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Lingbao Gold Group Company Ltd.

靈寶黃金集團股份有限公司

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

(Stock Code: 3330)

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2021**

The board of directors (the “**Board**”) of Lingbao Gold Group Company Ltd. (the “**Company**”) hereby announces the unaudited interim results of the Company and its subsidiaries (collectively referred to as the “**Group**”, “**we**” or “**our**”) for the six months ended 30 June 2021. The interim financial results have been reviewed by the Company’s Audit Committee. In addition, the Group’s external auditors have reviewed the interim financial report in accordance with the Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS — UNAUDITED

For the six months ended 30 June 2021

(Expressed in Renminbi Yuan)

		Six months ended 30 June 2021	Six months ended 30 June 2020
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	4	2,214,430	2,564,879
Cost of sales		<u>(1,989,037)</u>	<u>(2,330,833)</u>
Gross profit		225,393	234,046
Other revenue		23,412	27,334
Other net loss	5(b)	(10,346)	(3,069)
Selling and distribution expenses		(4,241)	(5,591)
Administrative expenses and other operating expenses		<u>(134,562)</u>	<u>(139,221)</u>
Profit from operations		99,656	113,499
Finance costs	5(a)	(37,830)	(61,962)
Share of profits of associates		<u>4,284</u>	<u>—</u>
Profit before taxation	5	66,110	51,537
Income tax	6	<u>(25,236)</u>	<u>(31,575)</u>
Profit for the period		<u>40,874</u>	<u>19,962</u>
Attributable to:			
Equity shareholders of the Company		<u>51,590</u>	<u>28,217</u>
Non-controlling interests		<u>(10,716)</u>	<u>(8,255)</u>
Profit for the period		<u>40,874</u>	<u>19,962</u>
Basic and diluted earnings per share (RMB cents)	7	<u>6.0</u>	<u>3.3</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME — UNAUDITED**

For the six months ended 30 June 2021

(Expressed in Renminbi Yuan)

	Six months ended 30 June 2021 <i>RMB'000</i>	Six months ended 30 June 2020 <i>RMB'000</i>
Profit for the period	40,874	19,962
Other comprehensive income for the period (after tax and reclassification adjustments)		
Item that may be reclassified subsequently to profit or loss: Exchange differences on translation of financial statements of overseas subsidiaries	<u>8,431</u>	<u>(11,568)</u>
Total comprehensive income for the period	<u>49,305</u>	<u>8,394</u>
Attributable to:		
Equity shareholders of the Company	58,428	18,878
Non-controlling interests	<u>(9,123)</u>	<u>(10,484)</u>
Total comprehensive income for the period	<u>49,305</u>	<u>8,394</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION — UNAUDITED

At 30 June 2021

(Expressed in Renminbi Yuan)

		At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
	Note		
Non-current assets			
Property, plant and equipment	9	1,336,540	1,363,827
Construction in progress	9	794,441	570,953
Intangible assets	10	689,411	669,732
Goodwill		4,717	4,717
Right-of-use assets		120,666	128,511
Interest in associates		26,816	22,531
Other financial assets		4,520	4,520
Investment deposits		9,400	9,400
Non-current prepayments		10,867	13,044
Deferred tax assets		341,195	334,128
Other non-current assets		8,000	8,000
		3,346,573	3,129,363
Current assets			
Inventories	11	1,384,852	1,779,200
Trade and other receivables	12	186,047	162,705
Current tax recoverable		6,762	7,279
Pledged deposits		1,462,487	1,394,329
Fixed deposits held at banks with maturity over three months		—	99,105
Cash and cash equivalents		125,889	132,709
		3,166,037	3,575,327

CONSOLIDATED STATEMENT OF FINANCIAL POSITION — UNAUDITED
(Continued)

At 30 June 2021

(Expressed in Renminbi Yuan)

		At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
	<i>Note</i>		
Current liabilities			
Bank and other borrowings	13	3,368,169	3,760,615
Trade and other payables	14	1,107,893	1,073,211
Contract liabilities		2,966	2,778
Lease liabilities		3,600	1,895
Current tax payable		80,326	59,964
		<u>4,562,954</u>	<u>4,898,463</u>
Net current liabilities		<u>(1,396,917)</u>	<u>(1,323,136)</u>
Total assets less current liabilities		<u>1,949,656</u>	<u>1,806,227</u>
Non-current liabilities			
Other payables	14	281,018	181,696
Lease liabilities		2,816	7,629
Deferred tax liabilities		5,496	5,881
		<u>289,330</u>	<u>195,206</u>
NET ASSETS		<u>1,660,326</u>	<u>1,611,021</u>
CAPITAL AND RESERVES			
Share capital		172,850	172,850
Reserves		1,668,726	1,610,298
Total equity attributable to equity shareholders of the Company		<u>1,841,576</u>	<u>1,783,148</u>
Non-controlling interests		<u>(181,250)</u>	<u>(172,127)</u>
TOTAL EQUITY		<u>1,660,326</u>	<u>1,611,021</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1 BASIS OF PREPARATION

This 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). It was authorised for issue on 16 August 2021.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of Lingbao Gold Group Company Ltd. (the “Company”) and its subsidiaries (together “the Group”) since the 2020 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

As at 30 June 2021, the Group had net current liabilities of RMB1,397 million, total borrowings of RMB3,368 million and capital commitments of RMB369 million. In view of these circumstances, the Directors of the Company have given consideration to the future liquidity of the Group and its available sources of finance including banking facilities in assessing whether the Group will have sufficient financial resources to continue as a going concern. Having considered the Group’s cash flow projection as at 30 June 2021, the Group’s unutilised banking facilities of RMB1,603 million, of which RMB474 million were directly related to bank loans facilities, the ability to obtain new banking and other financing facilities, the ability to renew or refinance the banking facilities upon maturity, the ability to adjust the scheduled capital commitments and the continuing efforts taken to improve operation efficiency, the Directors of the Company consider that the Group has sufficient working capital to meet in full its financial obligations as they fall due for at least the next twelve months from the end of the reporting period and there are no material uncertainties related to events or conditions which, individually or collectively, may cast significant doubt on the Group’s ability to continue as a going concern. Should the Group not be able to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA.

2 CHANGE IN ACCOUNTING POLICIES

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report.

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

3 SEGMENT REPORTING

The Group manages its businesses by divisions, which are organized by a mixture of business lines (production processes, products and services) and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified three reportable segments for the six months ended 30 June 2021 (2020: three reportable segments). Operating segments with similar nature of the production process, products and services have been aggregated to form the following reportable segments.

Mining — PRC	— Gold mining and mineral ores processing operations in the PRC.
Mining — KR	— Gold mining and mineral ores processing operations in the Kyrgyz Republic ("KR").
Smelting	— Gold and other metal smelting and refinery operations carried out in the PRC.

3 SEGMENT REPORTING (Continued)

(a) Segment results, assets and liabilities

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the periods is set out below.

	Mining — PRC		Mining — KR		Smelting		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
	RMB'000							
For the six months ended								
30 June								
Revenue from external customers	48,072	—	—	28,053	2,169,557	2,537,205	2,217,629	2,565,258
Inter-segment revenue	517,154	300,831	—	23,567	—	—	517,154	324,398
Sales taxes and levies	(2,555)	(118)	—	—	(644)	(261)	(3,199)	(379)
Reportable segment revenue	562,671	300,713	—	51,620	2,168,913	2,536,944	2,731,584	2,889,277
Reportable segment profit/ (loss)	192,955	98,580	(44,710)	(35,692)	(26,152)	67,271	122,093	130,159
(Provision)/reversal of impairment on:								
— trade and other receivables	(1,600)	—	—	—	—	—	(1,600)	—
— purchase deposits	—	—	—	—	20	317	20	317
As at 30 June/31 December								
Reportable segment assets	3,114,148	2,553,252	523,479	526,316	2,998,355	2,746,091	6,635,982	5,825,659
Reportable segment liabilities	2,235,987	1,761,491	1,440,387	1,400,882	2,315,696	2,021,593	5,992,070	5,183,966

3 SEGMENT REPORTING (Continued)

(b) Reconciliations of reportable segment revenues, profit or loss

	Six months ended 30 June 2021 <i>RMB'000</i>	Six months ended 30 June 2020 <i>RMB'000</i>
Revenue		
Reportable segment revenue	2,731,584	2,889,277
Elimination of inter-segment revenue	<u>(517,154)</u>	<u>(324,398)</u>
Consolidated revenue	<u><u>2,214,430</u></u>	<u><u>2,564,879</u></u>
Profit or loss		
Reportable segment profit	122,093	130,159
Elimination of inter-segment profit	<u>13,896</u>	<u>5,106</u>
Reportable segment profit derived from the Group's external customers	135,989	135,265
Share of profits of associates	4,284	—
Other net loss	(10,346)	(3,069)
Finance costs	(37,830)	(61,962)
Unallocated head office and corporate expenses	<u>(25,987)</u>	<u>(18,697)</u>
Consolidated profit before taxation	66,110	51,537
Income tax	<u>(25,236)</u>	<u>(31,575)</u>
Profit for the period	<u><u>40,874</u></u>	<u><u>19,962</u></u>

4 REVENUE

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

Revenue represents the sales value of goods sold to customers, net of sales tax and value added tax.

Disaggregation of Revenue

Disaggregation of revenue from contracts with customers by major products lines is as follow:

	Six months ended 30 June 2021 RMB'000	Six months ended 30 June 2020 RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products lines		
— Sales of gold	2,067,842	2,479,636
— Sales of other metals	142,426	85,602
— Others	7,360	20
Less: Sales taxes and levies	(3,198)	(379)
	<u>2,214,430</u>	<u>2,564,879</u>

All revenue was recognised at a point in time under HKFRS 15.

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June 2021 <i>RMB'000</i>	Six months ended 30 June 2020 <i>RMB'000</i>
(a) Finance costs:		
Interest expenses on bank loans	32,047	40,465
Interest expenses on lease liabilities	241	237
Other borrowing costs	5,542	21,260
	<u>37,830</u>	<u>61,962</u>
(b) Other net loss:		
Net realised and unrealised (gain)/loss on financial instruments at fair value	(2,763)	12,664
Net foreign exchange loss/(gain)	4,418	(8,759)
Provision for legal claims	8,165	118
Others	526	(954)
	<u>10,346</u>	<u>3,069</u>
(c) Other items:		
Depreciation of right-of-use assets	3,041	2,403
Amortisation of intangible assets	13,288	5,962
Depreciation of property, plant and equipment	106,011	60,627
Less: Depreciation capitalised into construction in progress	(232)	(256)
	<u>105,779</u>	<u>60,371</u>
Provision/(reversal) of impairment losses on:		
— trade and other receivables	1,600	—
— investment deposits	841	—
— purchase deposits	(20)	(317)
Government grants	6,669	1,112
Bank interest income	9,303	16,243

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Taxation in the consolidated statement of profit or loss represents:

	Six months ended 30 June 2021 <i>RMB'000</i>	Six months ended 30 June 2020 <i>RMB'000</i>
Current tax — PRC income tax		
Provision for the period	32,893	32,149
Over-provision in respect of prior years	(205)	(4,768)
Deferred taxation	(7,452)	4,194
	<u>25,236</u>	<u>31,575</u>

- (a) Under the Corporate Income Tax Law of the PRC (the “CIT Law”), which was passed by the Fifth Plenary Session of the Tenth National People’s Congress, effective from 1 January 2008, the Company and its PRC subsidiaries are subject to income tax at the statutory rate of 25%, unless otherwise specified.
- (b) Hong Kong profits tax rate for 2021 is 16.5% (2020: 16.5%). No provision for Hong Kong profits tax is made as the subsidiary located in Hong Kong did not earn any income which is subject to Hong Kong profits tax.
- (c) Kyrgyzstan corporate income tax rate (“KR CIT”) in 2021 is 0% (2020: 0%).

On 9 August 2012, the Parliament of Kyrgyz Republic passed the law on amendments and additions to the Tax Code of the Kyrgyz Republic (“Amended Tax Code”) which became effective from 1 January 2013. In accordance with the Amended Tax Code, starting from 1 January 2013 the KR CIT rate for gold mining companies is set at 0% and a revenue-based tax is introduced.

7 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the six-month period ended 30 June 2021 is based on the earnings attributable to equity shareholders of the Company of RMB51,590,000 (six-month period ended 30 June 2020: RMB28,217,000) and 864,249,091 ordinary shares in issue during the six-month period ended 30 June 2021 (six-month period ended 30 June 2020: 864,249,091 ordinary shares).

(b) Diluted earnings per share

The diluted earnings per share for the six-month period ended 30 June 2021 and 2020 are the same as the basic earnings per share as there are no dilutive potential ordinary shares during the periods.

8 DIVIDEND

(i) Dividends payable to equity shareholders attributable to the interim period

The Directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: RMB Nil).

(ii) Dividends payable to equity shareholders attributable to the previous financial year, approved during the interim period

No final dividend in respect of the previous financial year has been approved during the interim period (six months ended 30 June 2020: RMB Nil).

9 PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION IN PROGRESS

Acquisitions and disposals of owned assets

During the six months ended 30 June 2021, acquisitions of property, plant and equipment and additions of construction in progress of the Group amounted to RMB30,381,000 (six months ended 30 June 2020: RMB40,409,000) and RMB274,374,000 (six months ended 30 June 2020: RMB81,883,000), respectively. Items of property, plant and equipment and construction in progress with an aggregate net book value of RMB683,000 were disposed of during the six months ended 30 June 2021 (six months ended 30 June 2020: RMB3,766,000), resulting in a loss on disposal of RMB573,000 (six months ended 30 June 2020: gain on disposal of RMB204,000).

10 INTANGIBLE ASSETS

Acquisitions and disposals

During the six months ended 30 June 2021, additions of exploration and evaluation assets and mining rights made by the Group amounted to Nil and RMB38,614,000 respectively (six months ended 30 June 2020: RMB1,341,000 and Nil respectively). No intangible asset was disposed of during the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

11 INVENTORIES

	At 30 June 2021 <i>RMB'000</i>	At 31 December 2020 <i>RMB'000</i>
Raw materials	709,819	1,171,889
Work in progress	142,055	129,645
Finished goods	431,205	388,853
Spare parts and materials	101,773	88,813
	<u>1,384,852</u>	<u>1,779,200</u>

11 INVENTORIES (Continued)

The analysis of the amount of inventories recognised as an expense and included in profit and loss is as follows:

	Six months ended 30 June 2021 <i>RMB'000</i>	Six months ended 30 June 2020 <i>RMB'000</i>
Carrying amount of inventories sold	1,966,407	2,322,786
Write down of inventories	<u>22,630</u>	<u>8,047</u>
	<u><u>1,989,037</u></u>	<u><u>2,330,833</u></u>

12 TRADE AND OTHER RECEIVABLES, DEPOSITS

As of the end of the reporting period, the ageing analysis of trade debtors and bills receivable (which are included in trade and other receivables), based on the invoice date and net of loss allowance, is as follows:

	<i>Note</i>	At 30 June 2021 <i>RMB'000</i>	At 31 December 2020 <i>RMB'000</i>
Within 3 months		37,719	21,324
Over 3 months but within 1 year		<u>1,299</u>	<u>—</u>
Trade debtors and bills receivable, net of loss allowance	(a)	39,018	21,324
Other receivables, net of loss allowance		56,803	77,955
Amounts due from related parties		<u>165</u>	<u>—</u>
Financial assets measured at amortised cost		95,986	99,279
Deposits and prepayments		78,894	49,277
Purchase deposits, net of allowance for non-delivery	(b)	<u>11,167</u>	<u>14,149</u>
		<u><u>186,047</u></u>	<u><u>162,705</u></u>

12 TRADE AND OTHER RECEIVABLES, DEPOSITS (Continued)

Transfers of financial assets

(i) *Transferred financial assets that are not derecognised in their entirety*

As at 30 June 2021, the Group endorsed certain bank acceptance bills with a carrying amount of RMB3,052,000 (31 December 2020: Nil) to suppliers for settling trade payables of the same amount on a full recourse basis. As the Group has not transferred the substantial risks and rewards relating to these bank acceptance bills, the Group's management determined not to derecognise the carrying amounts of these bills receivable and the associated trade payables settled.

(ii) *Transferred financial assets that are derecognised in their entirety*

As at 30 June 2021, the Group's maximum exposure to loss and undiscounted cash outflow, which is same as the amount payable by the Group to banks or suppliers in respect of the endorsed bills, should the issuing banks fail to settle the bills on maturity date, amounted to RMB1,259,000 (31 December 2020: RMB150,000).

Notes:

- (a) For sales of gold, the Group requests customers to pay cash in full immediately upon the delivery. For sales of other metallic products, trade and bills receivables are due within 30 days to 180 days from the date of billing.
- (b) 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.

13 BANK AND OTHER BORROWINGS

The analysis of the carrying amount of bank and other borrowings is as follows:

	At 30 June 2021 <i>RMB'000</i>	At 31 December 2020 <i>RMB'000</i>
Short-term bank and other borrowings:		
— Bank and other borrowings	3,323,917	3,380,866
— Add: Current portion of long-term bank and other borrowings	44,252	379,749
	<u>3,368,169</u>	<u>3,760,615</u>
Long-term bank and other borrowings:		
— Bank and other borrowings	44,252	379,749
— Less: Current portion of long-term bank and other borrowings	(44,252)	(379,749)
	<u>—</u>	<u>—</u>
	<u>3,368,169</u>	<u>3,760,615</u>

13 BANK AND OTHER BORROWINGS (Continued)

At 30 June 2021, the bank and other borrowings were repayable as follows:

	At 30 June 2021 <i>RMB'000</i>	At 31 December 2020 <i>RMB'000</i>
Within one year or on demand	<u>3,368,169</u>	<u>3,760,615</u>

At 30 June 2021, the bank and other borrowings were secured as follows:

	At 30 June 2021 <i>RMB'000</i>	At 31 December 2020 <i>RMB'000</i>
Bank and other borrowings		
— Guaranteed	50,000	410,177
— Secured	40,000	—
— Unsecured	<u>3,278,169</u>	<u>3,350,438</u>
	<u>3,368,169</u>	<u>3,760,615</u>

At 30 June 2021, bank and other borrowings of a subsidiary, named Shenzhen Jinda Gold Company Limited (“**Shenzhen Jinda**”), amounting to RMB40,000,000 were secured by its building with carrying amount of RMB69,375,000 (31 December 2020: Nil), and guaranteed by the Company.

At 30 June 2021, bank and other borrowings of the Company amounting to RMB50,000,000 were guaranteed by a subsidiary named Habahe Huatai Gold Company Limited (“**Habahe Huatai**”).

At 31 December 2020, bank and other borrowings of the Group amounting to RMB326,245,000 and USD12,863,000 (RMB equivalent: 83,932,000) were guaranteed by Lingbao State-owned Assets and D&R Asset Management Group Company Limited, respectively.

Certain of the Group’s bank loan agreements were subject to the fulfilment of covenants imposing certain specific performance requirements on the Group. If the Group were to breach the covenants, bank loans drawn down would become payable on demand. As at 30 June 2021, certain covenants of a bank loan agreement were breached by its subsidiary named Full Gold Mining Limited Liability Company (“**Full Gold**”), of which no waiver letter had been obtained as at 30 June 2021. Accordingly, the outstanding balance of this bank loan amounting to USD6,850,000 (RMB equivalent: 44,252,000) was recorded as current liabilities as at 30 June 2021.

14 TRADE AND OTHER PAYABLES

As of the end of the reporting period, the ageing analysis of trade creditors and bills payable (which are included in trade and other payables), based on the invoice date, is as follows:

	<i>Note</i>	At 30 June 2021 <i>RMB'000</i>	At 31 December 2020 <i>RMB'000</i>
Current trade and other payables			
Within 3 months		294,711	544,643
Over 3 months but within 6 months		132,993	20,784
Over 6 months but within 1 year		7,898	3,968
Over 1 year but within 2 years		4,604	5,177
Over 2 years		8,092	8,157
		<hr/>	<hr/>
Total trade creditors		448,298	582,729
		<hr/>	<hr/>
Bills payable		48,550	21,008
Other payables and accruals		443,159	322,004
		<hr/>	<hr/>
Total creditors and bills payable		940,007	925,741
		<hr/>	<hr/>
Interest payables		629	1,084
Payable for mining rights		83,469	79,440
Deferred income	<i>(a)</i>	78,419	62,136
Payable to non-controlling interests	<i>(b)</i>	52	52
Amount due to related parties		559	—
Dividend payable		4,758	4,758
		<hr/>	<hr/>
Financial liabilities measured at amortised cost		1,107,893	1,073,211
		<hr/>	<hr/>
Non-current other payables			
Decommissioning costs	<i>(c)</i>	81,878	94,224
Deferred income	<i>(a)</i>	68,140	87,472
Payable for long-term assets	<i>(d)</i>	131,000	—
		<hr/>	<hr/>
		281,018	181,696
		<hr/>	<hr/>

14 TRADE AND OTHER PAYABLES (Continued)

Notes:

- (a) Deferred income represents grants received from the government for the exploration of mines and construction of mining related assets. When certain conditions are met, the government grants are recognised as income over the periods necessarily to match them with the related costs of assets constructed which they are intended to compensate over the periods and in the proportion in which depreciation on those assets is charged.
- (b) Payable to non-controlling interests is unsecured, interest-free and repayable on demand.
- (c) The decommissioning costs relate to reclamation and closure costs relating to the Group's mine operations. The decommissioning costs are calculated as the net present value of estimated future net cash flows of the reclamation and closure costs, discounted at 4.9%, which amounted to RMB81,878,000 (31 December 2020: RMB94,224,000) in total as at 30 June 2021.
- (d) Payable for long-term assets represents non-current payables in respect of procurement of property, plant and equipment, construction in progress and mining right.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Business and Prospect

In the first half of 2021, the Group produced approximately 5,469 kg (equivalent to approximately 175,829 ounces) of gold bullion, representing a decrease of approximately 1,374 kg (equivalent to approximately 44,173 ounces) as compared with the corresponding period of the previous year. The decrease in the production volume of gold bullion was primarily due to the decrease in the production volume of gold bullion processed from compound gold purchased from external suppliers (the gross profit margin of which is relatively lower) in the smelting segment of the Group. Such decrease was also due to the carrying out of road maintenance works in the vicinity of the smelting plant for nearly 2 months commencing from early March 2021, affecting the transportation and normal operation of the smelting plant. The Group also took this opportunity to conduct routine maintenance. For the six months ended 30 June 2021 (the “Current Period”), the Group’s revenue decreased by approximately 13.7% to approximately RMB2,214,430,000 as compared with that of the corresponding period of the previous year, due to the decrease in the production volume of gold bullion, coupled with the downward oscillation of international gold prices since the beginning of 2021. Despite lower revenue, the Group’s profit increased as compared with that of the corresponding period of the previous year. The net profit of the Group for the Current Period was approximately RMB40,874,000 (six months ended 30 June 2020: net profit of RMB19,962,000). The basic earnings per share of the Company for the Current Period was RMB0.06 (six months ended 30 June 2020: RMB0.03). The Group’s favourable results were mainly due to continued optimisation of the mine production system and enhancement of production capacity of the mining segment. Besides, the Group continued to improve its internal control system and organised production in a scientific and orderly manner, demonstrating sound growth momentum in the production and operation of the Group. Meanwhile, the market price of copper products increased, contributing to an improvement in the overall gross profit margin. On the other hand, the finance costs for the Current Period was RMB37,830,000, representing a decrease of RMB24,132,000 as compared with the finance costs of RMB61,962,000 for the corresponding period of the previous year, mainly due to a decrease in the loan base, which led to the increase in the profit of the Group.

The Group’s mineral resources are mainly scattered in the regions of Henan, Xinjiang, Inner Mongolia, Jiangxi and Gansu of the People’s Republic of China (the “PRC”) and Kyrgyz Republic (“KR”) with 31 mining and exploration rights as at 30 June 2021, covering 248.82 square kilometers. The total gold reserves and resources as at 30 June 2021 were approximately 119.49 tonnes (3,841,604 ounces).

1. Mining Segment

Revenue 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 plant as intra-group sales.

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			
		2021		2020	
	Unit	<i>Approximate production volume</i>	<i>Approximate sales volume</i>	<i>Approximate production volume</i>	<i>Approximate sales volume</i>
Gold concentrates (contained gold)	kg	1,029	1,117	582	493
Compound gold	kg	447	465	546	532
Total	kg	1,476	1,582	1,128	1,025
Total	Ounce	47,453	50,861	36,265	32,954

The Group's total revenue from the mining segment for the Current Period was approximately RMB562,671,000, representing an increase of approximately 59.7% from approximately RMB352,333,000 for the corresponding period in 2020. During the Current Period, Full Gold, a subsidiary in KR, was actively engaged in restructuring in accordance with the resumption plan, such as acquisition of new equipment and refurbishment due to damages caused by a fire broke out in October 2020. With the efforts of the management of the Group, Full Gold in KR resumed normal operation on 15 August 2021. Therefore, the revenue from the mining segment during the Current Period was all derived from revenue from Mining — PRC (six months ended 30 June 2020: RMB300,713,000), while revenue from Mining — KR was nil (six months ended 30 June 2020: RMB51,620,000). During the Current Period, the turnover in Henan, Xinjiang, Inner Mongolia and KR represented approximately 66%, 31%, 3% and 0% of the total turnover from the mining segment, respectively. The production of compound gold in mining segment decreased by approximately 99 kg to approximately 447 kg, while the production of gold concentrates increased by approximately 447 kg to approximately 1,029 kg.

Segment results

The Group's total profit of the mining segment for the Current Period was approximately RMB148,245,000, representing an increase of approximately 135.7% as compared with the total profit of approximately RMB62,888,000 for the corresponding period in 2020, among which, the profit from Mining — PRC was approximately RMB192,955,000 (six months ended 30 June 2020: RMB98,580,000), and the loss from Mining — KR was approximately RMB44,710,000 (six months ended 30 June 2020: RMB35,692,000). The segment result to segment revenue ratio of the Group's mining segment for the Current Period was approximately 26.3%, compared with approximately 17.8% in the corresponding period in 2020.

During the Current Period, the profit of the Mining — PRC segment increased by approximately 95.7% as compared with that in the corresponding period in 2020, mainly benefiting from the continued improvement on the operations in the mining segment.

Based on the above, there was an improvement in the mining and mineral separation efficiency of the Group's mining segment as compared with that of the corresponding period in 2020, and the profit of the mining segment increased by approximately 135.7% as compared with that of the corresponding period in 2020.

2. Smelting Segment

The Group's existing melting plant is situated in Henan Province, and is capable of processing gold, silver, copper products and sulphuric acid. 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:

	Unit	For the six months ended 30 June			
		2021		2020	
		<i>Approximate production volume</i>	<i>Approximate sales volume</i>	<i>Approximate production volume</i>	<i>Approximate sales volume</i>
Gold bullion (processed from gold concentrates)	kg	4,279	4,265	4,852	4,556
	ounce	137,570	137,120	155,992	146,475
Gold bullion (processed from compound gold purchased externally)	kg	1,190	1,082	1,991	1,991
	ounce	38,259	34,786	64,010	64,010
Silver	kg	6,985	8,532	12,542	11,399
	ounce	224,568	274,304	403,225	366,478
Copper products	tonne	1,784	1,795	2,159	1,110
Sulphuric acid	tonne	43,109	43,542	47,328	42,306

Sales and production

The Group's total revenue from the smelting segment for the Current Period was approximately RMB2,168,913,000, representing a decrease of approximately 14.5% from approximately RMB2,536,944,000 for the corresponding period in 2020. During the Current Period, the decrease in total revenue of the smelting segment was mainly due to a decrease in the production of gold bullion processed from compound gold purchased from the external suppliers in the smelting segment during the Current Period given the low profitability of the business of gold bullion processed from compound gold purchased externally. Furthermore, the transportation and normal operation of the smelting plant were affected due to the carrying out of the road maintenance works in the vicinity of the smelting plant for nearly two months commencing from early March 2021. These two factors together resulted in the decrease in the production volume of gold bullion of 1,374 kg.

Segment results

The Group's total losses of the smelting segment for the Current Period was approximately RMB26,152,000, as compared with the profit of approximately RMB67,271,000 for the corresponding period in 2020.

Although the Group strictly implemented the cost-reduction and efficiency enhancement measures, the smelting segment recorded a loss for the Current Period, which was due to the temporary production suspension as a result of the carrying out of the aforesaid maintenance works, coupled with the downward oscillation of the international gold prices since the beginning of the 2021.

CONSOLIDATED OPERATING RESULTS

Revenue

The following table sets forth the analysis on the Group's sales by product category:

Product name	2021			2020		
	Amount (RMB'000)	Sales volume	Average unit price (RMB per kg/tonne)	Amount (RMB'000)	Sales volume	Average unit price (RMB per kg/tonne)
Gold bullion	2,018,570	5,347 kg	377,514	2,418,318	6,547 kg	369,378
Silver	40,637	8,532 kg	4,763	39,353	11,399 kg	3,452
Copper products	101,790	1,795 tonnes	56,707	46,249	1,110 tonnes	41,666
Sulphuric acid	7,560	43,542 tonnes	174	39	42,306 tonnes	0.9
Gold concentrates	42,682	136 kg	313,838	—	—	—
Others	6,389			61,299		
Revenue before tax	2,217,628			2,565,258		
Less: Sales taxes and levies	(3,198)			(379)		
	<u>2,214,430</u>			<u>2,564,879</u>		

The Group's revenue for the Current Period was approximately RMB2,214,430,000, representing a decrease of approximately 13.7% as compared with the corresponding period in 2020. The Group recorded a decline in the overall sales of gold bullion as a result of a decrease in the production volume of gold bullion in the smelting segment, and the downward oscillation of the international gold prices since the beginning of the 2021.

Gross profit and gross profit margin

The Group's gross profit and gross profit margin for the Current Period were RMB225,393,000 and 10.2%, respectively, and the gross profit and gross profit margin for the corresponding period of the previous year were RMB234,046,000 and 9.1%, respectively. The increase in the Group's overall gross profit margin was mainly due to an increase of production volume in the mining segment and an increase in the gross profit from the sale of copper products.

OUTLOOK AND PLANNING

Although it will continue to face challenges in such aspects as resource bottlenecks, technological innovation, security and environmental protection, market risk and fund management in the second half of 2021, the Group will further improve and expand its mining business, focus on and strengthen its smelting business, streamline its management process and improve quality and efficiency. Looking into the second half of 2021, the Group will mainly focus on the following aspects:

I. To strive for major breakthroughs by continuing to overcome challenges in resource exploration.

To strive for major breakthroughs, the ongoing mineral exploration shall be effectively safeguarded. The administration and license applications of the exploration areas shall be strengthened, while further efforts shall be made to promote the applications of new technologies and equipment. Furthermore, we shall be in an active position to carry out resource exploration projects.

II. To gradually improve the lean management standards by strengthening the management of production units.

Performance-based assessments shall play an effective role in leveraging and controlling production activities, while production activities at our branch offices and subsidiaries shall be efficiently organized and managed on site. Meanwhile, comprehensive investments in technologies shall be doubled down to facilitate an in-depth integration of information and digitalization with production operation and management system.

III. To continuously improve the quality and efficiency of operation by efficiently procuring raw materials and marketing products.

Firstly, all-out efforts are made to safeguard the procurement of raw materials. As a result, the purchase of high-sulfur ores shall be doubled down, while the management of ore blending shall be refined. Furthermore, the research and application of special carbon and arsenic ore sources shall be strengthened. To facilitate the collection of capital, we shall expedite the production output. Secondly, information sharing and communication, as well as data analysis, shall be strengthened, so that our products can be effectively marketed. Thirdly, the purchase of compound gold shall be carried out orderly.

IV. To strengthen our development momentum by fully promoting the key project development at our branches and subsidiaries.

V. To fortify safety and environmental protection defenses by establishing the red-line and bottom-line awareness.

Firstly, the safety and environmental protection accountability system, and accident investigation mechanism shall be improved. Secondly, the shaft operation policy governing supervised shift roster shall be strictly implemented. Thirdly, study and training programs focused on safety production and environmental protection shall be organized and operated. Fourthly, the development of the dual prevention system and information-based applications shall be advanced, while the three-year rectification campaign for production safety shall be advanced.

VI. To release the reform potential by steadily pushing forward with the reform of labor, personnel and salary system; to build a professional management team by enhancing the cadre team building.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group generally finances its operations with internally generated funds, bank loans and loans from other financial institutions. The cash and cash equivalents balances as at 30 June 2021 amounted to RMB125,889,000 (31 December 2020: RMB132,709,000).

The total equity attributable to the equity shareholders of the Company as at 30 June 2021 amounted to RMB1,841,576,000 (31 December 2020: RMB1,783,148,000). As at 30 June 2021, the Group had current assets of RMB3,166,037,000 (31 December 2020: RMB3,575,327,000) and current liabilities of RMB4,562,954,000 (31 December 2020: RMB4,898,463,000). The current ratio was 0.69% (31 December 2020: 0.73%).

As at 30 June 2021, the Group had total outstanding bank and other borrowings of approximately RMB3,368,169,000 (with interest rates ranging from 2.7% to 5.2% per annum). All loans shall be repayable within one year. The gearing ratio as at 30 June 2021 was 51.7% (31 December 2020: 56.1%), which was calculated by total borrowings divided by total assets.

As at 30 June 2021, the Group had unutilised bank facilities of approximately RMB1,603 million, of which RMB474 million were directly related to bank loans facilities. These facilities could be drawn down by the Group to finance its operation. Based on the past experience and the communication with banks, the Board believes that the Company has the ability to renew or secure banking facilities upon maturity.

In order to effectively lower the debt ratio and improve the financing ability of the Group, the Group has taken the following measures:

- 1) to increase the production volume of the gold bullion and generate cash flows from operating activities by strengthening internal management and optimizing cost reduction and efficiency enhancement measures, and increasing the output of gold bullion processed from gold concentrates;
- 2) to secure certain funding by enhancing the communication and promoting mutual trust between the Group and banks and other financial institutions as well as taking advantage of the government's relatively loose financing policies;
- 3) to increase supply chain financing by taking full advantage of the attribute of high liquidity of inventories in the gold mining industry; and
- 4) to increase liquidity and reduce short-term borrowings, the Group will arrange more secured long-term loan facilities at lower interest rates by the pledging of property, plant and equipment of the Group.

Security and Guarantee

At 30 June 2021, bank and other borrowings of a subsidiary, Shenzhen Jinda, amounting to RMB40,000,000 were secured by its building with carrying amount of RMB69,375,000 (31 December 2020: Nil), and guaranteed by the Company (31 December 2020: Nil).

At 30 June 2021, bank and other borrowings of the Company amounting to RMB50,000,000 were guaranteed by a subsidiary Habahe Huatai (31 December 2020: Nil).

Market Risks

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

Gold price and other commodities price risk

The Group's revenue and profit for the Current Period were affected by fluctuations in the gold prices and other commodities prices as all our products were sold at market prices and such fluctuations in prices were beyond our control. The Group does not use and strictly prohibits the use of commodity derivative instruments or futures for speculation purpose. All commodity derivative instruments are used to minimise the potential price fluctuation of gold and other commodities.

Interest rate risk

The Group is exposed to risks associated with the fluctuation in interest rates on our debt obligations. The Group undertakes debt obligations for general corporate purposes such as support of capital expenditure and working capital. The Group's bank loans bear interest rates that are subject to adjustment made by our lenders in accordance with changes of the relevant regulations of the People's Bank of China. If the People's Bank of China increases the interest rates, our finance costs increase accordingly. In addition, to the extent that we may need to raise our 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. As such, fluctuations in exchange rates may affect the international and domestic gold prices, and our operational results may be affected. Renminbi is not freely convertible and could fluctuate against a basket of currencies. The PRC government may take further actions and implement new measures on free trade of Renminbi.

In addition to the foregoing, the exchange rate risks to which the Group exposes are mainly from certain bank deposits, trade and other receivables, trade and other payables and bank loans, which are denominated in foreign currencies. The currency risk is primarily from United States dollars.

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

Contractual Obligations

As at 30 June 2021, the Group's total capital commitments in respect of the contracted construction costs and the authorised but not contracted construction costs which were not provided for in the financial statements were approximately RMB80,859,000 (31 December 2020: RMB79,351,000) and RMB287,818,000 (31 December 2020: RMB249,263,000), respectively, representing an increase of approximately RMB1,508,000 and approximately RMB38,555,000, respectively.

Capital Expenditure

For the Current Period, the Group's capital expenditure was approximately RMB343,369,000, representing an increase of approximately 177.8% from approximately RMB123,633,000 for the corresponding period in 2020.

The Group's capital expenditure mainly relates to the construction of mining shafts, expansion of project equipment and upgrading of production equipment.

Contingent Liabilities

As at 30 June 2021, the Group had no material contingent liabilities.

Human Resources

For the six months ended 30 June 2021, the average number of employees of the Group was 3,429. The Company highly treasures its human resources and provides its employees with competitive remuneration and training programs.

EVENTS AFTER THE REPORTING PERIOD

There were no material events occurred after the Current Period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

There was no purchase, sale or redemption of the Company's shares by the Company or any of its subsidiaries during the period ended 30 June 2021.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

CORPORATE GOVERNANCE

The Company is committed to maintaining a solid, transparent and sensible framework of corporate governance for the Company and its subsidiaries and will continue to review its effectiveness.

The Company has adopted the Code Provisions (the "Code Provisions") as stated in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as the corporate governance code of the Company. The Board is committed to complying with the Code Provisions as stated in the CG Code to the extent that the Directors consider it is applicable and practical to the Company.

During the Current Period, the Company has complied with the Code Provisions in the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as the Company’s code of conduct for securities transactions by the directors of the Company. Based on specific enquiry of the Company’s directors, the directors have complied with the required standard set out in the Model Code throughout the Current Period under review.

AUDIT COMMITTEE

The audit committee (“Audit Committee”) of the Company comprises four independent non-executive directors and one non-executive director, namely, Mr. Xu Rong, Mr. Wang Guanghua, Mr. Wang Jiheng, Mr. Tan Chong Huat and Mr. Zhang Feihu. An Audit Committee meeting was held on 16 August 2021 to review the unaudited interim financial report for the six months ended 30 June 2021. KPMG, the Group’s external auditor, has carried out a review of the interim financial report for the six months ended 30 June 2021 in accordance with the Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA.

PUBLICATION OF RESULTS ANNOUNCEMENT AND INTERIM REPORT

This results announcement has been published on the website of The Hong Kong Exchanges and Clearing Limited (the “HK Exchange”), www.hkexnews.hk, and the website of the Company, www.irasia.com/listco/hk/lingbao. The 2021 Interim Report will be despatched to shareholders in due course and published on the websites of HK Exchange and the Company.

By order of the Board
Lingbao Gold Group Company Ltd.
Zeng Xiangxin
Chairman

Lingbao City, Henan Province, the PRC
16 August 2021

As at the date of this announcement, the Board comprises five executive Directors, namely Mr. Zeng Xiangxin, Mr. Xing Jiangze, Mr. He Chengqun, Mr. Dai Weitao and Mr. Wu Liming; two non-executive directors, namely Mr. Zhang Feihu and Mr. Wang Guanran; and four independent non-executive directors, namely Mr. Wang Guanghua, Mr. Wang Jiheng, Mr. Xu Rong and Mr. Tan Chong Huat.