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Lingbao Gold Company Ltd.

靈 寶 黃 金 股 份 有 限 公 司

(A joint stock limited company incorporated in the People's Republic of China)
(Stock code: 3330)

2006 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- Turnover amounted to RMB951,837,000 representing an increase of 31.5% over the corresponding period in 2005
- Profit attributable to equity shareholders of the Company amounted to RMB134,132,000 representing an increase of 77.9% over the corresponding period in 2005
- Basic earnings per share was RMB18 cents

INTERIM RESULTS

The board of directors (the "Board") of Lingbao Gold Company Ltd. (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2006, which have been reviewed by the auditors and Audit Committee of the Company.

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006

		Six months ended 30 June	
	Note	2006 RMB'000 (Unaudited)	2005 RMB'000 (Audited)
Turnover	4	951,837	723,685
Cost of sales	5	<u>(735,775)</u>	<u>(571,585)</u>
Gross profit		216,062	152,100
Other revenue		55,061	7,710
Other net loss		(9,813)	(742)
Selling and distribution expenses		(7,739)	(4,292)
Administrative expenses and other operating expenses		<u>(39,753)</u>	<u>(29,635)</u>
Profit from operations		213,818	125,141
Finance costs	6(a)	<u>(10,966)</u>	<u>(11,066)</u>
Profit before taxation	6	202,852	114,075
Income tax	7	<u>(69,587)</u>	<u>(38,881)</u>
Profit for the period		<u>133,265</u>	<u>75,194</u>
Attributable to:			
Equity shareholders of the Company		134,132	75,410
Minority interests		<u>(867)</u>	<u>(216)</u>
Profit for the period		<u>133,265</u>	<u>75,194</u>
Basic earnings per share (cents)	9	<u>18</u>	<u>15</u>

CONSOLIDATED BALANCE SHEET

At 30 June 2006

	30 June 2006 <i>RMB'000</i> (Unaudited)	31 December 2005 <i>RMB'000</i> (Audited)
Non-current assets		
Property, plant and equipment	242,819	246,132
Construction in progress	147,909	110,834
Intangible assets	84,760	81,873
Goodwill	8,078	4,716
Lease prepayments	9,103	9,229
Other investments	10,504	10,504
Deferred tax assets	14,291	15,627
	<u>517,464</u>	<u>478,915</u>
Current assets		
Inventories	263,845	291,757
Trade and other receivables, deposits and prepayments	324,646	166,412
Tax recoverable	—	517
Cash and cash equivalents	1,083,752	117,861
	<u>1,672,243</u>	<u>576,547</u>
Current liabilities		
Bank loans	395,000	292,150
Trade and other payables	276,342	143,292
Tax payable	21,844	2,076
	<u>693,186</u>	<u>437,518</u>
Net current assets	<u>979,057</u>	<u>139,029</u>
Total assets less current liabilities	<u>1,496,521</u>	<u>617,944</u>
Non-current liabilities		
Bank loans	50,000	110,000
Other loan	3,270	3,270
Deferred tax liabilities	4,107	2,554
	<u>57,377</u>	<u>115,824</u>
NET ASSETS	<u>1,439,144</u>	<u>502,120</u>

CAPITAL AND RESERVES

Share capital	154,050	100,000
Reserves	1,276,459	392,618
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Total equity attributable to equity shareholders of the Company	1,430,509	492,618
Minority interests	8,635	9,502
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TOTAL EQUITY	<u>1,439,144</u>	<u>502,120</u>

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

1 Basis of preparation

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2005 annual financial statements, except for derivative financial instruments, which are not applicable to the 2005 annual financial statements, as follows:

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.

The interim financial report is unaudited, but has been reviewed by the Audit Committee of the Company and by the auditors, KPMG, in accordance with Statement of Auditing Standards 700, Engagements to review interim financial reports, issued by the HKICPA.

2 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ending 31 December 2006

Up to the date of issue of the interim financial report, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ending 31 December 2006:

	Effective for accounting periods beginning on or after
HK(IFRIC) 7, Applying the restatement approach under HKAS 29 Financial reporting in hyperinflationary economics	1 March 2006
HK(IFRIC) 8, Scope of HKFRS 2	1 May 2006
HK(IFRIC) 9, Reassessment of embedded derivatives	1 June 2006
HKFRS 7, Financial instruments: Disclosures	1 January 2007
Amendment to HKAS 1, Presentation of financial statements: “Capital disclosures”	1 January 2007
Revised guidance on implementing HKFRS 4, Insurance contracts	1 January 2007

The above amendments, new standards and interpretations were not applied in this interim financial report because the directors expect the Group will not early apply them when preparing the Group’s annual financial statements for the year ending 31 December 2006.

The Group is in the process of making an assessment of the impact of these amendments, new standards and new interpretations in the period of initial application and has so far concluded that the adoption of them is unlikely to have a significant impact on the Group’s results of operations and financial position.

3 Segment reporting

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

Business segments

	Mining RMB'000 (Unaudited)	Smelting RMB'000 (Unaudited)	Inter- segment elimination RMB'000 (Unaudited)	Unallocated RMB'000 (Unaudited)	Consolidated RMB'000 (Unaudited)
<i>For the six months ended 30 June 2006</i>					
Revenue from external customers	18,658	933,179	–	–	951,837
Inter-segment revenue	76,612	–	(76,612)	–	–
Other revenue from external customers	10	6,013	–	49,038	55,061
Total	95,280	939,192	(76,612)	49,038	1,006,898
Segment results	25,055	196,989	41	49,038	271,123
Unallocated operating income and expenses					(57,305)
Profit from operations					213,818

	Mining RMB'000 (Audited)	Smelting RMB'000 (Audited)	Inter- segment elimination RMB'000 (Audited)	Unallocated RMB'000 (Audited)	Consolidated RMB'000 (Audited)
<i>For the six months ended 30 June 2005</i>					
Revenue from external customers	62,158	661,527	–	–	723,685
Inter-segment revenue	52,218	–	(52,218)	–	–
Other revenue from external customers	16	3,479	–	4,215	7,710
Total	114,392	665,006	(52,218)	4,215	731,395
Segment results	24,616	130,979	–	4,215	159,810
Unallocated operating income and expenses					(34,669)
Profit from operations					125,141

4 Turnover

The principal activities of the Group are mining, processing, smelting and sales of gold and other metallic products in the People's Republic of China (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 period is as follows:

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Sales of:		
– Gold	671,904	555,736
– Other metals	267,224	150,323
– Others	16,026	19,405
Less: Sales taxes and levies	(3,317)	(1,779)
	<u>951,837</u>	<u>723,685</u>

5 Cost of sales

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Direct materials	692,283	472,674
Direct labour	16,675	9,036
Electricity	25,477	18,297
Tunnelling/extraction expenses	34,898	32,218
Depreciation and amortisation	18,019	16,737
Refinery expenses	12,266	13,565
Subcontracting expenses	–	10,451
Movements in inventories	(63,843)	(1,393)
	<u>735,775</u>	<u>571,585</u>

6 Profit before taxation

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

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Audited)
(a) Finance costs:		
Interest expense on bank advances wholly repayable within five years	10,749	11,066
Interest on other loan	84	–
Discounting charges	133	–
	<u>10,966</u>	<u>11,066</u>

(b) Other items:

Interest income from bank deposits	(48,994)	(274)
Dividend income from unlisted securities	–	(2,100)
Amortisation of intangible assets	6,152	3,069
Amortisation of lease prepayments	201	126
Depreciation	17,300	15,415
Net loss on disposal of property, plant and equipment	661	609
Operating lease charges in respect of properties	820	864
	<u> </u>	<u> </u>

7 Income tax in the consolidated income statement

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Current tax		
PRC income tax for the period	68,302	39,907
Deferred tax		
Origination and reversal of temporary differences	1,285	(1,026)
	<u> </u>	<u> </u>
	<u>69,587</u>	<u>38,881</u>

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

8 Dividends

Dividend attributable to the previous financial year and approved during the interim period:

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Final dividend in respect of the financial year ended 31 December 2005 and approved during the following interim period, of RMB0.08 per ordinary share (year ended 31 December 2004: Nil)	61,620	–
	<u> </u>	<u> </u>

Other than the above, the directors did not propose the payment of an interim dividend for the six months ended 30 June 2006 (six months ended 30 June 2005: Nil).

9 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2006 is based on the profit attributable to equity holders of the Company for the period of RMB134,132,000 (six months ended 30 June 2005: RMB75,410,000) and the weighted average number of shares in issue during the six months ended 30 June 2006 of 753,046,000 (six months ended 30 June 2005: 500,000,000), calculated as follows:

Weighted average number of ordinary shares

	Number of shares	
	2006 '000	2005 '000
Issued ordinary shares at 1 January	500,000	500,000
Effect of shares issued pursuant to the public offering	<u>253,046</u>	<u>—</u>
Weighted average number of ordinary shares at 30 June	<u><u>753,046</u></u>	<u><u>500,000</u></u>

(b) Diluted earnings per share

There were no dilutive potential ordinary shares during the period presented and, therefore, diluted earnings per share are not presented.

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2006, the Group produced approximately 4,766 kg (equivalent to approximately 153,230 ounce) of gold including approximately 4,696 kg (equivalent to approximately 150,980 ounce) of gold bullion and approximately 70 kg (equivalent to approximately 2,250 ounce) of compound gold, representing a decrease of approximately 49 kg (equivalent to approximately 1,575 ounce) or 1.0% as compared with the corresponding period of the previous year. The turnover for the six months ended 30 June 2006 was approximately RMB951,837,000, representing an increase of approximately 31.5% as compared with the corresponding period of the previous year. As at 30 June 2006, the profit attributable to the Company's shareholders was approximately RMB134,132,000, representing an increase of approximately 77.9% as compared with the corresponding period of the previous year. As at 30 June 2006, the basic earnings per share was RMB0.18. In the first half of 2006, the Company has achieved positive growth in both turnover and profit attributable to shareholders. The increase in profit was due to the strong market demand as well as high product prices and effective control of production cost. The Group was listed on the Main Board of the Stock Exchange of Hong Kong Limited ("Stock Exchange") in January 2006. During the share offer period, the Group received an one-off after tax profit of interest income net of exchange loss of approximately RMB16,909,000.

Given that raw materials accounted for over 80% of total production cost and in order to minimize the reliance of purchase of raw materials from outsiders, the Group intends to increase the Company's self-produced gold output through acquisitions and expansion of mine operation, thereby uplifting the production and operation targets.

I. Review and Prospect of Business Segments

1. Mining Segment

Turnover and production

Our mining business comprises the sales of gold concentrates and other derivative products, such as compound gold and lead concentrates. All gold concentrates are sold to the Group's smelting plant as intra-group sales, while other derivative products are sold to third party customers.

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

		For the six months ended 30 June			
		2006		2005	
	Unit	Approximate production volume	Approximate sales volume	Approximate production volume	Approximate sales volume
Gold concentrates	Kg	661	599	588	611
Compound gold	Kg	70	60	389	420
Total	Kg	731	659	977	1,031
Total	Ounce	23,502	21,187	31,411	33,147
Lead concentrates	Kg	72	72	125	125

The Group's total turnover of the mining segment for the first half of 2006 was approximately RMB95,280,000, representing a decrease of approximately 16.7% from approximately RMB114,392,000 for the same period in 2005. During the period, turnover of gold mines in Henan and Xinjiang represented approximately 89.9% and 10.1% of the total turnover of the mining segment respectively. The production of compound gold decreased by approximately 319 kg to approximately 70 kg while production of gold concentrates increased by approximately 73 kg to approximately 661 kg. Since July 2005, there has been a change in technology of the processing facilities of our gold mines in Henan. As a result of the change in technology, we increased our production in gold concentrates and decreased our production in compound gold. The change was aimed to increase the gold content of our gold concentrates and boosting internal sales of gold concentrates to our smelting plant. Apart from gold concentrates and compound gold, the Group's mining segment also produced lead concentrates. Lead concentrates are another type of gold concentrates which contain lead and are sold to third party customers. Production of lead concentrates in this period decreased by approximately 53 kg to approximately 72 kg.

Segment results

The Group's results of the mining segment for the first half of 2006 was approximately RMB25,055,000, representing an increase of approximately 1.8% from approximately RMB24,616,000 for the same period in 2005. Such increase was principally attributable to the increase of product selling price during the period which offset by an increase of approximately 8.3% in expenses paid to the construction teams of our operating mines. The segment result to segment turnover ratio of the Group's mining segment for the first half of 2006 was approximately 26.3%, an increase of approximately 4.8% from approximately 21.5% in 2005. During this period, gross profit margin for mines in Henan region was approximately 26.3%, and for mines in Xinjiang region was approximately 26.4%.

Prospect

The Group is expecting an increase in production capacity, gold reserves and resources through the commencement of production of Kaqia gold mine held by Akesu District Xindi Mining Company Limited, a subsidiary of the Company located in Xinjiang, in the second half of 2006 for the production of compound gold, together with the expansion of production in both Duolanasayi Gold Mine and Tuokuzibayi Gold Mine located in Xinjiang through improvement of production facilities.

With our continuous exploration and acquisitions of gold mines, our gold reserves and resources are increasing. Objective of the Group for 2006 is to increase the Company's gold reserve by continuing to explore the in-depth deposits of Qiangma Gold Mine and Yinxin Gold Mine in the Xiaoqinling region and to continue to engage in mining and gold production process in the gold mines located in Henan Nanyang Xingyuan, Jiangxi Mingxin Gold Mine, Xinjiang Duolanasayi Gold Mine, Tuokuzibayi Gold Mine and Kaqia Gold Mine.

2. Smelting Segment

Our smelting plant is situated in Henan Province, and is capable of processing gold, silver, copper and sulphur. The main products of our smelting plant 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:

Product	Unit	For the six months ended 30 June			
		2006		2005	
		Approximate production volume	Approximate sales volume	Approximate production volume	Approximate sales volume
Gold bullion	Kg	4,696	4,363	4,426	4,440
	Ounce	150,980	140,274	142,299	142,749
Silver	Kg	14,115	10,288	16,952	16,815
	Ounce	453,807	330,767	454,019	540,614
Copper products	Tonne	4,619	4,980	3,451	3,323
Sulphuric acid	Tonne	79,671	82,532	72,371	70,139

Turnover and production

The Group's total turnover in the smelting segment for the first half of 2006 was approximately RMB939,192,000, representing an increase of approximately 41.2% from approximately RMB665,006,000 for the same period of 2005. Such increase was principally attributable to the 30.4% increase in the sales of gold bullion as a result of an approximate 32.7% increase in selling price of gold bullion. Also, the unit selling price, sales volume and total sales amount of copper products had increased by approximately 44.7%, 49.9% and 116.9% respectively.

In the first half of 2006, the Group's smelting plant processed approximately 676 tonnes of gold concentrates per day, and the utilisation rate for production was approximately 97%. This resulted in a slight increase in the Group's production volume. During the period, the gold recovery rate was approximately 96.4%, the silver recovery rate was approximately 76.3% and the copper recovery rate was approximately 93.4%. All recovery rates continued to remain at a high level.

Segment results

Our total smelting segment results for the first half of 2006 was approximately RMB196,989,000, representing an approximate 50.4% increase from approximately RMB130,979,000 for 2005. The segment results to segment turnover ratio of our smelting business for the first half of 2006 was approximately 21.0%, increased by approximately 1.3% from approximately 19.7% for 2005. During the period, the average selling price of gold bullion increased by approximately 32.7% to approximately RMB151.8 per gram (equivalent to approximately US588.0 per ounce). By using efficient cost control and production adjustment, profit margin of smelting segment was improved.

Prospect

Riding on the surging gold prices and through advanced technology and production efficiency, the smelting segment of the Group was able to deliver respectable results in both production and sales volume and fulfilled all major production and operation targets.

The Group is prospecting to maintain a high recovery rate by securing the supply of gold concentrates for the smelting segment.

II. Outlook for 2006

As a result of the influence of international politics, economy and other uncertain factors, the international gold price increased by 19% in the first half of 2006. The steady increase in investors' demand for spot gold, the consumers' demand for ornament, the rise in energy prices and the depreciation risk of US dollars, will bring more development opportunities for the Group.

According to the Group's business strategy, the Group will continue to strengthen its leading position in the gold industry in the PRC in the second half of 2006. Using the gold production base in Xiaoqinling as its foundation and leveraging on its geographical advantage in its mid-west location, the Group will continue to expand its business. It will also focus on acquisition and integration of gold mines and thereby increasing the Group's gold reserve and resources. By using the proceeds from the initial public offering in January 2006, the Group will also work hard to maintain its capability to generate stable results and sustainable profits through further expansion of production capacity and gold volume by speeding up the geological exploration and construction of existing mines. One of the Group's gold mines, Kaqia Gold Mine, will commence production in the second half of 2006 for the production of compound gold. To ensure a sustainable development, the Group will strive to build up a high quality and highly efficient management and technician team through human resources strategy, technological innovation, training of technicians and expert introduction.

III. Financial Review

1. Combined Operating Results

Turnover

The following table sets out the Group's sales breakdown by products:

	For the six months ended 30 June					
	2006			2005		
	Amount	Sales volume	Unit price	Amount	Sales volume	Unit price
RMB'000	kg/tonne	RMB per kg/tonne	RMB'000	kg/tonne	RMB per kg/tonne	
Gold bullion	662,312	4,363 kg	151,802	507,813	4,440 kg	114,372
Compound gold	9,592	60 kg	159,867	47,923	420 kg	114,102
Silver	26,836	10,288 kg	2,608	29,387	16,815 kg	1,748
Copper products	231,319	4,980 tonnes	46,450	106,669	3,323 tonnes	32,100
Sulphuric acid	16,026	82,532 tonnes	194	19,405	70,139 tonnes	277
Lead concentrates	9,069	72 kg	125,958	14,267	125 kg	114,136
Turnover before sales tax	955,154			725,464		
Less: Sales tax	(3,317)			(1,779)		
	<u>951,837</u>			<u>723,685</u>		

The Group's turnover for the first half of 2006 was approximately RMB951,837,000, representing an approximate 31.5% increase compared with the corresponding period of the previous year. Such increase was principally attributable to the increase of approximately 30.4% in the sales of gold bullion, resulting from an increase of approximately 32.7% in our average selling price of gold bullion during the period.

The increase in turnover during the period was also due to the increase in the sale of copper product by approximately 116.9%, that is, from approximately RMB106,669,000 for the six months ended 30 June 2005 to approximately RMB231,319,000 for the six months ended 30 June 2006, of which the average price and sales volume of copper products increased by approximately 44.7% and 49.9% respectively compared to that of the same period in 2005.

Cost of sales

The Group's cost of sales for the six months ended 30 June 2006 was approximately RMB735,775,000, representing an increase of approximately 28.7% increase from approximately RMB571,585,000 for the same period of 2005. Such increase was mainly due to the increase of purchase cost as a result of increase of gold prices. The cost of raw materials increased by approximately 46.5% to RMB692,283,000.

Starting from 1 May 2006, resource of gold mine of the Company has been classified as grade two and the unit resource tax rate has been increased from RMB1.9 per tonne to RMB6.0 per tonne. The resource tax will not be levied on the reuse of tailing. The Duolanasayi Gold Mine and Tuokuzibayi Gold Mine, held by Habahe Huatai Gold Limited Liability Company, a subsidiary of the Company, are located in Xinjiang Province and the respective resource tax rate would be determined by the provincial government. For the six months ended 30 June 2006, the Group has paid resource tax in total of RMB977,000, an increase of 99.6% as compared with the corresponding period of 2005.

Gross profit and gross profit margin

The Group's gross profit and gross profit margin for the six months ended 30 June 2006 were approximately RMB216,062,000 and approximately 22.7% respectively, representing an increase of approximately 42.1% and 1.7% respectively as compared with the corresponding period of 2005.

Other revenue

The Group's other revenue for the six months ended 30 June 2006 was approximately RMB55,061,000, representing a substantial increase of RMB47,351,000 as compared with the corresponding period of the previous year. Such change was principally attributable to an increase in interest income from approximately RMB274,000 for the six months ended 30 June 2005 to approximately RMB48,994,000 for the six months ended 30 June 2006.

Other net loss

The Group's other net loss for the six months ended 30 June 2006 was approximately RMB9,813,000, representing an increase of RMB9,071,000 as compared with that of the same period in the previous year. Such increase of net loss was principally attributable to the foreign currency exchange loss of RMB9,155,000 associated with the initial public offering of the Company during the period.

Selling and distribution expenses

The Group's selling and distribution expenses for the six months ended 30 June 2006 was approximately RMB7,739,000, representing an increase of approximately 80.3% compared with that of the same period in the previous year. Such increase was principally attributable to the increase of transportation of byproducts of smelting segment. The transportation expense for the six months ended 30 June 2006 was approximately RMB5,657,000, representing an increase of approximately 136.8% from approximately RMB2,389,000 in the corresponding period of 2005.

Administrative expenses and other operating expenses

The Group's administrative expenses and other operating expenses for the six months ended 30 June 2006 was approximately RMB39,753,000, representing an approximate 34.1% increase from approximately RMB29,635,000 for the corresponding period of 2005. The increase was principally attributable to business development, including the expenses incurred by the new subsidiaries of Habahe Huatai Gold Limited Liability Company and Xinjiang Baoxin Mining Co, Ltd., leading to an increase of expense of approximately RMB6,345,000.

Finance costs

The Group's finance costs for the six months ended 30 June 2006 was approximately RMB10,966,000, representing an approximate 1.0% decrease from approximately RMB11,066,000 for the corresponding period of 2005. The average lending rate was down from approximately 5.58% in the six months ended 30 June 2005 to approximately 5.43% in the same period in 2006.

Income tax

The statutory income tax rate of the PRC is 33%. The Group's effective income tax rate (being total amount of income tax divided by the amount of profit before taxation) was approximately 34.3% for the six months ended 30 June 2006, representing a slight increase of approximately 0.2% from the effective income tax rate of 34.1% for the corresponding period of 2005.

Profit attributable to equity holders of the Company

The Group's profit attributable to our equity holders for the six months ended 30 June 2006 was approximately RMB134,132,000, representing an increase of approximately 77.9% from approximately RMB75,410,000 for the corresponding period of 2005. The net profit margin (being profit after taxation divided by turnover) for the six months ended 30 June 2006 was approximately 14.0%, representing an increase of approximately 3.6% from approximately 10.4% in the corresponding period of 2005. The Company's basic earnings per share was RMB0.18, and there is no recommendation for the payment of an interim dividend.

2. *Liquidity and capital resources*

The Group's primary sources of working capital and long-term funding needs have been cash flows from operation and financing activities. During the six months ended 30 June 2006, the Group's primary use of funds has been capital expenditures.

Net cash inflow/(outflow) from:

	For the six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Operating activities	78,840	(14,635)
Investing activities	(10,106)	(56,680)
Financing activities	897,157	115,329
Net cash inflow	<u>965,891</u>	<u>44,014</u>

Cash flows and working capital

The Group's cash and cash equivalents increased by approximately RMB965,891,000, that is, from approximately RMB117,861,000 as at 31 December 2005 to approximately RMB1,083,752,000 as at 30 June 2006. The increase in the cash and cash equivalents was primarily due to the cash outflow from investing activities being offset by cash inflow from operating and financing activities.

Net cash flows from operating activities

The Group's principal source of liquidity is cash generated from operating activities. Net cash inflow from operating activities increased from outflow of approximately RMB14,635,000 for the six months ended 30 June 2005 to inflow of approximately RMB78,840,000 for the six months ended 30 June 2006. This was mainly due to an increase of approximately 77.8% in profit before tax as a result of the increased selling price of our products.

Net cash flows from investing activities

The Group's net cash used in investing activities was primarily affected by interest income, purchase of mining companies, property, plant and equipment and construction in progress. Net cash used in investing activities decreased by approximately 82.2%, that is, from approximately RMB56,680,000 for the six months ended 30 June 2005 to approximately RMB10,106,000 for the six months ended 30 June 2006. This was mainly due to the increase in interest received to approximately RMB48,994,000 in the first half of 2006, thus offsetting the cash paid for the acquisition of a subsidiary and purchase of intangible assets, assets under construction and property, plant and equipments.

Net cash flows from financing activities

The Group's net cash flows from financing activities was primarily affected by the issuance of new shares in the period. Cash inflow from financing activities increased substantially from approximately RMB115,329,000 for the six months ended 30 June 2005 to approximately RMB897,157,000 for the same period in 2006. This was mainly due to the net proceeds of approximately RMB865,379,000 from the initial public offer in January 2006.

3. Borrowings

As at 30 June 2006, the Group had a total outstanding bank loans and other borrowings of approximately RMB448,270,000, of which approximately RMB395,000,000 was repayable within one year, approximately RMB50,000,000 was repayable after one year but not exceeding two years while approximately RMB3,270,000 was repayable after five years. Bank loan of approximately RMB50,000,000 was secured. The gearing ratio as at 30 June 2006 was 20.5% which was calculated by total borrowings divided by total assets value.

4. Acquisition and disposal

On 30 June 2006, the Group completed the acquisition of 100% equity interests in Shangrao County Jintian Industrial Company Limited, a mining company which owns an exploration right in Jiangxi Province, at a cash consideration of RMB7,120,000. On the same date, the Group has further injected capital of RMB37,500,000 to the company.

Except for the above, there were no material acquisitions and disposals for the Company and its subsidiaries for the six months ended 30 June 2006.

On 2 August 2006, the Group entered into an agreement to acquire 80% equity interests in Chi Feng City Zheng Ji Mining Limited Company, a mining company which owns an exploration right in Inner Mongolia Autonomous Region, at a cash consideration of RMB68,640,000. According to a valuation report issued by an independent certified mining rights valuer, approximately 16.8 tonnes of gold resource was identified in the area covered by the exploration right. The Group's geographical area of operation was thus expanded to Inner Mongolia Autonomous Region. For further details of this acquisition, please refer to the announcement of the Company dated 2 August 2006.

5. Market risks

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

Gold price and other commodities price risk

The Group's turnover and profit during the period are affected by fluctuations in the gold prices and other commodities price as all of our turnover and profit are generated within the PRC. We do not enter into commodity derivative instruments or futures to hedge any potential price fluctuations of gold and other commodities or for trading purposes. Therefore, fluctuations in the prices of gold and other commodities may have a significant effect on the Group's turnover and profit.

Interest rate

The Group is exposed to risks resulting from fluctuations in interest rates on our debt. The Group undertakes debt obligations for supporting general corporate purposes, including capital expenditure and working capital needs. 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 interest rates, our finance cost will be increased. 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 all denominated in Renminbi. Fluctuations in exchange rates may affect the international and domestic gold price, which may impact our results of operation. The PRC government may take further actions and implement new measures on free trade of Renminbi. 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 30 June 2006, capital commitments, including the construction costs not provided for in the interim financial report, were approximately RMB269,836,000, representing a decrease of approximately RMB12,806,000 from approximately RMB282,642,000 as at 31 December 2005.

7. Capital expenditures

Capital expenditures during the period was approximately RMB58,540,000, including a net capital expenditure of approximately RMB6,697,000 paid for the acquisition of a new subsidiary, capital expenditure of approximately RMB48,989,000 in relation to the acquisition of fixed assets and the construction of production equipment and approximately RMB2,854,000 for the purchase of intangible assets.

8. *Contingent liabilities*

As at 30 June 2006, the Group had no material contingent liabilities.

9. *Human resources*

As at 30 June 2006, the average number of employees of the Group was 2599. Being one of the largest integrated gold producing companies based in PRC, the Company highly treasures its human resources and offers competitive remuneration to employees and provides employees with training programs. In the first half of 2006, the Group has paid out cash bonus to most employees of the Group in recognition of their performance in 2005.

CORPORATE GOVERNANCE

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

Mr. Xu Gaoming is the Chairman and Chief Executive Officer of the Company and has considerable industry experience. Thus, there is a deviation from the Code Provision A.2.1. The board of directors of the Company (“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 to 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. 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 has been appointed to fill a casual vacancy of the Board be subject to 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 in the next general meeting, were not adopted. Details of corporate governance practices adopted by the Company is set out in 2005 annual report of the Company. The Audit Committee of the Company held a meeting on 25 August 2006 and reviewed the Group’s 2006 interim result for the period end of 30 June 2006.

CONTINUING CONNECTED TRANSACTIONS

靈寶市電業總公司 (Lingbao Electric Company) (“Lingbao Electric”) supplies electricity to the Group

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. Three of such contracts were entered into on 20 November 2005, two on 10 February 2005, one on 10 August 2005 and the remaining one on 1 September 2005. The electricity supply contracts are valid for a period of three years. Under these electricity supply contracts, upon the 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.

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 announcement. 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 period ended 30 June 2006, the electricity fee paid by the Group to Lingbao Electric amounted to approximately RMB23,798,000. It is estimated that the annual electricity fee payable by the Group to Lingbao Electric for the two financial years ending 31 December 2006 and 2007 will not exceed RMB63,700,000 and RMB67,600,000 respectively.

The Stock Exchange has granted a waiver to these continuing connected transactions from strict compliance with the announcement and independent shareholders' approval requirements pursuant to Rule 14A.42(3) of the Listing Rules.

Conditional waivers

In compliance with the Listing Rules and the conditions of the waivers granted to the Company by the Stock Exchange from strict compliance with the requirements as stipulated in Chapter 14A of the Listing Rules in connection with the foregoing continuing connected transactions with Lingbao Electric, the Directors including the independent non-executive Directors of the Company have reviewed and confirmed that each of the foregoing continuing connected transactions with Lingbao Electric was entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) either on normal commercial terms or, where there are not 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 appropriate) independent third parties; and
- (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and

The audit committee of the Company had also confirmed to the Board that the continuing connected transactions:

- (a) had received the approval of the boards of directors of the relevant companies;
- (b) had been entered into in accordance with the relevant agreement governing the transactions; and
- (c) had not exceeded the caps as stated above.

STRUCTURE OF SHARE CAPITAL

After the listing of the Company's H shares on the Stock Exchange in January 2006 and as at the date of this announcement, there were 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	<u>770,249,091</u>	<u>100.00</u>

PURCHASE, REPURCHASE OR SALES OF SHARES OF THE COMPANY

Apart from the initial public offering on 12 January 2006 as mentioned above, there were no purchases, sales or redemptions of the Company's securities by the Company or any of its subsidiaries during the period under review.

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, being the jurisdiction in which the Company was incorporated, which would oblige the Company to issue new shares on pro-rata basis to the existing shareholders of the Company.

PROCEEDS FROM GLOBAL OFFERING

The total amount raised by the issue of H shares of the Company in January 2006 was approximately RMB865,379,000.

As at 30 June 2006, the Group did not use any proceeds.

In August 2006, the acquisition of 80% equity interests in Chi Feng City Zheng Ji Mining Limited Company in consideration of RMB68,640,000 was funded by the net proceeds.

DIVIDENDS

At the board meeting held on 28 August 2006, the Directors did not propose the payment of an interim dividend for the six months ended 30 June 2006.

By order of the Board
Lingbao Gold Company Ltd.
Xu Gaoming
Chairman

Henan, the PRC, 28 August 2006

*As at the date of this announcement, the directors of the Company are:
Executive Directors: Xu Gaoming, Wang Jianguo, Lu Xiaozhao and Jin Guangcai;
Non-Executive Directors: Xu Wanmin, Di Qinghua and Qi Guozhong; and
Independent Non-Executive Directors: Ning Jincheng, Wang Yanwu, Niu Zhongjie and Zheng Jinqiao.*

"Please also refer to the published version of this announcement in the South China Morning Post"