Jin Guangcai | Executive Director |
| Mr. Liu Pengfei (appointed on 7 January 2009) | Executive Director |
| Mr. Zhang Guo (appointed on 7 January 2009) | Executive Director |
| Mr. Xu Wanmin (resigned on 7 January 2009) | Non-executive Director |
| Mr. Di Qinghua (resigned on 7 January 2009) | Non-executive Director |
| Mr. Qi Guozhong (resigned on 7 January 2009) | Non-executive Director |
| Mr. Wang Yumin (appointed on 7 January 2009) | Non-executive Director |
| Mr. Ning Jincheng (resigned on 7 January 2009) | Independent Non-executive Director |
| Mr. Wang Yanwu (resigned on 7 January 2009) | Independent Non-executive Director |
| Mr. Zheng Jinqiao (resigned on 7 January 2009) | Independent Non-executive Director |
| Mr. Niu Zhongjie | Independent Non-executive Director |
| Mr. Wang Han (appointed on 7 January 2009) | Independent Non-executive Director |
| Mr. Yan Wanpeng (appointed on 7 January 2009) | Independent Non-executive Director |
| Ms. Du Liping (appointed on 7 January 2009) | Independent Non-executive Director |

Pursuant to the articles of association of the Company ("Articles of Association"), the term of appointment of the Directors (including the non-executive Directors and independent non-executive Directors) shall be three years and the Directors are eligible for re-election. The chairman of the Company, Mr. Xu Gaoming, and the other five executive Directors have been engaged in the management of gold mining business for years with extensive experience. They are responsible for the business management of the Company, formulation and implementation of important strategies, making daily business decision, and coordination of overall business operation.

All of the Directors can give sufficient time and attention to the Company's affairs.

Non-executive Directors and independent non-executive Directors possess wide expertise and are able to give professional advice in various aspects such as law, accounting, finance, tax, equity capital and industrial and commercial industries. The non-executive Directors would participate in Board meetings of the Company to bring an independent judgment to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct. In addition, they would take the lead in Board meetings where potential conflicts of interests arise. They also have to scrutinise the Company's performance in achieving agreed corporate goals and objectives.

Independent non-executive Directors are expressly identified in all corporate communications that disclose the names of the Directors.

The Company has received annual written confirmation from each of the independent non-executive Directors to ensure they are in compliance with Rule 3.13 of the Listing Rules in respect of their independence. Apart from employment relationships with the Company, there is no any financial, business, family or other material relationships amongst members of the Board.

The Company has established various internal control systems which allow the Board of Directors to maintain high standard of corporate governance in the management of the Company. To ensure that the Board of Directors performs its duties effectively, the management is required to submit business and financial reports of the Company to the Directors regularly.

Directors would make further enquiries if they require further enquiries than information volunteered by management. The Board of Directors has separate and independent access to the joint company secretaries, qualified accountant and other senior management at all times to conduct informal discussions. It is at the Company's expense for the Board of Directors to contact the auditors, lawyers or other professionals to obtain independent professional opinions when appropriate. Management are regularly reminded by the joint company secretaries that they have an obligation to provide the Board and its committees with adequate, complete and reliable information in a timely manner. All Directors have access to board papers and related materials which will enable the Board to make an informed decision on matters placed before it. Steps are taken to respond to enquiries raised by Directors as fully as possible.

For the year ended 31 December 2008, the Board of Directors of the Company held eleven meetings to discuss and approve various important matters. All such meetings were convened in accordance with the Articles of Association. The table below lists out the attendance of each Director at the Board meetings held during the year up to the date of the report. The attendance illustrates the attention of the Board of Directors to the management of the Company's affairs. The matters processed by the Board of Directors in the meetings are all recorded, and the relevant records are kept pursuant to relevant laws and regulations.

| Director | The number of Board meetings that the Director was entitled to attend | The number of Board meetings that the Director attended | Attendance (%) |
|---|---|---|---|
| Mr. Xu Gaoming | 11 | 11 | 100 |
| Mr. Wang Jianguo | 11 | 11 | 100 |
| Mr. Lu Xiaozhao | 11 | 11 | 100 |
| Mr. Jin Guangcai | 11 | 11 | 100 |
| Mr. Xu Wanmin | 11 | 11 | 100 |
| Mr. Di Qinghua | 11 | 11 | 100 |
| Mr. Qi Guozhong | 11 | 11 | 100 |
| Mr. Ning Jincheng | 11 | 11 | 100 |
| Mr. Wang Yanwu | 11 | 11 | 100 |
| Mr. Niu Zhongjie | 11 | 11 | 100 |
| Mr. Zheng Jinqiao | 11 | 11 | 100 |

Prior to each regular Board meeting, the management of the Company shall submit materials relevant to the affairs to be discussed in the meeting to the Board of Directors. Notice convening the regular meeting shall be sent to the Directors at least ten days before the meeting so that arrangements can be made to attend the meeting. Documents required for the Board meeting shall be sent to the Directors at least three days before the meeting, to ensure that enough time is given to the Directors to review the documents and get prepared for the meeting.

The Board meeting is chaired by the chairman of the Company to ensure that sufficient time is allocated to the consideration and discussion of each matter in the agenda and each Director is given an equal opportunity to speak. In addition, Directors are given an opportunity to include matters in the agenda. Minutes of Board meetings and meetings of Board committees record detailed concerns raised by Directors and dissenting views expressed. Minutes of Board meetings and meetings of Board committees would be kept by secretary and such minutes are opened for inspection at any reasonable time on reasonable notice by any Director.

If a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter would not be dealt with by way of circulation or by a committee but a Board meeting would be held. Independent non-executive Directors have no material interest in the transaction would be present at such Board meeting.

With respect to the re-election of newly appointed Director, the Company has complied with Paragraph 4(2) of Appendix 3 of the Listing Rules, which permits the Directors who have been appointed to fill a casual vacancy of the Board be eligible for re-election at the next annual general meeting of the Company. As such, Code Provision A.4.2, which requires the re-election to take place at the next general meeting, was not adopted.

Every newly appointed Director would receive a comprehensive, formal and tailored induction on the first occasion of his appointment, and subsequently continuous briefing and professional development would be arranged to ensure that he/she has a proper understanding of the operations and business of the Company and that he/she is fully aware of his/her responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company.



## Board Committee

The Board of Directors has established four committees. Each committee has its terms of reference, including the review of matters of extraordinary nature, giving suggestions to the Board of Directors and making decisions on behalf of the Board of Directors relating to such matters when appropriate.

### (1) Audit Committee

The audit committee of the Board of Directors is a body specifically set up by the Board according to the resolutions of general meetings and shall mainly be responsible for the communication, supervision and inspection of internal and external audit.

After our listing, the Company has been in full compliance with the requirements of Rule 3.21 of the Listing Rules.

The audit committee comprises of five members. Any former partner of KPMG should be prohibited from acting as a member of the audit committee. Pursuant to the Code, an independent non-executive Director specializing in accounting will be the chief member who will be in charge of the work of the committee. The committee now comprises of the following members:

Mr. Yan Wanpeng *(Chairman of the committee)* (appointed on 7 January 2009)
Mr. Wang Yumin (appointed on 7 January 2009)
Mr. Niu Zhongjie
Mr. Wang Han (appointed on 7 January 2009)
Ms. Du Liping (appointed on 7 January 2009)
Mr. Zheng Jinqiao (resigned on 7 January 2009)
Mr. Wang Yanwu (resigned on 7 January 2009)
Mr. Ning Jincheng (resigned on 7 January 2009)
Mr. Xu Wanmin (resigned on 7 January 2009)

The principal terms of reference of the audit committee are: (a) to suggest recruiting or changing external audit organization; (b) to supervise the internal audit system of the Company and its implementation; (c) to facilitate the communication between internal audit and external audit; (d) to review the financial information and its disclosure; (e) to inspect the internal control system of the Company and to audit major connected transactions; (f) to develop and implement policy on the engagement of an external auditor to supply non-audit service; (g) 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 would discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences; (h) to monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and to review significant financial reporting judgments contained in them. In this regard, in reviewing the Company's annual report and accounts, half-year report before Corporate Governance Report submission to the Board, the committee would focus particularly on: (i) any changes in accounting policies and practices; (ii) major judgmental areas; (iii) significant adjustments resulting from audit; (iv) the going concern assumptions and any qualifications; (v) compliance with accounting standards; (vi) compliance with the Exchange Listing Rules and other legal or regulatory requirements in relation to financial reporting; and (vii) members of the committee would liaise with the Company's Board of Directors, senior management and the qualified accountant and the committee must meet, at least once a year, with the

Company's auditors; (viii) the committee would consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's qualified accountant, compliance adviser and auditors; (i) to discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system; (j) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response; (k) to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function; (l) to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response; (m) to report to the Board on the matters set out in Code Provision C.3.3; and (n) to be responsible for other matters as authorized by the Company.

The terms of reference of audit committee are kept at the registered office of the Company.

The audit committee has been provided with sufficient resources to discharge its duty.

Details of audit committee meetings held during the year are as follows:

| Director | Number of meetings of audit committee in 2008 | The number of meetings that Director attended | Attendance (%) |
|---|---|---|---|
| Mr. Zheng Jinqiao | 2 | 2 | 100 |
| Mr. Xu Wanmin | 2 | 2 | 100 |
| Mr. Ning Jincheng | 2 | 2 | 100 |
| Mr. Wang Yanwu | 2 | 2 | 100 |
| Mr. Niu Zhongjie | 2 | 2 | 100 |

In 2008, two meetings of the audit committee were held. On 22 April 2008, the audit committee met with the international auditors to discuss the general scope of their audit work. On 22 September 2008, the audit committee reviewed the Company's interim report for the year 2008. In addition, the audit committee had reviewed the financial statements for the year ended 31 December 2008 before the announcement of the Company's annual results. During the discussion, the audit committee had reviewed key areas in which management's judgment applied for adequate provision and disclosure, and internal control policies.

**(2) Strategic Committee**

The strategic committee of the Board is a body specifically set up by the Board according to the resolution of the general meeting and shall mainly be responsible for conducting research and giving advice regarding the long-term development strategies and material investment decisions of the Company.

The strategic committee comprises of seven Directors, with one independent non- executive Director pursuant to the implementation measure. The committee now comprises of the following members:

Mr. Xu Gaoming *(Chairman of the committee)*
Mr. Wang Jianguo
Mr. Lu Xiaozhao
Mr. Jin Guangcai (appointed on 7 January 2009)
Mr. Liu Pengfei (appointed on 7 January 2009)
Mr. Wang Yumin (appointed on 7 January 2009)
Mr. Niu Zhongjie (appointed on 7 January 2009)
Mr. Xu Wanmin (resigned on 7 January 2009)
Mr. Qi Guozhong (resigned on 7 January 2009)
Mr. Wang Yanwu (resigned on 7 January 2009)

The principal terms of reference of the strategic committee are: (a) to conduct research and make suggestions concerning the long-term development strategic plans of the Company; (b) to conduct research and make suggestions concerning the material investment and financial proposals which are subject to the approvals of the Board of Directors and the general meeting pursuant to the Articles of Association; (c) to conduct research and make suggestions concerning the material capital management and assets management projects which are subject to the approvals of the Board of Directors and the general meeting pursuant to the Articles of Association; (d) to conduct research and make suggestions concerning other significant events that influence the development of the Company; (e) to carry out inspection concerning the implementation of the above matters; and (f) to be responsible for other matters as delegated by the Board.

No strategic committee meeting was held in 2008.

**(3) Nomination Committee**

The nomination committee of the Board of Directors is a body specifically set up by the Board according to the resolutions of general meetings and shall mainly be responsible for making suggestions regarding the selection of the Directors and managers of the Company, choosing and making suggestions relating to the selection standards and procedures.

The nomination committee comprises of the following members, a majority of which are independent non-executive Directors:

Mr. Wang Han *(Chairman of the committee)* (appointed on 7 January 2009)
Mr. Wang Yumin (appointed on 7 January 2009)
Mr. Niu Zhongjie
Mr. Yan Wanpeng (appointed on 7 January 2009)
Ms. Du Liping (appointed on 7 January 2009)
Mr. Ning Jincheng (resigned on 7 January 2009)
Mr. Zheng Jinqiao (resigned on 7 January 2009)
Mr. Wang Yanwu (resigned on 7 January 2009)
Mr. Xu Wanmin (resigned on 7 January 2009)

The main duties of the nomination committee include: (a) making recommendations to the Board on the Board's scale and composition in accordance with the operating activities, scale of assets and shareholding structure of the Company; (b) studying the criteria and procedures for the election of Directors and management personnel and making recommendations to the Board thereon; (c) seeking for the right candidates for the position of Directors and management personnel; (d) reviewing the candidates for the position of Directors and management personnel and making recommendations thereon; (e) reviewing other senior management proposed to be appointed by the Board and making recommendations



thereon; and (f) undertaking other tasks as delegated by the Board.

The nomination committee would hold a meeting to discuss the appropriateness of the candidates and consult the chairman about their proposals relating to the nomination of other executive Directors and have access to professional advice if considered necessary. The criteria for selection include professional qualification, industrial experience and academic background.

Written notice of the intention to nominate a candidate together with the respective resume would be delivered to the Board for its consideration and approval.

In 2008, no meeting of the nomination committee was held.

**(4) Remuneration and Review Committee**

The remuneration and review committee of the Board is a body specifically set up by the Board according to the resolutions of general meetings and shall mainly be responsible for formulating the review criteria of and conducting review for the Directors and senior management of the Company, as well as formulating and reviewing their remuneration packages and proposals. It is accountable to the Board. The committee would be provided with sufficient resources to discharge its duty.

The remuneration and review committee comprises of five members, the majority of whom are independent non-executive Directors. The members are as follows:

Ms. Du Liping *(Chairman of the committee)* (appointed on 7 January 2009)
Mr. Wang Yumin (appointed on 7 January 2009)
Mr. Niu Zhongjie
Mr. Wang Han (appointed on 7 January 2009)
Mr. Yan Wanpeng (appointed on 7 January 2009)
Mr. Wang Yanwu (resigned on 7 January 2009)
Mr. Zheng Jinqiao (resigned on 7 January 2009)
Mr. Ning Jincheng (resigned on 7 January 2009)
Mr. Xu Wanmin (resigned on 7 January 2009)

The main duties of the remuneration and review committee include: (a) formulating and making recommendation to the Board on policy and structure for remuneration packages or proposals according to the major areas, duties and importance of the management position of Directors and senior management and the remuneration for relevant positions of other relevant enterprises; (b) establishing criteria, procedures and major assessment system for performance assessment and major proposals and systems for awards and punishments; (c) reviewing the performance of duties and conducting annual performance assessment of the Company's Directors and senior management; (d) monitoring the implementation of the Company's remuneration system; and (e) undertaking other tasks as delegated by the Board.

Moreover, the remuneration and review committee has 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 and that such compensation is otherwise fair and not excessive for the Company.



Besides, the committee would 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 any compensation payment is otherwise reasonable and appropriate.

The remuneration and review committee will also ensure that none of the Directors or any of their associates is involved in deciding his own remuneration.

The remuneration committee makes available its terms of reference, explaining its role and the authority delegated to it by the Board, and copies of the terms of reference are kept at the registered office of the Company.

In 2008, one meeting of the remuneration and review committee was held. Attendance of individual members of remuneration and review committee to the committee meeting in 2008 are as follows:

| Director | The number of meetings of remuneration and review committee in 2008 | The number of meetings that member of committee attended | Attendance (%) |
|---|---|---|---|
| Mr. Wang Yanwu | 1 | 1 | 100 |
| Mr. Zheng Jinqiao | 1 | 1 | 100 |
| Mr. Ning Jincheng | 1 | 1 | 100 |
| Mr. Xu Wanmin | 1 | 1 | 100 |
| Mr. Niu Zhongjie | 1 | 1 | 100 |

The remuneration and review committee had considered the annual salary review as well as bonus plan of Directors and senior management of the Company for 2008.

Breakdown of the Directors' and the supervisors' remuneration for the year ended 31 December 2008 are set out in note 9 to the financial statements.

## Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") as set out in Appendix 10 of the Listing Rules as the code of conduct for securities transactions by Directors. The Company has made specific enquiry to all Directors and Supervisors, who have conformed that they have complied with the Model Code in 2008.

The Board has established written guidelines for employees who are likely to possess unpublished price sensitive information in respect of their dealings in the securities of the Company.

## Chairman and Chief Executive Officer

Code Provision A.2.1 states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The chairman is responsible for ensuring that Directors are properly explained on matters discussed at Board meetings and reliable information have been received by Directors.

Mr. Xu Gaoming is the chairman and chief executive officer of the Company and has considerable industry experience. Thus, there is a derivation from the Code Provision A.2.1. The



Board is of the view that it is in the best interests of the Group to have an executive chairman so that the Board can have the benefit of a chairman who is knowledgeable about the business of the Group and is capable to guide discussions and brief the Board, in particular, the non-executive Directors, in a timely manner on various issues and developments of the industry. In addition, the Board believes that this structure can assist the Group to implement decisions promptly and more efficiently.

## Management Functions

The Board is responsible for formulating and executing the operation plans and management decisions of the Company as well as establishing the overall strategic direction. When the Board delegates its management functions to the management, clear directions will be given and management will report to the Board on regularly basis. The Board reserves most of the powers and delegates routine duties to management including bank loan arrangement. There would be a periodic review of the arrangement. Management must obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group.

## Chief Financial Officer

Chief financial officer of the Company is responsible for the preparation of the interim and annual financial statements in accordance with the Hong Kong Accounting Standards and to make sure that the results and financial position of the Company are disclosed in an accurate and fair manner. Chief financial officer of the Company shall also be responsible for contacting the auditors regularly. The duties of the chief financial officer also include reviewing the financial risk management of the Company and making suggestions to the Board of Directors. Moreover, chief financial officer shall be responsible for giving advice to the Board of Directors regarding the disclosure of notifiable transactions, connected transactions and price-sensitive information.

## Joint company secretaries

The joint company secretaries shall be directly responsible to the Board of Directors. They are responsible for ensuring that the proceedings of the Board of Directors are complied with, making appropriate disclosures regarding the interests of securities of the Directors and giving advice to the Board of Directors regarding the disclosure of notifiable transactions, connected transactions and price-sensitive information. The joint company secretaries act as the principal channel of communication between the Company and the Stock Exchange. They also assist the Board of Directors in realizing and strengthening corporate governance practices in order to enhance the best interest of the Company and the shareholders.

## Financial Reporting

Management provides financial information with explanation to the Board to assist the Board in assessing the financial position of the Company. Financial statements are the responsibilities of Directors. The Board has to present a balanced, clear and understandable assessment which extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Exchange Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.

The reporting responsibilities of KPMG, the international auditors, are stated in the Auditor's Report on pages 43-44 of the Annual Report.



There was no material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. The Board has taken the same view as that of the audit committee in relation to the appointment of KPMG as international auditors of the Company.

## Auditors' Remuneration

During the year, the fees charged to the accounts of the Company for KPMG and Peking Certified Public Accountants for statutory audit services and non-audit related services including agreed upon procedures and review of financial statements amounted to approximately RMB3.40 million and RMB582,000 respectively.

## Internal Control

The Company has established various systems for internal management, so as to safeguard the assets and shareholders' interests of the Company and maintain a high standard of corporate governance for the management of the Company. To further strengthen its internal control, the Company conducts regular meetings with its auditors, lawyers and other professionals to obtain independent and professional advices for the improvement of the Company's internal management system.

## Investor relations and communications with shareholders

The Company highly values its relationship with its investors and shareholders. It maintains amicable relationship with investors, fund managers and shareholders through one-on-one meetings, road shows, seminars and on-site inspection by investors, thereby allowing investors to have a better understanding of the Company's financial position, production operations, management decisions, overall strategic directions and latest development.

## Voting by Poll

At the upcoming 2008 annual general meeting of the Company to be held on 18 June 2009 the procedures for conducting the poll will be explained. The procedures for demanding a poll by the shareholders are incorporated in the circular accompanying this report.

Each substantially separate issue will be proposed by separate resolution at the forthcoming general meeting, the committee heads will be available to answer questions at the general meeting, the level of proxies lodged on each resolution will be indicated, and the balance for and against each resolution will be disclosed at the commencement of general meeting. The chairman of the meeting will also explain the procedures for demanding a poll, and then answer questions from shareholders at the commencement of the general meeting.



## 1. Meetings of the Supervisory Committee during the Reporting Period

In 2008, two supervisory committee meetings were held by the supervisory committee.

## 2. Independent Work Report of the Supervisory Committee

In 2008, aiming at protecting the interest of the Company and the shareholders, the supervisory committee seriously performed the duties in accordance with the Company Law of the PRC ("Company Law"), Securities Law, Listing Rules and other relevant rules and regulations and the Articles of Association of the Company, comprehensively monitored aspects such as the Company's capital operation, operating management, financial position and the fulfillment of obligations by senior management. After a serious review, members of the committee unanimously agreed to the following:

### i. Legal Compliance of the Company's Operations

The Board of the Company conscientiously carried out various resolutions according to the relevant resolutions in general meetings, during which its decision-making procedures were in compliance with the relevant requirements of the Company Law, Listing Rules and the Articles and Association. It also set up rules and systems for internal control, project investment management approach, connected transactions, resources purchase and project tendering management. None of the officers, including directors and managers, were aware of any violations of the laws, regulations and articles of association or any act which would prejudice the Company's interests.

### ii. Inspection of the Financial Status of the Company

In 2008, the Supervisory Committee reviewed the financial system and position of the Company and considered that the financial report for 2008 truly reflected its financial position and operating results. In 2008, Peking Certified Public Accountants, the local auditor, and KPMG, the international auditor, audited the Company's annual financial statements and issued unqualified auditor reports, which have been reviewed by the Supervisory Committee without any adverse opinion.

### iii. Acquisition of Assets

In this reporting period, the Company acquired a mining right of Istanbul Gold Mine located in Kyrgyz Republic and acquired 100% equity interest in Lingbao Wason.

The Supervisory Committee considered that: no behaviors constituting insider dealings had been found in the acquisitions of assets by the Company, nor had any situations happened that would harm the interests of the Company and all shareholders.

iv. **Connected Transactions**

After review and examination, the Supervisory Committee was not aware of any behaviors in the Company's connected transactions that would prejudice the Company's interest, and noticed that the waiver in relation to the old electricity supply agreements had expired. The Group had entered into several new electricity supply agreements during the period from September 2007 to October 2008, but the Company failed to timely comply with the requirements of reporting, announcement and independent shareholders' approval under Chapter 14A of the Listing Rules in respect of the transactions contemplated under the old electricity supply agreements and the new electricity supply agreements.

***Continuing Connected Transactions***

Lingbao Electric Company ("Lingbao Electric" or "Lingbao Electric Bureau") (靈寶市電業總公司) supplies electricity to the Company on an ongoing basis, as the supply of electricity is essential to the operation of the business of the Group.

A total of seven electricity supply contracts were entered into between Lingbao Electric and the Company for supplying electricity to the Company on 30 July 2006, 15 September 2007, 26 November 2007, 21 January 2008, 30 January 2008, 11 February 2008 and 10 October 2008 respectively. The electricity supply contracts are valid for a period of three years. Under these electricity supply contracts, upon expiry of their respective terms, the contracts will continue to be in force upon written confirmation by both parties. Pursuant to these electricity supply contracts, the Company shall make full amount payment to Lingbao Electric before the 25th day of each month.

Lingbao Electric is a company incorporated in the PRC and is a promoter of the Company. Lingbao Electric holds approximately 2.26% equity interest in the Company as at the date of this report. Accordingly, Lingbao Electric is a connected person of the Company under the Listing Rules and the transactions with Lingbao Electric constitute continuing connected transactions.

For the year ended 31 December 2008, the annual electricity fee paid by the Group to Lingbao Electric amounted to RMB69,423,000.



The above continuing connected transactions have already been approved by the shareholders in the extraordinary general meeting held on 1 April 2009.

For details, please refer to the circular dated 12 February 2009 issued by the Company.

v. **External Guarantees**

Details of guarantees given by the Company as at 31 December 2008 are set out in notes 33(d) to the financial statements.



# Directors' Report

The Directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2008.

## Principal Place of Business

Lingbao Gold Company Ltd. (the "Company") is a company incorporated and domiciled in the People's Republic of China ("PRC") and has its registered office at Xin Village, Yinzhuang Town, Daonan Industrial Area, Lingbao, Henan, the PRC and its principal place of business in Hong Kong at Room 1902, 19th Floor, MassMutual Tower, 38 Gloucester Road, Wanchai, Hong Kong.

## Principal Activities

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

The analysis of the principal activities of the operations of the Company and its subsidiaries (the "Group") during the financial year is set out in note 20 to the financial statements.

## Major Customers and Suppliers

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

| | Percentage of the Group's total Sales | Purchases |
|---|---|---|
| The largest customer | 76.8% | |
| Five largest customers in aggregate | 87.1% | |
| The largest supplier | | 12.5% |
| Five largest suppliers in aggregate | | 31.8% |

At no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

## Financial Statements

The profit of the Group for the year ended 31 December 2008 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 45 to 135.

## Transfer to Reserves

Profits attributable to equity shareholders of the Company, before dividends, of RMB108,166,000 (2007: RMB222,270,000) have been transferred to reserves. Other movements in reserves are set out in note 32 to the financial statements.

## Dividend

A dividend of RMB0.10 for 2007 was paid during the year. At the board meeting held on 24 April 2009, the Directors do not recommend the payment of any final dividend (2007: RMB0.10) in respect of the year ended 31 December 2008.

## Fixed Assets

Movements in fixed assets during the year are set out in note 15 to the financial statements.

## Share Capital

As at the date of this report, there was a total of share capital of 770,249,091 shares of the Company which includes:

| | Number of shares | Approximate percentage of total share capital |
|---|---|---|
| Domestic shares | 472,975,091 | 61.41 |
| H Shares | 297,274,000 | 38.59 |
| Total | 770,249,091 | 100.00 |

Details of the movements in share capital of the Company during the year are set out in note 32(c) to the financial statements.



## Purchase, Sale or Redemption of Shares of the Company

There was no purchase, sale or redemption of the Company's securities by the Company or any of its subsidiaries for the year ended 31 December 2008.

## Directors and Supervisors

The Directors and supervisors of the Company for the year are as follows:

### Directors

***Executive Directors***

Xu Gaoming, *Chairman*
Wang Jianguo, *General Manager*
Lu Xiaozhao, *Deputy General Manager*
Jin Guangcai, *Deputy General Manager*
Liu Pengfei, *Deputy General Manager* (appointed on 7 January 2009)
Zhang Guo (appointed on 7 January 2009)

***Non-executive Directors***

Xu Wanmin (resigned on 7 January 2009)
Di Qinghua (resigned on 7 January 2009)
Qi Guozhong (resigned on 7 January 2009)
Wang Yumin (appointed on 7 January 2009)

***Independent Non-executive Directors***

Ning Jincheng (resigned on 7 January 2009)
Wang Yanwu (resigned on 7 January 2009)
Niu Zhongjie
Zheng Jinqiao (resigned on 7 January 2009)
Wang Han (appointed on 7 January 2009)
Yan Wanpeng (appointed on 7 January 2009)
Du Liping (appointed on 7 January 2009)

***Supervisors***

Gao Yang (resigned on 7 January 2009)
Meng Fanrui
Guo Xuchang
Peng Jinzeng (resigned on 7 January 2009)
Lei Mingyang (resigned on 7 January 2009)
Liu Shengmin (appointed on 7 January 2009)
Zhu Yusheng (appointed on 7 January 2009)
Hang Zhanping (appointed on 7 January 2009)
Yang Bo (appointed on 7 January 2009)
Jiao Xiaoxiao (appointed on 7 January 2009)

## Biographical Details of Directors, Supervisors and Senior Management

Brief biographical details of Directors, supervisors and senior management of the Company are set out on pages 19 to 22 of the annual report.

## Highest Paid Individuals

During the year, the relevant information of the five individuals with the highest remuneration in the Group is disclosed in note 10 to the accounts.

## Remuneration

The Company has a remuneration committee to formulate compensation policies and determine and manage the compensation of the Company's Directors and senior management with reference to their duties, responsibilities, performance and results of the Group.

## Directors' and Supervisors' Service Contracts

Each of the executive Directors has entered into an executive director service agreement with the Company for a term of three years commencing on 7 January 2009. Each of these service agreements may be terminated by either party with not less than six months' prior written notice.

Each of the non-executive Directors has been appointed for a term of three years commencing on 7 January 2009. No remuneration is payable to the non-executive Directors.

Each of the independent non-executive Directors has been appointed for a term of three years commencing on 7 January 2009.

Each supervisor has entered into a supervisor service agreement with the Company for a term of three years commencing on 7 January 2007. The service agreement may be terminated by either party with not less than six months' prior written notice.

Under these deeds, no remuneration is payable to the supervisors.

No Director or supervisor has a service contract with the Company, which is not determinable by the Company within one year without payment of compensation, other than statutory obligations.

## Continuing Connected Transactions

Lingbao Electric (also known as Lingbao Electric Bureau) supplies electricity to the Company on an ongoing basis, as the supply of electricity is essential to the operation of the business of the Group.

A total of seven electricity supply contracts have been entered into between Lingbao Electric and the Company for the supply of electricity to the Company. These contracts were entered into on 30 July 2006, 15 September 2007, 26 November 2007, 21 January 2008, 30 January 2008, 11 February 2008 and 10 October 2008 respectively. These electricity supply contracts are valid for a period of three years. Under these electricity supply contracts, upon expiry of their respective terms, the contracts will continue to be in force upon written confirmation by both parties. Pursuant to these electricity supply contracts, the Company shall make payment to Lingbao Electric in full by the 25th day of each month.

In respect of the above new electricity supply agreements, the Group failed to comply in time with the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in relation to transactions under the existing electricity supply agreements and transactions under the new electricity supply agreements after the expiry of the exemption.

Lingbao Electric is a company incorporated in the PRC and is a promoter of the Company. Lingbao Electric held approximately 2.26% shareholding in the Company as at the date of this report. Accordingly, Lingbao Electric is a connected person of the Company under the Listing Rules and the transactions with Lingbao Electric constitute continuing connected transactions.

For the year ended 31 December 2008, the annual electricity fee paid by the Group to Lingbao Electric amounted to RMB69,423,000.

The independent non-executive Directors of the Company have reviewed the continuing connected transactions and are of the opinion that: (1) these transactions are within the ordinary course of business of the Group; (2) these transactions are conducted on normal commercial terms, or where there was no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as applicable) independent third parties; and (3) these transactions are conducted in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditor of the Group has confirmed to the Board of Directors in writing that (a) The transactions have been approved by the Board of Directors; (b) The transactions have been entered into for considerations consistent with the price charged for comparable transactions that were identified by management; and (c) The transactions have been entered into in accordance with the terms of the respective agreements and documents governing the respective transactions;

The Group's continuous connected transactions were passed at the extraordinary general meeting held on 1 April 2009. The annual caps of the above continuous connected transactions shall not exceed RMB77,500,000, RMB89,100,000, and RMB93,600,000 respectively for the three years ending 31 December 2011.

For details, please refer to the circular dated 11 February 2009 issued by the Company.

## Directors', Supervisors' and Chief Executive's interest in shares

As at 31 December 2008, the interest and short position of each Director, Supervisor and chief executive of the Company in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 of the Listing Rules, to be notified to the Company and the Stock Exchange (for this purpose, the relevant provisions of the SFO will be interpreted as if applicable to Supervisors) were as follows:

| Name of Director/ Supervisor | Relevant entity | Capacity | Number of domestic shares held (Long position) | Approximate percentage of the total issued domestic share capital | Approximate percentage of the total issued share capital |
|---|---|---|---|---|---|
| Mr. Meng Fanrui (孟凡瑞先生) | the Company | Interest of controlled corporation *(Note 1)* | 18,000,000 | 3.80% | 2.34% |
| Mr. Guo Xuchang (郭續長先生) | the Company | Interest of controlled corporation *(Note 1)* | 12,250,000 | 2.58% | 1.59% |

*Notes:*

1. Henan Xuanrui Assets Company Limited ("Henan Xuanrui") (河南軒瑞產業股份有限公司), a promoter of the Company, owns approximately 2.34% interest in the Company as at the date of this report. Mr. Meng Fanrui (孟凡瑞先生) owns approximately 61.6% interest in Henan Xuanrui and together with his wife Ms. Ma Xianting (馬仙婷女士), hold approximately 96.1% of the shareholding in Henan Xuanrui. Under section 316 of the SFO, Mr. Meng Fanrui (孟凡瑞先生) is deemed to be interested in the Shares held by Henan Xuanrui.

2. Lingbao Guoshi Mining owns approximately 1.59% interest in the Company as at the date of this report. Mr. Guo Xuchang (郭續長先生) owns approximately 78.8% interest in Lingbao Guoshi Mining and together with his wife Ms. Yang Yuqin (楊玉琴女士), hold 100% of the shareholding in Lingbao Guoshi Mining. Under section 316 of the SFO, Mr. Guo Xuchang (郭續長先生) is deemed to be interested in the Shares held by Lingbao Guoshi Mining.



## Substantial Shareholders interest in shares

As at 31 December 2008, so far as was known to the Directors, the following person, other than the Directors, supervisors and chief executive of the Company, had an interest in the shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

| | Number of Domestic Shares | Capacity | Approximate percentage of the total issued domestic share capital | Approximate percentage of the total share capital |
|---|---|---|---|---|
| Lingbao State-owned Assets Operation Limited Liability Company ("Lingbao State-owned Assets") (靈寶市國有資產經營有限責任公司) *(Notes 1 and 2)* | 373,840,620 | Beneficial owner | 79.04% | 48.54% |
| Sanmenxia Jinqu Group Company Limited ("Sanmenxia Jinqu") (三門陝金渠集團有限公司) | 37,698,784 | Beneficial owner | 7.97% | 4.89% |

*Notes:*

1. In addition to its direct interest in 373,840,620 domestic shares, Lingbao State-owned Assets has an indirect interest in the Company through its equity interest of approximately 43.4% in Lingbao Gold Machinery Limited Liability Company (靈寶市黃機械有限責任公司), which in turn holds approximately 21.1% equity interest in Lingbao Jinxiang Motors. Lingbao Jinxiang Motors is a promoter of the Company, which held approximately 1.7% shareholding in the Company as at the date of the report.

2. Mr. Wang Yumin (王育民先生), a non-executive Director, is the general manager of Lingbao State-owned Assets.

Save as disclosed above, as at 31 December 2008, so far as the Directors are aware, there are no other persons, other than the Directors, supervisors and chief executive of the Company, who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO.



## Directors' and Supervisors' Interests in Contracts

No contract of significance in relation to the Company's business to which the Company, its subsidiaries or its jointly controlled entities was a party and in which the Directors or the supervisors 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 (excluding the Directors' and supervisors' service contracts).

## Directors' and Supervisors' Rights to Acquire Shares or Debentures

Apart from disclosed under the paragraph headed "Directors, Supervisors and Chief Executive" above, at no time during the year was the Company, its subsidiaries or its jointly controlled entity, a party to any arrangement to enable to the Directors, the supervisors and their respective spouses or children under 18 years of age of acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

## Interests of Directors in Competing Business

During the year and up to the date of this report, none of the Directors has any interest in business, which competes or may compete with the business of the Group under the Listing Rules.

## Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2008 are set out in notes 28 and 29 to the financial statements.

## Charitable Donations

Charitable donations made by the Group during the year amounted to RMB1,579,643 (2007: RMB425,000).

## Pre-emptive Rights

There are no provisions regarding pre-emptive rights under the Articles of Association of the Company and related laws of Hong Kong and the PRC, which would oblige the Company to issue new shares on pro-rata basis to the existing shareholders of the Company.

## Policy on Income Tax

The Company and its subsidiaries basically paid PRC corporate income tax at a rate of 25% of its assessable profits according to the relevant laws and regulations in the PRC. Details of the Group's income tax information are disclosed in note 9 to the account.

## Closure of Register of Members

The register of members of the Company will be closed from Tuesday, 19 May 2009 to Thursday, 18 June 2009, (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for attending the forthcoming annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's H share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at shops 1712 to 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong (for holders of H shares) or the registered office of the Company at Xin Village, Yinzhuang Town, Daonan Industrial Area, Lingbao, Henan, the PRC (for domestic shares), no later than 4:00 p.m. on Monday, 18 May 2009.

## Litigation and Arbitration

As at the date of this report, there was no material litigation and arbitration for the Group.

## Public Float

Based on the publicly available information and the best of knowledge of the Directors, the Company has maintained sufficient public float at the latest practicable date prior to the issue of this report.



## Compliance of Code of Conduct

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company did not meet the applicable code provision set out in the code on Corporate Government Practices for any period from 1 January 2008 to 31 December 2008.

## Five Years Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 136 of the annual report.

## Confirmation of Independence

The Company has received from each of the independent non-executive directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive directors to be independent.

## Auditors

KPMG retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

## Taxation

For the year ended 31 December 2008, no foreign shareholder who is not resident of the PRC is liable for Individual or Enterprise Income Tax, Capital Gains Tax, Stamp Duty or Estate Duty of the PRC in relation to their holding of shares of the Company. Shareholders are urged to consult their tax advisers regarding the PRC, Hong Kong and other tax consequences of owning and disposing of H shares.

By order of the board

**Xu Gaoming**
*Chairman*

Hong Kong, 24 April 2009

**Independent auditor's report to the shareholders of**
**Lingbao Gold Company Ltd.**
*(Incorporated in the People's Republic of China with limited liability)*

We have audited the consolidated financial statements of Lingbao Gold Company Ltd. (the "Company") set out on pages 45 to 135, which comprise the consolidated and company balance sheets as at 31 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' responsibilities for the financial statements

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

## Auditor's responsibility

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

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

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



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

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**KPMG**
*Certified Public Accountants*
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

24 April 2009



# Consolidated Income Statement

For the year ended 31 December 2008

| | Note | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| **Turnover** | 3 | **3,559,089** | 2,844,560 |
| Cost of sales | | **(3,177,792)** | (2,391,647) |
| **Gross profit** | | **381,297** | 452,913 |
| Other revenue | 4 | **18,180** | 142,861 |
| Other net gain/(loss) | 5 | **31,992** | (4,494) |
| Selling and distribution expenses | | **(19,881)** | (14,340) |
| Administrative expenses and other operating expenses | | **(174,082)** | (136,329) |
| **Profit from operations** | | **237,506** | 440,611 |
| Finance costs | 7(a) | **(115,262)** | (101,613) |
| **Profit before taxation** | 7 | **122,244** | 338,998 |
| Income tax | 8(a) | **(15,483)** | (115,669) |
| **Profit for the year** | | **106,761** | 223,329 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | 32(a) | **108,166** | 222,270 |
| Minority interests | 32(a) | **(1,405)** | 1,059 |
| **Profit for the year** | 32(a) | **106,761** | 223,329 |
| **Dividends payable to equity shareholders of the Company attributable to the year:** | | | |
| Final dividend proposed after the balance sheet date | 12 | **–** | 77,025 |
| **Basic and diluted earnings per share (cents)** | 13 | **14** | 29 |

The notes on pages 53 to 135 form part of these financial statements.



# Consolidated Balance Sheet

At 31 December 2008

| | Note | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | *15* | **826,253** | 634,551 |
| Construction in progress | *16* | **445,198** | 302,451 |
| Intangible assets | *17* | **556,335** | 362,112 |
| Goodwill | *18* | **38,882** | 38,882 |
| Lease prepayments | *19* | **86,870** | 36,940 |
| Other investments | *21* | **10,504** | 10,504 |
| Investment deposit | *22* | **80,000** | 80,000 |
| Non-current prepayments | *26* | **135,376** | 45,334 |
| Deferred tax assets | *23(b)* | **50,764** | 23,093 |
| | | **2,230,182** | 1,533,867 |
| **Current assets** | | | |
| Inventories | *24* | **711,333** | 591,443 |
| Trade and other receivables, deposits and prepayments | *25* | **545,958** | 663,360 |
| Available-for-sale investment | *21* | **–** | 40,000 |
| Current tax recoverable | *23(a)* | **22,205** | – |
| Cash restricted for use | *29* | **–** | 181,982 |
| Cash and cash equivalents | *27* | **575,478** | 389,651 |
| | | **1,854,974** | 1,866,436 |
| **Current liabilities** | | | |
| Bank loans | *29* | **1,280,000** | 599,861 |
| Unsecured debenture | *28* | **–** | 580,000 |
| Trade and other payables | *30* | **464,403** | 346,666 |
| Loan from ultimate holding company | *31* | **23,800** | – |
| Current tax payable | *23(a)* | **17,662** | 28,426 |
| | | **1,785,865** | 1,554,953 |
| **Net current assets** | | **69,109** | 311,483 |
| **Total assets less current liabilities** | | **2,299,291** | 1,845,350 |
| **Non-current liabilities** | | | |
| Bank loans | *29* | **455,160** | 120,000 |
| Other loan | *28* | **3,270** | 3,270 |
| Other payables | *30* | **111,730** | – |
| Deferred tax liabilities | *23(b)* | **–** | 23,697 |
| | | **570,160** | 146,967 |
| **NET ASSETS** | | **1,729,131** | 1,698,383 |

# Consolidated Balance Sheet

At 31 December 2008



| | Note | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| **CAPITAL AND RESERVES** | *32(a)* | | |
| **Share capital** | | **154,050** | 154,050 |
| **Reserves** | | **1,549,387** | 1,517,996 |
| **Total equity attributable to equity shareholders of the Company** | | **1,703,437** | 1,672,046 |
| **Minority interests** | | **25,694** | 26,337 |
| **TOTAL EQUITY** | | **1,729,131** | 1,698,383 |

Approved and authorised for issue by the board of directors on 24 April 2009.

**Xu Gaoming**
*Executive director and chairman*

**Wang Jianguo**
*Executive director*

The notes on pages 53 to 135 form part of these financial statements.



# Balance Sheet

At 31 December 2008

| | Note | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | *15* | **476,284** | 439,496 |
| Construction in progress | *16* | **113,444** | 109,075 |
| Intangible assets | *17* | **19,616** | 22,778 |
| Lease prepayments | *19* | **29,474** | 8,623 |
| Investments in subsidiaries | *20* | **622,951** | 437,725 |
| Other investments | *21* | **10,504** | 10,504 |
| Investment deposit | *22* | **80,000** | 80,000 |
| Non-current prepayments | *26* | **36,079** | 8,097 |
| Deferred tax assets | *23(b)* | **23,007** | 14,824 |
| | | **1,411,359** | 1,131,122 |
| **Current assets** | | | |
| Inventories | *24* | **644,524** | 553,604 |
| Trade and other receivables, deposits and prepayments | *25* | **456,345** | 655,579 |
| Amounts due from subsidiaries | *20* | **611,202** | 402,480 |
| Available-for-sale investment | *21* | **–** | 40,000 |
| Current tax recoverable | *23(a)* | **20,424** | – |
| Cash restricted for use | *29* | **–** | 181,982 |
| Cash and cash equivalents | *27* | **260,508** | 322,781 |
| | | **1,993,003** | 2,156,426 |
| **Current liabilities** | | | |
| Bank loans | *29* | **1,280,000** | 599,861 |
| Unsecured debenture | *28* | **–** | 580,000 |
| Trade and other payables | *30* | **237,576** | 288,446 |
| Current tax payable | *23(a)* | **–** | 15,737 |
| Amounts due to subsidiaries | *20* | **27,505** | 8,531 |
| | | **1,545,081** | 1,492,575 |
| **Net current assets** | | **447,922** | 663,851 |
| **Total assets less current liabilities** | | **1,859,281** | 1,794,973 |
| **Non-current liabilities** | | | |
| Bank loans | *29* | **150,000** | 120,000 |
| Other loan | *28* | **3,270** | 3,270 |
| | | **153,270** | 123,270 |
| **NET ASSETS** | | **1,706,011** | 1,671,703 |



# Balance Sheet

At 31 December 2008

| | Note | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| **CAPITAL AND RESERVES** | *32(b)* | | |
| **Share capital** | | **154,050** | 154,050 |
| **Reserves** | | **1,551,961** | 1,517,653 |
| **TOTAL EQUITY** | | **1,706,011** | 1,671,703 |

Approved and authorised for issue by the board of directors on 24 April 2009.

**Xu Gaoming**
*Executive director and chairman*

**Wang Jianguo**
*Executive director*

The notes on pages 53 to 135 form part of these financial statements.



# Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

| | Note | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| **Total equity at 1 January** | | **1,698,383** | 1,543,871 |
| **Movements in equity arising from capital transactions:** | | | |
| Capital contributions from minority shareholders | *32(a)* | **1,154** | 8,000 |
| Capital returned to minority shareholders | *32(a)* | **–** | (367) |
| Gain on deemed disposal of subsidiary | *32(a)* | **(392)** | – |
| Exchange difference on translation of financial statements of overseas subsidiaries | *32(a)* | **250** | (3,959) |
| Acquisition of minority interests | *32(a)* | **–** | (10,871) |
| | | **1,012** | (7,197) |
| **Net profit for the year:** | | | |
| Attributable to: | | | |
| – Equity shareholders of the Company | | **108,166** | 222,270 |
| – Minority interests | | **(1,405)** | 1,059 |
| | | **106,761** | 223,329 |
| **Dividend declared and approved during the year** | *12(b)* | **(77,025)** | (61,620) |
| **Total equity at 31 December** | | **1,729,131** | 1,698,383 |

The notes on pages 53 to 135 form part of these financial statements.



# Consolidated Cash Flow Statement

For the year ended 31 December 2008

| | Note | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit before taxation | | **122,244** | 338,998 |
| Adjustments for: | | | |
| – Gain on deemed disposal of subsidiary | *5* | **(392)** | – |
| – Negative goodwill | *5* | **(12,437)** | – |
| – Net realised gain on financial instruments at fair value | *5* | **(45,421)** | – |
| – Net unrealised loss on financial instruments at fair value | *5* | **856** | – |
| – Depreciation | *7(b)* | **102,245** | 64,217 |
| – Finance costs | *7(a)* | **115,262** | 101,613 |
| – Interest income | *4* | **(5,612)** | (12,844) |
| – Impairment losses on: | | | |
| – trade and other receivables | *7(b)* | **2,539** | 624 |
| – purchase deposit | *7(b)* | **4,726** | 8,367 |
| – intangible assets | *7(b)* | **2,781** | – |
| – inventories | *24(b)* | **36,112** | – |
| – Net loss/(gain) on disposal of property, plant and equipment | *5* | **2,315** | (2,581) |
| – Amortisation of lease prepayments | *7(b)* | **1,637** | 724 |
| – Amortisation of intangible assets | *7(b)* | **43,181** | 26,532 |
| – Compensation income | *4* | **–** | (112,900) |
| – Dividend income from unlisted securities | *4* | **(420)** | (280) |
| – Foreign exchange differences | | **29,177** | 10,211 |
| **Operating profit before changes in working capital** | | **398,793** | 422,681 |
| Increase in inventories | | **(129,708)** | (138,250) |
| Decrease/(increase) in trade and other receivables, deposits and prepayments | | **233,460** | (59,574) |
| (Decrease)/increase in trade and other payables | | **(92,718)** | 26,614 |
| **Cash generated from operations** | | **409,827** | 251,471 |
| PRC income tax paid | | **(101,729)** | (124,071) |
| **Net cash generated from operating activities** | | **308,098** | 127,400 |



# Consolidated Cash Flow Statement

For the year ended 31 December 2008

| | Note | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| **Investing activities** | | | |
| Interest received | | **5,612** | 22,512 |
| Gain on settlement of financial instruments commodity derivative contracts | | **45,421** | – |
| Decrease in restricted deposits | | **80,386** | 414,416 |
| Payment for purchase of property,plant and equipment | | **(84,784)** | (88,236) |
| Proceeds from disposal of property,plant and equipment | | **2,356** | 14,617 |
| Payment for construction in progress | | **(202,667)** | (307,045) |
| Payment for purchase of intangible assets | | **(112,224)** | (67,921) |
| Payment for purchase of net assets | *35* | **–** | (3,108) |
| Payment for acquisition of a subsidiary | *36* | **(13,284)** | (145,381) |
| Payment for purchase of minority interests | *32(a)* | **–** | (10,871) |
| Payment for investment deposit | | **–** | (80,000) |
| Return of investment deposits | | **–** | 130,000 |
| Payment for deposit of mining right | | **–** | (3,290) |
| Payment for available-for-sale investments | | **–** | (40,000) |
| Proceeds from disposal of available-for-sale investments | | **40,000** | – |
| Payment for non-current prepayments | | **(181,699)** | (42,433) |
| Placement of restricted cash | | **–** | (263,604) |
| Release of restricted cash | | **181,982** | 81,622 |
| Dividends received from other investments | | **420** | 280 |
| **Net cash used in investing activities** | | **(238,481)** | (388,442) |
| **Financing activities** | | | |
| Proceeds from new bank loans | | **1,615,160** | 1,261,893 |
| Repayment of bank loans | | **(667,770)** | (1,505,490) |
| Capital contributions from minority shareholders | | **1,154** | – |
| Proceeds from unsecured debenture | | **–** | 580,000 |
| Repayment of unsecured debenture | | **(580,000)** | – |
| Interest paid | | **(87,249)** | (62,425) |
| Other borrowing costs paid | | **(4,154)** | (2,320) |
| Dividend paid to equity shareholders of the Company | | **(73,255)** | (60,180) |
| **Net cash from financing activities** | | **203,886** | 211,478 |
| **Net increase/(decrease) in cash and cash equivalents** | | **273,503** | (49,564) |
| **Cash and cash equivalents at 1 January** | *27* | **294,692** | 347,265 |
| **Effect of foreign exchange rate changes** | | **(2,784)** | (3,009) |
| **Cash and cash equivalents at 31 December** | *27* | **565,411** | 294,692 |

The notes on pages 53 to 135 form part of these financial statements.



## 1 Significant accounting policies

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). A summary of the significant accounting policies adopted by the Company and its subsidiaries (collectively referred to as the "Group") is set out below.

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

The consolidated financial statements for the year ended 31 December 2008 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that financial instruments classified as available-for-sale securities (see note 1(e)); derivative financial instruments (see note 1(f)); property, plant and equipment and construction in progress (see note 1(g)) are stated at fair value as explained in the accounting policies set out below. These consolidated financial statements are presented in Renminbi rounded to the nearest thousand.

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 39.

## 1 Significant accounting policies (continued)

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

In preparing the financial statements, the directors have considered the future liquidity of the Group in view of its bank loans which are repayable within one year with an aggregate amount of RMB1,280,000,000 as at 31 December 2008. The Group had cash and cash equivalents amounting to RMB575,478,000 as at 31 December 2008. Therefore, additional funding will need to be obtained by the Group to ensure its ability to repay the borrowings as and when they fall due. The financial statements for the year ended 31 December 2008 are prepared on a going concern basis as the directors are of the opinion that the Group will be able to obtain continual financial support from its principal bankers to finance its future working capital and financial requirements and will be able to meet its financial obligations as and when they fall due given that:

(i) the Group has been actively negotiating with its principal bankers to secure continual financial support. Following the maturity of short-term bank loans totalling RMB420,000,000 subsequent to the year end, the Group obtained bank loans with an aggregate amount of RMB740,000,000 of which RMB310,000,000 are repayable within one year with maturity dates from January to March 2010 and RMB430,000,000 with maturity dates from March 2011 to February 2012 up to the date of approval of these financial statements;

(ii) according to an announcement dated 19 December 2008 issued by the Company, the Group has been actively discussing with its principal bankers to issue a medium-term debenture for an amount of approximately RMB680,000,000 for a period of three to five years. The Company is now making application to the bankers after obtaining its shareholders' approval on 4 February 2009. Proceeds from the proposed issuance of the medium-term debenture will be used for repayment of the Company's existing short-term bank loans; and

(iii) as at 31 December 2008, the Group had total available banking facilities amounting to RMB2,995,160,000 of which RMB1,260,000,000 has not been utilised.

## 1 Significant accounting policies (continued)

### (c) Subsidiaries and minority interests

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

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

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

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

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with note 1(r).

When the Group acquires any minority interests, no fair value adjustment is made to the identifiable net assets acquired. The excess of the purchase price over the carrying value of minority interests acquired is recognised as a component of equity. Where the Group's interest in a subsidiary is decreased without losing control, any gain or loss on the partial disposal or deemed disposal is recognised as a movement in equity.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(j)(ii)).

## 1 Significant accounting policies (continued)

### (d) Goodwill

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

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(j)(ii)).

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

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

### (e) Other investments

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

Investments in equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs. These investments are subsequently accounted for as follows, depending on their classification:

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(j)(i)).

Investments in securities which do not fall into the above category are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 1(s)(iii) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 1(s)(iv). When these investments are derecognised or impaired (see note 1(j)(i)), the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

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

## 1 Significant accounting policies (continued)

### (f) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss.

### (g) Property, plant and equipment and construction in progress

Property, plant and equipment are stated in the balance sheets at cost or revalued amount less accumulated depreciation and impairment losses (see note 1(j)(ii)). The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition and location for its intended use.

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

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

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

When proved and probable gold reserves have been determined, costs incurred to develop gold mines are capitalised as part of the cost of mining structures. All other expenditures, including the cost of repairs and maintenance and major overhaul, are expenses as they are incurred. Mining exploration costs, such as expenditures related to locating gold deposits and determining the economic feasibility, and the costs of removing waste materials or "stripping costs" are expensed as incurred.

Subsequent to the revaluation pursuant to the PRC rules and regulations in connection with a restructuring of the Company in 2002 (the "Restructuring"), which was determined based on depreciation replacement costs basis, property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation, less subsequent accumulated depreciation and impairment losses (see note 1(j)(ii)).



## 1 Significant accounting policies (continued)

### (g) Property, plant and equipment and construction in progress (continued)

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

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to profit or loss.

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

| | |
|---|---|
| Buildings | 2 – 30 years |
| Plant and machinery | 4 – 12 years |
| Transportation equipment | 8 years |
| Office and electronic equipment | 5 – 10 years |

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

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



## 1 Significant accounting policies (continued)

### (h) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 1(j)(ii)). Other development expenditure is recognised as an expense in the period in which it is incurred.

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

#### *(i) Mining rights*

Mining rights are stated at cost less accumulated amortisation and impairment losses (see note 1(j)(ii)). The mining rights are amortised to profit or loss using the units of production method based on the proven and probable mineral reserves.

The Group's mining rights are of sufficient duration (or convey a legal right to renew for sufficient duration) to enable all reserves to be mined in accordance with current production schedules.

#### *(ii) Exploration rights*

Exploration rights are stated at cost less accumulated amortisation and impairment losses (see note 1(j)(ii)). The exploration rights are amortised to profit or loss on a straight-line basis over the estimated useful lives of 1 – 3 years.

#### *(iii) Exploration and evaluation assets and mining development assets*

Exploration and evaluation assets are stated at cost less impairment losses (see note 1(j)(ii)). Exploration and evaluation assets include exploration and development costs.

Exploration and development costs include expenditures incurred in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable and expenditures incurred to secure further mineralisation in existing ore bodies and to expand the capacity of a mine. Expenditure during the initial exploration stage is written off as incurred.



## 1 Significant accounting policies (continued)

### (h) Intangible assets (other than goodwill) (continued)

***(iii) Exploration and evaluation assets and mining development assets (continued)***

When it can be reasonably ascertained that a mining property is capable of commercial production, exploration and development costs capitalised are transferred to mining development assets and amortised using the units of production method based on the proven and probable mineral reserves. If any project is abandoned during the exploration and evaluation stage, the related exploration and evaluation assets are written off to profit or loss.

### (i) Lease prepayments

Lease prepayments represent purchase cost of land use rights in the PRC's governmental authorities. Land use rights are carried at cost less impairment losses (see note 1(j)(ii)) and are charged to the profit or loss on a straight-line basis over the respective periods of the rights of 50 years.

### (j) Impairment of assets

***(i) Impairment of investments in equity securities and trade and other receivables***

Investments in equity securities (other than investments in subsidiaries: see note 1(j)(ii)) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

## 1 Significant accounting policies (continued)

### (j) Impairment of assets (continued)

***(i) Impairment of investments in equity securities and trade and other receivables (continued)***

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect at discounting is material. Impairment losses for equity securities are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

## 1 Significant accounting policies (continued)

### (j) Impairment of assets (continued)

#### *(i) Impairment of investments in equity securities and trade and other receivables (continued)*

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

#### *(ii) Impairment of other assets*

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

– property, plant and equipment;

– construction in progress;

– investments in subsidiaries;

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

– intangible assets; and

– goodwill.

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

## 1 Significant accounting policies (continued)

### (j) Impairment of assets (continued)

#### *(ii) Impairment of other assets (continued)*

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

## 1 Significant accounting policies (continued)

### (j) Impairment of assets (continued)

***(iii) Interim financial reporting and impairment***

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 1(j)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

### (k) Leased assets

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

***(i) Classification of assets leased to the Group***

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

***(ii) Operating lease charges***

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

### (l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(j)(i)) except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

## 1 Significant accounting policies (continued)

### (m) Inventories

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

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

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

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

### (n) Cash and cash equivalents

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

### (o) Income tax

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

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

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



## 1 Significant accounting policies (continued)

### (o) Income tax (continued)

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

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

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

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



## 1 Significant accounting policies (continued)

### (o) Income tax (continued)

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

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

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

  - the same taxable entity; or

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

### (p) Interest-bearing borrowings

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

Commodity-linked interest-bearing borrowings are subsequently remeasured at fair value. Changes in the fair value of such borrowings are recognised in profit or loss.



## 1 Significant accounting policies (continued)

### (q) Provisions and contingent liabilities

***(i) Contingent liabilities acquired in business combinations***

Contingent liabilities acquired as part of a business combination are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 1(q)(ii). Contingent liabilities acquired in a business combination that cannot be reliably fair valued are disclosed in accordance with note 1(q)(ii).

***(ii) Other provisions and contingent liabilities***

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

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

### (r) Trade and other payables

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

## 1 Significant accounting policies (continued)

### (s) Revenue recognition

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

#### *(i) Sales of goods*

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

#### *(ii) Delivery service income*

Delivery service income is recognised when the related service is rendered.

#### *(iii) Dividends*

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

#### *(iv) Interest income*

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

### (t) Government grants

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

### (u) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

## 1 Significant accounting policies (continued)

### (v) Borrowing costs

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

### (w) Translation of foreign currencies

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

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

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

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

### (x) Related parties

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

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

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

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

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

## 1 Significant accounting policies (continued)

### (x) Related parties (continued)

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

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

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

### (y) Segment reporting

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

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the proposes of these financial statements.

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

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

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



## 2 Changes in accounting policies

The HKICPA has issued a number of new Interpretations and an amendment to HKFRSs that are first effective for the current accounting period of the Group and the Company. However, none of these developments are relevant to the Group's and the Company's operations.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 41).

## 3 Turnover

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

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

| | **2008** **RMB'000** | 2007 RMB'000 |
|---|---|---|
| Sales of: | | |
| – Gold | **2,743,352** | 2,208,327 |
| – Other metals | **681,650** | 586,523 |
| – Others | **142,846** | 55,637 |
| Less: Sales taxes and levies | **(8,759)** | (5,927) |
| | **3,559,089** | 2,844,560 |

## 4 Other revenue

| | **2008** **RMB'000** | 2007 RMB'000 |
|---|---|---|
| Bank interest income | **4,414** | 9,023 |
| Other interest income | **1,198** | 3,821 |
| Total interest income on financial assets not at fair value through profit or loss | **5,612** | 12,844 |
| Compensation income *(note 25(f))* | **–** | 112,900 |
| Delivery service income | **7,789** | 8,787 |
| Government grants | **1,700** | 4,470 |
| Scrap sales | **2,124** | 3,550 |
| Dividend income from unlisted securities | **420** | 280 |
| Sundry income | **535** | 30 |
| | **18,180** | 142,861 |

## 5 Other net gain/(loss)

| | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| Net realised gain on financial instruments at fair value | **45,421** | – |
| Net unrealised loss on financial instruments at fair value *(note 25(e))* | **(856)** | – |
| Net (loss)/gain on disposal of property, plant and equipment | **(2,315)** | 2,581 |
| Negative goodwill arising from business combination *(note 36)* | **12,437** | – |
| Gain on deemed disposal of subsidiary *(note 32(b)(viii))* | **392** | – |
| Net foreign exchange losses | **(23,392)** | (7,371) |
| Others | **305** | 296 |
| | **31,992** | (4,494) |

## 6 Staff costs

| | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| Salaries, wages and bonuses | **103,991** | 81,714 |
| Staff welfare | **7,502** | 5,005 |
| Contributions to retirement benefit schemes | **8,188** | 4,570 |
| | **119,681** | 91,289 |
| Less: Staff costs capitalised into construction in progress | **(4,737)** | (3,601) |
| | **114,944** | 87,688 |

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

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

## 7 Profit before taxation

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

| | | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| (a) | Finance costs: | | |
| | Interest expense on bank advances wholly repayable within five years | **61,708** | 63,408 |
| | Interest on unsecured debenture | **24,891** | 6,661 |
| | Interest on other loan | **139** | 115 |
| | Net realised and unrealised loss on commodity-linked interest-bearing borrowings | **17,909** | 28,458 |
| | Interest expenses on financial liabilities measured at amortised cost | **6,461** | – |
| | Other borrowing costs | **4,154** | 2,971 |
| | | **115,262** | 101,613 |
| | Finance costs on financial liabilities measured at | | |
| | – amortised cost | **96,752** | 70,108 |
| | – fair value | **18,510** | 31,505 |
| | | **115,262** | 101,613 |
| (b) | Other items: | | |
| | Amortisation of lease prepayments | **1,637** | 724 |
| | Operating lease charges in respect of properties | **2,624** | 5,139 |
| | Research and development expenses | **1,325** | 1,400 |
| | Net impairment losses on: | | |
| | – trade and other receivables *(note 25(c))* | **2,539** | 624 |
| | – purchase deposits | **4,726** | 8,367 |
| | – intangible assets *(note 17)* | **2,781** | – |
| | Pollution discharge fee | **1,740** | 1,877 |
| | Environmental rehabilitation fee | **12,776** | 5,584 |
| | Auditors' remuneration | | |
| | – audit services | **3,245** | 3,928 |
| | – other services | **400** | 891 |
| | Amortisation of intangible assets *(note 17)* | **77,536** | 97,884 |
| | Less: Amortisation capitalised into exploration and evaluation assets | **(34,355)** | (71,352) |
| | | **43,181** | 26,532 |
| | Depreciation *(note 15)* | **103,348** | 64,801 |
| | Less: Depreciation capitalised into construction in progress | **(1,103)** | (584) |
| | | **102,245** | 64,217 |

## 8 Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

| | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| **Current tax – PRC income tax** | | |
| Provision for the year | **71,348** | 136,874 |
| Over-provision in respect of prior year | **(4,400)** | – |
| | **66,948** | 136,874 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **(51,465)** | (28,647) |
| Effect of change in tax rate on deferred tax balances | **–** | 7,442 |
| | **15,483** | 115,669 |

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

| | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| Profit before taxation | **122,244** | 338,998 |
| Notional tax on profit before taxation, calculated at the PRC income tax rate of 25% (2007: 33%) | **30,561** | 111,869 |
| Effect of different taxation rates used in other jurisdictions | **5,374** | – |
| Tax effect of non-deductible expenses | **5,273** | 1,235 |
| Tax effect of non-taxable income | **(3,214)** | (1,279) |
| Tax effect of unused tax losses not recognised | **1,489** | – |
| Reversal of temporary differences recognised in prior years | **(18,993)** | – |
| Effect on opening deferred tax balances resulting from a change in tax rate | **–** | 7,442 |
| Over-provision in respect of prior year | **(4,400)** | – |
| Others | **(607)** | (3,598) |
| Actual tax expense | **15,483** | 115,669 |

## 8 Income tax in the consolidated income statement (continued)

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

*Notes:*

(i) On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which has taken effect from 1 January 2008. As a result of the new tax law, the statutory income tax rate applicable to the Company and its subsidiaries is 25% from 1 January 2008 onwards.

(ii) The provisions for PRC income tax is based on a statutory rate of 25% (2007: 33%) of the assessable profit of the Company and its subsidiaries in the PRC as determined in accordance with the relevant income tax rules and regulations of the PRC. Taxation for subsidiaries outside the PRC is charged at the appropriate current rates of taxation ruling in the relevant countries.

(iii) The provision for Hong Kong Profits Tax for 2008 is calculated at 16.5% (2007:17.5%). No provision for Hong Kong Profits Tax is made for the year as Lingbao Gold International Company Limited did not earn any income which is subject to Hong Kong Profits Tax.

(iv) The provision for Kyrgyzstan Profits Tax for 2008 is calculated at 10%. No provision for Kyrgyzstan Profits Tax is made for the year as Full Gold Mining Limited Liability Company did not earn any income which is subject to Kyrgyzstan Profits Tax.



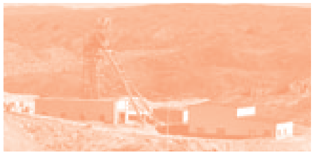
## 9 Directors' and supervisors' remuneration

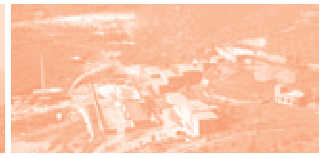
Directors' and supervisors' remuneration comprises of payments to directors and supervisors by the Company and its subsidiaries. The remuneration of each of the directors and supervisors of the Company is as follows:

**Year ended 31 December 2008**

| | Fees RMB'000 | Basic salaries, allowances and other benefits RMB'000 | Contributions to retirement benefit schemes RMB'000 | Bonus RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| Mr. Xu Gaoming | – | 480 | 5 | 165 | 650 |
| Mr. Wang Jianguo | – | 432 | 5 | 149 | 586 |
| Mr. Lu Xiaozhao | – | 336 | 5 | 116 | 457 |
| Mr. Jin Guangcai | – | 336 | 5 | 116 | 457 |
| **Non-executive directors** | | | | | |
| Mr. Di Qinghua | – | – | – | – | – |
| Mr. Qi Guozhong | – | – | – | – | – |
| Mr. Xu Wanmin | – | – | – | – | – |
| **Independent non-executive directors** | | | | | |
| Mr. Ning Jincheng | 100 | – | – | – | 100 |
| Mr. Wang Yanwu | 100 | – | – | – | 100 |
| Mr. Zheng Jinqiao | 100 | – | – | – | 100 |
| Mr. Niu Zhongjie | 120 | – | – | – | 120 |
| **Supervisors** | | | | | |
| Mr. Gao Yang | – | – | – | – | – |
| Mr. Meng Fanrui | – | – | – | – | – |
| Mr. Guo Xuchang | – | – | – | – | – |
| Mr. Peng Jinzeng | – | – | – | – | – |
| Mr. Lei Mingyang | – | – | – | – | – |
| Total | 420 | 1,584 | 20 | 546 | 2,570 |









## 9 Directors' and supervisors' remuneration (continued)

**Year ended 31 December 2007**

| | Fees RMB'000 | Basic salaries, allowances and other benefits RMB'000 | Contributions to retirement benefit schemes RMB'000 | Bonus RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Executive directors** | | | | | |
| Mr. Xu Gaoming | – | 904 | 4 | – | 908 |
| Mr. Wang Jianguo | – | 814 | 4 | – | 818 |
| Mr. Lu Xiaozhao | – | 633 | 4 | – | 637 |
| Mr. Jin Guangcai | – | 633 | 4 | – | 637 |
| **Non-executive directors** | | | | | |
| Mr. Di Qinghua | – | – | – | – | – |
| Mr. Qi Guozhong | – | – | – | – | – |
| Mr. Xu Wanmin | – | – | – | – | – |
| **Independent non-executive directors** | | | | | |
| Mr. Ning Jincheng | 100 | – | – | – | 100 |
| Mr. Wang Yanwu | 100 | – | – | – | 100 |
| Mr. Zheng Jinqiao | 100 | – | – | – | 100 |
| Mr. Niu Zhongjie | 117 | – | – | – | 117 |
| **Supervisors** | | | | | |
| Mr. Gao Yang | – | 633 | 4 | – | 637 |
| Mr. Meng Fanrui | – | – | – | – | – |
| Mr. Guo Xuchang | – | – | – | – | – |
| Mr. Peng Jinzeng | – | 75 | 3 | – | 78 |
| Mr. Lei Mingyang | – | 45 | 1 | – | 46 |
| Total | 417 | 3,737 | 24 | – | 4,178 |



## 10 Individuals with highest emoluments

Of the five individuals with the highest emoluments, four (2007: five) are directors or supervisors whose emoluments are disclosed in note 9. The emoluments in respect of the other individual (2007: Nil) is as follows:

| | 2008<br>RMB'000 |
|---|---|
| Salaries and wages | 603 |
| Contributions to retirement benefit schemes | 11 |
| Bonuses | 50 |
| | 664 |

## 11 Profit attributable to equity shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB111,333,000 (2007: RMB216,709,000) which has been dealt with in the financial statements of the Company (note 32(b)).

## 12 Dividends

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

| | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|
| Final dividend proposed after the balance sheet date of RMB Nil per ordinary share (2007: RMB0.10 per ordinary share) | – | 77,025 |

The final dividend proposed after the balance sheet date had not been recognised as a liability at the balance sheet date.

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

| | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|
| Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.10 per ordinary share (2007: RMB0.08 per ordinary share) | 77,025 | 61,620 |

## 13 Earnings per share

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB108,166,000 (2007: RMB222,270,000) and the weighted average number of 770,249,000 ordinary shares in issue during the year (2007: 770,249,000 ordinary shares).

### (b) Diluted earnings per share

The diluted earnings per share for the current and previous years is the same as the basic earnings per share as there are no dilutive ordinary shares during the years.

## 14 Related party transactions

Particulars of significant transactions with related parties during the year ended 31 December 2008 are as follows:

### (a) Non-recurring transactions

| | **2008** | 2007 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Loan from ultimate holding company *(note 31)* | **23,800** | – |

The loan is unsecured, interest-free and repayable on demand.

### (b) Recurring transactions

| | **2008** | 2007 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Purchase of electricity from Lingbao Electric Company (靈寶市電業總公司), an equity shareholder of the Company | **69,423** | 51,903 |

## 14 Related party transactions (continued)

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

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

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

– sales and purchase of goods and ancillary materials;

– rendering and receiving of utilities and other services;

– purchase of property, plant and equipment; and

– obtaining finance.

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

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

### (d) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors and supervisors as disclosed in note 9 is as follows:

| | **2008**<br>**RMB'000** | 2007<br>RMB'000 |
|---|---|---|
| Short-term employee benefits | **3,606** | 5,564 |
| Post-employment benefits | **34** | 34 |
| | **3,640** | 5,598 |

Total remuneration is included in "staff costs" (see note 6).

## 15 Property, plant and equipment

### The Group

| | Buildings RMB'000 | Mining shafts RMB'000 | Plant and machinery RMB'000 | Transportation equipment RMB'000 | Office and electronic equipment RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **Cost:** | | | | | | |
| At 1 January 2007 | 101,405 | 97,818 | 163,981 | 38,421 | 8,148 | 409,773 |
| Additions | 14,873 | 3,820 | 66,634 | 12,911 | 7,411 | 105,649 |
| Transfer from construction in progress *(note 16)* | 110,675 | 57,942 | 111,255 | – | 1,698 | 281,570 |
| Through business combination *(note 36)* | 18,966 | 16,665 | 9,072 | 299 | 81 | 45,083 |
| Purchase of net assets *(note 35)* | 627 | – | – | 336 | 304 | 1,267 |
| Disposals | (739) | (5,150) | (3,408) | (5,502) | (1,517) | (16,316) |
| At 31 December 2007 | 245,807 | 171,095 | 347,534 | 46,465 | 16,125 | 827,026 |
| **Representing:** | | | | | | |
| Cost | 154,678 | 122,650 | 310,009 | 42,747 | 15,689 | 645,773 |
| Valuation–2002 | 24,422 | 48,445 | 37,525 | 3,718 | 436 | 114,546 |
| Valuation–2005 | 66,707 | – | – | – | – | 66,707 |
| | 245,807 | 171,095 | 347,534 | 46,465 | 16,125 | 827,026 |
| **Accumulated depreciation:** | | | | | | |
| At 1 January 2007 | 6,469 | 42,132 | 56,675 | 9,327 | 3,055 | 117,658 |
| Charge for the year | 10,294 | 18,419 | 28,896 | 5,323 | 1,869 | 64,801 |
| Through business combination *(note 36)* | 3,737 | 8,308 | 2,159 | 75 | 17 | 14,296 |
| Written back on disposals | (29) | – | (2,103) | (1,822) | (326) | (4,280) |
| At 31 December 2007 | 20,471 | 68,859 | 85,627 | 12,903 | 4,615 | 192,475 |
| **Net book value:** | | | | | | |
| At 31 December 2007 | 225,336 | 102,236 | 261,907 | 33,562 | 11,510 | 634,551 |

## 15 Property, plant and equipment (continued)

### The Group (continued)

| | Buildings RMB'000 | Mining shafts RMB'000 | Plant and machinery RMB'000 | Transportation equipment RMB'000 | Office and electronic equipment RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **Cost:** | | | | | | |
| At 1 January 2008 | 245,807 | 171,095 | 347,534 | 46,465 | 16,125 | 827,026 |
| Exchange adjustments | (238) | – | (507) | (285) | (9) | (1,039) |
| Additions | 13,710 | 28,863 | 44,501 | 7,794 | 2,260 | 97,128 |
| Transfer from construction in progress *(note 16)* | 64,163 | 50,424 | 23,702 | – | 827 | 139,116 |
| Through business combination *(note 36)* | 18,238 | – | 47,201 | 806 | 298 | 66,543 |
| Disposals | (1,082) | (733) | (4,272) | (2,747) | (3) | (8,837) |
| At 31 December 2008 | 340,598 | 249,649 | 458,159 | 52,033 | 19,498 | 1,119,937 |
| **Representing:** | | | | | | |
| Cost | 249,804 | 201,204 | 421,670 | 48,989 | 19,062 | 940,729 |
| Valuation–2002 | 24,087 | 48,445 | 36,489 | 3,044 | 436 | 112,501 |
| Valuation–2005 | 66,707 | – | – | – | – | 66,707 |
| | 340,598 | 249,649 | 458,159 | 52,033 | 19,498 | 1,119,937 |
| **Accumulated depreciation:** | | | | | | |
| At 1 January 2008 | 20,471 | 68,859 | 85,627 | 12,903 | 4,615 | 192,475 |
| Exchange adjustments | (15) | – | (19) | (14) | (1) | (49) |
| Charge for the year | 17,542 | 25,396 | 51,049 | 6,315 | 3,046 | 103,348 |
| Through business combination *(note 36)* | 266 | – | 1,762 | 22 | 26 | 2,076 |
| Written back on disposals | (240) | (127) | (2,158) | (1,640) | (1) | (4,166) |
| At 31 December 2008 | 38,024 | 94,128 | 136,261 | 17,586 | 7,685 | 293,684 |
| **Net book value:** | | | | | | |
| At 31 December 2008 | 302,574 | 155,521 | 321,898 | 34,447 | 11,813 | 826,253 |

Had property, plant and equipment been carried at cost less accumulated depreciation, the historical carrying amount as at 31 December 2008 and 2007 would have been as follows:

| | **2008 RMB'000** | 2007 RMB'000 |
|---|---|---|
| Buildings | **298,392** | 221,433 |
| Mining shafts | **155,267** | 101,924 |
| Plant and machinery | **303,821** | 246,599 |
| Transportation equipment | **31,686** | 31,245 |
| Office and electronic equipment | **11,789** | 11,472 |
| | **800,955** | 612,673 |

## 15 Property, plant and equipment (continued)

### The Company

| | Buildings RMB'000 | Mining shafts RMB'000 | Plant and machinery RMB'000 | Transportation equipment RMB'000 | Office and electronic equipment RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **Cost or valuation:** | | | | | | |
| At 1 January 2007 | 82,629 | 83,672 | 141,696 | 24,506 | 4,762 | 337,265 |
| Additions | 69 | – | 4,180 | 5,797 | 1,984 | 12,030 |
| Transfer from construction in progress *(note 16)* | 71,634 | 43,503 | 120,500 | – | – | 235,637 |
| Disposals | – | – | (1,150) | (2,497) | – | (3,647) |
| At 31 December 2007 | 154,332 | 127,175 | 265,226 | 27,806 | 6,746 | 581,285 |
| **Representing:** | | | | | | |
| Cost | 63,203 | 78,730 | 227,701 | 24,088 | 6,310 | 400,032 |
| Valuation – 2002 | 24,422 | 48,445 | 37,525 | 3,718 | 436 | 114,546 |
| Valuation – 2005 | 66,707 | – | – | – | – | 66,707 |
| | 154,332 | 127,175 | 265,226 | 27,806 | 6,746 | 581,285 |
| **Accumulated depreciation:** | | | | | | |
| At 1 January 2007 | 4,638 | 39,341 | 49,579 | 7,930 | 2,460 | 103,948 |
| Charge for the year | 6,500 | 6,843 | 22,174 | 3,329 | 1,117 | 39,963 |
| Written back on disposals | – | – | (905) | (1,217) | – | (2,122) |
| At 31 December 2007 | 11,138 | 46,184 | 70,848 | 10,042 | 3,577 | 141,789 |
| **Net book value:** | | | | | | |
| At 31 December 2007 | 143,194 | 80,991 | 194,378 | 17,764 | 3,169 | 439,496 |

## 15 Property, plant and equipment (continued)

### The Company (continued)

| | Buildings | Mining shafts | Plant and machinery | Transportation equipment | Office and electronic equipment | Total |
|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Cost or valuation:** | | | | | | |
| At 1 January 2008 | 154,332 | 127,175 | 265,226 | 27,806 | 6,746 | 581,285 |
| Additions | 1,679 | – | 16,076 | 3,840 | 1,541 | 23,136 |
| Transfer from construction in progress *(note 16)* | 15,137 | 41,845 | 17,288 | – | 179 | 74,449 |
| Disposals | (477) | – | (2,968) | (2,343) | – | (5,788) |
| At 31 December 2008 | 170,671 | 169,020 | 295,622 | 29,303 | 8,466 | 673,082 |
| **Representing:** | | | | | | |
| Cost | 79,877 | 120,575 | 259,133 | 26,259 | 8,030 | 493,874 |
| Valuation – 2002 | 24,087 | 48,445 | 36,489 | 3,044 | 436 | 112,501 |
| Valuation – 2005 | 66,707 | – | – | – | – | 66,707 |
| | 170,671 | 169,020 | 295,622 | 29,303 | 8,466 | 673,082 |
| **Accumulated depreciation:** | | | | | | |
| At 1 January 2008 | 11,138 | 46,184 | 70,848 | 10,042 | 3,577 | 141,789 |
| Charge for the year | 8,115 | 14,308 | 30,993 | 3,413 | 1,359 | 58,188 |
| Written back on disposals | (186) | – | (1,513) | (1,480) | – | (3,179) |
| At 31 December 2008 | 19,067 | 60,492 | 100,328 | 11,975 | 4,936 | 196,798 |
| **Net book value:** | | | | | | |
| At 31 December 2008 | 151,604 | 108,528 | 195,294 | 17,328 | 3,530 | 476,284 |

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

## 15 Property, plant and equipment (continued)

**The Company (continued)**

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

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

## 16 Construction in progress

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **Cost:** | | | | |
| At 1 January | **302,451** | 254,533 | **109,075** | 145,594 |
| Exchange adjustments | **(1,288)** | – | **–** | – |
| Additions | **277,068** | 318,861 | **78,818** | 199,118 |
| Acquisition through business combination *(note 36)* | **6,083** | 14 | **–** | – |
| Purchase of net assets *(note 35)* | **–** | 10,613 | **–** | – |
| Transfer to property, plant and equipment *(note 15)* | **(139,116)** | (281,570) | **(74,449)** | (235,637) |
| At 31 December | **445,198** | 302,451 | **113,444** | 109,075 |

## 17 Intangible assets

### The Group

| | Shanghai Gold Exchange trading rights RMB'000 | Exploration and evaluation assets RMB'000 | Mining development assets RMB'000 | Mining rights *(note (b))* RMB'000 | Exploration rights *(note (b))* RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **Cost:** | | | | | | |
| At 1 January 2007 | 820 | 138,520 | 11,484 | 71,476 | 15,423 | 237,723 |
| Additions | – | 24,043 | – | 8,171 | 51,852 | 84,066 |
| Through business combination *(note 36)* | – | – | – | 41,830 | 31,677 | 73,507 |
| Capitalisation of amortisation | – | 71,352 | – | – | – | 71,352 |
| Purchase of net assets *(note 35)* | – | 5,187 | – | – | 32,891 | 38,078 |
| At 31 December 2007 | 820 | 239,102 | 11,484 | 121,477 | 131,843 | 504,726 |
| **Accumulated amortisation:** | | | | | | |
| At 1 January 2007 | – | – | 5,296 | 27,355 | 10,194 | 42,845 |
| Through business combination *(note 36)* | – | – | – | 1,155 | 730 | 1,885 |
| Charge for the year | – | – | 1,198 | 25,334 | 71,352 | 97,884 |
| At 31 December 2007 | – | – | 6,494 | 53,844 | 82,276 | 142,614 |
| **Net book value:** | | | | | | |
| At 31 December 2007 | 820 | 239,102 | 4,990 | 67,633 | 49,567 | 362,112 |



## 17 Intangible assets (continued)

### The Group (continued)

| | Shanghai Gold Exchange trading rights RMB'000 | Exploration and evaluation assets RMB'000 | Mining development assets RMB'000 | Mining rights *(note (b))* RMB'000 | Exploration rights *(note (b))* RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **Cost:** | | | | | | |
| At 1 January 2008 | 820 | 239,102 | 11,484 | 121,477 | 131,843 | 504,726 |
| Exchange adjustments | – | – | – | (19,359) | – | (19,359) |
| Additions | – | 58,431 | – | 195,109 | 6,004 | 259,544 |
| Capitalisation of amortisation | – | 34,355 | – | – | – | 34,355 |
| At 31 December 2008 | 820 | 331,888 | 11,484 | 297,227 | 137,847 | 779,266 |
| **Accumulated amortisation:** | | | | | | |
| At 1 January 2008 | – | – | 6,494 | 53,844 | 82,276 | 142,614 |
| Impairment loss *(note (e))* | – | 2,781 | – | – | – | 2,781 |
| Charge for the year | – | – | 2,897 | 40,284 | 34,355 | 77,536 |
| At 31 December 2008 | – | 2,781 | 9,391 | 94,128 | 116,631 | 222,931 |
| **Net book value:** | | | | | | |
| At 31 December 2008 | 820 | 329,107 | 2,093 | 203,099 | 21,216 | 556,335 |



## 17 Intangible assets (continued)

### The Company

| | Shanghai Gold Exchange trading rights RMB'000 | Mining rights *(note (b))* RMB'000 | Exploration rights *(note (b))* RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **Cost:** | | | | |
| At 1 January 2007 and 31 December 2007 | 820 | 50,139 | 447 | 51,406 |
| **Accumulated amortisation:** | | | | |
| At 1 January 2007 | – | 24,170 | 421 | 24,591 |
| Charge for the year | – | 4,011 | 26 | 4,037 |
| At 31 December 2007 | – | 28,181 | 447 | 28,628 |
| **Net book value:** | | | | |
| At 31 December 2007 | 820 | 21,958 | – | 22,778 |

| | **Shanghai Gold Exchange trading rights RMB'000** | **Mining rights *(note (b))* RMB'000** | **Exploration rights *(note (b))* RMB'000** | **Total RMB'000** |
|---|---|---|---|---|
| **Cost:** | | | | |
| At 1 January 2008 and 31 December 2008 | **820** | **50,139** | **447** | **51,406** |
| **Accumulated amortisation:** | | | | |
| At 1 January 2008 | **–** | **28,181** | **447** | **28,628** |
| Charge for the year | **–** | **3,162** | **–** | **3,162** |
| At 31 December 2008 | **–** | **31,343** | **447** | **31,790** |
| **Net book value:** | | | | |
| At 31 December 2008 | **820** | **18,796** | **–** | **19,616** |



## 17 Intangible assets (continued)

### The Company (continued)

*Notes:*

**(a)** Included in intangible assets of the Group are assets related to mines which are not operative as at 31 December 2008 with a carrying value of RMB496,871,000 (2007: RMB289,889,000). These assets are not subject to amortisation until they are placed in use.

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

| Mine | Location | Expiry date |
|---|---|---|
| ***Mining rights:*** | | |
| Lingjin One Mine | Lingbao, Henan | December 2021 |
| Lingjin Two Mine | Lingbao, Henan | December 2014 |
| Hongxin Gold Mine | Lingbao, Henan | August 2012 |
| Duolanasayi Gold Mine *(note (d))* | Habahe, Xinjiang | July 2018 |
| Tuokuzibayi Gold Mine | Habahe, Xinjiang | August 2017 |
| Kaqia Gold Mine | Wushi, Xinjiang | September 2009 |
| Shangrao County Jintian Industrial Company Limited Gold Mine | Shangrao, Jiangxi | November 2010 |
| Shanzaoling Gold Mine | Shangrao, Jiangxi | June 2011 |
| Chifeng Jinchan Mining Company Limited Gold Mine | Chifeng, Inner Mongolia | January 2010 |
| 桐柏興源有限公司上上河金礦 | Nanyang, Henan | October 2012 |
| 桐柏興源礦業有限公司 | Nanyang, Henan | April 2011 |
| Istanbul Gold Mine *(note (c))* | Kyrgyz Republic | February 2017 |
| ***Exploration rights:*** | | |
| Harqin Banner Shijiaxiang Shuiquangou Gold Mine | Chifeng, Inner Mongolia | April 2010 |
| 林西縣小北溝銀多金屬礦 | Chifeng, Inner Mongolia | May 2010 |
| 甘肅省天水市麥積區橋礦金礦 | Tianshui, Gansu | May 2010 |
| 喀喇沁旗十家鄉城南山金礦 | Chifeng, Inner Mongolia | May 2010 |
| 喀喇沁旗龍山鄉達子營金礦點 | Chifeng, Inner Mongolia | May 2010 |
| 甘露池金礦普查 | Tianshui, Gansu | April 2010 |

*Notes:*

(i) The Group was in the process of applying for extension of the certificates of certain of its mining or exploration rights. The relevant rights and exploration and evaluation assets have an aggregate carrying value of approximately RMB53,948,000 as at 31 December 2008. The directors are of the opinion that the Group is entitled to lawfully and validly occupy or use the above mentioned intangible assets.

(ii) The amortisation charge for the year ended 31 December 2008 is included in "cost of sales" and "other operating expenses" in the consolidated income statement of the Group.

## 17 Intangible assets (continued)

### The Company (continued)

*Notes: (continued)*

**(c) Istanbul Gold Mine**

As disclosed in the circular of the Company dated 24 April 2008, the Company entered into a co-operation agreement ("Co-operation Agreement KR") on 27 February 2008 with the Government of Kyrgyz Republic, Full Gold Mining Limited Liability Company ("Full Gold", the Company's subsidiary), China Road & Bridge Corporation ("CRB"), China Development Bank and Xinjiang Lingxi Investment Company Limited ("Xinjiang Lingxi"). Pursuant to the Co-operation Agreement KR, in consideration of payment of a restoration fee of a public road within the territory of the Kyrgyz Republic amounting to US$25,300,000 (equivalent to RMB180,705,000) by Full Gold to CRB, Full Gold will acquire the mining right of the Istanbul Gold Mine from CRB. CRB is responsible for the road restoration work which has to be completed in 3 years by May 2011. Full Gold estimated that the restoration fee will be paid to CRB in accordance with the progress of the restoration work.

At the date of acquisition, the mining right is recognised on the consolidated balance sheet at its fair value of RMB164,687,000. As at 31 December 2008, payable of this mining right amounting to RMB158,741,000 of which RMB74,101,000 and RMB84,640,000 is recognised as current liabilities and non-current liabilities respectively.

**(d) Duolanasayi Gold Mine**

The Group had successfully extended the mining right of Duolanasayi Gold Mine for a period of five years to 1 July 2018 for a consideration of RMB26,920,000. The consideration is settled in six instalments. The first instalment of RMB5,630,000 was settled on 3 September 2008. The second to fifth annual instalment of RMB4,300,000 each will be payable on or before 3 September of each year starting form 2009. The final instalment in an amount of RMB4,090,000 will be payable on or before 3 September 2013.

As at 31 December 2008, other payable of respective mining right for RMB21,290,000 is recognised of which RMB4,300,000 and RMB16,990,000 is recognised as current liabilities and non-current liabilities respectively.

**(e)** During the year ended 31 December 2008, the carrying amount of certain exploration and evaluation assets was written down by RMB2,781,000 (2007: RMB Nil) as the related exploration projects have been suspended.

## 18 Goodwill

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| **Cost:** | | |
| At 1 January | **38,882** | 4,824 |
| Additions *(note 36)* | **–** | 34,058 |
| At 31 December | **38,882** | 38,882 |

## 18 Goodwill (continued)

**Impairment tests for cash-generating units containing goodwill**

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

| | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|
| Mining | **38,882** | 38,882 |

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

Key assumptions used for value-in-use calculations:

| | 2008<br>% | 2007<br>% |
|---|---|---|
| Gross margin | **30** | 30 |
| Growth rate | **3** | 5 |
| Discount rate | **8** | 13 |

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



## 19 Lease prepayments

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| At 1 January | **37,819** | 9,229 | **8,875** | 9,128 |
| Through business combination *(note 36)* | **14,657** | 29,314 | **–** | – |
| Additions | **38,153** | – | **21,757** | – |
| Less: Amortisation | **(1,637)** | (724) | **(470)** | (253) |
| At 31 December | **88,992** | 37,819 | **30,162** | 8,875 |

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Lease prepayments | **88,992** | 37,819 | **30,162** | 8,875 |
| Less: Current portion of lease prepayments included in other receivables, deposits and prepayments | **(2,122)** | (879) | **(688)** | (252) |
| | **86,870** | 36,940 | **29,474** | 8,623 |

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

## 20 Investment in subsidiaries

| | The Company | |
|---|---|---|
| | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| Unlisted shares, at cost | **622,951** | 437,725 |

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



## 20 Investment in subsidiaries (continued)

Details of the subsidiaries at 31 December 2008 are as follow:

| Name of company | Type of legal entity | Place of incorporation and operation | Percentage of equity attributable to the Company Direct % | Indirect % | Issued and fully paid-up/ registered capital '000 | Principal activities |
|---|---|---|---|---|---|---|
| Xinjiang Baoxin Mining Company Limited ("Xinjiang Baoxin") | Limited liability company | The PRC | 80 | 20 | RMB10,000 | Sales of mineral products |
| Lingbao Hongxin Mining Limited Liability Company | Limited liability company | The PRC | 80 | – | RMB3,000 | Exploration and processing of gold; sales of mineral products |
| Akesu District Xindi Mining Company Limited ("Akesu Xindi") | Limited liability company | The PRC | – | 100 | RMB10,000 | Mining and exploration of mineral reserves |
| Jiangxi Mingxin Mining Company Limited | Limited liability company | The PRC | 80 | – | RMB5,000 | Production and sales of precious metal products |
| Habahe Huatai Gold Limited Liability Company ("Habahe Huatai") | Limited liability company | The PRC | 83.3 | 16.7 | RMB9,800 | Mining, processing and smelting of gold, production of gold products, sales of gold bullion products, machinery, equipment and components for gold processing |
| Tongbai Xingyuan Mining Company Limited ("Tongbai Xingyuan") | Limited liability company | The PRC | 100 | – | RMB17,000 | Geological exploration of mineral reserves |
| Shangrao County Jintian Industrial Company Limited | Limited liability company | The PRC | 100 | – | RMB38,000 | Mining and exploration of mineral reserves, processing and smelting of gold, further processing and sales of gold products |
| Chi Feng City Zheng Ji Mining Limited Company | Limited liability company | The PRC | 80 | – | RMB5,000 | Processing of metallurgy products, sales of mineral products |
| Lingbao Gold International Company Limited | Limited liability company | Hong Kong | 100 | – | HKD50,000 | Investment holding |
| Wuyuan County Jincheng Mining Company Limited | Limited liability company | The PRC | 100 | – | RMB500 | Sales of mineral products |

## 20 Investment in subsidiaries (continued)

| Name of company | Type of legal entity | Place of incorporation and operation | Percentage of equity attributable to the Company Direct % | Percentage of equity attributable to the Company Indirect % | Issued and fully paid-up/ registered capital '000 | Principal activities |
|---|---|---|---|---|---|---|
| Chifeng Jinchan Mining Company Limited ("Chifeng Jinchan") | Limited liability company | The PRC | 100 | – | RMB20,000 | Mining and exploration of mineral reserves |
| Chifeng Lingjin Mining Company Limited | Limited liability company | The PRC | 80 | – | RMB40,000 | Mining and exploration of mineral reserves |
| Lingbao Yixin Mining Limited Liability Company ("Lingbao Yixin") | Limited liability company | The PRC | 80 *(note i)* | – | RMB3,670 | Mining and exploration of mineral reserves |
| Full Gold Mining Limited Liability Company ("Full Gold") | Limited liability company | Kyrgyz Republic | 82 | – | SOM33,300 | Mining and exploration of mineral reserves |
| Tianshui Hongwu Mining Development Company Limited ("Tianshui Hongwu") | Limited liability company | The PRC | 74 *(note ii)* | – | RMB1,000 | Mining and exploration of mineral reserves |
| Lanzhou Lingjin Mining Limited Liability Company ("Lanzhou Lingjin") | Limited liability company | The PRC | 100 | – | RMB1,000 | Mining and exploration of mineral reserves |
| Beijing Fushengda Investment Company Limited ("Beijing Fushengda") | Limited liability company | The PRC | 100 | – | RMB10,000 | Investment holding |
| Lingbao Wason Copper-Foil Company Limited ("Lingbao Wason") | Limited liability company | The PRC | 100 | – | RMB27,900 | Processing of copper products |
| Ha Mi Jiachang Mining Investment and Development Company Limited | Limited liability company | The PRC | 100 | – | RMB27,900 | Mining and exploration of mineral reserves |

*Notes:*

(i) Lingbao Yixin was acquired by the Group in June 2007. Pursuant to the sale and purchase agreement, the Group is entitled to an amount of initial profit which is equivalent to the Group's investment cost in Lingbao Yixin. Profit generated thereafter is shared between the Group and the minority shareholder on a 55%: 45% basis.

(ii) Tianshui Hongwu was acquired by the Group in November 2007. Pursuant to the sale and purchase agreement, the Group is entitled to an amount of initial profit which is equivalent to the Group's investment cost in Tianshui Hongwu. Profit generated thereafter is shared between the Group and the minority shareholder on a 60%: 40% basis.

## 20 Investment in subsidiaries (continued)

As at 1 January 2007, the Group held 83.3% equity interest in Habahe Huatai and 80% equity interest in Xinjiang Baoxin, which holds 100% equity interest in Akesu Xindi. On 27 November 2007, the Group acquired the entire interest in Beijing Fushengda which then held the remaining 16.7% equity interest in Habahe Huatai and 20% equity interest in Xinjiang Baoxin for a consideration of RMB13,200,000, satisfied in cash. The Group's equity interest in Habahe Huatai, Xinjiang Baoxin and Akesu Xindi therefore increased to 100%.

As at 1 January 2007, the Group held 80% equity interest in Tongbai Xingyuan. On 20 September 2007, the Group acquired the remaining 20% equity interest from Mr. Zhou Yudao and Mr. Xu Zhongjian for a consideration of RMB4,000,000. After the acquisition, Tongbai Xingyuan become a wholly-owned subsidiary of the Group.

The excess of the purchase consideration over the carrying value of minority interests acquired in the above transaction of RMB858,000 are charged to other reserve in consolidated equity (see note 1(c)).

## 21 Other investments

| | **The Group and the Company** | |
|---|---|---|
| | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| **Non-current investment** | | |
| Unlisted available-for-sale equity securities, at cost | **10,504** | 10,504 |
| **Current investments** | | |
| Unlisted available-for-sale equity securities, at fair value | **–** | 40,000 |

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

On 24 December 2007, the Group entered into a principal-protected fund management contract with financial institution in the PRC whereby principal amount of RMB40,000,000 was placed with the financial institution for investment management at 31 December 2007. A gain of RMB667,000 was resulted upon the expiry of the contract on 19 April 2008.



## 22 Investment deposit

Investment deposit represents RMB80,000,000 deposit paid to an independent third party, Beijing Jiuyi Investment Company Limited ("Beijing Jiuyi") for exclusive rights to certain mining assets in the PRC. On 21 May 2007, the Group has entered into a co-operation agreement (the "Co-operation Agreement") with Beijing Jiuyi to acquire 56.25% interest of a company with mining assets situated in Gansu Province, the PRC. Following the expiry of the Co-operation Agreement, the Group has entered into a supplementary agreement on 6 March 2009 to extend the expiry date to 30 June 2009. The amount is unsecured, interest-free and repayable when the relevant exclusive rights expire. The directors of the Company consider that appropriate procedures have been taken by the Group to assess the viability of the potential mine and expect that the deposit would be recovered through the conversion to relevant equity interest in the mining company.

## 23 Income tax in the balance sheet

### (a) Current taxation in the balance sheet represents:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| PRC income tax (recoverable)/payable | **(4,543)** | 28,426 | **(20,424)** | 15,737 |
| PRC income tax | | | | |
| – Recoverable | **(22,205)** | – | **(20,424)** | – |
| – Payable | **17,662** | 28,426 | **–** | 15,737 |
| | **(4,543)** | 28,426 | **(20,424)** | 15,737 |

## 23 Income tax in the balance sheets (continued)

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

#### *(i) The Group*

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

| | Depreciation in excess of related depreciation allowance | Amortisation of other intangibles | Pre-operating expenses written off | Provision for doubtful debt, salary and other employee benefits | Tax losses *(note)* | Inventories | Financial instruments | Total |
|---|---|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Deferred tax arising from:** | | | | | | | | |
| At 1 January 2007 | (1,292) | 661 | 166 | 6,312 | 5,650 | – | – | 11,497 |
| Credited/(charged) to profit or loss | 4,535 | 5,668 | (166) | 2,979 | (3,328) | 5,871 | 5,646 | 21,205 |
| Acquisition through business combination *(note 36)* | (3,882) | (25,681) | – | – | – | (4,119) | – | (33,682) |
| Purchase of net assets *(note 35)* | – | – | – | – | 376 | – | – | 376 |
| At 31 December 2007 | (639) | (19,352) | – | 9,291 | 2,698 | 1,752 | 5,646 | (604) |
| At 1 January 2008 | **(639)** | **(19,352)** | **–** | **9,291** | **2,698** | **1,752** | **5,646** | **(604)** |
| Credited/(charged) to profit or loss | **9,169** | **24,979** | **–** | **4,127** | **7,316** | **11,306** | **(5,432)** | **51,465** |
| Acquisition through business combination *(note 36)* | **(641)** | **(889)** | **–** | **2,518** | **–** | **(1,085)** | **–** | **(97)** |
| **At 31 December 2008** | **7,889** | **4,738** | **–** | **15,936** | **10,014** | **11,973** | **214** | **50,764** |

## 23 Income tax in the balance sheets (continued)

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

#### *(ii) The Company*

| | Depreciation in excess of related depreciation allowance RMB'000 | Amortisation of other intangibles RMB'000 | Provision for doubtful debt, salary and other employee benefits RMB'000 | Pre-operating expenses written off RMB'000 | Inventories RMB'000 | Financial instruments RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2007 | (747) | 1,839 | 5,754 | 166 | – | – | 7,012 |
| Credited/(charged) to profit or loss | 955 | 31 | 968 | (166) | 378 | 5,646 | 7,812 |
| At 31 December 2007 | 208 | 1,870 | 6,722 | – | 378 | 5,646 | 14,824 |
| At 1 January 2008 | **208** | **1,870** | **6,722** | **–** | **378** | **5,646** | **14,824** |
| Credited/(charged) to profit or loss | **147** | **265** | **5,272** | **–** | **7,931** | **(5,432)** | **8,183** |
| **At 31 December 2008** | **355** | **2,135** | **11,994** | **–** | **8,309** | **214** | **23,007** |

| | **The Group** | | **The Company** | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Net deferred tax asset recognised on the balance sheet | **50,764** | 23,093 | **23,007** | 14,824 |
| Net deferred tax liability recognised on the balance sheet | **–** | (23,697) | **–** | – |
| | **50,764** | (604) | **23,007** | 14,824 |

*Note:*

Tax losses will expire within 3 years for tax losses of Full Gold and 5 years for companies incorporated in the PRC.



## 24 Inventories

**(a) Inventories in the balance sheets comprise:**

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Raw materials | **396,558** | 353,567 | **393,027** | 352,837 |
| Work in progress | **48,769** | 35,600 | **11,260** | 7,030 |
| Finished goods | **228,553** | 162,279 | **224,253** | 163,990 |
| Spare parts and materials | **37,453** | 39,997 | **15,984** | 29,747 |
| | **711,333** | 591,443 | **644,524** | 553,604 |

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

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| Carrying amount of inventories sold | **3,141,680** | 2,391,647 |
| Write down of inventories | **36,112** | – |
| | **3,177,792** | 2,391,647 |



## 25 Trade and other receivables, deposits and prepayments

Trade and other receivables, deposits and prepayments comprise:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Trade receivables | **57,050** | 58,918 | **24,002** | 58,918 |
| Bills receivables | **66,531** | 34,050 | **30,713** | 34,050 |
| Less: Allowance for doubtful receivables | **(2,342)** | – | **–** | – |
| | **121,239** | 92,968 | **54,715** | 92,968 |
| Other receivables, deposits and prepayments | **56,155** | 42,654 | **33,919** | 34,873 |
| Less: Allowance for doubtful receivables | **(2,302)** | (2,105) | **(2,105)** | (2,105) |
| | **53,853** | 40,549 | **31,814** | 32,768 |
| Purchase deposits *(note 25(d))* | **211,651** | 119,510 | **211,651** | 119,510 |
| Less: Allowance for non-delivery | **(13,093)** | (8,367) | **(13,093)** | (8,367) |
| | **198,558** | 111,143 | **198,558** | 111,143 |
| Derivative financial assets *(note 25(e))* | **4,137** | – | **4,137** | – |
| Deposits for derivative financial instruments *(note 25(e))* | **59,471** | – | **58,421** | – |
| Amount due from Beijing Jiuyi *(note 25(f))* | **108,700** | 418,700 | **108,700** | 418,700 |
| | **172,308** | 418,700 | **171,258** | 418,700 |
| | **545,958** | 663,360 | **456,345** | 655,579 |

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

At 31 December 2007, an amount of RMB35,639,000 included in trade receivables was unsecured and interest-bearing at rates with reference to one year borrowing of the People's Bank of China.

## 25 Trade and other receivables, deposits and prepayments (continued)

### (a) Ageing analysis

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

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Within 3 months | **81,680** | 66,933 | **27,483** | 66,933 |
| Over 3 months but less than 6 months | **37,944** | 26,035 | **25,870** | 26,035 |
| Over 6 months but less than 1 year | **1,395** | – | **1,142** | – |
| Over 1 year | **220** | – | **220** | – |
| At 31 December | **121,239** | 92,968 | **54,715** | 92,968 |

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

### (b) Trade and bills receivable that are not impaired

The ageing analysis of trade and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Neither past due nor impaired | **119,624** | 91,910 | **53,353** | 91,910 |
| Less than 1 year past due | **1,615** | 1,058 | **1,362** | 1,058 |
| | **121,239** | 92,968 | **54,715** | 92,968 |

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.



## 25 Trade and other receivables, deposits and prepayments (continued)

**(c) Impairment of trade and other receivables**

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivables directly (see note 1(j)(i)).

Movement in the allowance for doubtful receivables during the year are as follows:

| | **The Group** | | **The Company** | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| At 1 January | **2,105** | 3,123 | **2,105** | 3,116 |
| Impairment loss recognised | **2,539** | 640 | **–** | 640 |
| Impairment loss written back | **–** | (16) | **–** | (9) |
| Uncollectible amounts written off | **–** | (1,642) | **–** | (1,642) |
| At 31 December | **4,644** | 2,105 | **2,105** | 2,105 |

At 31 December 2008, the Group's and the Company's trade and bills receivable of RMB4,644,000 (2007: RMB2,105,000) and RMB2,105,000 (2007: RMB2,105,000) respectively were individually determined to be impaired.

**(d) Purchase deposits**

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

## 25 Trade and other receivables, deposits and prepayments (continued)

**(e) Deposits for derivative financial instruments**

The Group has placed deposits of RMB59,471,000 (2007: RMB Nil) with independent futures trading agents for commodity derivative contracts entered into in the normal course of business primarily to protect the Group from the impact of price fluctuations in gold and copper commodities. The notional amounts of the Group's commodity derivative contracts were as follows:

| | The Group 2008 RMB'000 |
|---|---|
| Future commodity contracts | |
| – Buy | **43,642** |
| – Sell | **193,426** |

The net unrealised loss on the Group's commodity derivative contracts remeasured at fair value as at 31 December 2008 recognised in profit or loss for the year then ended are as followings:

| | 2008 RMB'000 |
|---|---|
| Derivative financial assets | **4,137** |
| Derivative financial liabilities *(note 30)* | **(4,993)** |
| Net unrealised losses *(note 5)* | **(856)** |

**(f) Amount due from Beijing Jiuyi**

On 4 December 2007, the Company has entered into a termination agreement (the "Termination Agreement") with Beijing Jiuyi to terminate the proposed acquisition of Shaanxi Jiusheng Mining Investment Management Company Limited ("Shaanxi Jiusheng Acquisition"). Pursuant to the Termination Agreement, Beijing Jiuyi shall repay the investment deposits of RMB305,800,000 and pay a compensation fee of RMB112,900,000 (see note 4) to the Company for the failure to reach a definitive agreement for the Shaanxi Jiusheng Acquisition. The aggregate amount of RMB418,700,000 shall be paid/repaid by Beijing Jiuyi to the Company in three instalments before 31 March 2008. RMB310,000,000 was received by the Company in 2008. An extension agreement (the "Extension Agreement") was signed between Beijing Jiuyi and the Company on 30 June 2008 and the repayment date of the remaining RMB108,700,000 was postponed to 31 December 2008.

## 25 Trade and other receivables, deposits and prepayments (continued)

### (f) Amount due from Beijing Jiuyi (continued)

The Company's directors have considered whether Beijing Jiuyi has the ability to repay the outstanding amounts to the Company and they have been actively negotiating with the management of Beijing Jiuyi. Based on the discussions between the management of Beijing Jiuyi and the Company's directors, the Company's directors consider that the outstanding amount is fully recoverable. In addition, following the expiry of the Extension Agreement, the Company has entered into a supplementary agreement (the "Supplementary Agreement") with Beijing Jiuyi on 12 April 2009 to further extend the repayment date. According to the Supplementary Agreement, the remaining RMB108,700,000 shall be settled by Beijing Jiuyi in two instalments, the first instalment in an amount of RMB50,000,000 settled before 30 April 2009 and the second instalment in an amount of RMB58,700,000 settled before 31 October 2009.

## 26 Non-current prepayments

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Deposits for purchase of property, plant and equipment and construction of mining shafts | **103,539** | 36,212 | **17,448** | 8,097 |
| Deposits for acquisition of mining and exploration rights | **26,756** | 9,122 | **13,550** | – |
| Deposits for acquisition of land use rights | **5,081** | – | **5,081** | – |
| | **135,376** | 45,334 | **36,079** | 8,097 |

## 27 Cash and cash equivalents

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Cash at bank and in hand | **575,478** | 389,651 | **260,508** | 322,781 |
| Restricted deposits# | **(10,067)** | (94,959) | | |
| Cash and cash equivalents in the consolidated cash flow statement | **565,411** | 294,692 | | |

\# The Company's H shares were successfully listed on the Main Board of the Stock Exchange on 12 January 2006. The Group raised RMB865,379,000 (net of related expenses) from the offer. The proceeds from the offer is placed in designated bank saving and deposits accounts. The deposits can only be used for the specified purposes stipulated in the Prospectus dated 30 December 2005. As at 31 December 2008, the amount of cash and bank deposits placed in the designated accounts amounted to RMB10,067,000 (2007: RMB94,959,000). The balance will only be released after the approval from State Administration of Foreign Exchange was obtained.

## 28 Interest-bearing borrowings

**(a) The analysis of the carrying amount of interest-bearing borrowings is as follows:**

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| **Current portion:** | | | | |
| Bank loans *(note 29)* | **1,280,000** | 599,861 | **1,280,000** | 599,861 |
| Unsecured debenture *(note 28(b)(i))* | **–** | 580,000 | **–** | 580,000 |
| | **1,280,000** | 1,179,861 | **1,280,000** | 1,179,861 |
| **Non-current portion:** | | | | |
| Bank loans *(note 29)* | **455,160** | 120,000 | **150,000** | 120,000 |
| Other loan *(note 28(b)(ii))* | **3,270** | 3,270 | **3,270** | 3,270 |
| | **458,430** | 123,270 | **153,270** | 123,270 |

**(b) Significant terms and repayment schedule of non-bank borrowings**

***(i) Unsecured debenture***

The debenture is denominated in Renminbi, unsecured and bears fixed interest rate at 5.44% per annum. The debenture is repaid on 16 October 2008.

***(ii) Other loan***

The Finance Bureau of Lingbao (靈寶市財政局) granted the Company a fifteen-year loan for the construction of a new smelting plant in Lingbao City, Henan Province, the PRC. The loan is unsecured and interest-bearing at a rate with reference to the 1-year deposit rate of the People's Bank of China plus 0.3% margin. The loan principal is repayable in eleven equal annual instalments with the first instalment commencing from December 2009.



## 29 Bank loans

At 31 December 2008, the bank loans were repayable as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Within 1 year or on demand *(note 28(a))* | **1,280,000** | 599,861 | **1,280,000** | 599,861 |
| Over 1 year but within 2 years *(note 28(a))* | **455,160** | 120,000 | **150,000** | 120,000 |
| | **1,735,160** | 719,861 | **1,430,000** | 719,861 |

At 31 December 2008, the bank loans were secured as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Bank loans | | | | |
| – secured | **205,160** | 174,861 | **–** | 174,861 |
| – unsecured | **1,530,000** | 545,000 | **1,430,000** | 545,000 |
| | **1,735,160** | 719,861 | **1,430,000** | 719,861 |

At 31 December 2008, a bank loan of the Group of RMB205,160,000 was secured by the mining right of Istanbal Gold Mine with carrying amount of RMB145,328,000 and the ordinary shares of Full Gold.

In September 2007, the Group obtained commodity-linked interest-bearing bank loans from a bank, the repayment of which is determined with reference to the gold price quoted by the Shanghai Gold Exchange on the date of repayment. The bank loans are stated at fair value and changes in the fair value are recognised immediately in profit or loss. At 31 December 2007, the bank loans with an aggregate amount of RMB174,861,000 were secured by pledges over the Group's and the Company's bank deposits totalled RMB181,982,000. The bank loans were fully repaid during the year ended 31 December 2008.



## 30 Trade and other payables

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Trade payables | **145,321** | 98,050 | **141,568** | 71,465 |
| Other payables | **182,432** | 176,893 | **56,740** | 158,259 |
| Payable for mining rights *(note 17(c) and (d))* | **78,401** | – | **–** | – |
| Salary and welfare payable | **23,893** | 34,441 | **13,907** | 23,585 |
| Accruals | **13,764** | 16,064 | **11,795** | 13,919 |
| Interest payable | **9,541** | 10,053 | **2,515** | 10,053 |
| Dividend payable | **3,770** | 1,440 | **3,770** | 1,440 |
| Receipts in advance | **2,288** | 9,725 | **2,288** | 9,725 |
| Derivative financial liabilities *(note 25(e))* | **4,993** | – | **4,993** | – |
| | **464,403** | 346,666 | **237,576** | 288,446 |
| ***Non-current other payables*** | | | | |
| Payable for mining rights *(note 17(c) and (d))* | **101,630** | – | **–** | – |
| Payable to a minority shareholder | **10,100** | – | **–** | – |
| | **111,730** | – | **–** | – |

The amount payable to a minority shareholder is unsecured, interest-free and repayable on 1 April 2011.



## 30 Trade and other payables (continued)

**(a) Included in trade and other payables are trade creditors with the following ageing analysis as of the balance sheet date:**

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Within 3 months | **133,813** | 88,558 | **132,849** | 63,907 |
| Over 3 months but less than 6 months | **6,337** | 4,689 | **3,744** | 4,094 |
| Over 6 months but less than 1 year | **3,938** | 1,410 | **3,935** | 1,318 |
| Over 1 year but less than 2 years | **73** | 1,467 | **41** | 1,305 |
| Over 2 years | **1,160** | 1,926 | **999** | 841 |
| | **145,321** | 98,050 | **141,568** | 71,465 |

**(b) Current trade and other payables comprise:**

Included in other payables of the Group and the Company as at 31 December 2007 was an amount payable to the National Social Security Fund of RMB80,942,000. In accordance with the relevant PRC government regulations, Lingbao State-owned Assets Operation Limited Liability Company, Sanmenxia Jinqu Group Company Limited and Lingbao Electric Company ("Selling Shareholders") are required to dispose of a portion of its ordinary shares in the Global Offering and pay the net proceeds of the disposal to the National Social Security Fund. The Company received the net proceeds on behalf of the Selling Shareholders and an amount of RMB80,942,000 is paid to the National Social Security Fund during the year ended 31 December 2008.

## 31 Loan from ultimate holding company

The loan with a principal of RMB23,800,000 was provided by Lingbao State-owned Assets Operation Limited Liability Company (靈寶市國有資產經營有限責任公司) and assumed by the Group upon the acquisition of Lingbao Wason during the year ended 31 December 2008. The loan is unsecured, interest-free and repayable on demand.

## 32 Capital and reserves

### (a) The Group

| | Note | Share capital (Note (c)) RMB'000 | Share premium (Note (i)) RMB'000 | Statutory reserves (Note (ii)) RMB'000 | Capital reserve (Note (iii)) RMB'000 | Exchange reserve (Note (iv)) RMB'000 | Other reserve (Note (v)) RMB'000 | Retained profits RMB'000 | Total RMB'000 | Minority interests RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to equity shareholders of the Company | | | | | | | | | |
| At 1 January 2007 | | 154,050 | 827,931 | 74,945 | 32,334 | – | – | 426,953 | 1,516,213 | 27,658 | 1,543,871 |
| Profit for the year | | – | – | – | – | – | – | 222,270 | 222,270 | 1,059 | 223,329 |
| Dividend approved in respect of the previous year | 12(b) | – | – | – | – | – | – | (61,620) | (61,620) | – | (61,620) |
| Exchange difference on translation of financial statements of overseas subsidiaries | | – | – | – | – | (3,959) | – | – | (3,959) | – | (3,959) |
| Acquisition of minority interests | | – | – | – | – | – | (858) | – | (858) | (10,013) | (10,871) |
| Restatement of profit appropriations for prior years | (vii) | – | – | (335) | – | – | – | 335 | – | – | – |
| Capital contributions from minority shareholder | (vi) | – | – | – | – | – | – | – | – | 8,000 | 8,000 |
| Capital returned to minority shareholders | | – | – | – | – | – | – | – | – | (367) | (367) |
| Transfer to reserves | (ii) | – | – | 23,326 | – | – | – | (23,326) | – | – | – |
| At 31 December 2007 | | 154,050 | 827,931 | 97,936 | 32,334 | (3,959) | (858) | 564,612 | 1,672,046 | 26,337 | 1,698,383 |
| At 1 January 2008 | | 154,050 | 827,931 | 97,936 | 32,334 | (3,959) | (858) | 564,612 | 1,672,046 | 26,337 | 1,698,383 |
| Profit for the year | | – | – | – | – | – | – | 108,166 | 108,166 | (1,405) | 106,761 |
| Dividend approved in respect of the previous year | 12(b) | – | – | – | – | – | – | (77,025) | (77,025) | – | (77,025) |
| Exchange difference on translation of financial statements of overseas subsidiaries | | – | – | – | – | 250 | – | – | 250 | – | 250 |
| Capital contributions from minority shareholders | (viii) | – | – | – | – | – | – | – | – | 1,154 | 1,154 |
| Gain on deemed disposal of subsidiary | (viii) | – | – | – | – | – | – | – | – | (392) | (392) |
| Transfer to reserves | (ii) | – | – | 8,477 | – | – | – | (8,477) | – | – | – |
| **At 31 December 2008** | | **154,050** | **827,931** | **106,413** | **32,334** | **(3,709)** | **(858)** | **587,276** | **1,703,437** | **25,694** | **1,729,131** |

## 32 Capital and reserves (continued)

### (b) The Company

| | Note | Share capital *(Note (c))* RMB'000 | Share premium *(Note (i))* RMB'000 | Statutory reserves *(Note (ii))* RMB'000 | Capital reserve *(Note (iii))* RMB'000 | Retained profits RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2007 | | 154,050 | 827,931 | 73,369 | 32,334 | 428,930 | 1,516,614 |
| Profit for the year | | – | – | – | – | 216,709 | 216,709 |
| Dividend approved in respect of the previous year | *12(b)* | – | – | – | – | (61,620) | (61,620) |
| Restatement of profit appropriations for prior years | *(vii)* | – | – | (345) | – | 345 | – |
| Transfer to reserves | *(ii)* | – | – | 19,605 | – | (19,605) | – |
| At 31 December 2007 | | 154,050 | 827,931 | 92,629 | 32,334 | 564,759 | 1,671,703 |
| At 1 January 2008 | | 154,050 | 827,931 | 92,629 | 32,334 | 564,759 | 1,671,703 |
| Profit for the year | | – | – | – | – | 111,333 | 111,333 |
| Dividend approved in respect of the previous year | *12(b)* | – | – | – | – | (77,025) | (77,025) |
| Transfer to reserves | *(ii)* | – | – | 13,784 | – | (13,784) | – |
| **At 31 December 2008** | | **154,050** | **827,931** | **106,413** | **32,334** | **585,283** | **1,706,011** |

*Notes:*

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

(ii) PRC statutory reserves

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

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

## 32 Capital and reserves (continued)

### (b) The Company (continued)

*Notes: (continued)*

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

(iv) The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of overseas operations. The reserve is dealt with in accordance with the accounting policies set out in note 1(w).

(v) The excess of purchase consideration on acquisition of minority interests over the carrying value of the share of net assets acquired and are charged to other reserve.

(vi) The contributions represented assets contributed by minority shareholders upon establishment of a subsidiary in 2007.

(vii) The Group adopted the Accounting Standards for Business Enterprise (2006) ("new PRC Accounting Standards") and other regulations promulgated by the Ministry of Finance on 15 February 2006 effective from 1 January 2007. Appropriations to statutory surplus reserves for prior years were restated due to the change in net profit arising from the prior year adjustments following the adoption of the new PRC Accounting Standards.

(viii) As disclosed in note 17(c), the Company has signed a Co-operation Agreement with third parties in order to acquire the mining right of Istanbul Gold Mine. Pursuant to the Co-operation Agreement, the Company, CRB and Xinjiang Lingxi are required to contribute SOM27,306,000 (equivalent to RMB5,259,000), SOM3,330,000 (equivalent to RMB641,000) and SOM2,664,000 (equivalent to RMB513,000) to Full Gold as share capital respectively. The Company setup Full Gold, a wholly-owned subsidiary of the Group, with share capital of SOM166,000 (equivalent to RMB32,000) on 7 June 2007. The remaining share capital of SOM33,134,000 (equivalent to RMB6,381,000) was injected into Full Gold in March 2008 by the Company, CRB and Xinjiang Lingxi and the Company's interest in Full Gold was diluted from 100% to 82%. Such dilution resulted in a gain on deemed disposal of subsidiary amounting to RMB392,000.

## 32 Capital and reserves (continued)

### (c) Share capital

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Number of shares | RMB'000 | Number of shares | RMB'000 |
| Registered, issued and fully paid: | | | | |
| Domestic state-owned shares of RMB0.20 each | **472,975,091** | **94,595** | 472,975,091 | 94,595 |
| H shares of RMB0.20 each | **297,274,000** | **59,455** | 297,274,000 | 59,455 |
| At 1 January and 31 December | **770,249,091** | **154,050** | 770,249,091 | 154,050 |

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

### (d) Distributability of reserves

According to the Listing Rules of the Main Board of the Stock Exchange, the amount of retained profits available for distribution to shareholders of the Company is the lower of the amount determined in accordance with the PRC Accounting Rules and Regulations and the amount determined in accordance with HKFRSs. At 31 December 2008, the amount of retained profits available for distribution was RMB585,283,000, being the amount determined in accordance with the PRC Accounting Rules and Regulations (2007: RMB476,971,000). After the balance sheet date, the directors do not recommend the payment of a final dividend for the year ended 31 December 2008 (2007:RMB0.10 per share, amounting RMB77,025,000). This dividend has not been recognised as a liability at the balance sheet date.

### (e) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in the light of changes in economic conditions.

Consistent with industry practice, the Group monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. For this purpose the Group defines net debt as total debt (which includes interest-bearing loans and borrowings, trade and other payables plus unaccrued proposed dividends, less cash and cash equivalents). Adjusted capital comprises all components of equity less unaccrued proposed dividends.

In order to maintain or adjust the ratio, the Group may adjust the amount of dividends payable to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

## 32 Capital and reserves (continued)

### (e) Capital management (continued)

The net debt-to-adjusted capital ratio at 31 December 2008 and 2007 was as follows:

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | | **2008** | 2007 | **2008** | 2007 |
| | *Note* | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Current liabilities: | | | | | |
| – Trade and other payables | *30* | **464,403** | 346,666 | **237,576** | 288,446 |
| – Bank loans | *28* | **1,280,000** | 599,861 | **1,280,000** | 599,861 |
| – Loan from ultimate holding company | *31* | **23,800** | – | **–** | – |
| – Unsecured debenture | *28* | **–** | 580,000 | **–** | 580,000 |
| | | **1,768,203** | 1,526,527 | **1,517,576** | 1,468,307 |
| Non-current liabilities: | | | | | |
| – Other payables | *30* | **111,730** | – | **–** | – |
| – Interest-bearing borrowings | *28* | **458,430** | 123,270 | **153,270** | 123,270 |
| | | **570,160** | 123,270 | **153,270** | 123,270 |
| Total debt | | **2,338,363** | 1,649,797 | **1,670,846** | 1,591,577 |
| Add: Proposed dividends | *12(a)* | **–** | 77,025 | **–** | 77,025 |
| Less: Cash and cash equivalents | *27* | **(575,478)** | (389,651) | **(260,508)** | (322,781) |
| Cash restricted for use | *29* | **–** | (181,982) | **–** | (181,982) |
| **Net debt** | | **1,762,885** | 1,155,189 | **1,410,338** | 1,163,839 |
| Total equity | *32* | **1,729,131** | 1,698,383 | **1,706,011** | 1,671,703 |
| Less: Proposed dividends | *12(a)* | **–** | (77,025) | **–** | (77,025) |
| **Adjusted capital** | | **1,729,131** | 1,621,358 | **1,706,011** | 1,594,678 |
| **Net debt-to-adjusted capital ratio** | | **102%** | 71% | **83%** | 73% |

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

## 33 Commitments and contingencies

**(a) Capital commitments, representing purchase of property, plant and equipment and intangible assets outstanding at 31 December 2008 not provided for in the financial statements were as follows:**

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Authorised and contracted for | **176,184** | 23,482 | **1,500** | – |
| Authorised but not contracted for | **624,106** | 369,737 | **131,410** | 147,373 |
| | **800,290** | 393,219 | **132,910** | 147,373 |

**(b) At 31 December 2008, the total future minimum lease payments under non-cancellable operating leases are payable as follows:**

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| Within 1 year | **768** | 402 |
| After 1 year but within 5 years | **1,104** | 926 |
| After 5 years | **333** | 505 |
| | **2,205** | 1,833 |

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

## 33 Commitments and contingencies (continued)

**(c) Environmental contingencies**

To date, the Group has not incurred any significant expenditures for environment remediation and is currently not involved in any environmental remediation. In addition, the Group has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, has moved and may move further towards more rigorous enforcement of applicable laws and towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include: (i) the exact nature and extent of the contamination at various sites including, but not limited to mines, concentrators and smelting plants whether they are operating, closed and sold; (ii) the extent of required cleanup efforts; (iii) varying costs of alternative remediation strategies; (iv) changes in environmental remediation requirements; and (v) the identification of new remediation sites. The amount of such future costs is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed or future environmental legislation cannot be reasonably estimated at present, and could be material. The Group paid normal routine pollutant discharge fee of RMB1,740,000 for the year ended 31 December 2008 (2007: RMB1,877,000).

**(d)** The Company has given guarantee to bank to secure facilities of RMB100,000,000 (2007: RMB Nil) granted to a subsidiary and has been fully utilised at 31 December 2008.

## 34 Financial instruments

Exposure to gold price, other commodity price, interest rate, credit, liquidity and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities or financial products. These risks are limited by the Group's financial management policies and practices described below.

**(a) Interest rate risk**

The Group's interest rate risk arises primarily from long-term borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The management monitors interest rate exposures and will consider hedging significant interest rate risk should the need arise. The Group's interest rate profile as monitored by management is set out below.



## 34 Financial instruments (continued)

### (a) Interest rate risk (continued)

#### *(i) Interest rate profile*

The following table details the interest rate profile of the Group's and the Company's net borrowings at the balance sheet date.

| | The Group | | | | The Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **2008** | | 2007 | | **2008** | | 2007 | |
| | **Effective interest rate** | | Effective interest rate | | **Effective interest rate** | | Effective interest rate | |
| | **%** | **RMB'000** | % | RMB'000 | **%** | **RMB'000** | % | RMB'000 |
| **Net fixed rate borrowings:** | | | | | | | | |
| Bank loans | **6.29** | **480,000** | 5.40 | 389,861 | **6.29** | **480,000** | 5.40 | 389,861 |
| Unsecured debenture | **–** | **–** | 5.44 | 580,000 | **–** | **–** | 5.44 | 580,000 |
| Less: Deposits with bank | **–** | **–** | 3.00 | (46,704) | **–** | **–** | – | – |
| | | **480,000** | | 923,157 | | **480,000** | | 969,861 |
| **Net variable rate borrowings:** | | | | | | | | |
| Bank loans | **5.87** | **1,255,160** | 6.05 | 330,000 | **5.86** | **950,000** | 6.05 | 330,000 |
| Other loan | **4.23** | **3,270** | 4.17 | 3,270 | **4.23** | **3,270** | 4.17 | 3,270 |
| Less: Cash restricted for use | **–** | **–** | 0.72 | (181,982) | **–** | **–** | 0.72 | (181,982) |
| Less: Cash and cash equivalents | **0.53** | **(575,478)** | 0.89 | (342,947) | **0.35** | **(260,508)** | 0.91 | (322,781) |
| Less: Interest-bearing accounts receivables | **–** | **–** | 7.47 | (35,639) | **–** | **–** | 7.47 | (35,639) |
| | | **682,952** | | (227,298) | | **692,762** | | (207,132) |
| Total net borrowings | | **1,162,952** | | 695,859 | | **1,172,762** | | 762,729 |
| Net fixed rate borrowings as a percentage of total net borrowings | | **41%** | | 133% | | **41%** | | 127% |

## 34 Financial instruments (continued)

### (a) Interest rate risk (continued)

#### *(ii) Sensitivity analysis*

At 31 December 2008, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax and retained profits by approximately RMB9,446,000 (2007: RMB2,238,000). Other components of consolidated equity would not be affected by the changes in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet date, the impact on the Group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2007.

### (b) Credit risk

The carrying amounts of cash and cash equivalents, deposits, available-for-sale investments, trade and other receivables, prepayment and deposits represent the Group's and the Company's maximum exposure to credit risk in relation to these financial assets. Substantially all of the Group's and the Company's cash and cash equivalents are held in major financial institutions located in Hong Kong and the PRC, which management believes are of high credit quality.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent.

The Group's and the Company's major customers are Shanghai Gold Exchange and other metallurgical companies in the PRC, which accounted for significant amounts of the Group's and the Company's total operating revenues during the year. The Group and the Company have no significant credit risk with any of these customers since the Group and the Company maintain long-term and stable business relationships with these customers. Normally, the Group does not obtain collateral from customers.

At the balance sheet date, the Group has a certain concentration of credit risk on trade receivables as 35% (2007: 60%) and 76% (2007: 99%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.



## 34 Financial instruments (continued)

### (b) Credit risk (continued)

In addition, the Group made purchase deposits of RMB198,558,000 (net of provision) (2007: RMB111,143,000) at 31 December 2008 to suppliers to secure its supplies of mineral sand which is the major raw materials in the smelting process. The balance represented 10.5% (2007: 6%) of the total current assets at 31 December 2008. The Group believes that the purchase deposits will be recovered through purchases from these suppliers in future periods. In the event that these suppliers ceased to provide mineral sand to the Group, the Group may expose itself to significant credit risk arising from the recoverability of the purchase deposits and hence the profitability will be adversely affected.

As at 31 December 2008, the Group made investment deposits of RMB80,000,000 (2007: RMB80,000,000) for exclusive rights to acquire with mining assets in the PRC. The balance represented 2% (2007: 3%) of the total assets at 31 December 2008. The directors of the Company consider that appropriate procedures have been taken by the Group to assess the viability of the potential new mines and expect that the deposits would be recovered through acquisition of the mines and relevant mining assets.

At 31 December 2008, the Group was also exposed to credit risk in respect of other receivables of RMB108,700,000 (2007: RMB418,700,000) due from Beijing Jiuyi (see note 25(f)). This exposure to credit risk is monitored continuously by the management.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. The Group does not provide any other guarantees which would expose the Group or the Company to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 25.

### (c) Commodity price and foreign currency risk

Gold price risk arises from the risk of an adverse effect on current or future earnings resulting from fluctuations in the price of gold. The international gold market is predominately priced in US dollars which exposes the Group to the risk that fluctuations in RMB/US dollar exchange rates may also have an adverse effect on current or future earnings. The Group is also exposed to certain by-product commodity price risk.

A number of products, including derivatives, are used to manage the gold and copper price risks that arise out of the Group's core business activities. Commodity derivative contracts are entered into with independent futures trading agents and commodity-linked financial instruments are used by the Group to manage these risks. Details of commodity derivative contracts entered by the Group are disclosed in note 25(e) to these financial statements. At 31 December 2008, there is no outstanding gold loan contract (2007: 900kg).

## 34 Financial instruments (continued)

### (c) Commodity price and foreign currency risk (continued)

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

With the authorisation from the PRC government, the PBOC announced that the PRC government reformed the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies on 21 July 2005.

Apart from the above, the Group is exposed to currency risk primarily through bank deposits and other payables that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Hong Kong dollars ("HKD"), United States dollars ("USD") and Japanese yen ("JPY").

#### (i) *Exposure to currency risk*

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated of the financial statements of foreign operations into the Group's presentation currency.

**The Group**

| | **Exposure to foreign currencies (expressed in Renminbi)** | | | | |
|---|---|---|---|---|---|
| | **2008** | | | 2007 | |
| | **USD** | **HKD** | **JPY** | USD | HKD |
| | **RMB'000** | **RMB'000** | **RMB'000** | RMB'000 | RMB'000 |
| Non-current prepayments | **61,684** | **–** | **20,379** | – | – |
| Cash and cash equivalents | **178,080** | **10,067** | **–** | 4,604 | 94,959 |
| Trade and other payables | **(135,004)** | **–** | **–** | – | (89,942) |
| Non-current other payables | **(38,314)** | **–** | **–** | – | – |
| Bank loans | **(205,160)** | **–** | **–** | – | – |
| Overall net exposure | **(138,714)** | **10,067** | **20,379** | 4,604 | 5,017 |

## 34 Financial instruments (continued)

### (c) Commodity price and foreign currency risk (continued)

#### *(i) Exposure to currency risk (continued)*

**The Company**

| | Exposure to foreign currencies (expressed in Renminbi) | | | |
|---|---|---|---|---|
| | **2008** | | 2007 | |
| | **HKD RMB'000** | **USD RMB'000** | HKD RMB'000 | USD RMB'000 |
| Cash and cash equivalents | **10,067** | **–** | 94,959 | – |
| Amounts due from/(to) subsidiaries | **–** | **74,406** | (140) | 10,462 |
| Trade and other payables | **–** | **–** | (83,594) | – |
| Overall net exposure | **10,067** | **74,406** | 11,225 | 10,462 |

#### *(ii) Sensitivity analysis*

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant.

**The Group**

| | **2008** | | 2007 | |
|---|---|---|---|---|
| | **Increase/ (decrease) in foreign exchange rates %** | **Effect on profit after tax and retained profits RMB'000** | Increase/ (decrease) in foreign exchange rates % | Effect on profit after tax and retained profits RMB'000 |
| USD | **3** | **(3,790)** | 10 | 414 |
| HKD | **3** | **200** | 10 | 852 |
| JPY | **5** | **764** | – | – |

Result of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the balance sheet date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations in the Group's presentation currency. The analysis is performed on the same basis for 2007.



## 34 Financial instruments (continued)

### (d) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due. The Group's approach in managing liquidity is to ensure, as far as possible, that it will always have sufficient funding to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk damage to the Group's reputation.

The Group closely monitors cash flow requirements and optimising its cash return. The Group prepares cash flow forecasts and ensures it has sufficient cash for the servicing of operation, financial, and capital obligations. This excludes the potential impact of extreme circumstances that cannot be reasonably predicted, such as natural disasters.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

**The Group**

| | 2008 Contractual undiscounted cash outflow | | | | | | 2007 Contractual undiscounted cash outflow | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Within 1 year or on demand RMB'000 | More than 1 year but less than 2 years RMB'000 | More than 2 years but less than 5 years RMB'000 | More than 5 years RMB'000 | Total RMB'000 | Balance Sheet carrying amount RMB'000 | Within 1 year or on demand RMB'000 | More than 1 year but less than 2 years RMB'000 | More than 2 years but less than 5 years RMB'000 | More than 5 years RMB'000 | Total RMB'000 | Balance Sheet carrying amount RMB'000 |
| Unsecured debenture | - | - | - | - | - | - | 604,891 | – | – | – | 604,891 | 580,000 |
| Bank loans | 1,342,149 | 169,224 | 152,242 | 257,609 | 1,921,224 | 1,735,160 | 617,135 | 120,916 | – | – | 738,051 | 719,861 |
| Other loan | 138 | 138 | 415 | 4,233 | 4,924 | 3,270 | 136 | 409 | 1,158 | 2,589 | 4,292 | 3,270 |
| Non-current other payables | - | 61,931 | 51,710 | - | 113,641 | 111,730 | – | – | – | – | – | – |
| Current tax payable | 17,662 | - | - | - | 17,662 | 17,662 | 28,426 | – | – | – | 28,426 | 28,426 |
| Trade and other payables | 476,434 | - | - | - | 476,434 | 464,403 | 346,666 | – | – | – | 346,666 | 346,666 |
| | 1,836,383 | 231,293 | 204,367 | 261,842 | 2,533,885 | 2,332,225 | 1,597,254 | 121,325 | 1,158 | 2,589 | 1,722,326 | 1,678,223 |



## 34 Financial instruments (continued)

### (d) Liquidity risk (continued)

**The Company**

| | 2008 Contractual undiscounted cash outflow | | | | | | 2007 Contractual undiscounted cash outflow | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Within 1 year or on demand RMB'000 | More than 1 year but less than 2 years RMB'000 | More than 2 years but less than 5 years RMB'000 | More than 5 years RMB'000 | Total RMB'000 | Balance Sheet carrying amount RMB'000 | Within 1 year or on demand RMB'000 | More than 1 year but less than 2 years RMB'000 | More than 2 years but less than 5 years RMB'000 | More than 5 years RMB'000 | Total RMB'000 | Balance Sheet carrying amount RMB'000 |
| Unsecured debenture | - | - | - | - | - | - | 604,891 | – | – | – | 604,891 | 580,000 |
| Bank loans | 1,328,650 | 151,298 | - | - | 1,479,948 | 1,430,000 | 617,135 | 120,916 | – | – | 738,051 | 719,861 |
| Other loan | 138 | 138 | 415 | 4,233 | 4,924 | 3,270 | 136 | 409 | 1,158 | 2,589 | 4,292 | 3,270 |
| Current tax payable | - | - | - | - | - | - | 15,737 | – | – | – | 15,737 | 15,737 |
| Amounts due to subsidiaries | 27,505 | - | - | - | 27,505 | 27,505 | 8,531 | – | – | – | 8,531 | 8,531 |
| Trade and other payables | 237,576 | - | - | - | 237,576 | 237,576 | 288,446 | – | – | – | 288,446 | 288,446 |
| | 1,593,869 | 151,436 | 415 | 4,233 | 1,749,953 | 1,698,351 | 1,534,876 | 121,325 | 1,158 | 2,589 | 1,659,948 | 1,615,845 |

### (e) Business risk

During the year ended 31 December 2008, the Group's supplies of direct materials from independent third parties for smelting represent 90.6% (2007: 88.2%) of the Group's total direct materials, in which, the top five suppliers in 2008 represent 31.8% (2007: 24.3%) of the Group's total direct materials. Although the Group believes that it maintains good relationships with its suppliers, there can be no assurance that its suppliers will continue to sell to the Group on normal commercial terms as and when needed. In the event that these suppliers ceased to sell to the Group and the Group could not secure other sources of supply, the Group's turnover and profitability will be adversely affected.

### (f) Equity price risk

The objective of equity risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Group and the Company are exposed to equity price changes arise from available-for-sale equity securities and other investments held which are unlisted investments. Unquoted investments are held for long-term strategic purposes. Their performance is assessed at least annually based on the information available to the Group and the Company, together with an assessment of their relevance to the Group's and the Company's long-term strategic plans.

## 34 Financial instruments (continued)

### (g) Fair value

Financial assets of the Group and the Company comprise cash and cash equivalents, deposits, trade and other receivables, other investments and amounts due from subsidiaries. Financial liabilities include trade and other payables, short and long term bank loans, other interest-bearing borrowings and amounts due to subsidiaries. The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment. Given these terms, it is not meaningful to disclose its fair value.

The fair value of commodity-linked interest-bearing borrowings is determined based on the gold price quoted by the Shanghai Gold Exchange at the balance sheet date.

The fair value of available-for-sale financial assets is determined by reference to their quoted bid price at the balance sheet date.

The fair value of payable for mining rights are estimated as the present value of future cash flows, discounted at rates with reference to six-month London Interbank Offered Rate plus 1.8% margin.

The fair value of non-derivative financial liabilities, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date.

The fair value of derivative financial liabilities and assets is marked to market using open market prices.

All other significant financial assets and liabilities are carried at amounts not materially different from their respective fair values as at 31 December 2008 and 2007 due to the nature or short-term maturity of these instruments.



## 35 Purchase of net assets

**For the year ended 31 December 2007**

In 2007, the Group acquired 80% equity interest in Lingbao Yixin from Mr. Liu Kuanliang and Mr. Ma Bin, the entire equity interest in Beijing Fushengda from Mr. Chu Yan and Ms. Zhao Li, an 74% equity interest in Tianshui Hongwu from Mr. Liu Zhiwu, Mr. Liu Hairong and Ms. Liu Haimel, and entire equity interest in Lanzhou Lingjin from Tianshui Hongwu.

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

The aggregate acquisition consideration was RMB26,724,000 satisfied in cash. The aggregate amount recognised at the acquisition date of their assets and liabilities are RMB62,117,000 and RMB35,393,000 respectively. The acquired companies did not generate any revenue since acquisition and have recorded an accumulated loss of RMB1,560,000 since the date of acquisition to 31 December 2007. If the acquisition had occurred on 1 January 2007, the acquired companies would have recorded an accumulated loss of RMB2,237,000 for 2007.

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

## 35 Purchase of net assets (continued)

**For the year ended 31 December 2007 (continued)**

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

Acquiree's net assets at the acquisition date:

| | Carrying values prior to purchase RMB'000 | Fair value adjustments RMB'000 | Carrying values upon purchase RMB'000 |
|---|---|---|---|
| Property, plant and equipment *(note 15)* | 1,267 | – | 1,267 |
| Construction in progress *(note 16)* | 10,613 | – | 10,613 |
| Intangible assets *(note 17)* | 21,211 | 16,867 | 38,078 |
| Deferred tax assets *(note 23(b)(i))* | 376 | – | 376 |
| Inventories | 48 | – | 48 |
| Trade and other receivables, deposits and prepayments | 3,752 | – | 3,752 |
| Amount due from Habahe Huatai | 367 | – | 367 |
| Cash at bank and in hand | 7,616 | – | 7,616 |
| Trade and other payables | (11,876) | – | (11,876) |
| Amounts due to shareholders | (23,517) | – | (23,517) |
| Net identifiable assets | 9,857 | 16,867 | 26,724 |
| Total purchase price consideration | | | 26,724 |
| Satisfied by: | | | |
| Cash | | | 10,724 |
| Other payables | | | 16,000 |
| | | | 26,724 |
| Cash at bank and in hand acquired | | | 7,616 |
| Cash consideration paid | | | (10,724) |
| Net cash outflow in respect of the purchase of net assets | | | (3,108) |

## 36 Business combination

**For the year ended 31 December 2008**

On 24 March 2008, the Group has acquired the entire equity interest in Lingbao Wason from a third party at a consideration of RMB27,900,000 satisfied in cash. The aggregate amount of its assets and liabilities recognised at the acquisition date are RMB243,487,000 and RMB203,150,000 respectively.

Lingbao Wason contributed revenue of RMB210,507,000 and net loss of RMB5,547,000 to the Group since the date of acquisition. If the acquisition had occurred on 1 January 2008, the Group's revenue and net profit for the year ended 31 December 2008 would have been RMB3,600,815,000 and RMB100,569,000 respectively.

Acquiree's net assets at the acquisition date:

| | Pre-acquisition carrying amount RMB'000 | Fair value adjustments RMB'000 | Recognised values on acquisition RMB'000 |
|---|---|---|---|
| Property, plant and equipment *(note 15)* | 61,902 | 2,565 | 64,467 |
| Construction in progress *(note 16)* | 6,083 | – | 6,083 |
| Lease prepayments *(note 19)* | 10,529 | 3,555 | 14,084 |
| Inventories | 21,955 | 4,339 | 26,294 |
| Trade and other receivable, deposits and prepayments | 117,766 | 177 | 117,943 |
| Cash at bank and in hand | 14,616 | – | 14,616 |
| Deferred tax assets/(liabilities) *(note 23(b)(i))* | 2,562 | (2,659) | (97) |
| Bank loans and other loan | (73,800) | – | (73,800) |
| Trade and other payables | (127,441) | – | (127,441) |
| Current tax payable | (1,812) | – | (1,812) |
| Net identifiable assets | 32,360 | 7,977 | 40,337 |
| Negative goodwill arising from the acquisition *(note 5)* | | | (12,437) |
| Total purchase consideration | | | 27,900 |
| Satisfied by: | | | |
| Cash | | | 27,900 |
| Cash at bank and in hand acquired | | | 14,616 |
| Cash consideration paid | | | (27,900) |
| Net cash outflow in respect of the acquisition of subsidiary | | | (13,284) |

The excess of fair value of net assets acquired over purchase consideration is recognised as negative goodwill in the consolidated income statement. Such negative goodwill was primarily resulted from low purchase consideration which is the highest bidding price in the public auction on 19 March 2008.



## 36 Business combination (continued)

**For the year ended 31 December 2007**

During the year, the Group has acquired the entire equity interest in Chifeng Jinchan from Mr. Zhao Meiguang, Mr. Ren Yiguo and Mr. Gao Bo at a consideration of RMB146,000,000 satisfied in cash. The aggregate amount recognised at the acquisition date of its assets and liabilities are RMB150,552,000 and RMB38,610,000 respectively. Chifeng Jinchan contributed revenue of RMB58,641,000 and loss before tax of RMB9,860,000 since the date of acquisition to 31 December 2007. If the acquisition had occurred on 1 January 2007, the Group's revenue would have been RMB2,854,518,000 and net profit would have been RMB217,710,000.

Acquiree's net assets at the acquisition date:

| | Pre-acquisition carrying amount RMB'000 | Fair value adjustments RMB'000 | Recognised values on acquisition RMB'000 |
|---|---|---|---|
| Property, plant and equipment *(note 15)* | 16,302 | 14,485 | 30,787 |
| Construction in progress *(note 16)* | 14 | – | 14 |
| Intangible assets *(note 17)* | 1,981 | 69,641 | 71,622 |
| Lease prepayments *(note 19)* | 1,279 | 27,409 | 28,688 |
| Inventories | 5,653 | 12,482 | 18,135 |
| Trade and other receivable, deposits and prepayments | 98 | 589 | 687 |
| Cash at bank and in hand | 619 | – | 619 |
| Trade and other payables | (4,928) | – | (4,928) |
| Deferred tax liabilities *(note 23(b)(i))* | – | (33,682) | (33,682) |
| Net identifiable assets | 21,018 | 90,924 | 111,942 |
| Goodwill arising on acquisition *(note 18)* | | | 34,058 |
| Total purchase consideration | | | 146,000 |
| Satisfied by: | | | |
| Cash | | | 146,000 |
| Cash at bank and in hand acquired | | | 619 |
| Cash consideration paid | | | (146,000) |
| Net cash outflow in respect of the acquisition of subsidiary | | | (145,381) |

## 37 Segment information

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

**Business segments**

The Group comprises the following main business segments:

Mining – Gold mining and mineral ores processing operations of the Group.

Smelting – Gold and other metal smelting and refinery operations of the Group.

Processing – Copper processing operation of the Group.

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

| | Mining RMB'000 | Smelting RMB'000 | Processing RMB'000 | Inter-segment elimination RMB'000 | Unallocated RMB'000 | Consolidated RMB'000 |
|---|---|---|---|---|---|---|
| **Year ended 31 December 2008** | | | | | | |
| Revenue from external customers | 1,729 | 3,347,650 | 209,710 | – | – | 3,559,089 |
| Inter-segment revenue | 513,995 | 169,606 | – | (683,601) | – | – |
| Other revenue from external customers | 2,242 | 10,425 | 340 | – | 5,173 | 18,180 |
| Total | 517,966 | 3,527,681 | 210,050 | (683,601) | 5,173 | 3,577,269 |
| Segment result | 33,816 | 241,840 | (3,516) | 11,093 | 5,173 | 288,406 |
| Unallocated operating income and expenses | | | | | | (50,900) |
| Profit from operations | | | | | | 237,506 |
| Finance costs | | | | | | (115,262) |
| Income tax | | | | | | (15,483) |
| Profit for the year | | | | | | 106,761 |
| *Impairment* | | | | | | |
| – trade and other receivables | – | – | 2,539 | | | |
| – Purchase deposits | – | 4,726 | – | | | |
| – intangible assets | 2,781 | – | – | | | |



## 37 Segment information (continued)

**Business segments (continued)**

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

| | Mining RMB'000 | Smelting RMB'000 | Inter-segment elimination RMB'000 | Unallocated RMB'000 | Consolidated RMB'000 |
|---|---|---|---|---|---|
| **Year ended 31 December 2007** | | | | | |
| **Revenue and expenses** | | | | | |
| Revenue from external customers | 107 | 2,844,453 | – | – | 2,844,560 |
| Inter-segment revenue | 461,942 | – | (461,942) | – | – |
| Other revenue from external customers | 2,007 | 14,830 | – | 126,024 | 142,861 |
| Total | 464,056 | 2,859,283 | (461,942) | 126,024 | 2,987,421 |
| Segment result | 78,971 | 290,129 | (4,700) | 126,024 | 490,424 |
| Unallocated operating income and expenses | | | | | (49,813) |
| Profit from operations | | | | | 440,611 |
| Finance costs | | | | | (101,613) |
| Income tax | | | | | (115,669) |
| Profit for the year | | | | | 223,329 |
| *Impairment* | | | | | |
| – trade and other receivables | – | 624 | | | |
| – purchase deposits | – | 8,367 | | | |



## 37 Segment information (continued)

### Business segments (continued)

| | Mining RMB'000 | Smelting RMB'000 | Processing RMB'000 | Inter-segment elimination RMB'000 | Unallocated RMB'000 | Consolidated RMB'000 |
|---|---|---|---|---|---|---|
| **As at 31 December 2008** | | | | | | |
| **Assets and liabilities** | | | | | | |
| Segment assets | 1,919,490 | 1,015,128 | 345,786 | (3,001) | – | 3,277,403 |
| Unallocated assets | | | | | | 807,753 |
| Total assets | | | | | | 4,085,156 |
| Segment liabilities | 591,611 | 165,214 | 158,206 | (3,001) | – | 912,030 |
| Unallocated liabilities | | | | | | 1,443,995 |
| Total liabilities | | | | | | 2,356,025 |
| **Other segmental information** | | | | | | |
| Capital expenditure incurred during the year | 539,924 | 68,116 | 147,294 | – | 4,927 | 760,261 |
| Depreciation and amortisation for the year | 137,956 | 33,744 | 8,258 | – | 2,563 | 182,521 |

## 37 Segment information (continued)

### Business segments (continued)

| | Mining RMB'000 | Smelting RMB'000 | Inter-segment elimination RMB'000 | Unallocated RMB'000 | Consolidated RMB'000 |
|---|---|---|---|---|---|
| **As at 31 December 2007** | | | | | |
| **Assets and liabilities** | | | | | |
| Segment assets | 1,274,426 | 1,049,836 | (44,463) | – | 2,279,799 |
| Unallocated assets | | | | | 1,120,504 |
| Total assets | | | | | 3,400,303 |
| Segment liabilities | 97,979 | 227,332 | (44,463) | – | 280,848 |
| Unallocated liabilities | | | | | 1,421,072 |
| Total liabilities | | | | | 1,701,920 |
| **Other segmental information** | | | | | |
| Capital expenditure incurred during the year | 617,378 | 155,827 | – | 4,599 | 777,804 |
| Depreciation and amortisation for the year | 136,997 | 24,247 | – | 2,165 | 163,409 |

### Geographical segments

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



## 38 Immediate and ultimate controlling party

At 31 December 2008, the directors consider the immediate parent and the ultimate controlling party of the Group to be Lingbao State-owned Assets Operation Limited Liability Company, a stated-owned enterprise established in the PRC. This entity does not produce financial statements available for public use.

## 39 Accounting estimates and judgements

### Key sources of estimation uncertainty

Notes 18 and 21 contain information about the assumptions and their risk factors relating to valuation of goodwill impairment and fair value of financial assets. Other key sources of estimation uncertainty are as follows:

***(i) Reserves estimates***

As explained in notes 1(g) and 1(h), mining shafts, mining rights and mining development assets are amortised using the units of production method based on the proven and probable mineral reserve.

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

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

## 39 Accounting estimates and judgements (continued)

### Key sources of estimation uncertainty (continued)

***(ii) Impairments***

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

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

***(iii) Inventory provision***

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

***(iv) Depreciation***

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

***(v) Recognition of deferred tax assets***

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



## 40 Non-adjusting post balance sheet events

On 8 January 2009, the Company has signed a share transfer agreement with Xinjiang Lingxi to acquire 70% equity interest in Palladex KR Limited Liability Company ("Palladex KR") for a consideration of USD7,700,000. Palladex KR is principally engaged in geological exploration of mineral reserves in Kyrgyz Republic.

## 41 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting year ended 31 December 2008

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting year ended 31 December 2008 and which have not been adopted in the financial statements.

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

In addition, the following developments are expected to result in amended disclosures in the financial statements, including restatement of comparative amounts in the first period of adoption:

| | | **Effective for accounting periods beginning on or after** |
|---|---|---|
| HKFRS 3 (revised) | Business combinations | 1 July 2009 |
| HKFRS 8 | Operating segments | 1 January 2009 |
| HKAS 1 (revised) | Presentation of financial statements | 1 January 2009 |
| HKAS 23 (revised) | Borrowing costs | 1 January 2009 |
| HKAS 27 (revised) | Consolidated and separate financial statements | 1 July 2009 |



# Five Years Summary

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2008** | 2007 | 2006 | 2005 | 2004 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Assets and liabilities** | | | | | |
| Non-current assets | **2,230,182** | 1,533,867 | 1,266,905 | 478,915 | 333,931 |
| Net current assets | **69,109** | 311,483 | 281,385 | 139,029 | 5,719 |
| **Total assets less current liabilities** | **2,299,291** | 1,845,350 | 1,548,290 | 617,944 | 339,650 |
| Non-current liabilities | **570,160** | 146,967 | 4,419 | 115,824 | – |
| **NET ASSETS** | **1,729,131** | 1,698,383 | 1,543,871 | 502,120 | 339,650 |
| **Share capital** | **154,050** | 154,050 | 154,050 | 100,000 | 100,000 |
| **Reserves** | **1,549,387** | 1,517,996 | 1,362,163 | 392,618 | 237,715 |
| **Total equity attributable to equity shareholders of the Company** | **1,703,437** | 1,672,046 | 1,516,213 | 492,618 | 337,715 |
| Minority interests | **25,694** | 26,337 | 27,658 | 9,502 | 1,935 |
| **TOTAL EQUITY** | **1,729,131** | 1,698,383 | 1,543,871 | 502,120 | 339,650 |
| **Operating results** | | | | | |
| Turnover | **3,599,089** | 2,844,560 | 2,234,975 | 1,555,704 | 1,223,429 |
| Profit from operations | **237,506** | 440,611 | 368,554 | 247,887 | 194,352 |
| Deficit on revaluation of property, plant and equipment written back | **–** | – | – | 1,991 | – |
| Finance costs | **(115,262)** | (101,613) | (31,213) | (23,085) | (15,503) |
| **Profit before taxation** | **122,244** | 338,998 | 337,341 | 226,793 | 178,849 |
| Income tax | **(15,483)** | (115,669) | (116,509) | (72,017) | (59,454) |
| **Profit for the year** | **106,761** | 223,329 | 220,832 | 154,776 | 119,395 |
| **Attributable to:** | | | | | |
| Equity shareholders of the Company | **108,166** | 222,270 | 219,836 | 154,584 | 120,060 |
| Minority interests | **(1,405)** | 1,059 | 996 | 192 | (665) |
| **Profit for the year** | **106,761** | 223,329 | 220,832 | 154,776 | 119,395 |