

# BUSINESS

## INTRODUCTION

The Group is a leading gold mining enterprise principally engaged in the exploration, mining, production, refining and sale of gold and other mineral resources in the PRC.

The principal operating assets of the Group are the Zijinshan Gold Mine and its ancillary gold refinery in Fujian province. According to the PRC Gold Industry Yearbook 2002, Zijinshan Gold Mine is the single largest open pit gold mine by production output in the PRC in 2001. Beneath the gold deposits lie a large scale of copper resources estimated at approximately 1.465 million tonnes of copper metal. The Group also participates in the mining of and exploration for gold, copper and other mineral resources (such as zinc, silver and lead) in the central and western part of China, and has secured the exploration rights for an aggregate of over 704.3 sq.km. in Anhui, Guizhou, Jilin and Sichuan provinces and Xinjiang. According to SRK, it is estimated that the Group controls over 235.2 tonnes of gold resources and over 2.46 million tonnes of copper resources in the PRC.

By adopting advanced mining techniques and production flow, the Zijinshan Gold Mine has demonstrated its cost efficiency in the gold mining industry. The following table summarises the operating performance and reserves movement of the Group:


	For the year ended 31st December,			For the six months ended 30th June,
	2000	2001	2002	2003
<b>Operating performance</b>				
Mass of gold produced:				
(kg)	4,119	5,262	7,812	4,725
(ounces)	132,429	169,177	251,161	151,912
Mass of gold sold:				
(kg)	3,957	5,197	7,225	5,222
(ounces)	127,220	167,087	232,289	167,891
Minerals mined (processed)				
(million tonnes)	5.46	7.07	10.45	6.21
Revenue from gold sold:				
RMB/gram	75.3	71.7	80.9	93.0
US\$/ounce	285.62	271.97	306.87	352.76
Cash operating cost ( <i>note 1</i> ):				
RMB/gram	37.71	35.19	33.94	33.88
US\$/ounce	143.04	133.48	128.74	128.51
Total cash production cost ( <i>note 2</i> ):				
RMB/gram	45.51	44.03	42.97	40.52
US\$/ounce	172.62	167.01	162.99	153.70
Total production cost ( <i>note 3</i> ):				
RMB/gram	53.28	52.91	51.51	48.52
US\$/ounce	202.10	200.69	195.38	184.04

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	For the year ended			For the six
	31st December,			months ended
	2000	2001	2002	30th June, 2003
<b>Reserve movement</b>				
<b>(gold metal contained)</b>				
Opening reserve (tonnes)	144.1	138.4	129.9	148.8
Depletion (tonnes)	5.7	8.5	9.2	3.3
Replenishment (tonnes) <i>(note 4)</i>	—	—	28.1	42.3
Year end proved and probable reserve (tonnes)	138.4	129.9	148.8	187.8

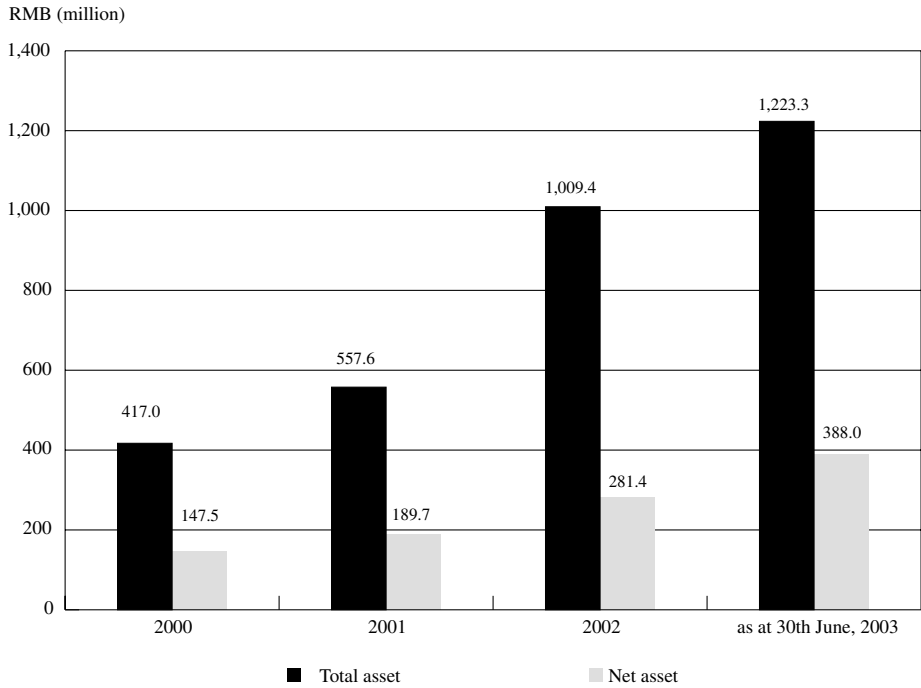
*Notes:*

- (1) Cash operating cost comprises all direct cash production costs of mining, processing and refining.
- (2) Total cash production cost comprises cash operating cost and indirect cash costs including administration expenses, selling expenses and finance costs.
- (3) Total production cost comprises all cash and non-cash cost items.
- (4) The Group did not undertake any work to define reserve replenishment during 2000 and 2001. Replenishment in 2002 includes gold resources of 21.8 tonnes from the Shiyindong Gold Mine and 6.3 tonnes from the Paodaling Gold Mine. The addition in 2003 is attributable to gold resources of 27.5 tonnes from the Hunchun Gold-Copper Mine and 14.8 tonnes from the Jiaochong Gold-Base-Metals Mine.
- (5) The industry performance indicators include in the table are reported with reference to the Australian Gold Reporting Standards which are generally accepted as best industry reporting practice internationally.

Gold is the principal product of the Group. The refinery of the Group produces gold bullions of 99.99% and 99.95% purity under the “ ZIJIN” brand. The quality of these gold has meet the standards recognised by the Shanghai Gold Exchange. The refinery of the Group is one of the first ten qualified gold refineries approved by the Shanghai Gold Exchange and has obtained ISO9001:2000 certification. Prior to the commencement of the Shanghai Gold Exchange on 30th October, 2002, PBOC purchased the gold bullions, and other refining enterprises purchased the gold bearing materials and mineral ores, produced by the Group. Subsequent to the commencement of the Shanghai Gold Exchange, the Group sold its gold bullions online through the Shanghai Gold Exchange. Since the clearing and settlement of the gold transactions of the Group are processed by the Shanghai Gold Exchange, the Group does not incur significant trade receivables and is not exposed to any doubtful debts on its sales of gold bullions.

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With the rapid expansion of the operations of the Group, the total assets and net assets of the Group increased to RMB1,223.3 million and RMB388.0 million respectively as of 30th June, 2003.

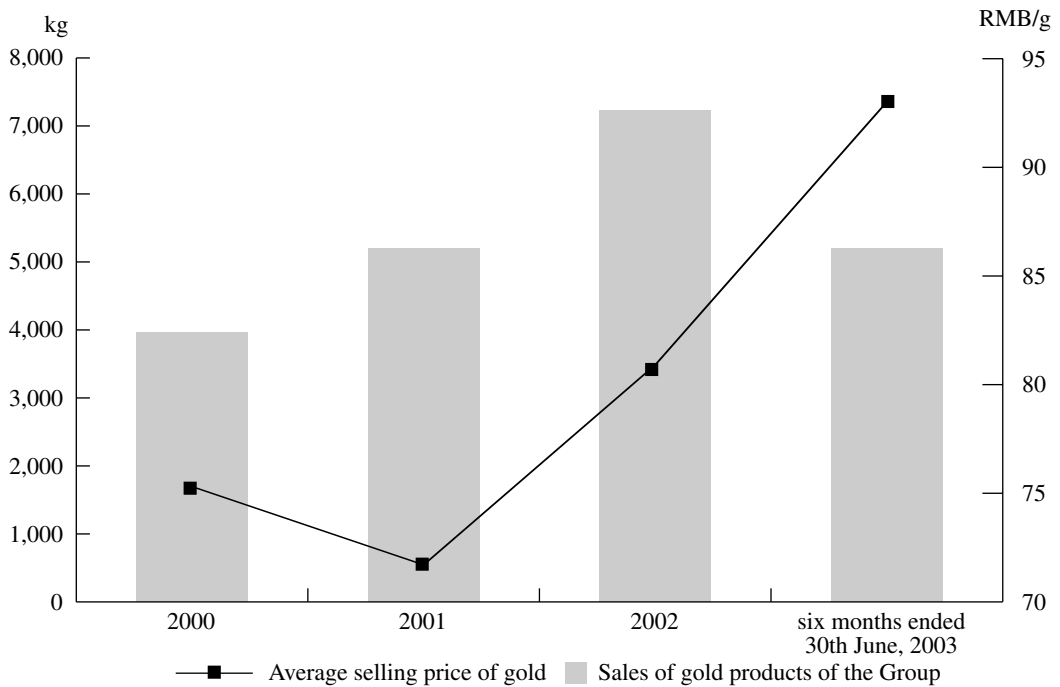


Source: Company's information

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From 2000 to 2002, as a result of the expansion of the scale of operation of the Group, the annual production output of gold increased from 4,119 kg in 2000 to 7,812 kg in 2002 representing a CAGR of approximately 37.7% during the period. For the six months ended 30th June, 2003, the Group achieved a production output of 4,725 kg which represented approximately 60.5% of the total output for the entire year of 2002. In addition, from 2000 to 2003, by capitalising on the consistent growth in international gold prices, the average selling price of the Group's gold products increased from RMB75.3/g in 2000 to RMB93.0/g for the six months ended 30th June, 2003 which resulted in significant growth in the revenue of the Group during the Track Record Period.

### Annual gold production of the Group

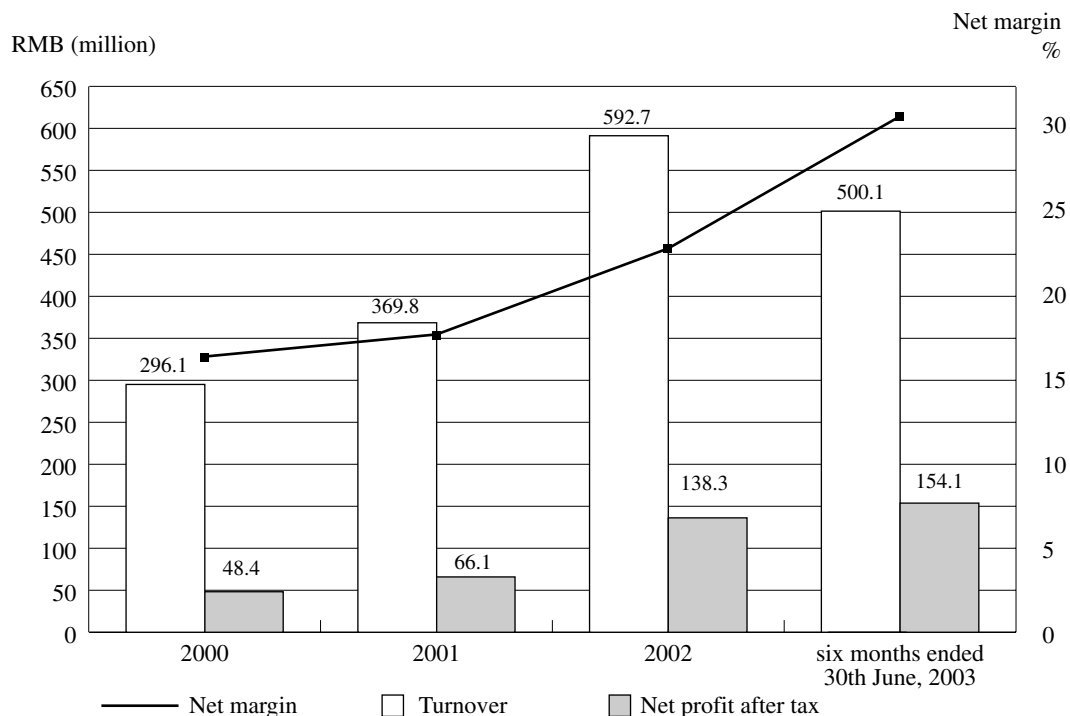


Source: Company's information

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From 2000 to 2002, the turnover of the Group increased from RMB296.1 million to RMB592.7 million, representing a CAGR of 41.5% during the period. The net profit after taxation for the corresponding period increased from RMB48,427,000 to RMB138,283,000 at a CAGR of 69.0%. For the six months ended 30th June, 2003, the Group recorded a net profit of RMB154.1 million which represented more than the entire profit for the preceding year. The following chart sets out the operating performance of the Group during the Track Record Period:

### Profitability of the Group



*Source: Company's information*

According to the table, Fujian Zijin was the principal source of revenue and profit contribution to the Group during the Track Record Period. Notwithstanding the fact that the Zijinshan Gold Mine will continue to be the principal operating asset of the Group, the Directors believe that the gradual development of other mines will reduce the reliance of the Group on the performance of the Zijinshan Gold Mine.

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### Turnover

	Year ended 31st December,						Period ended 30th June,	
	2000		2001		2002		2003	
	<i>(RMB'000)</i>	<i>% (RMB'000)</i>	<i>% (RMB'000)</i>	<i>% (RMB'000)</i>	<i>% (RMB'000)</i>	<i>% (RMB'000)</i>	<i>%</i>	<i>%</i>
Fujian Zijin	296,097	100.00	368,851	99.75	576,343	97.25	484,776	96.93
Xiamen Zijin	—	—	60	0.02	4,863	0.82	5,008	1.00
Anhui Zijin	—	—	846	0.23	11,448	1.93	3,935	0.79
Guizhou Zijin	—	—	—	—	—	—	—	—
Xinjiang Ashele	—	—	—	—	—	—	—	—
Hunchun Zijin	—	—	—	—	—	—	6,415	1.28
Jinshan Construction	—	—	—	—	—	—	—	—
Tongling Zijin	—	—	—	—	—	—	—	—
Shanghang Zijin	—	—	—	—	—	—	—	—
Shuidian	—	—	—	—	—	—	—	—
Jiuzhaigou Zijin	—	—	—	—	—	—	—	—
Shimian Zijin	—	—	—	—	—	—	—	—
Tibet Jindi	—	—	—	—	—	—	—	—
	<u>296,097</u>	<u>100.00</u>	<u>369,757</u>	<u>100.00</u>	<u>592,654</u>	<u>100.00</u>	<u>500,134</u>	<u>100.00</u>

### Net profit

	Year ended 31st December,						Period ended 30th June,	
	2000		2001		2002		2003	
	<i>(RMB'000)</i>	<i>% (RMB'000)</i>	<i>% (RMB'000)</i>	<i>% (RMB'000)</i>	<i>% (RMB'000)</i>	<i>% (RMB'000)</i>	<i>%</i>	<i>%</i>
Fujian Zijin	48,427	100.00	66,780	101.02	137,877	99.70	155,897	101.15
Xiamen Zijin	—	—	(208)	(0.31)	203	0.15	(71)	(0.05)
Anhui Zijin	—	—	(185)	(0.28)	1,049	0.76	52	0.03
Guizhou Zijin	—	—	(285)	(0.43)	(846)	(0.61)	(1,368)	(0.88)
Xinjiang Ashele	—	—	—	—	—	—	(354)	(0.22)
Hunchun Zijin	—	—	—	—	—	—	513	0.33
Jinshan Construction	—	—	—	—	—	—	(17)	(0.01)
Tongling Zijin	—	—	—	—	—	—	(25)	(0.02)
Shanghang Zijin	—	—	—	—	—	—	—	—
Shuidian	—	—	—	—	—	—	(510)	(0.33)
Jiuzhaigou Zijin	—	—	—	—	—	—	—	—
Shimian Zijin	—	—	—	—	—	—	—	—
Tibet Jindi	—	—	—	—	—	—	—	—
	<u>48,427</u>	<u>100.00</u>	<u>66,102</u>	<u>100.00</u>	<u>138,283</u>	<u>100.00</u>	<u>154,117</u>	<u>100.00</u>

## COMPETITIVE ADVANTAGES

The Directors believe that the Group possesses the following competitive advantages:

### **Advantage in resources**

The Group wholly owns the mining rights of the Zijinshan Gold Mine in Fujian province. According to the PRC Gold Industry Yearbook 2002, the Zijinshan Gold Mine is the single largest open pit gold mine by production output in the PRC in 2001. Due to unique hydrologic and geological conditions at the Zijinshan Gold Mine, it is amenable to large-scale open pit mining. The mine is situated on a highly oxidised portion of a low grade gold deposit, where gold ores are readily available for processing with high gold recoverability. With technological improvements in mining and processing operations resulting in reduced processing costs, recoverability of gold can be further improved. Beneath the gold reserves of the Zijinshan Gold Mine lie a large scale of copper deposits (estimated at approximately 1.465 million tonnes of copper metal). The copper resources are large in size with low marginal cutoff grades. The geological and hydrologic conditions of the copper resources are suitable to mining with large scale and using the bio-leaching process.

The Group has also obtained controlling interests in the Shuiyindong Gold Mine in Guizhou province, the Hunchun Gold-Copper Mine in Jilin province, the Paodaoling Gold Mine and Jiaochong Gold-Base-Metals Mine in Anhui province, the Ashele Copper-Zinc Mine in Xinjiang and the Caodi Gold Mine in Sichuan province.

These mines have mineral resources including approximately 235.2 tonnes of gold metal, 2.46 million tonnes of copper metal. The Group has also obtained the exploration rights of the above sites and the peripheral zones of approximately 704.3 sq.km. It is expected that, after additional geological exploration, mineral resources of the Group can be further increased.

In addition, the Group owns 31.5% interest in the share capital of Makeng Mining in Fujian province, and has participated in the development of one of the largest iron mines in the eastern China which has an estimated reserve of approximately 434 million tonnes of iron ore.

In the opinion of SRK, the mines of the Group are based on a sound geological understanding and have sufficient mineral resources and ore reserves to meet its production targets and/or are sufficiently prospective to warrant further investigations and expenditure as proposed.

### **Advantage in scale**

The Group is one of the largest gold mining and refining enterprises in the PRC and owns the Zijinshan Gold Mine, the largest single open pit gold mine by productions output in the PRC. In 2000, the processing volume of the Zijinshan Gold Mine was approximately 5.46 million tonnes of ore and the gold refining production was approximately 4,119 kg. It achieved the record for gold processing and refining for a single gold mine enterprise in the PRC. In 2001, the throughput of the Zijinshan Gold Mine was approximately 7.07 million tonnes of ore and the gold refining production was

approximately 5,262 kg. In 2002, the throughput of the Zijinshan Gold Mine was approximately 10.45 million tonnes of ore and the gold refining production was approximately 7,812 kg. In comparison, the gold refining production of the second largest open pit gold mine in the PRC was approximately 2,916 kg in 2002.

The Group has undergone an upgrade development plan at the Hunchun Gold-Copper Mine. Its designed throughput upon completion is expected to reach approximately 4,000 tpd of ore, which, as at the Latest Practicable Date, will make it the second largest gold mine in the PRC in terms of ore volume.

The Directors believe that the gold mining, processing and refining operations of the Group enable economies of scale that have made the Group one of the most efficient gold mining enterprises in the PRC.

### **Advantage in cost**

The Zijinshan Gold Mine is featured with geologically well-located deposits, simple hydrology and geological conditions, and highly oxidised gold ores which can be easily processed. The Group adopts large-scale open pit mining by using an internationally advanced steep-slope stripping technique which minimises overburden stripping during the development stage. The Group outsources the most labour-intensive stripping process to a number of contractors through a tendering process. Such outsourcing activities have resulted in considerable savings in investment in machinery and reduction in mining expenditures as well as training costs, salaries and other staff-related expenses. By capitalising on the topography of the location of the Zijinshan Gold Mine, ores are transported through a gravity drifting method which substantially reduces power consumption and transportation costs. In addition, by utilising the Group's ore processing method (crushing, screening, washing, gravity processing, coarse heap leaching and fines carbon-in-leach), the overall recovery rate of gold can be as high as 80%.

### **Advantage in technology**


The Directors believe that the Group has the following advanced technologies:

- the Group employs a unique ore processing method which combines the processes of crushing, screening, washing, gravity processing, coarse heap leaching and fines carbon-in-leach with a recovery rate as high as 80%;
- the Group utilises a hot pressure cyanide-free elution and electrowinning technique. The Directors believe that this places the Group in a leading position in gold refining in the PRC;
- the Group is equipped with a self-developed activated carbon regeneration furnace which is one of the largest devices of this type in the gold industry in the PRC. It can maintain operating stability, a high recovery rate of activated carbon and a low cost of regeneration;



- the Group adopts a comprehensive utilisation technique for low grade gold ores and gold containing solid waste. The Directors believe that it has demonstrated high cost effectiveness and has extensive application prospects;
- the Group has attained a leading position in the research and development of the refractory gold treatment process. Since there are substantial refractory gold resources in the central and western parts of the PRC, the utilisation by the Group of its self-developed chemical pre-oxidation techniques, as well as hot pressure elution and electrowinning technique, could significantly assist in the development of refractory gold mines; and
- the Group has developed a bacterial leaching-extraction-electrowinning technique and engineering process for primary copper ore. This technique has been included in the State Tenth-Five Year Plan for Key Projects (國家“十五”重點攻關項目).

### **Advantage in product**

The refinery of the Group produces gold bullions of 99.99% and 99.95% purity under the “ ZIJIN” brand. The quality of these gold bullions meet the standard recognised by the Shanghai Gold Exchange. The refinery of the Group is one of the first ten qualified gold refineries approved by the Shanghai Gold Exchange and has obtained ISO9001:2000 certification.

### **Advantage in human resources**

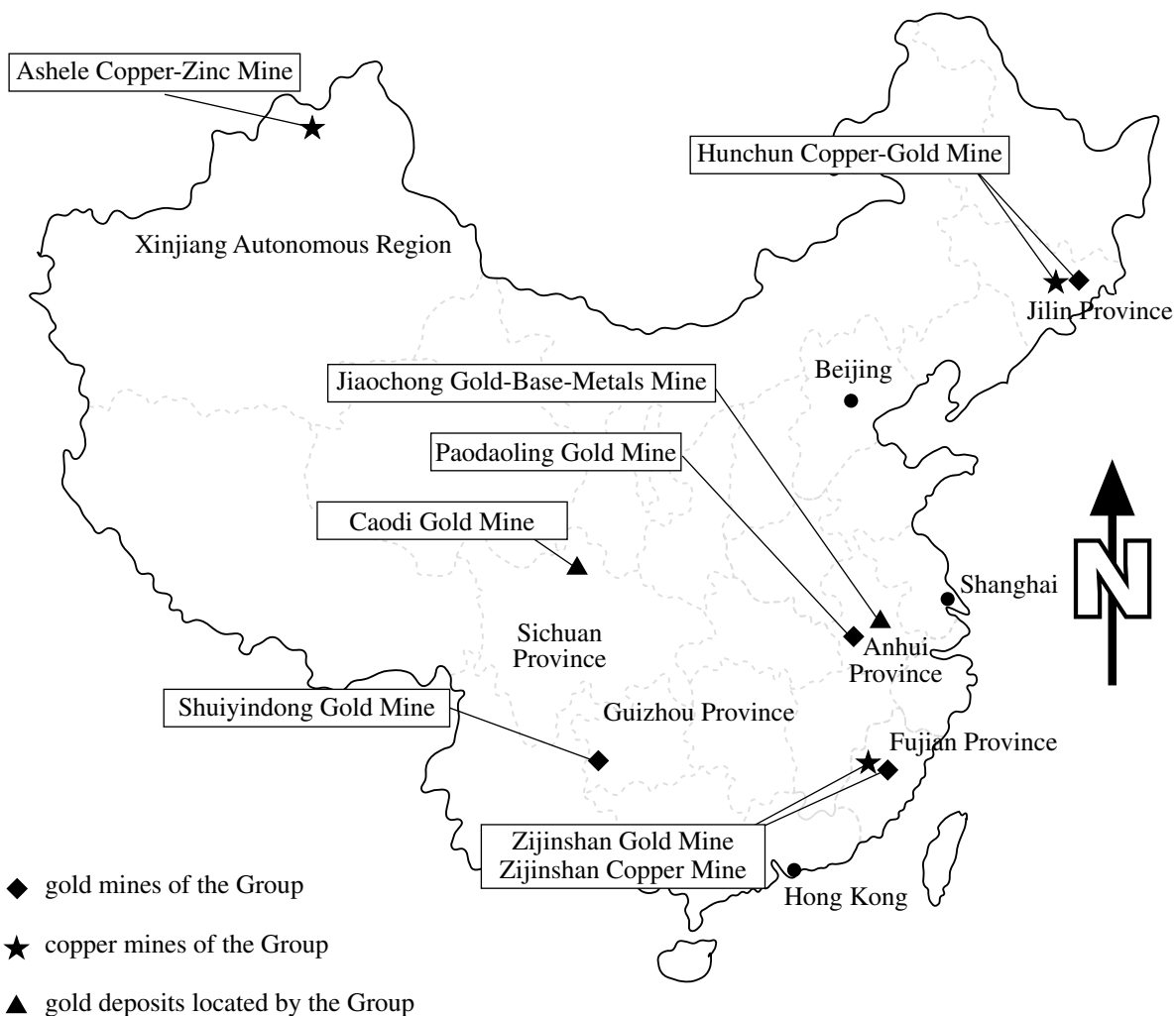
Most members of the senior management of the Group possess extensive experience in the non-ferrous metal industry and the mining industry (including geology and metallurgy). Over 80% of the members of the senior management are of university level or higher. At the Latest Practicable Date, the Group has 1,035 employees, 377 are university or tertiary educated or above. A post-doctoral research station and an in-house research centre undertakes various State-level technology projects. With these human resources, the Directors believe the Group is in a leading position in the industry in the PRC, particularly in the refining of low grade gold ores and the application of hydrometallurgy.

### **Advantage in its leading position in the industry**

The Directors believe that the Group is one of the most advanced gold ore processing enterprises in the world in terms of its scale of production, utilisation of low grade ores, environmental management and research and development capability. The Directors believe that the Group has also maintained its leading position in the mining industry in the PRC in terms of quality of management, profitability, return on investment and construction cycles, which are of international standards. As a result of the accession by the PRC to the WTO, competition within the gold and gold-related industries has intensified, and large scale consolidation within the gold industry is inevitable. The Directors believe that the Group is equipped with the necessary technical know-how, management skills and capital to maintain its leading position in the mining industry in the PRC and to take advantage of any opportunities which may arise from such industry consolidation.

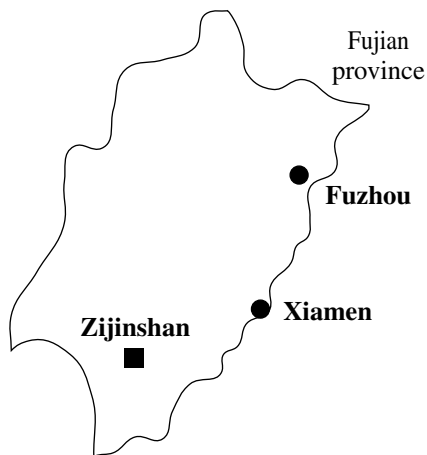
PRINCIPAL MINERAL ASSETS OF THE GROUP

The Group's mining operations mainly comprise one major open pit gold mine (Zijinshan Gold Mine), one small open pit gold mine (Paodaoling Gold Mine), three recently developed projects (Zijinshan Copper Mine, Shuiyindong Gold Mine and Hunchun Gold-Copper Mine), one developing project (Ashele Copper-Zinc Mine) and two exploration projects (Caodi Gold Mine and Jiaochong Gold-Base-Metals Mine), all of which are located in different locations in the PRC, as illustrated below:



**Zijinshan Gold Mine and Zijinshan Copper Mine**

Holding company	: Fujian Zijin
Interest held by the Group	: 100%
Date of ownership of the mine	: August 1993
Mine area	: 2.88 sq.km. (mining area)
Latest date of expiry of mining rights	: July 2018
Location	: Shanghang county, Fujian province
Designed ore processing capacity	: Gold - 35,000 tpd Copper - 10,000 tpd (Phase I) 20,000 tpd (Phase II)
Mining method	: Open pit (gold) Underground (copper)
Resources (metal)	: 138,371 kg (gold) 1,465,000 tonnes (copper)
Average grade	: 1.2 g/t (gold) 0.66% (copper)



Zijinshan Gold Mine

**Description:**

The Zijinshan Gold Mine is located in Shanghang county, Fujian province, the PRC. The motorway constructed by the Group within the mine area is connected to the National Highway 205 to Guangzhou province, the PRC, providing easy access to the mining area. Mineralisation exists in a stacked deposit, with copper reserves lying below the gold deposits. According to China Gold Industry Year Book, it is the only large-scale non-ferrous metal mine discovered in the PRC in the past two decades.

Underground mining at the Zijinshan Gold Mine commenced in 1993 with 50,000 tpa of gold metal. Production has shifted from underground mining to a large-scale open pit mining from 1998. The current mining method uses drilling and blasting, loading with excavators and transport by truck. Waste is transported horizontally by truck to the north section of the pit and tipped on to waste dumps. Mineral ores are processed at three plants located adjacent to the Zijinshan Gold Mine. Fine material is separated by screens and processed using the standard carbon-in-leach process. The coarser fraction is processed by the heap leaching process. The gold recovery by heap leaching is approximately 80%.

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In the opinion of SRK, the brecciated, fractured and oxidized nature of gold mineralisation at Zijinshan Gold Mine make it favorable for heap leaching. Operating costs are low due to low cyanide consumption, low lime consumption and low power consumption as a result of the use of gravity flow. The gold refinery is a modern facility and has been accredited for ISO9002:2000 certification.

There is a concern that overburden wastes dumped over the pit edge into a valley may cause mudslides in the future owing to its steep slope. A mitigation measure is planned which not only rectifies erosion of mudslides that may result in major environmental and safety consequences but also effectively utilises solid wastes for gold recovery. The Group is constructing a dam which is designed to contain all mudflows. Should major slumping occur in the waste dump area, it will create an important erosion control measure. The dam will also allow heap leaching to overburden wastes which are expected to recover 0.3 to 0.7 grams of gold per tonne. The Group is also constructing gold absorption and water treatment plant in conjunction with the dam. This will ensure that all run-off and seepage from upstream of the dam will be collected and treated before being dumped into the river, which will further prevent possible long-term environmental liabilities.

As at the Latest Practicable Date, the Zijinshan Gold Mine represents a major and stable source of income of the Group. It is expected that it will continue in the foreseeable future.

Estimated capital expenditure plan:

	<b>Year 2003</b>	<b>Year 2004</b>		<b>Year 2005</b>		<b>Total</b>
	<b>4th quarter</b>	<b>1st half year</b>	<b>2nd half year</b>	<b>1st half year</b>	<b>2nd half year</b>	
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Construction of plants, purchase of machinery and mining assets	25,340	21,688	21,688	50,000	50,000	168,716
Acquisition of mining and exploration rights	—	25,266	25,264	25,000	25,000	100,530
<b>Total</b>	<u>25,340</u>	<u>46,954</u>	<u>46,952</u>	<u>75,000</u>	<u>75,000</u>	<u>269,246</u>

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### Zijinshan Copper Mine

#### Description:

The Zijinshan Copper Mine is located underneath the gold deposits within the same mining area as the Zijinshan Gold Mine. It is a large low-grade arsenic-bearing deposit. The Company has jointly conducted laboratory research with Beijing Non-ferrous Metal Research Institute (北京有色金屬研究總院) on biological copper extraction at the Zijinshan Copper Mine. The Zijinshan Copper Mine uses the bio-leaching of crushed ore on heap leach pads to treat low-grade, disseminated copper sulphides. Conventional solvent extraction and electrowinning is then used to produce cathode copper. In 2002, a trial plant with a production capacity of 1,000 tpa was put into production.

In the opinion of SRK, the Company would benefit from an updated feasibility study by considering the expanded open pit of the Zijinshan Gold Mine, which sits on top of the copper deposits. An optimal design and well-coordinated management of the copper mine as an integral part of the overall planning for the Zijinshan Gold Mine could significantly reduce the development and production costs, and could thus reduce the risks associated with the development of the Zijinshan Copper Mine.

The Zijinshan Copper Mine is currently developing bio-leaching and associated engineering for copper extraction which is one of the “State Tenth-Five Year Plan for Key Projects” (國家“十五”重點攻關項目). The project comprises of two phases. In May 2002, Phase I commenced and is expected to have, upon completion in 2005, a processing capacity of 10,000 tpd of ore, producing 12,961 tpa of cathode copper. The development of Phase II, which is designed to have a processing capacity of 20,000 tpd of ore, producing 25,922 tpa of cathode copper, will be implemented after the Group has assessed the results of Phase I.

#### Estimated capital expenditure plan:

	Year 2003		Year 2004		Year 2005		Total (RMB'000)
	4th quarter (RMB'000)	1st half year (RMB'000)	2nd half year (RMB'000)	1st half year (RMB'000)	2nd half year (RMB'000)		
Construction of plants, purchase of machinery and mining assets	15,210	45,000	45,000	30,000	30,000	165,210	
Acquisition of mining and exploration rights	—	—	—	—	—	—	
<b>Total</b>	<b>15,210</b>	<b>45,000</b>	<b>45,000</b>	<b>30,000</b>	<b>30,000</b>	<b>165,210</b>	

**Shuiyindong Gold Mine**

Holding company	:	Guizhou Zijin
Interest held by the Group	:	55.3%
Date of ownership of the mine	:	November 2001
Mine area	:	3.08 sq.km. (mining area) 25.92 sq.km. (exploration area)
Latest date of expiry of mining rights	:	June 2008
Location	:	Zhenfeng county, Guizhou province
Designed ore processing capacity	:	200 tpd (Phase I) 1,000 tpd (Phase II)
Mining method	:	Underground
Reserves (metal)	:	21,760 kg (gold)
Average grade	:	10.23 g/t

**Description:**

The Shuiyindong Gold Mine is located in Zhenfeng county, Guizhou province, the PRC. The mine is located approximately 20 km southeast of Zhenfeng city and approximately 250 km from Guiyang city, the principal capital of Guizhou province, in the mountainous area of Yunan-Guizhou Plateau at an altitude of about 1,400 m. The Shuiyindong Gold Mine is a high-grade fine-grained refractory gold deposit.

Gold mineralisation occurs within a favorable, dolomitised silty to fine sandy fossiliferous limestone. The ore at Shuiyindong Gold Mine is refractory due to both the very fine nature of the gold mineralisation and its intimate association with iron sulphides.

In June 2003, construction of Phase I of a trial plant at which the Group has successfully developed and implemented chemical pre-oxidation techniques in ore processing with a capacity of 200 tpd of ore was completed. The Directors consider that each of the operating indicators have been satisfactory, which will facilitate the development of Phase II of the mine.

The construction of Phase II is tentatively scheduled to commence in the second quarter of 2004 and is tentatively scheduled to be completed in 2005. Upon completion of Phase II, production capacity of gold is anticipated to be 2 tpa of metal.

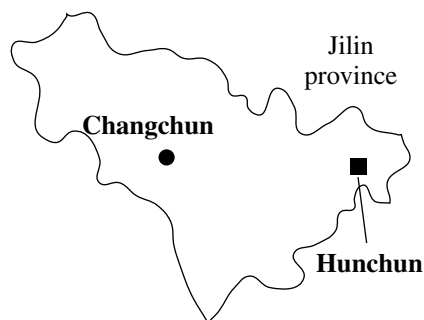
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Estimated capital expenditure plan:

	Year 2003		Year 2004		Year 2005		Total (RMB'000)
	4th quarter	1st half year	2nd half year	1st half year	2nd half year		
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)		
Construction of plants, purchase of machinery and mining assets	4,000	40,000	40,000	—	—	84,000	
Acquisition of mining and exploration rights	—	—	—	—	—	—	
<b>Total</b>	<u>4,000</u>	<u>40,000</u>	<u>40,000</u>	<u>—</u>	<u>—</u>	<u>84,000</u>	

### Hunchun Gold-Copper Mine

Holding company	: Hunchun Zijin
Interest held by the Group	: 72.2%
Date of ownership of the mine	: January 2003
Mine area	: 2.42 sq.km. (mining area) 202.8 sq.km. (exploration area)
Latest date of expiry of mining rights	: August 2010
Location	: Yanbian autonomous district, Jilin province
Designed ore processing capacity	: 4,000 tpd
Mining method	: Open pit and underground
Reserves (metal)	: 27,504 kg (gold) 78,187 tonnes (copper)
Average grade	: 1.15 g/t (gold) 0.33% (copper)



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### Description:

The Hunchun Gold-Copper Mine is located near Hunchun city, in Yanbian autonomous district, Jilin province, the PRC. The mine is located approximately 80 km from Hunchun city, and approximately 770 km from Yanji city. There are a number of regular flights from Yanji city to other major cities including Beijing. The nearest train station is located approximately 80 km from the mine, which is therefore easily accessible. The district is a densely forested mountainous area, and is covered by snow during most of the winter. However, mine production is not affected throughout the year.

The Hunchun Gold-Copper Mine was originally a State-owned enterprise in Yanbianzhou, and has a processing capacity of 850 tpd of ore. As a result of unsatisfactory operation and management, the enterprise was semi-idle for a period of time and suffered serious losses. The Yanbianzhou government negotiated with several mining companies in the PRC to acquire an interest in the mine. In December 2002, the Group acquired a 73% interest in the Hunchun Gold-Copper Mine for RMB21.9 million.

In March 2003, the Hunchun Gold-Copper Mine recommenced operation and an improvement in productivity and profitability has been observed.

### Estimated capital expenditure plan:

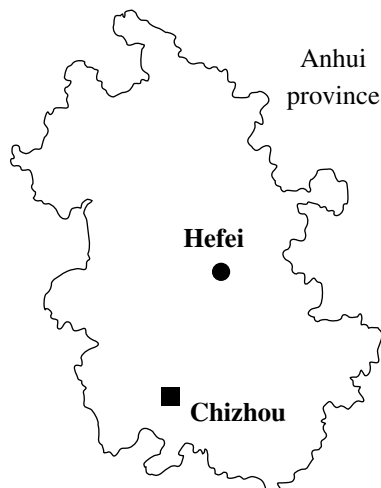
	Year 2003		Year 2004		Year 2005		Total (RMB'000)
	4th quarter (RMB'000)	1st half year (RMB'000)	2nd half year (RMB'000)	1st half year (RMB'000)	2nd half year (RMB'000)		
Construction of plants, purchase of machinery and mining assets	50,850	13,482	1,000	—	—	65,332	
Acquisition of mining and exploration rights	—	—	—	—	—	—	
<b>Total</b>	<u>50,850</u>	<u>13,482</u>	<u>1,000</u>	<u>—</u>	<u>—</u>	<u>65,332</u>	

The Group intends to develop a processing plant at the Hunchun Gold-Copper Mine. The processing plant will utilise the hydrometallurgy method and will have, by the end of 2003, a processing capacity of 4,000 tpd of ore. By the first half of 2004, the plant is scheduled to be operational and by the end of 2004, the ancillary refinery is scheduled to be operational. Upon being fully operational, the Hunchun Gold-Copper Mine will produce 984 kg of gold and 360 tonnes of copper per annum.



**Paodaoling Gold Mine**

Holding company	: Anhui Zijin
Interest held by the Group	: 75%
Date of ownership of the mine	: December 2001
Mine area	: 1.485 sq.km. (mining area) 52.32 sq.km. (exploration area)
Latest date of expiry of mining rights	: May 2012
Location	: Chizhou city, Anhui province
Designed ore processing capacity	: 600 tpd
Mining method	: Open-pit and underground
Reserves (metal)	: 6,330 kg (gold)
Average grade	: 2.1 g/t

**Description:**

The Paodaoling Gold Mine is located near Guichi city, Anhui province, the PRC. The mine is located 18 km south of Chizhou city, and is connected with the national highway from Guichi city to the Yangtze River Port of Chizhou city, making it easily accessible.

The mine is currently an open pit mine with heap leach operation that is located in hilly terrain. Mining is done by contractors at a small scale using basic drill and blast equipment. Research is being conducted on the economic and technical feasibility of the primary ore zone. Additional exploration work will be carried out at the mine and in its peripheral areas.

In the fourth quarter of 2003, construction of a processing plant with a capacity of 600 tpd will commence. It is tentatively scheduled to be completed by the end of 2004. Upon completion, production capacity is anticipated to be 350 kg of gold per annum.

In the opinion of SRK, the indicated gold resources and so-called “mineable” reserves are not adequate and do not accurately represent the nature of the deposit. The gold grade is more likely to remain below approximately 0.9-1.0g/t Au. In addition, the portion of sulphide ore, which is unlikely to be suitable for the heap-leaching process, has not been properly estimated. The resources and reserves at Paodaoling Gold Mine should be re-estimated using much improved geological control.

## BUSINESS

Estimated capital expenditure plan:

	Year 2003	Year 2004		Year 2005		Total
	4th quarter (RMB'000)	1st half year (RMB'000)	2nd half year (RMB'000)	1st half year (RMB'000)	2nd half year (RMB'000)	
Construction of plants, purchase of machinery and mining assets	5,000	3,900	3,900	—	—	12,800
Acquisition of mining and exploration rights	—	—	—	—	—	—
<b>Total</b>	<u>5,000</u>	<u>3,900</u>	<u>3,900</u>	<u>—</u>	<u>—</u>	<u>12,800</u>

### Ashele Copper-Zinc Mine

Holding company	: Xinjiang Ashele
Interest held by the Group	: 51%
Date of ownership of the mine	: December 2002
Mine area	: 1.7287 sq.km. (mining area)
Latest date of expiry of mining rights	: January 2031
Location	: Habahe county, Xinjiang
Designed ore processing capacity	: 4,000 tpd
Mining method	: Underground
Reserves (metal)	: 919,453 tonnes (copper) 408,333 tonnes (zinc)
Average grade	: 2.43% (copper) 2.78% (zinc)



Description:

The Ashele Copper-Zinc Mine is located in Habahe county, Xinjiang, the PRC. It lies 721 km from Urumqi city. The Ashele Copper-Zinc Mine is a volcanic-hosted massive sulphide deposit, which contains both copper and zinc.

## BUSINESS

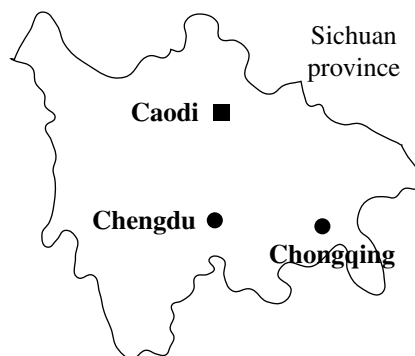
In April 2002, construction of a processing plant commenced with a capacity of 4,000 tpd. Construction of most of the mining facilities has been completed or is in a very advanced stage. Upon completion by the end of 2004, production capacity is anticipated to be 30,360 tpa of copper concentrates and 14,454 tpa of zinc concentrates.

Estimated capital expenditure plan:

	Year 2003		Year 2004		Year 2005		Total (RMB'000)
	4th quarter	1st half year	2nd half year	1st half year	2nd half year		
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	
Construction of plants, purchase of machinery and mining assets	45,103	100,000	100,000	50,000	50,000	345,103	
Acquisition of mining and exploration rights	—	—	—	—	—	—	—
<b>Total</b>	<u>45,103</u>	<u>100,000</u>	<u>100,000</u>	<u>50,000</u>	<u>50,000</u>	<u>345,103</u>	

### Caodi Gold Mine

Holding company	: Jiuzhaigou Zijin
Interest held by the Group	: 60%
Date of ownership of the mine	: July 2003
Mine area	: 27.36 sq.km. (exploration area)
Latest date of expiry of exploration rights	: October 2004
Location	: Jiuzhaigou county, Sichuan province
Designed ore processing capacity	: 2,500 tpd
Mining method	: Open-pit and underground
Reserves (metal)	: 26,422 kg (gold)
Average grade	: 2.57 g/t



Description:

The Caodi Gold Mine is located in Jiuzhaigou County, northern Sichuan province near Caodi town, approximately 7 km from the boundary of Gansu province. Access to the minesite is from Caodi township by 8 km of mountain pass. Access to the deposit itself is from Caodi town by foot, as the deposit is located at 2,100 m elevation, 800 m above the village.

## BUSINESS

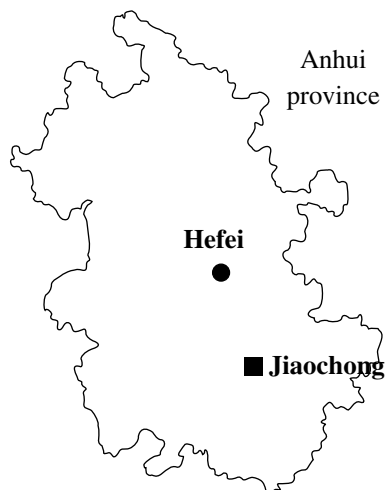
Investigation on the mine is being undertaken by the Group. According to SRK, there is significant potential to expand the current resources through more exploratory tunneling and drilling, and to delineate further mineralised fault zones within the tenement package.

Estimated capital expenditure plan:

	Year 2003	Year 2004		Year 2005		Total (RMB'000)
	4th quarter (RMB'000)	1st half year (RMB'000)	2nd half year (RMB'000)	1st half year (RMB'000)	2nd half year (RMB'000)	
Construction of plants, purchase of machinery and mining assets	9,992	26,666	—	—	—	36,658
Acquisition of mining and exploration rights	—	19,000	9,000	—	—	28,000
<b>Total</b>	<u>9,992</u>	<u>45,666</u>	<u>9,000</u>	<u>—</u>	<u>—</u>	<u>64,658</u>

### Jiaochong Gold-Base-Metals Mine

Holding company	: Tongling Zijin
Interest held by the Group	: 51%
Date of ownership of the mine	: June 2003
Mine area	: 8.34 sq.km. (exploration area)
Latest date of expiry of exploration rights	: August 2005
Location	: Tongling, Anhui province
Designed ore processing capacity	: 800 tpd
Mining method	: Underground
Reserves (metal)	: 14,824 kg (Gold) 49,785 tonnes (Zinc) 80,869 kg (silver)
Average grade	: 5.94 g/t (Gold) 3.2% (Zinc) 32.39 g/t (silver)



## BUSINESS

### Description:

The Jiaochong Gold-Base-Metals Mine is located in southern Anhui province, 6 km from the town of Tongling on the southern shore of the Yangtze River. The mine is easily accessible which is situated within the copper area of Tongling district. Geological investigations being undertaken include detailed petrography and metallurgy. According to SRK, the information available and the level understanding to the deposit is very good for this stage of exploration.

### Estimated capital expenditure plan:

	Year 2003	Year 2004		Year 2005		Total (RMB'000)
	4th quarter (RMB'000)	1st half year (RMB'000)	2nd half year (RMB'000)	1st half year (RMB'000)	2nd half year (RMB'000)	
Construction of plants, purchase of machinery and mining assets	1,200	30,988	30,988	—	—	63,176
Acquisition of mining and exploration rights	—	—	—	—	—	—
<b>Total</b>	<u>1,200</u>	<u>30,988</u>	<u>30,988</u>	<u>—</u>	<u>—</u>	<u>63,176</u>

## MINERAL RESOURCES

Set out below are the estimated mineral resources and average grades of each of the Group's mines prior to mining:

### Gold resources

Category (see glossary) (kg)			Hunchun		Jiaochong		Total
	Zijinshan Gold Mine	Shuiyindong Gold Mine	Gold- Copper Mine	Paodaoling Gold Mine	Caodi Gold mine	Gold- Sulphur Mine	
B	23,291						23,291
C	71,780	1,559		535			73,874
C+D			21,773				21,773
D	43,300	7,306			7,454	1,382	59,442
D+E				5,795			5,795
E	—	12,895	5,731	—	18,968	13,442	51,036
<b>Total</b>	<u>138,371</u>	<u>21,760</u>	<u>27,504</u>	<u>6,330</u>	<u>26,422</u>	<u>14,824</u>	<u>235,211</u>
Average grade (g/t)	1.20	10.23	1.15	2.10	2.57	5.94	

## BUSINESS

### Copper resources

Category (tonnes)	Zijinshan Copper Mine	Ashele Copper-Zinc Mine	Hunchun Gold-Copper Mine	Total
B	87,900	166,297		254,197
C	641,700	501,214		1,142,914
C+D			63,218	63,218
D	463,300	251,942		715,242
E	<u>272,100</u>	<u>          </u>	<u>14,969</u>	<u>287,069</u>
Total	<u>1,465,000</u>	<u>919,453</u>	<u>78,187</u>	<u>2,462,640</u>
Average grade (%)	0.66	2.43	0.33	

In the opinion of SRK, the relevant State committee or equivalent authority approved the resources and reserves above prior to use by the developer in definitive feasibility studies. SRK reviewed, at each of the mines and deposits, the resources and reserves estimates. In the opinion of SRK, the estimate is a reasonable global estimate of recoverable reserves, but is not an entirely reliable local estimate for the purposes of detailed mine planning and selectivity. An improved, geologically controlled, geostatistical block model could result in a more reliable local grade estimates, grade control and mining selectivity. This suggests that a more advanced estimation method, such as geostatistics, in conjunction with additional geological information such as sampling, drilling and underground development should be utilised. In the opinion of the Directors, IDS is a widely accepted valuation method and production planning tool for mining enterprises in the PRC, and has been adopted by the Company for the development of the Zijinshan Gold Mine. Geostatistics is not utilised at the Zijinshan Gold Mine owing to incompatibility with the existing computer software and application systems utilised by the Group.

The nature and quality of the resources and reserves contained within the Shuiyindong Gold Mine, Ashele Copper-Zinc Mine and Hunchun Gold-Copper Mine have been estimated by conventional methods according to prescribed criteria in accordance with the Chinese system. These conventional methods have generally been applied conservatively and to a high standard. However, as a general comment of SRK, these resource estimates are based on lower than desirable levels of supporting information and often lack tight geological control. Further details concerning the reserve estimates of the Group and their basis and assumptions are set out in the technical report in Appendix IV of this prospectus.

### MINING AND EXPLORATION RIGHTS

#### **Administration and governance of mining and exploration rights**

Mining and exploration activities in the PRC are governed by the relevant provisions set forth in *Mineral Resources Law of PRC*, *Implementing Rules of Mineral Resources Law of PRC*, *Measures for Registration of Mineral Resources Exploration*, *Administrative Measures on Transfer of Exploration Rights or Mining Rights* and *Measures for Registration Administration of Exploration Blocks of Mineral Resources*. The Mineral Resources Law provides that all the mineral resources belong to the State. In order to mine and explore mineral resources, applications must be made, approved, and registered according to the relevant laws and regulations.

#### **Methods of obtaining mining and exploration rights**

Mining and exploration rights can be obtained through three methods: (i) formal application; (ii) public tender and (iii) transfer. The State generally requires compensation to be paid in return for a grant of mining and exploration rights. In some special circumstances, the State may grant an exemption or reduce the amount of compensation.

#### **Procedures to obtain mining and exploration rights**

##### *i) Formal application*

In respect of mining rights, an applicant must initially submit to the registration authority a design indicating the scope of the mining zone and a report approving the geological exploration deposits.

In establishing a mining enterprise, the applicant must comply with the relevant procedures based on the designated scope of the mining zone. When applying for mining or exploration rights, the applicant must submit the relevant documents to the registration authority.

After reviewing the qualifications of the applicant, feasibility and development plans and other documents, the registration authority considers the application and notifies the applicant of its decision within 40 days of the date of receipt of the application.

If the application is approved, the applicant pays a mining fee before finalising the remaining registration procedures. Upon completion of all procedures, the applicant is issued mining rights. The mining fee is payable annually according to the size of the mining zone.

The period of validity of mining rights is determined according to the scale of construction of the mine. For a large-scale mine, mining rights are usually valid for a maximum period of 30 years, 20 years and 10 years respectively. Within 30 days prior to the expiration of the period of validity of mining rights, an application can be made to the registration authority for an extension of the period.

In respect of exploration rights, an applicant must pay an annual fee, based on the size of the exploration zone, in order to conduct the exploration activities. The exploration right is valid for a period of 3 years. Within 30 days prior to the expiration of the period of validity of the exploration rights, an application can be made to the registration authority for an extension of the period, but each extension must not exceed a period of 2 years.

ii) *Public tender*

The registration authority determines the scope of the mining zone or the exploration block for tender. It invites and publishes the tender and formulates the requirements and deadline.

The registration authority evaluates the bids and determines the winning tender. The successful tender must comply with the registration procedures, must pay the relevant fees and must fulfill the obligations in the tender.

iii) *Transfer*

An applicant must submit the relevant documents for a transfer of mining or exploration rights. State-owned enterprises must also submit an approval document issued by the relevant authority. For explorations funded by the State, valuation must be conducted on the mining or exploration rights to be transferred.

The examination and approval authority considers the application within 40 days of the date of receipt of the application and subsequently notifies the transferor and transferee of its decision.

If the application is approved, the transferor and the transferee apply to with the original authority for modification. Upon payment of the relevant fees, the transferee obtains the mining or exploration rights and become an authorised mining and/or exploration entity.



## BUSINESS

### Rights and obligations of a mining and exploration enterprise

An enterprise with valid mining and exploration rights is entitled to undertake mining and exploration activities and infrastructure and ancillary work, in compliance with relevant laws and regulations, within the specific area during the licence period. An enterprise must submit an mining/exploration proposal and feasibility study to the relevant authority and procure all work to be completed on schedule. Progress on development work must be reported to the relevant authority on a regular basis. An enterprise must pay the licence fee and all related surcharges.

### Details of the mining and exploration rights of the Group

The Group has obtained mining rights in respect of a total of 11.9 sq.km. in the following locations in the PRC:

Mine concerned	Location	Ore reserves	Mining right number	Mining method	Area (sq.km.)	Date of approval/ renewal	Period of validity	Expiry date
Zijinshan Gold Mine	Shanghang county, Fujian province	Gold	1000000320020	Open pit	2.8819	14th July, 2003	15 years	July 2018
Zijinshan Gold Mine	Shanghang county, Fujian province	Gold	3500000320094	Open pit, underground	0.2802	10th October, 2003	2.5 years	March 2006
Paodaoling Gold Mine	Anhui province	Gold	3400000210182	Open pit, underground	1.485	8th May, 2002	10 years	May 2012
Ashele Copper-Zinc Mine	Habahe county, Xinjiang	Copper, Zinc	1000000010169	Underground	1.729	4th January, 2001	30 years	January 2031
Shuiyindong Gold Mine	Zhenfeng, Guizhou province	Gold	5200000310046	Underground	3.08	June 2003	5 years	June 2008
Hunchun Gold-Copper Mine	Hunchun city, Jilin province	Gold	2200000320554	Underground	0.598	25th August, 2003	2 years	August 2005
Hunchun Gold-Copper Mine	Hunchun city, Jilin province	Gold, copper	2200000320553	Underground	0.977	25th August, 2003	7 years	August 2010
Hunchun Gold-Copper Mine	Hunchun city, Jilin province	Gold, copper	2200000320552	Open pit	0.845	25th August, 2003	7 years	August 2010

Caodi Gold Mine and Jiaochong Gold-Base-Metals Mine are currently at a preliminary geological investigation stage and mining rights will be applied for by the Group if feasible resources are identified.

## BUSINESS

The Group has also obtained exploration rights, which may allow the Group to conduct prospecting activities in the underlying areas in respect of an aggregate of 704.3 sq.km. in the following locations in the PRC:

Company concerned	Location	Ore reserves	Mining right number	Area (sq.km.)	Date of approval/ renewal	Period of validity	Expiry date
Guizhou Zijin	Zhengfeng county, Guizhou province	Gold	5200000220099	16.66	May 2002	2 years 3 months	August 2004
Guizhou Zijin	Zhengfeng county, Guizhou province	Gold	5200000310123	66.84	January 2003	2 years 2 months	March 2005
Guizhou Zijin	Xingren county, Guizhou province	Gold	5200000310124	7.75	January 2003	2 years 9 months	October 2005
Fujian Zijin	Hami city, Xinjiang	Copper	0100000110021	101.94	April 2001	3 years	April 2004
Fujian Zijin	Hami city, Xinjiang	Copper	0100000110022	101.94	April 2001	3 years	April 2004
Fujian Zijin	Hami city, Xinjiang	Copper	0100000110023	101.93	April 2001	3 years	April 2004
Fujian Zijin	Chizhou district, Anhui province	Gold and other metals	3400000330066	30.52	April 2003	2 years	April 2005
Fujian Zijin	Chizhou district, Anhui province	Gold and other metals	3400000330213	4.2	October 2003	2 years	October 2005
Fujian Zijin (note)	Chizhou district, Anhui province	Gold and other metals	3400000120053	12	June 2001	2 years	October 2003
Fujian Zijin	Chizhou district, Anhui province	Gold and other metals	3400000330209	5.6	October 2003	2 years	October 2005
Fujian Zijin	Hunchun city, Jilin province	Gold and copper	2200000310069	96.23	April 2003	1 year	April 2004
Fujian Zijin	Hunchun city, Jilin province	Gold and copper	2200000310071	49.48	April 2003	1 year	April 2004
Fujian Zijin	Hunchun city, Jilin province	Gold and copper	2200000310070	57.09	April 2004	1 year	April 2004
Fujian Zijin	Kaiyang county, Guizhou province	Aluminium	5200000310191	14.87	April 2003	1 year 7 months	February 2005
Fujian Zijin	Shanghang county, Fujian province	Gold	3500000330222	0.39	29th July, 2003	1 year	31st July, 2004
Fujian Zijin	Shanghang county, Fujian province	Gold	3500000330241	1.17	16th May, 2003	1 year 4 months	30th September, 2004
Tongling Zijin	Tongling county, Anhui province	Gold	3400000320150	2.65	30th July, 2003	2 years	29th July, 2005
Tongling Zijin	Tongling county, Anhui province	Gold	3400000320152	2.74	7th August, 2003	2 years	6th August, 2005
Tongling Zijin	Tongling county, Anhui province	Gold	3400000320153	2.95	7th August, 2003	2 years	6th August, 2005
Jiuzhaigou Zijin	Jiuzhaigou county, Sichuan province	Gold	5100000320348	4.86	24th October, 2003	1 year	24th October, 2004

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## BUSINESS

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Company concerned	Location	Ore reserves	Mining right number	Area (sq.km.)	Date of approval/ renewal	Period of validity	Expiry date
Jiuzhaigou Zijin	Jiuzhaigou county, Sichuan province	Gold	5100000320349	12.78	24th October, 2003	1 year	24th October, 2004
Jiuzhaigou Zijin	Jiuzhaigou county, Sichuan province	Gold	5100000320350	2.70	24th October, 2003	1 year	24th October, 2004
Jiuzhaigou Zijin	Jiuzhaigou county, Sichuan province	Gold	5100000320351	7.02	24th October, 2003	1 year	24th October, 2004

*Note:* the Company is currently in the process of renewing the subject exploration right.

### EXPLORATION

As a natural resource enterprise, the Group will endeavour to increase its resources and reserves by acquiring mining areas with sizeable established and fully outlined discovered reserves.

The Group has established an exploration team comprising geologists, engineers and other professionals to prospect for additional gold and copper mining opportunities within the exploration tenement areas of the Group. Currently, the Group is carrying out exploration at or near the Zijinshan Gold Mine, the Shuiyindong Gold Mine, the Hunchun Gold-Copper Mine, the Jiaochong Gold-Sulphur Mine, and its periphery and in the Hami district in Xinjiang.

As at the Latest Practicable Date, the Directors confirm that the Group has not been notified, or is not aware, of any potential claims by third parties in relation to its exploration rights.

### PRODUCTION PROCESS

The Group adopts the open pit mining method at the Zijinshan Gold Mine, which primarily uses heap leaching supplemented with gravity processing and carbon-in-leach processing, and the hot pressure elution and electrowinning refining process for smelting and metal extraction.

### MINING

The Group adopts the open pit mining method throughout the entire Zijinshan Gold Mine. The Group is the first mining enterprise in the PRC to adopt the steep-slope stripping technique. The obviates the need to strip overburden from the top of the mountain and has a balanced mining and stripping ratio. The application of the directional blasting technique by the Group has shortened the stripping time of the mine. By applying the micro-differentiation blasting technique, the non-electric detonating technique and the pre-split blasting technique, the mine is stripped efficiently, safely, and at low cost. The Group outsources the overburden stripping, which is the most labour-intensive part of the mining process, to several contractors who bid for the contract through a tendering process. This results in cost savings in respect of investment in equipment, maintenance, staff training, wages and other expenses, thus reducing the production costs of the Group by approximately 10% to 20% as compared to those of large State-owned mines.

**LEACHING AND ADSORPTION**

The Zijinshan Gold Mine adopts an ore processing method which combines the methods of crushing, screening, washing, gravity processing, fines carbon-in-leach and coarse heap leaching, with a recovery rate as high as 80%. The process is unique to the Zijinshan Gold Mine and is preferable to heap-leaching. The process has effectively solved the problem of coarse gold and the relatively high clay content in the ore. An open type non-fluid fixed adsorption device has been developed which effectively treats large volumes of gold-bearing solution from heap leaching operations, thus resulting in cost reductions. The device has also solved the problem of gold loss caused by carbon wear, resulting in costs reductions in power and make-up carbon.

**REFINERY**

The Group utilises a hot pressure elution and electrowinning technique. The gold refined at the gold refinery of the Group through this self-developed gold refining technique has been approved by the Shanghai Gold Exchange. The Group is equipped with a self-developed activated carbon regeneration furnace, which is one of the largest activated carbon regeneration furnaces in the PRC. It can maintain operational stability, a high recovery rate of activated carbon and a low cost of regeneration.

**PROCESS FLOW**

After overburden stripping, ore under 1,000 mm in size is loaded into mine cars through a chute, and is transported to a crusher dump pad. The primary crushed materials are conveyed to a surge bin before screening and secondary crushing. Ore is drawn from the surge bin by two vibrating mechanical feeders, each feeding a 2.4 m wide x 6 m long double deck wet screen. The bottom screen apertures of the screening machine are 8 mm, and the top deck apertures are 30 mm, in size. Oversized material of +30mm is passed to the secondary crusher, while fine material together with the secondary crusher discharge is conveyed to the storage bin. The crushed ore is transported by trucks to reusable leach pads, stacked in heaps of 8 m high and sprayed with dilute sodium cyanide solution over a 45-day to 60-day cycle. The overflow of pregnant liquor solution (PLS) from the heaping area gravitates into the carbon adsorption columns, where the gold is adsorbed from the solution onto the activated carbon up to a loading value of 4 g/kg. The gold loaded carbon is then extracted and conveyed to the refinery. The depleted solution is mixed with sodium cyanide and sodium hydroxide, before being recirculating to the heap leach area for spraying. Waste water containing cyanide is recovered in tailings dams for reuse and is discharged only under abnormal weather conditions and after treatment in compliance with the national discharge standard, which minimises impacts to the environment in surrounding areas.

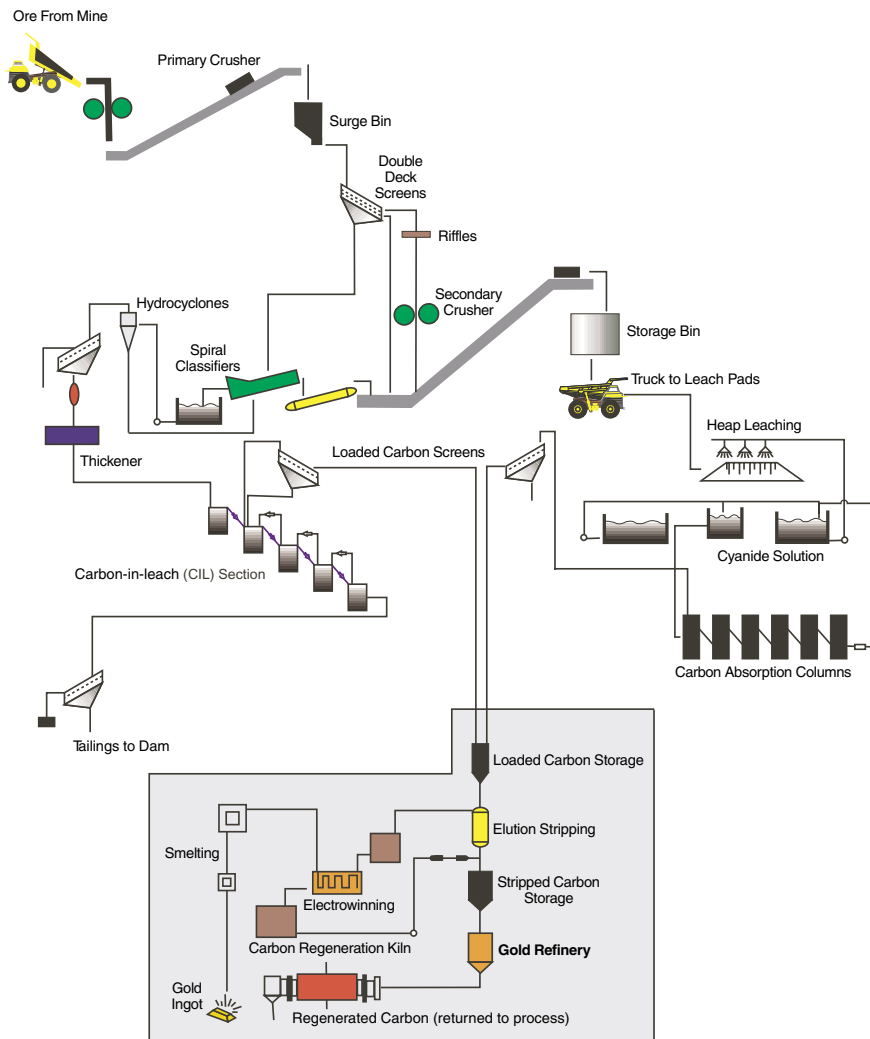
Slurried ore of under 8 mm from the bottom deck of each screen gravitates down a riffle to catch any remaining coarse gold, and is conveyed to a double helix spiral classifier of 3 metres in diameter. Classified coarse portion is conveyed to a feeder of the secondary crusher, and is delivered to a storage bin together with the secondary crushed ore, where it is loaded onto the trucks and transported to a leach pad. Slime overflow from each double helix spiral classifier is pumped to a cyclopack with four

hydrocyclone separators where the underflow from each hydrocyclone return to a spiral classifier. The overflow from the hydrocyclone in each cyclopack at 85% finer than 0.074 mm gravitates to a single thickener. Thickener underflow slurry goes to a carbon-in-leach section. Sodium cyanide is added for leaching with the dissolved gold absorbed on activated carbon granules in a leach slurry.

Activated carbon loaded with adsorbed gold (4 g/kg) from the heap leaching, carbon-in-leach sections and carbon columns scavenging effluent from dumps and tailings dams, is transported in sealed and locked containers in 3-5 batches to the refinery in Shanghang county, at a distance of 14.7 km.

For the refining process of the Group, the gold loaded carbon is treated with improved cyanide-free electrolysis and deposition. Gold extraction efficiency is over 98%, with depleted carbon assaying 70 g/t Au. After further refining, gold cathodes are melted into bullion of standard specifications.

The gold production process at Zijinshan Gold Mine is set out in the diagram below:



## BUSINESS

### CONTRACTING OUT

The Group sub-contracts the overburden stripping and transport work at Zijinshan Gold Mine to three contractors selected through a tendering process. The Directors believe that the sub-contracting arrangement not only reduces capital investment in equipment and human resources, but also enhances productivity and efficiency. The following table sets out the fees paid to the three contractors in relation to their services provided during the Track Record Period:

	Year ended 31st December,				Period ended			
	2000		2001		2002		30th June, 2003	
	<i>RMB'000</i>	<i>% RMB'000</i>	<i>RMB'000</i>	<i>% RMB'000</i>	<i>RMB'000</i>	<i>% RMB'000</i>	<i>RMB'000</i>	<i>%</i>
Xinhuadu Engineering <i>(note)</i>	84,908	74.0	98,573	63.3	102,276	54.6	48,679	49.4
Hongyang Mine <i>(note)</i>	23,049	20.1	44,266	28.4	69,576	37.1	36,441	36.9
Independent third party	<u>6,718</u>	<u>5.9</u>	<u>12,936</u>	<u>8.3</u>	<u>15,630</u>	<u>8.3</u>	<u>13,550</u>	<u>13.7</u>
<b>Total</b>	<u><u>114,675</u></u>	<u><u>100.00</u></u>	<u><u>155,775</u></u>	<u><u>100.00</u></u>	<u><u>187,482</u></u>	<u><u>100.00</u></u>	<u><u>98,670</u></u>	<u><u>100.00</u></u>

*Note:* Xinhuadu Engineering and Hongyang Mine are connected persons of the Company as defined in the Listing Rules.

The above represents all the stripping and transport cost of the Zijinshan Gold Mine, which is the principal operating asset of the Group.

The Directors believe that average stripping cost per unit gold produced gradually decreased for the year/period ended 31st December, 2002 and 30th June, 2003 mainly because i) the outer layer of gold deposits contains a relatively large quantity of waste ores and hence the average stripping volume during the initial development stage was substantively larger than that in a more developed stage; and ii) of an improvement in the processing of low-grade gold ores of gold, due to an improvement in production efficiency after completion of the technology advancement project at Zijinshan Gold Mine in 2001.

The percentage of the overall stripping cost to the Group's turnover decreased in the first six months ended 30th June, 2003 mainly because of i) a decrease in average contract blasting cost; ii) a consistent increase in average selling price of gold; and iii) an improved technology which enabled the Group to recover gold from low-grade ores.

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Under a stripping contract entered into between the Company and each of the contractors, each contractor must undertake stripping, mining and transportation services, under the same terms and conditions, in specific locations at the Zijinshan Gold Mine designated by the Group. The principal rights and duties of each party are summarised below:

	Contractors	The Company
Technical consultation and production planning	<ul style="list-style-type: none"><li>● execute the production plan provided by the Company within the designated mining area</li><li>● adhere to the management system and production guidelines of the Company</li><li>● strictly adhere to the arrangements and adjustments made by the Company on work performed</li></ul>	<ul style="list-style-type: none"><li>● provide on-site technical assistance and production guidelines to contractors</li><li>● ensure sufficient provision of basic utilities, including water and electricity supply</li><li>● monitor production process carried out by contractors and regularly assess their performance</li></ul>
Production safety and risk liability	<ul style="list-style-type: none"><li>● implement effective management system in environmental protection, production safety and security</li><li>● undertake legal responsibility and economic loss arising from accidents or negligence</li></ul>	<ul style="list-style-type: none"><li>● formulate production safety plans and provide instructions to contractors</li><li>● evaluate and inspect regularly the safety measures implemented by contractors</li></ul>
Completion and payment	<ul style="list-style-type: none"><li>● provide monthly stripping records and breakdown of production cost to the Company for settlement based on a predetermined quotation</li></ul>	<ul style="list-style-type: none"><li>● undertake monthly site inspections at the stripping areas of contractors</li><li>● examine production records of contractors and procure payments</li></ul>

Under the stripping contract entered into between the Company and each contractor, the Company engaged each contractor for the provision of services in stripping and transport work at the Zijinshan Gold Mine for a term of three years from 26th April, 2003, subject to renewal.

Since the services performed by the contractors are crucial to the production process at the Zijinshan Gold Mine, the Directors believe that a stable relationship with, and competitive performance by, these contractors are important to the Group. To some extent, the operations of the Group are affected by the performance of these contractors. However, under each stripping contract, the Group retains control over technical support, production planning and management. The Directors believe that the Group will be able to locate suitable replacements if any of the contractors were to cease business with the Group. In addition, in view of the bulk stripping volume of the Zijinshan Gold Mine, the Directors believe that the provision of services to the Group is equally important to the contractors.

### **QUALITY CONTROL**

The gold refinery of the Group established and implemented a gold production quality system in accordance with the requirements of ISO9002:1994 Standards. In December 2000, the Group obtained the ISO9002:94 Quality System Certification and Au-1 Gold Bullion (gold purity  $\geq 99.99\%$ ) Quality Certification. As such, the Group is the first enterprise in the PRC gold industry awarded both certifications.

### **ENERGY SUPPLY AND RAW MATERIALS**

Electricity is one of the main energy sources used for gold production by the Group. The Group operates a hydro-power station of 4,800 KW capacity at the east of the Zijinshan Gold Mine and the Zijinshan Copper Mine. This station is linked with the electricity grid of Shanghang county district, which provides electricity to the Zijinshan Gold Mine and the Zijinshan Copper Mine. If the hydro-power station were to fail to meet the electricity requirements of the Zijinshan Gold Mine and the Zijinshan Copper Mine, the shortfall will be supplemented by the regional power network at rates prescribed by the local government. The Directors confirm that the Group has not experienced a material interruption of its operations due to a suspension or shortage of electricity. The other mines of the Group obtain their electricity supply from neighbouring transformer stations, which ensure an ample electricity supply.

In gold production, water is mainly used for mineral processing. The Zijinshan Gold Mine consumes approximately 6,000 tpd of water. To the east and west of the Zijinshan mining area are the old county river and the Dingjiang river, which provide a plentiful supply of quality water. The other mines of the Group retain river or surface water during rainy seasons. During periods of drought, water is supplied from a local reservoir.



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The major raw materials required in the production of the Group mainly include activated carbon and sodium cyanide. An analysis of electricity, water and raw materials to the cost of sales of the Group during the Track Record Period is set out below:

	Year ended 31st December,						Six months ended 30th June,	
	2000		2001		2002		2003	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Electricity and water	7,210	4.46	4,750	2.28	9,019	2.99	6,946	2.99
Activated carbon	2,108	1.30	1,877	0.90	3,434	1.14	1,130	0.49
Sodium cyanide	9,310	5.76	11,392	5.48	19,483	6.47	10,278	4.42
Cost of sales	161,684	100.00	207,879	100.00	301,278	100.00	232,567	100.00

Raw materials are purchased from domestic suppliers under short-term contracts. The Group regularly monitors fluctuations in market prices of raw materials and assesses their impact on the operations of the Group. The following table illustrates fluctuations in the average unit price of major raw materials:

	Year ended 31st December,			Period ended
	2000		2001	30th June,
	2000	2001	2002	2003
Activated carbon (RMB/kg)	10.01	9.27	8.82	8.26
Sodium cyanide (RMB/kg)	11.96	10.89	10.29	9.93

Purchases of raw materials by the Group are settled in Renminbi. Normal credit terms granted to the Group by its major suppliers range from 30 days to 90 days on an open account basis. The Group maintains a good relationship with its suppliers, which facilitates management of the supply chain and ensures regular quality supplies. The Group usually makes a partial payment of a maximum of 60% of the value of an invoice upon, receipt of goods and the balance is repayable within 90 days.

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Purchases of raw materials from the five largest suppliers of the Group are set out in the table below:

<b>Year/period ended</b>	<b>Amount</b> <i>(RMB'000)</i>	<b>Proportion to</b>	
		<b>Total purchase</b>	<b>Cost of sales</b>
2000	38,412	48.39%	23.76%
2001	48,725	55.56%	23.44%
2002	50,697	65.95%	16.83%
30th June, 2003	37,127	71.81%	15.96%

Purchases of raw materials from the largest supplier of the Group are set out in the table below:

<b>Year/period ended</b>	<b>Amount</b> <i>(RMB'000)</i>	<b>Proportion to</b>	
		<b>Total purchase</b>	<b>Cost of sales</b>
2000	19,285	24.29%	11.93%
2001	28,030	31.96%	13.48%
2002	26,389	34.33%	8.76%
30th June, 2003	14,776	28.58%	6.35%

As at the Latest Practicable Date, none of the Directors, the Supervisors, their respective associates nor any shareholders of the Company (who or which to the knowledge of the Directors owns more than 5% of the issued share capital of the Company) has any interest in the five largest suppliers of the Group.

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### SALES OF PRODUCTS, STRATEGY AND PRICING

A breakdown of the revenue of the Group by products during the Track Record Period is set out in the table below:

	Year ended 31st December,						6 months ended	
	2000		2001		2002		30th June,	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Turnover:								
Sales of gold bullion	289,650	97.2	325,726	87.4	584,232	97.8	485,257	96.4
Sales of gold bearing materials	8,362	2.8	46,780	12.6	—	—	—	—
Sales of gold concentrates	—	—	—	—	—	—	4,327	0.8
Sales of iron concentrates	—	—	—	—	4,138	0.7	4,923	1.0
Sales of copper concentrates	—	—	—	—	—	—	1,872	0.4
Sales of copper cathodes	—	—	—	—	8,929	1.5	7,207	1.4
Less: Sales taxes and levies	(1,915)	—	(2,749)	—	(4,645)	—	(3,452)	—
	<u>296,097</u>	<u>100.0</u>	<u>369,757</u>	<u>100.0</u>	<u>592,654</u>	<u>100.0</u>	<u>500,134</u>	<u>100.0</u>

The principal product of the Group is gold. Prior to the commencement of the Shanghai Gold Exchange on 30th October, 2002, PBOC purchased the gold bullions, and other refining enterprises purchased the gold bearing materials and mineral ores, produced by the Group. The price of gold was adjusted from time to time in accordance with the price of gold on the international market and other domestic considerations. An analysis of the average price of gold sold during the Track Record Period is set out in the table below:

Year/period ended	Quantity of gold sold (kg)	Gross sales of gold bullions and gold bearing materials (RMB'000)	Average price (RMB/gram)
2000	3,957	298,012	75.3
2001	5,197	372,506	71.7
2002	7,225	584,232	80.9
30th June, 2003	5,222	485,257	93.0

The Group holds regular sales meetings, where the general manager and market traders discuss weekly sales forecasts and prices. Prices are determined mainly by reference to prices in the international market and supply and demand in China. The market traders carry out on-line transactions daily according to the proposed available sales volume and the price range, and the Group verifies the transaction records and details online. The marketing department also reports to the general manager on these transactions. The Group, as a gold producer, utilises the Shanghai Gold Exchange as a sales platform. The Directors confirm that the Group has not been involved in any speculative and hedging transactions. Under PRC law, hedging activities presently are not allowed in gold trading. The Group will consider conducting appropriate hedging measures if and when permitted.

## **CUSTOMERS AND SETTLEMENT OF COMMODITY**

Prior to the commencement of the Shanghai Gold Exchange on 30th October, 2002, PBOC purchased the gold bullions, and other refining enterprises purchased the gold bearing materials and mineral ores, produced by the Group. For each of the three years ended 31st December, 2002, the sales of the Group to PBOC amounted to approximately RMB289.7 million, RMB325.7 million and RMB474.5 million, representing approximately 97.2%, 87.4% and 79.4% to the gross turnover of the Group respectively. Subsequent to the commencement of the Shanghai Gold Exchange, the Group sold its gold bullions online through the Shanghai Gold Exchange. For the year ended 31st December, 2002 and the six months ended 30th June, 2003, sales to the customers of the Group through the Shanghai Gold Exchange amounted to approximately RMB109.7 million and RMB485.3 million, representing approximately 18.4% and 96.4% to the gross turnover of the Group respectively.

Other products of the Group (such as gold bearing materials, iron ores and copper) are normally sold to refineries or other ore mining factories.

Since the Group sells its gold bullions online through the Shanghai Gold Exchange, settlements are effected at the vault of the Shanghai county branch of the Industrial and Commercial Bank of China. A quantity of gold corresponding to each transaction is withdrawn from the vault of the Group one day after the transaction made at the Shanghai Stock Exchange, and payments made by customers to the Group are deposited to the bank account of the Group by the receiving bank. Since clearing and settlement are processed by the Shanghai Gold Exchange, the Group does not incur significant trade receivables and is not exposed to any doubtful debts on its sales of gold bullions. For its other products, the Group normally requests its customers to make purchase COD or offers a credit term of less than 30 days. All of the sales of the Group are denominated in RMB.

## **THE MODE OF OPERATION OF THE SHANGHAI GOLD EXCHANGE**

### **General**

Prior to the commencement of operation of the Shanghai Gold Exchange, the PRC gold market was relatively tightly controlled by the Chinese Government. Purchase and allocation of gold were centralised by the State and production, circulation, and consumption of gold were restricted to limited participants. The commencement of the Shanghai Gold Exchange created a transparent and open

platform for transaction of precious metals (such as gold, silver and platinum) to its registered participants. The Shanghai Gold Exchange operates on a membership system and each member, including an enterprise engaged in the production, refining, processing, wholesale and import and export of precious metals (such as gold, silver and platinum), is required to be registered as a financial institution in the PRC and approved by the PBOC. At present, the Shanghai Gold Exchange consists of 108 members.

### **Rights and obligations of members**

Members are authorised to carry out transactions online through the Shanghai Gold Exchange. Members are entitled to obtain trading information, facilities and services provided by, and to vote at a regular meeting of, the Shanghai Gold Exchange.

Membership is transferable subject to the rules of the exchange. Members are obliged to comply with the rules and regulations of the exchange and to provide the exchange with all necessary operating and financial information as and when required.

### **Types of gold products, quality standard and exchange levies**

The Shanghai Gold Exchange is a platform for trading gold bullions and gold coins of Au99.99, Au99.95, Au99.9 and Au99.5 standards with a standard weight of 50g, 100g, 1kg, 3kg and 12.5kg. The Shanghai Gold Exchange is located at No. 15, East Zhongshan 1 Road and its trading hours are from Monday to Friday (except Chinese public holidays) 10:00a.m. to 11:30a.m. and 13:30p.m. to 15:30p.m.

All gold products traded in the Shanghai Gold Exchange are of qualified standard and are produced by corporations registered with the Shanghai Gold Exchange. Currently, a transaction fee of 0.06% and other related charges (such as a transportation fee and an insurance fee), which are assessed based on the volume of gold sold, are payable to the exchange.

### **Mode of dealing**

Members of the Shanghai Gold Exchange can trade on spot or in distant. Spot trading allows members to trade in a trading floor designated by the Shanghai Stock Exchange. Distant trading permits members to trade in its preferred area via the internet network.

Trading of gold in the Shanghai Gold Exchange can be settled either by spot or in futures. Spot trade are settled “T+0” (T is defined as the date of transaction). A member can collect a purchase within 3 days of submitting an application to the Shanghai Gold Exchange. All futures contracts must be settled within “T+X” (X being the date of the deadline of the futures contract).

A buyer is required to deposit sufficient funds in Renminbi in its specific transaction account with the exchange before effecting a purchase. A seller must deposit its gold at the designated vault of the Shanghai Gold Exchange.

The exchange is authorised to request suspension of trading of a specific product in the case of price volatility. The exchange also monitors trading activities between, and regulates breaches of rules by, its members.

### **Clearing system and settlement**

A spot transaction is settled in full on the same day of a transaction effected after normal trading hour. Funds are automatically deducted from the account of the buyer and deposited to the account of the seller, so no credit risk and receivable is incurred. A buyer must, within 30 minutes after the end of each trading day, submit an application form for delivery that day of the gold that it has purchased or to specify an alternate day for delivery of the gold. The gold is delivered to a buyer within 3 working days (or within 5 working days, if a buyer is located in a remote area) of the submission of the application form.

### **INFORMATION MANAGEMENT OF THE GOLD VAULT**

Upon deposit of gold in a designated vault of the exchange, information (such as the bullion numbers, net weight and purity) is inputted in the management system of the vault. The management system automatically creates a gold deposit receipt which is transmitted to the exchange and the Group. After a transaction is effected, the relevant amount of gold is withdrawn from the designated vault. A member is able to verify through its network terminal the balance of gold in its designated vault.

### **CUSTODY AND ACCESS CONTROL**

Gold and gold bearing materials (including gold concentrates and gold tailings) are kept in storage units with access restricted to authorised persons. Each storage unit is attended to by at least three security guards 24 hours a day and is equipped with advanced electronic security and alarm systems. Particulars (such as quantity, ingredients and reference number) are recorded. Transportation of gold bearing materials to, and from, mining facilities is attended to by at least three security guards. Gold bullion is delivered to a vault in specially designed vehicles with closed trunks and dual security systems.

Restricted areas (such as storage, mining facilities and refineries) are fenced to prevent trespassing and are under stringent surveillance controls. Access to these areas is restricted to authorised persons.

### **COMPETITION**

The Directors consider that the price of gold in the PRC is highly influenced by the price of gold in the international market (which is denominated in US dollars) and the exchange rate of the US dollar to Renminbi. At present, the price of gold in the PRC is generally in line with the price of gold in the international market.

If the gold produced meets the quality standards for centralised settlement of the gold market, the sale of gold encounters no difficulty. As a result, the Group currently does not face competition from other gold producers in the PRC, or from gold producers in the international market, in respect of the sale and price of gold.

At present, high grade gold mineral resources available for mining are scarce in the PRC. The Directors believe that the Group has advanced technologies that enables the development of low grade ores and refractory minerals in a cost-effective manner, and has enabled the Group to maintain a leading position in the competition for resources among domestic gold producers. As a result of the accession by the PRC to the WTO, exploration and refining of low grade and refractory gold deposits have been included within the category of industries that encourage foreign investment, especially in the western regions where foreign investors are permitted to conduct wholly-owned exploration, development and exploitation of low grade and refractory gold deposits. Accordingly, the Group will face increasing competition for domestic resources from gold producers in the international market, especially with respect to gold mines in the western regions.

### AWARDS AND CERTIFICATES

- In December 2000, the Group obtained dual certification in the GB/T 19002-94-ISO9002:94 Quality System and Au-1 Gold Bullion Product Quality granted by the Quality Certification Center of the PRC;
- In February 2001, the Group was recognised as a “Key High Technology Enterprise of the State Torch Project” by the Torch High Technology Industry Development Center of the Ministry of Science and Technology;
- In October 2001, the Group was granted the Au-1 Gold Bullion qualification by the Shanghai Gold Exchange;
- In January 2002, the laboratory of the Group was granted National Laboratory Certification;
- In March 2000, a geological study and resources assessment, which was undertaken by the Zijinshan Gold Mine, was awarded the special prize for progress in gold technology by the State Economic and Trade Commission;
- In December 2002, carried an overall utilisation study on the low grade ores ( $1.0 \times 10^{-6}$ ), which was undertaken by the Zijinshan Gold Mine, was awarded first-class technology prize by the Gold Association of China;
- In June 2002, the Company was rated as an AAA grade company in creditworthiness by the Fujian Branch of the Agricultural Bank of China;
- In November 2002, the Company was rated as one of the “top ten honest companies in paying taxes in Fujian in 2001” by the Fujian Taxation Bureau;

- In November 2002, the Company was rated as one of the “top hundred companies in tax contributions in Fujian in 2002”; and
- In March 2003, the Company was rated as a “contract-performing and creditworthy company in Fujian in 1997-2002”.

### TECHNOLOGICAL SUPPORT

An in-house research centre provides technological support and trains and develops technical and management personnel for the Group. In 2000, it was recognised by the Fujian Provincial Economic and Trading Commission as an enterprise technology centre at the provincial level.

The Group established Xiamen Zijin to capitalise on the communicational, informational and environmental advantages of Xiamen city, Fujian province, the PRC, to attract qualified persons in hydrometallurgy.

At the Latest Practicable Date, the Group has 1,035 employees of which 73 employees work for the in-house research centre.

In July 2002, the Group established a post-doctorate research station approved by State Personnel Ministry which employs doctorate degrees. The Directors believe that the post-doctorate research station enhances cooperation between the Group and the research institutes of universities, and is beneficial to the development of the technology of the Group.

In September 2000, the Group established a small scale copper production plant for trial production of copper using a biological hydrometallurgy technique. For each of the three years ended 31st December, 2002 and the six months ended 30th June, 2003, the Group incurred expenses of RMB985,000, RMB4,518,000, RMB8,543,000 and RMB6,259,000 for the operation of the copper production plant. Of this, RMB985,000, RMB2,477,000, RMB7,883,000 and RMB6,218,000 were respectively charged to the profit and loss account of the Group and the balance was capitalised in 2001, upon commencement of operation of the copper production plant. For the year ended 31st December, 2002 and the six months period ended 30th June, 2003, the Group recorded sales of copper of RMB8,929,000 and RMB7,207,000. During the Track Record Period, the Group incurred expenses of RMB303,000, RMB2,767,000, RMB4,611,000 and RMB1,269,000 for technical support and related expenses on other projects which were charged to the profit and loss account of the Group. During the Track Record Period, the Group incurred expenses of RMB2,696,000, RMB4,525,000, RMB8,969,000 and RMB1,181,000 for the purchase of fixed technological assets.

Major research projects recently undertaken by the Group include:

- geological research on gold and non-ferrous metal ore deposits;
- research on pre-oxidation treatment technique for the micro-impregnation of refractory minerals;



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- research on biological hydrometallurgy technique for low-grade arsenic copper ore and pressurised hydrometallurgy for fine-grained copper ore; and
- research on the processing technology for large-scale comprehensive utilisation of low-grade gold ores with grades equal or below 0.5 g/t.

The above research projects are included in the “Catalogue of key industries, products and techniques currently encouraged for development by the State (當前國家重點鼓勵發展的產業, 產品和技術目錄)”.

### INTELLECTUAL PROPERTY RIGHTS

The Company owns a patent, particulars of which are as follows: practical new type patent certificate number 483892; name of practical new type patent: open non-fluid fixed adsorption device (敞口式非流態化固定床吸附裝置); patent application date: 9th May, 2001; authorised notification date: 13th March, 2002.

The Company owns a trademark  ZIJIN, particulars of which are as follows: trademark registration certificate number 1560573; certified application commodity category number 14: gold bullion, silver bullion; validity of registration: 28th April, 2001 to 27th April, 2011.

The Company has applied for registration of a patent, particulars of which are as follows: name of practical new type patent: ionic raw earth stir-leach counter-current washing process (離子型稀土攪拌浸出逆流洗滌用意).

### INSURANCE

The Group has taken out insurance on certain of its assets (including fixed assets, motor vehicles, properties, machinery and equipment) which are subject to certain operating risks. During the Track Record Period, the amount of insurance fee paid by the Group was approximately RMB874,000, RMB775,000, RMB668,000 and RMB756,000 respectively.

The Group participates in the labour insurance scheme of the Social Labour Insurance Company. The Group has not taken out third party insurance for accidents, lock-outs and environmental damage arising in the course of its business.

### REPAIR AND MAINTENANCE

The Group has a team of technicians which annually performs inspection and maintenance on all of the processing and refining equipment, pipelines, electric circuits and other facilities of the Group. The team also regularly performs inspections on performance and spare parts on major production facilities of the Group, based on the usage rate and nature of these facilities. The Group formulates a repair and maintenance programme to ensure that production is not affected.

Workers also carry out daily maintenance and fine-tuning of the processing and refining equipment which they operate, and report to the team which performs inspection and maintenance in the event of irregularity or malfunction.

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### PROPERTIES

The Group's headquarters are located in Shanghang county, Longyan city, Fujian province, the PRC.

The Group owns 10 properties in Shanghang county which are utilised for its operations. During the term of the land use rights, the Group is entitled to the legal and valid ownership of the properties, and has paid all expenses, fees, taxes and other amounts which are payable for such rights. The Group has obtained all government approvals, permits and consents, and has attended to all registrations and filings, in respect of such rights.

DTZ Debenham Tie Leung Limited, an independent property valuer, valued the properties of the Group, as of 30th September, 2003, at RMB113,765,560. The valuation report of DTZ Debenham Tie Leung Limited is set out in Appendix III of this prospectus.

### ENVIRONMENTAL PROTECTION AND SAFETY

#### Environmental protection measures

The Group is subject to the environmental protection laws and regulations issued by the State and environmental protection regulations issued by the local governments of the locations of the operations of the Group. During the Track Record Period, the Group paid environmental-related fees in relation to its operation as follows:

	Year ended 31st December,			Period ended
	2000	2001	2002	30th June,
	(RMB'000)	(RMB'000)	(RMB'000)	2003
				(RMB'000)
Sewage drainage fee	1,500	2,050	2,520	1,753
Water and soil protection fee	200	240	330	214
Others	<u>209</u>	<u>251</u>	<u>64</u>	<u>13</u>
Total	<u>1,909</u>	<u>2,541</u>	<u>2,914</u>	<u>1,980</u>

The Directors believe that environmental protection of its mining areas is of utmost importance. Commissioned by the Shanghang government, the China Environmental Science Research Institute and The China Environmental Planning Institute have taken the Zijinshan Gold Mine as an example of environmental planning and research on the sustained development of gold and copper mines.

According to research conducted by the above mentioned institutes, the problem of waste water in the Zijinshan Gold Mine is mainly related to the two sources of waste water connected with cyanide compounds: waste water from heap leaching and waste water from carbon leaching. As a result of adopting an advanced production process in the mining area, the cyanide-containing solution from heap leaching is circulated in a closed-end environment, and is discharged only under abnormal weather conditions and after treatment. In addition, as water discharged from the Zijinshan Gold Mine undergoes prolonged retention at the tailings dams, hazardous materials in the waste water are diminished. After treatment with bleaching powder, the density of cyanide compounds falls far below the required national discharge standards. In order to fully control the discharge of waste water containing cyanide, the Zijinshan Gold Mine implemented a zero discharge engineering flow and carried out closed-end recycling of waste water by changing the process of washing, cyanide reaction, carbon-leaching, condensing - tailings in the original carbon leaching into washing, condensing, water recovery, cyanide reaction, carbon-leaching, tailings, sedimentation and waste water recovery for reuse. Rain water in excess of the markings in the tailings dams is drained out of the depot area through a drainage system, whereas waste water in the tailings is collected in the water recovery pond and the upper pond in the carbon-leaching plant for reuse. This saves treatment costs for the continued cyanide containing waste water and minimises the outward leak of cyanide containing wastes, and thus solves the problem of waste discharge, and recovers a small amount of gold and cyanide compounds in the waste water.

In respect of the disposal of solid waste, the excavation of soil, rocks and the treated heap leach residue and tailings from the carbon-in-leach in the Zijinshan Gold Mine are general waste materials. The Zijinshan Gold Mine adopts various engineering measures in relation to dumping of solid wastes and its ecological and environmental problems, for example, reinforcing upstream dams, minimising water overflow into the pit, separating the clear water stream from the waste water stream and minimising the extent of the polluted area. Also, barrier dams to block out clay and water have been built downstream from the pit to allow the clay and sand to precipitate. The treated precipitated water is then discharged as soon as it reaches the required quality standard.

The overall utilisation of gold-containing solid waste and environmental protection are of great importance to the Group. The project capitalises on its pioneering mineral processing technique to recover solid waste with gold contents of 0.3 to 0.6 g/t Au. The method of soil removal at the permanent dumping site formed by tailings dams will also be changed in order to address the problem of mud-rock flows, which effectively prevents soil erosion. The drainage system created in construction works can effectively divert floods, recycle industrial water, prevent water pollution and save water resources. Upon completion and commencement of operation, the processing capacity will be approximately 20,000 tpd of solid waste and will have a production rate of gold of 1,791 kg per annum.

The Directors believe that the Group has taken a comprehensive approach in reviewing and complying with the relevant environmental regulations and laws. Site inspections undertaken by SRK also confirm that detailed environmental planning has been implemented at each of the Group's mines and that the operations are undertaken in an environmentally very responsible manner, with the possible exception of the Paodaoling Gold Mine where environmental conditions can be improved. The Group will continue to monitor the environmental conditions at the Paodaoling Gold Mine and implement appropriate mitigation measures to rectify the situation.

Since the Zijinshan Gold Mine is the principal operating asset of the Group, its compliance with environmental protection requirements is of utmost importance to the Group. The Fujian Environmental Protection Bureau issued a confirmation (閩環保科函[2003]6號) that the Company has not violated the laws and regulations on environmental protection during the Track Record Period. The other mining projects of the Group, being the Shuiyindong Gold Mine, the Paodaoling Gold Mine, the Hunchun Gold-copper Mine, and Ashele Copper-zinc Mine, comply with the laws and regulations during the Track Record Period. In the opinion of Fuzhou Zenith Law Firm, the PRC lawyers of the Company, all operating mines of the Group have not violated the laws and regulations on environmental protection during the Track Record Period.

### **Production safety measures**

The Group has installed safety protection facilities, hazard prevention measures and preventive measures. As the Zijinshan Gold Mine adopts the open-pit mining method, occurrence of major accidents in the mine is minimised. The Directors confirm that the Group has not experienced any severe accidents in its business operation and adequate insurance coverage has been made during the Track Record Period.

### **NON-COMPETITION UNDERTAKINGS**

Xinhang Investment, a Promoter and controlling shareholder of the Company, is principally engaged in investments in various industries (such as mining, public utilities, chemical products and industrial equipment manufacturing). The Directors have been advised that Xinhang Investment currently has not participated, directly or indirectly, in any business which may compete or is likely to compete, directly or indirectly, with the business of the Group and has no intention to acquire or participate, directly or indirectly, in any business that may compete or is likely to compete, directly or indirectly, with the business of the Group. The Directors believe that Xinhang Investment has not participated in mining business other than through its investment in the Company.

On 31st October, 2003 respectively, Xinhang Investment, Jinshan Trading, Xinhua Industrial and Xinhua Engineering (together the “Undertakers”) undertook to the Company, amongst other things, that they or their subsidiaries will engage in or be interested, directly or indirectly, in any business that may compete, directly or indirectly, with the business of the Group. Such undertakings remain valid in respect of the Undertakers unless (i) each Undertaker and its associates cease to be beneficially interested, directly or indirectly, in 5% or more of the issued share capital of the Company; or (ii) the H Shares are not listed on the Stock Exchange.

**CONNECTED TRANSACTIONS OF THE GROUP****Summary**

Prior to the listing of the H Shares on the Stock Exchange, the companies comprising the Group maintained business relationships with certain parties, which will be connected persons of the Company under the Listing Rules after the Listing Date. The following transactions between the Group and the above mentioned parties will continue after the Listing Date and, so long as the party(ies) involved remain(s) connected persons, will constitute connected transactions of the Group under the Listing Rules.

**1. *Purchase of goods from connected persons****Purchase of construction materials from Jinshan Trading*

Transaction nature:

Jinshan Trading is a Promoter. Upon completion of the Share Offer, Jinshan Trading will hold approximately 13.51% of the issued share capital of the Company (assuming the Over-allotment Option is not exercised). Jinshan Trading will be a connected person of the Group under the Listing Rules.

Jinshan Trading provided steel plates, welding pipes and cement to the Company during the Track Record Period. For the three financial years ended 31st December, 2002 and the six months ended 30th June, 2003, the consideration was approximately nil, RMB1,329,124, RMB3,736,916 and RMB915,000.

The Directors believe that the consideration for the year ended 31st December, 2003 will be less than HK\$1,000,000 or RMB1,050,000.

Pricing basis:

The Directors, including the independent non-executive directors, confirm that the connected transaction was, or will be, carried out in the ordinary and usual course of business on terms by reference to the market price or on similar terms offered to independent third parties in the ordinary course of business.

The Directors further confirm that the consideration agreed to between the Group and the connected person was negotiated on an arm's length basis, is fair and reasonable and constitutes normal commercial terms.

Applicable Listing Rules:

The transaction will be an exempt connected transaction under rule 14.24(5) of the Listing Rules for the reasons set out in the paragraph "Exempt connected transactions" in this section. As an exempt connected transaction, no disclosure or approval by independent shareholders will be required.

## 2. *Provision of services by connected persons*

### 2.1 *Provision of geological prospecting services by Guizhou Bureau of Geology & Mineral Resources 105 ( 貴州省地質礦產勘查開發局105地質大隊 )*

Transaction nature:

Pursuant to an agreement dated 19th February, 2003 entered into between Guizhou Zijin and Guizhou Bureau of Geology & Mineral Resources 105 (a promoter of Guizhou Zijin), Guizhou Bureau of Geology & Mineral Resources 105 provided geological prospecting services to Guizhou Zijin. The geological prospecting services fees for the six months ended 30th June, 2003 were approximately RMB80,000. Such geological prospecting services were not provided in 2000, 2001 and 2002.

Pricing basis:

The Directors, including the independent non-executive directors, confirm that the transaction was, or will be, carried out in the ordinary and usual course of business and on terms by reference to the standard fee scale issued by the PRC government, which are no less favorable than those available from independent third parties.

The Directors further confirm that the consideration agreed to between the Group and the connected person was negotiated on an arm's length basis, is fair and reasonable and constitutes normal commercial terms.

Applicable Listing Rules:

The transaction will be an exempt connected transaction under rule 14.24(5) of the Listing Rules for the reasons set out in the paragraph "Exempt connected transactions" in this section headed "Business". As an exempt connected transaction, no disclosure or approval by independent shareholders will be required.

### 2.2 *Provision of geological prospecting and drilling services by Anhui Geological and Mining Bureau, Geological Team 321 ( 安徽省地質礦產局321地質隊 )*

Transaction nature:

Under three agreements, one dated 13th December, 2002 and the other two dated 11th March, 2003 entered into between Anhui Zijin and Anhui Geological and Mining Bureau, Geological Team 321 (a promoter of Tongling Zijin), Anhui Geological and Mining Bureau, Geological Team 321 provided geological prospecting and drilling services to Anhui Zijin. For the six months ended 30th June, 2003, the consideration was approximately RMB246,000. Such geological prospecting and drilling services were not provided in 2000, 2001 and 2002.

Pricing basis:

The Directors, including the independent non-executive directors, confirm that the transaction was, or will be, carried out in the ordinary and usual course of business and on terms by reference to the standard fee scale issued by the PRC government, which are no less favorable than those available from independent third parties.

The Directors further confirm that the consideration agreed to between the Group and the connected person was negotiated on an arm's length basis, is fair and reasonable and constitutes normal commercial terms.

Applicable Listing Rules:

The transaction will be an exempt connected transaction under rule 14.24(5) of the Listing Rules for the reasons set out in the paragraph "Exempt connected transactions" in this section below. As an exempt connected transaction, no disclosure or approval by independent shareholders will be required.

### 2.3 *Provision of supervision services by Xinjiang Non-ferrous Metals Industry Engineering Quality Control Team (新疆有色金属工业工程质量监督站)*

Transaction nature:

Xinjiang Non-ferrous Metal Quality Control Team is a subsidiary of Xinjiang Non-ferrous Metal Industry (Group) Company Limited, Xinjiang Non-ferrous Metal Industry (Group) Company Limited holds a 29% interest in, and will be a substantial shareholder of, Xinjiang Ashele. Xinjiang Non-ferrous Metal Quality Control Team will be a connected person of the Group under the Listing Rules.

Under an agreement dated 27th October, 2002 entered into between Xinjiang Ashele and Xinjiang Non-ferrous Metal Quality Control Team, Xinjiang Non-ferrous Metal Quality Control Team provided supervisory services to the Ashele Copper Mining Project for a fee of RMB250,000. No costs were incurred in each of the three financial years ended 31st December, 2002. For the six months ended 30th June, 2003, the consideration was RMB100,000. The transaction is expected to be completed by the end of 2004.

Pricing basis:

The Directors, including the independent non-executive directors, confirm that the transaction was, or will be, carried out in the ordinary and usual course of business and on terms by reference to the standard fee scale issued by the PRC government, which are no less favorable than those available from independent third parties.

The Directors further confirm that the consideration agreed to between the Group and the connected person was negotiated on an arm's length basis, is fair and reasonable and constitutes normal commercial terms.

### Applicable Listing Rules:

The transaction will be an exempt connected transaction under rule 14.24(5) of the Listing Rules for the reasons set out in the paragraph “Exempt connected transactions” in this section below. As an exempt connected transaction, no disclosure or approval by independent shareholders will be required.

### 2.4 *Provision of drainage and water pipe construction works by Xinjiang Aletai Zhenan Blast Limited (新疆阿勒泰震安爆破有限公司)*

#### Transaction nature:

Xinjiang Aletai Zhenan Blast Limited is a subsidiary of Xinjiang Geological, Mining and Prospecting Development Bureau, a promoter of Xinjiang Ashele. Xinjiang Aletai Zhenan Blast Limited will be a connected person of the Group under the Listing Rules.

Under an agreement entered into between Xinjiang Ashele and Xinjiang Aletai Zhenan Blast Limited on 1st July, 2002, Xinjiang Aletai Zhenan Blast Limited provided water pipe construction services to Xinjiang Ashele. No fees were charged for each of the three financial years ended 31st December, 2002. For the six months ended 30th June, 2003, the consideration was approximately RMB237,000.

#### Pricing basis:

The Directors, including the independent non-executive directors, confirm that the transaction was, or will be, carried out in the ordinary and usual course of business and on terms by reference to the standard fee scale issued by the PRC government, which are no less favorable than those available from independent third parties.

The Directors further confirm that the consideration agreed to between the Group and the connected person was negotiated on an arm’s length basis, is fair and reasonable and constitutes normal commercial terms.

### Applicable Listing Rules:

The transaction will be an exempt connected transaction under rule 14.24(5) of the Listing Rules for the reasons set out in the paragraph “Exempt connected transactions” in this section below. As an exempt connected transaction, no disclosure or approval by independent shareholders will be required.



2.5 *Provision of stripping work by Hunchun Gold and Copper Mining Company Limited*  
( 琿春金銅礦業有限責任公司 )

Transaction nature:

Hunchun Gold and Copper Mining Company Limited is a Promoter and a substantial shareholder of Hunchun Zijin, a subsidiary of the Company. Hunchun Gold and Copper Mining Company Limited will be a connected person of the Group under the Listing Rules.

Under two contracting agreements dated 27th March, 2003 and a supplemental agreement dated 27th May, 2003 entered into between Hunchun Zijin and Hunchun Gold and Copper Mining Company Limited, Hunchun Gold and Copper Mining Company Limited provided exploitation services at Nanshan Mine ( 南山井 ) and Northern part of Chuguang Gold and Copper Open Pit Mine ( 曙光金銅礦北山露天採礦場 ) from 27th March 2003 to 31st December, 2003. The Directors believe that contracting out exploitation works reduces capital investment by the Group in equipment and human resources and enhances productivity and efficiency of exploitation.

The value was calculated according to the unit price specified in the contracting agreements and the amount of the work undertaken by Hunchun Gold and Copper Mining Company Limited. For each of the three financial years ended 31st December, 2002, such transaction did not occur, as Hunchun Zijin was incorporated on 10th January, 2003. For the six months ended 30th June, 2003, the consideration was approximately RMB1,752,000. The Directors believe that the total consideration will not exceed RMB4,000,000.

Pricing basis:

The Directors, including the independent non-executive directors, confirm that the transaction was, or will be, carried out in the ordinary and usual course of business and on terms by reference to the standard fee scale issued by the PRC government, which are no less favorable than those available from independent third parties.

The Directors further confirm that the consideration agreed to between the Group and the connected person in the connected transaction was negotiated on an arm's length basis, is fair and reasonable and constitutes normal commercial terms.

Applicable Listing Rules:

The transaction will be a non-exempt connected transaction under rule 14.25(1) of the Listing Rules for the reasons set out in the paragraph "Non-exempt connected transactions for which no waiver is necessary" in this section below. As a non-exempt connected transaction, disclosure will be required but approval by independent shareholders will not.

## 2.6 Provision of stripping and mining works by Xinhua Engineering

Transaction nature:

Xinhua Engineering is a Promoter. Upon completion of the Share Offer, Xinhua Engineering will hold approximately 5.25% of the issued share capital of the Company (assuming the Over-allotment Option is not exercised). Xinhua Engineering will be a connected person of the Company under the Listing Rules.

From 1st July, 1998, the predecessor of the Company contracted out certain exploitation works to Xinhua Engineering. After the Company was incorporated as a joint stock limited company, the Company continued to contract out exploitation works to Xinhua Engineering. On 3rd May, 2000, under an agreement (the “First Contracting Agreement”) entered into between the Company and Xinhua Engineering, Xinhua Engineering provided overburden stripping and transportation services for the Zijinshan open pit mine of the Zijinshan Gold Mine from 26th April, 2000 to 25th April, 2002. Pursuant to the First Contracting Agreement, Xinhua Engineering was entitled to further undertake the contracting services upon expiry of the First Contracting Agreement.

On 4th November, 2002, under an agreement (the “Second Contracting Agreement”, together with the First Contracting Agreement, the “Contracting Agreements”) entered into between the Company and Xinhua Engineering, Xinhua Engineering provided exploitation contracting services for gold and non-ferrous metals (inclusive of the process of stripping, mining and transportation) for part of the Zijinshan Gold Mine from 26th April, 2002 to 25th April, 2005.

Pursuant to the Second Contracting Agreement, Xinhua Engineering was entitled to provide such exploitation contracting services for a further period of one year upon the expiry of the Second Contracting Agreement.

The consideration was calculated according to the unit price specified in the Contracting Agreements and the amount of the work undertaken by Xinhua Engineering during the relevant contract period. For each of the three financial years ending 31st December, 2002 and the six months ended 30th June, 2003, the consideration was approximately RMB84,908,000, RMB98,573,000, RMB102,276,000 and RMB48,679,000 respectively, representing approximately 52.5%, 47.4%, 33.9% and 20.9% of the total cost of sales of the Group respectively.

The Directors confirm that, in each of the financial years from 1st January, 2003 to 31st December, 2005, the total value of the transaction will not exceed the higher of 20.9% of the total cost of sales of the Group or RMB105,000,000 (“annual cap”). The annual cap was determined by reference to historical figures payable under the Contracting Agreements, and to a possible increase in production scale by the Group.

Pricing basis:

The Directors, including the independent non-executive directors, confirm that the connected transaction was, or will be, on terms by reference to the then market prices or similar terms available from independent third parties.

The Directors further confirm that the consideration agreed to between the Group and the connected person in the connected transactions was negotiated on an arm’s length basis, is fair and reasonable and constitutes normal commercial terms.

Applicable Listing Rules:

This transaction is in general regarded as a non-exempt connected transaction under rule 14.26 of the Listing Rules for the reasons set out in the paragraph “Non-Exempt Connected Transactions for which waiver is applied” in the section headed “Business” below. As a non-exempt connected transaction, disclosure and approval by independent shareholders will be required.

### *2.7 Provision of stripping and mining works by Hongyang Mine*

Transaction nature:

Hongyang Mine is a promoter of Hunchun Zijin. Hongyang Mine currently holds a 6% equity interest in Hunchun Zijin, a subsidiary of the Company. Hongyang Mine will be a connected person of the Group under the Listing Rules. Hongyang Mine also holds 2% interest in the issued share capital of Guizhou Zijin.

Under an agreement dated 26th September, 2000 entered into between the Company and Hongyang Mine (the “First Hongyang Contracting Agreement”), Hongyang Mine provided exploitation services for gold and non-ferrous metals (inclusive of the process of stripping, mining and transportation) for part of the Zijinshan Gold Mine from 26th September, 2000 to 25th April, 2002.

Under an agreement dated 15th April, 2002 entered into between the Company and Hongyang Mine (the “Second Hongyang Contracting Agreement”, together with the First Hongyang Contracting Agreement, the “Hongyang Contracting Agreements”), the term of the Second Hongyang Mine Contracting Agreement was extended from 26th April, 2002 to 25th April, 2003. The Company renewed the Hongyang Contracting Agreements on 25th April, 2003 for a term of 3 years commencing from 26th April, 2003.

The consideration was calculated according to the unit price specified in the Hongyang Contracting Agreements and the amount of the work actually undertaken by Hongyang Mine during the relevant contract periods. For each of the three financial years ended 31st December, 2002 and the six months ended 30th June, 2003, the aggregate consideration was approximately RMB23,049,000, RMB44,266,000, RMB67,576,000 and RMB36,441,000 respectively, representing approximately 14.3%, 21.3%, 22.4% and 15.6% of the total cost of sales of the Group respectively.

The Directors confirm that, in each of the three financial years ending 31st December, 2005, the total consideration will not exceed the higher of 15.6% of total cost of sales of the Group or RMB80,000,000 (“annual cap”). The annual cap was determined by reference to historical figures payable under the Hongyang Contracting Agreements during the Track Record Period and to a possible increase in production scale by the Group.

Pricing basis:

The Directors, including the independent non-executive directors, confirm that the connected transaction was, or will be, carried out on terms by reference to the then market prices or similar terms available to independent third parties.

The Directors further confirm that the consideration agreed to between the Group and the connected person in the connected transactions was negotiated on an arm’s length basis, is fair and reasonable and constitutes normal commercial terms.

Applicable Listing Rules:

This transaction is in general regarded as a non-exempt connected transaction under rule 14.26 of the Listing Rules for the reasons set out in the paragraph “Non-Exempt Connected Transactions for which waiver is applied” in the section headed “Business” below. As a non-exempt connected transaction, the disclosure and approval by independent shareholders will be required.

### 2.8 *Provision of services by associates of Xinjiang Non-ferrous Metal Industry (Group) Company Limited*

#### 2.8.1 Provision of construction design service by Urumqi Non-ferrous Metal Refining Research Institute (烏魯木齊有色冶金設計研究院)

Transaction nature:

Urumqi Non-ferrous Metal Refining Research Institute is an associate of Xinjiang Non-ferrous Metal Industry (Group) Company Limited, a substantial shareholder of Xinjiang Ashele. Xinjiang Non-ferrous Metal Industry (Group) Company Limited will be a connected person of the Group under the Listing Rules and hence Urumqi Non-ferrous Metal Refining Research Institute will also be a connected person of the Group.

Under a construction design contract dated 2nd March, 2001 entered into between Xinjiang Ashele, Urumqi Non-ferrous Metal Refining Research Institute and Beijing Non-ferrous Metal Refining Research Institute (北京有色冶金設計研究總院), Urumqi Non-ferrous Metal Refining Research Institute and Beijing Non-ferrous Metal Refining Research Institute, an independent third party, (collectively the “Research Institutes”) provided construction design services for the production site and other facilities in a mining project. The initial consideration for the services was RMB6,500,000. On 20th May, 2002, the parties entered into a supplemental agreement to confirm that the area of the production site was increased by one-third and that the value of the transaction was increased by an additional RMB650,000. The Research Institutes agreed to provide a revised feasibility report for an additional consideration of RMB100,000. For the six months ended 30th June, 2003, the consideration was RMB860,000. For each of the three financial years ended 31st December, 2002, no fees were incurred. The Directors believe that such transactions will be completed by the end of 2004.

Pricing basis:

The Directors, including the independent non-executive directors, confirm that the transaction was, or will be, carried out in the ordinary and usual course of business and on terms by reference to the standard fee scale issued by the PRC government, which are no less favorable than those available from independent third parties.

The Directors further confirm that the consideration agreed to between the Group and the connected person in the connected transaction was negotiated on an arm’s length basis, is fair and reasonable and constitutes normal commercial terms.

#### 2.8.2 Provision of mining tunnel by Xinjiang Non-ferrous Gold Construction Company (新疆有色黃金建設公司)

Transaction nature:

Xinjiang Non-ferrous Gold Construction Company is an associate of Xinjiang Non-ferrous Metal Industry (Group) Company Limited. Xinjiang Non-ferrous Metal Industry (Group) Company Limited holds a 29% interest in, and will be a substantial shareholder of, Xinjiang Ashele. Xinjiang Non-ferrous Metal Industry (Group) Company Limited will be a connected person of the Group under the Listing Rules and hence Xinjiang Non-ferrous Gold Construction Company will also be a connected person of the Group.

On 3rd May, 2002, under a contracting agreement entered into between Xinjiang Ashele and Xinjiang Non-ferrous Gold Construction Company, Xinjiang Non-ferrous Gold Construction Company provided mining tunnel services for Xinjiang Ashele for a consideration of approximately RMB7,433,000 from 1st June, 2002 to 30th November, 2003. Due to a change in circumstances, the Directors believe that the transaction will continue after the Listing Date until approximately July, 2004. For each of the three financial years ended 31st December, 2002, no fees were incurred. For the six months ended 30th June, 2003, the value of the transaction was approximately RMB1,384,000.

### Pricing basis:

The Directors, including the independent non-executive directors, confirm that the transaction was, or will be, carried out in the ordinary and usual course of business and on terms by reference to the standard fee scale issued by the PRC government, which are no less favorable than those available from independent third parties.

The Directors further confirm that the consideration agreed to between the Group and the connected person in the connected transaction was negotiated on an arm's length basis, is fair and reasonable and constitutes normal commercial terms.

### Applicable Listing Rules:

The Stock Exchange will normally aggregate the value in respect of transactions no. 2.8.1 and 2.8.2 above. As a result of such aggregation, the total consideration of such transactions amount to approximately RMB14,683,000. The transactions will be regarded as connected transactions under the Listing Rules and will be subject to disclosure requirements. As at 30th June, 2003, an aggregate sum of RMB2,244,000 has been paid by the Group under such series of transactions.

The transactions will be non-exempt connected transactions under rule 14.25(1) of the Listing Rules for the reasons set out in the paragraph "Non-exempt connected transactions for which no waiver is necessary" in this section below. As non-exempt connected transactions, disclosure will be required but approval by independent shareholders will not be required.

## BUSINESS

The following table sets out the consideration for each connected transaction under the category of “Provision of services by connected persons” during the Track Record Period:

Transaction no.	Connected persons	Nature of transactions	Year ended 31st December,			Six months ended
			2000	2001	2002	30th June,
			<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2003 <i>RMB'000</i>
2.1	Guizhou Bureau of Geology & Mineral Resources 105	Provision of geological prospecting services	—	—	—	80
2.2	Anhui Geological and Mining Bureau, Geological Team 321	Provision of geological prospecting and drilling services	—	—	—	246
2.3	Xinjiang Non-ferrous Metals Industry Engineering Quality Control Team	Provision of supervision services	—	—	—	100
2.4	Xinjiang Aletai Zhenan Blast Limited	Provision of drainage and water pipe construction works	—	—	—	237
2.5	Hunchun Gold and Copper Mining Company Limited	Provision of exploitation work	—	—	—	1,752
2.6	Xinhuadu Engineering	Provision of exploitation and mining works	84,908	98,573	102,276	48,679
2.7	Hongyang Mine	Provision of exploitation and mining works	23,049	44,266	67,576	36,441
2.8.1	Urumqi Non-ferrous Metal Refining Research Institute, an associate of Xinjiang Non-ferrous Metal Industry (Group) Company Limited	Provision of construction design service	—	—	—	860
2.8.2	Xinjiang Non-ferrous Gold Construction Company, an associate of Xinjiang Non-ferrous Metal Industry (Group) Company Limited	Provision of mining tunnel	—	—	—	1,384
Total			<u>107,957</u>	<u>142,839</u>	<u>169,852</u>	<u>89,779</u>

### 3. *Financial Assistance given to connected persons*

#### 3.1 *Loan granted to Zhenfeng Industrial Investment Limited ( 貞豐縣工業投資有限公司 )*

Transaction nature:

Zhenfeng Industrial Investment Limited is a state-owned enterprise under the supervision of the county government of Zhenfeng. Guizhou Zijin is a subsidiary of the Company since Guizhou Zijin increased its registered capital from RMB10,000,000 to RMB30,000,000 in January 2003. Subsequently, Zhenfeng Industrial Investment Limited will be a substantial shareholder of Guizhou Zijin, and thus is a connected person of the Group, under the Listing Rules.

Under an agreement dated 20th February, 2003, the Company agreed to provide a loan of RMB800,000 to Zhenfeng Industrial Investment Limited. At the Latest Practicable Date, Zhenfeng Industrial Investment Limited fully utilized the amount available under the loan and the outstanding principal amount owed by it to the Company was RMB800,000. Zhenfeng Industrial Investment Limited utilised the loan as capital contribution in Guizhou Zijin.

The loan is interest free. The agreement is silent on the date of repayment of the loan. It provides that 30% of any dividend payable by Guizhou Zijin to Zhenfeng Industrial Investment Limited will be utilised to repay of the loan, but does not provide for the provision of a further guarantee or security. The Directors believe that the risk of non-payment by Zhenfeng Industrial Investment Limited is low.

Reasons for granting of the financial assistance:

The Directors believe that the provision of such a loan was one of the conditions on which Zhenfeng Industrial Investment Limited co-operated with the Company to establish Guizhou Zijin. The Directors further believe that as Zhenfeng Industrial Investment Limited maintains a close relationship with the county government of Zhengfeng, its participation in Guizhou Zijin benefits the Group.

Pricing basis:

The Directors, including the independent non-executive directors, believe that the transaction was, or will be carried out on terms that are fair and reasonable and in the interest of the shareholders as a whole.



Applicable Listing Rules:

The transaction is regarded as a non-exempt connected transaction under rule 14.26 of the Listing Rules for the reasons set out in the paragraph “Non-Exempt Connected Transactions for which no waiver is necessary” in this section below. As a non-exempt connected transaction, disclosure will be required but approval by independent shareholders will not be required.

3.2 *Loan granted to Hunchun Gold and Copper Mining Company Limited*  
( 琿春金銅礦業有限責任公司 )

Transaction nature:

Hunchun Gold and Copper Mining Company Limited is a promoter of, and holds a 20% shareholding in Hunchun Zijin, a subsidiary of the Company. Hunchun Zijin in turn owns the Hunchun Gold-Copper Mine. Hence, Hunchun Gold and Copper Mining Company Limited is a connected person of the Group under the Listing Rules.

Under an agreement dated 16th December, 2002 entered into between the Group and Hunchun Gold and Copper Mining Company Limited, the Group undertook, inter alia, to provide a loan facility of up to RMB3,500,000 to Hunchun Gold and Copper Mining Company Limited. At the Latest Practicable Date, Hunchun Gold and Copper Mining Company Limited utilized the amount of RMB940,000 under the loan facility and the outstanding principal amount owed by it to the Group was RMB940,000. The loan was utilised to settle outstanding payments to the employees of Hunchun Gold and Copper Mining Company Limited. The undrawn balance of the loan facility amounts to RMB2,560,000.

The loan is interest free, and is silent on the date of repayment of the loan. However, it provides that any dividend payable by Hunchun Zijin to Hunchun Gold and Copper Mining Company Limited will be utilised to repay the loan. In view of the current operating performance of Hunchun Zijin, its future business plan and the consistent growth in the demand for, and the price of, gold, the Directors believe that Hunchun Zijin will be able to maintain its profitability in the foreseeable future. The Directors further believe that there will be no difficulty in repayment of the loan.

For the purpose of waiver application, in each of the financial years from 1st January, 2003 to 31st December, 2005, the annual cap of the above loan facilities will not exceed the amount of the continuation or renewal of the existing loan facilities, which is RMB3,500,000. The annual cap has been determined with reference to the said agreement.

Reasons for granting of the financial assistance:

The Directors consider that the provision of such loan was one of the conditions on which Hunchun Gold and Copper Mining Company Limited was willing to establish Hunchun Zijin with the Company. The Directors also believe that it is in the commercial interest of the Company to provide the loan to Hunchun Gold and Copper Mining Company Limited for the following reasons:

- co-operation with Hunchun Gold and Copper Mining Company Limited can enable the Group to expand its business to Hunchun by holding indirectly the Hunchun Gold-Copper Mine;
- Hunchun Gold and Copper Mining Company Limited would likely have become bankrupt had the Group withheld the loan. Hunchun Gold and Copper Mining Company Limited is a state-owned enterprise and its state shareholder is not allowed under the laws of the PRC to guarantee its obligations. If Hunchun Gold and Copper Mining Company Limited had become bankrupt, the Group would have lost an opportunity to expand its business; and
- as a result of the weak financial condition of Hunchun Gold and Copper Mining Company Limited, the Group had a strong bargaining power in its negotiation with Hunchun Gold and Copper Mining Company Limited concerning the establishment of Hunchun Zijin, which in turn owns the Hunchun Gold-Copper Mine.

Pricing basis:

In the opinion of the Directors, including the independent non-executive directors, this transaction has been or will be carried out on terms that are fair and reasonable as far as the Directors are concerned and in the interest of the shareholders as a whole.

Applicable Listing Rules:

This transaction is in general regarded as a non-exempt connected transaction under rule 14.26 of the Listing Rules for the reasons set out in the paragraph “Non-Exempt Connected Transactions for which waiver is applied” in the section headed “Business” below. As a non-exempt connected transaction, disclosure and approval by independent shareholders will be required.

### 3.3 *Guarantee provided for the loan of Hongyang Mine*

Transaction nature:

Hongyang Mine is a promoter and holds a 6% shareholding in Hunchun Zijin, a subsidiary of the Company. Hence, Hongyang Mine is a connected person of the Group under the Listing Rules. Hongyang Mine also holds a 2% shareholding of Guizhou Zijin.

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Under a guarantee dated 28th March, 2003, the Company guaranteed, without charge, the obligations of Hongyang Mine under a loan facility of RMB3,000,000. At the Latest Practicable Date, Hongyang Mine fully utilised the amount under the loan facility and the outstanding principal loan amount covered by the Company's guarantee was RMB3,000,000. The loan facilities will expire on 20th February 2004, but the guarantee will continue for a period of two years after expiry of the loan facility.

Reasons for granting of financial assistance:

The Directors believe that it was in the commercial interest of the Groups to provide the guarantee for the obligations of Hongyang Mine for the following reasons:

- Hongyang Mine provided the Company with the stripping and mining services mentioned in transaction no. 2.7 above;
- in 2003, Hongyang Mine requested a loan facility from a PRC bank for its general working capital. Hongyang Mine is owned by two individuals. The PRC bank would not accept a guarantee from an individual, but requested security or a guarantee from a financially strong company. Therefore, Hongyang Mine requested the Company to enter into a guarantee contract with the PRC bank to guarantee the obligations of Hongyang Mine under the loan facility, which the Company agreed to; and
- the Company minimises the risk of its contingent liabilities by offsetting the service fees payable by the Company to Hongyang Mine under the Hongyang Contracting Agreements under connected transaction no. 2.7 above.

Pricing basis:

The Directors, including the independent non-executive directors, believe that the transaction has been or will be carried out on normal commercial terms that are fair and reasonable and in the interest of the shareholders as a whole.

Applicable Listing Rules:

The transaction is in general regarded by the Stock Exchange as a non-exempt connected transaction under rule 14.26 of the Listing Rules for the reasons set out in the paragraph "Non-Exempt Connected Transactions for which no waiver is necessary" in the section headed "Business" below. As a non-exempt connected transaction, disclosure and approval by independent shareholder will be required.

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The following table sets out, as at the Latest Practicable Date, the consideration given for each connected transactions under the category “Financial assistance given to connected persons”:

Transaction no.	Connected persons	Nature of transactions	Total value given under the financial assistance <i>RMB'000</i>	Amount utilised as at the Latest Practicable Date <i>RMB'000</i>	Amount unutilised as at the Latest Practicable Date <i>RMB'000</i>
3.1	Zhenfeng Industrial Investment Limited	Loan granted by the Company	800	800	—
3.2	Hunchun Gold and Copper Mining Company Limited	Loan granted by the Company	3,500	940	2,560
3.3	Hongyang Mine	Guarantee provided by the Company	3,000	3,000	—
Total			<u>7,300</u>	<u>4,740</u>	<u>2,560</u>

#### 4. *Financial Assistance given by connected persons*

*Guarantee provided by Xinjiang Non-ferrous Metal Industry (Group) Company Limited for the loan of Xinjiang Ashele*

Transaction nature:

Xinjiang Non-ferrous Metal Industry (Group) Company Limited is a substantial shareholder of Xinjiang Ashele. Xinjiang Non-ferrous Metal Industry (Group) Company Limited will be a connected person of the Group under the Listing Rules.

Under a loan agreement dated 9th May, 2003 entered into between Xinjiang Ashele and the Agriculture Bank of China, Agriculture Bank of China provided a term loan facility of RMB10,000,000 to Xinjiang Ashele. On 8th May, 2003, Xinjiang Non-ferrous Metal Industry (Group) Company Limited entered into a guarantee contract with the Agriculture Bank of China to guarantee, without charge, the obligation of Xinjiang Ashele under the term loan facility from 9th May, 2003 to 31st December, 2006, subject to a limit of RMB116,000,000. At the Latest

Practicable Date, Xinjiang Ashele utilised the entire amount under the loan facility, and the outstanding principal loan amount covered by the guarantee of Xinjiang Non-ferrous Metal Industry (Group) Company Limited was RMB10,000,000. Xinjiang Ashele could request a further loan facility from the Agriculture Bank of China. In the event that the further loan facility was granted by the Agriculture Bank of China, and was drawn down by Xinjiang Ashele before 31st December, 2006, the guarantee provided by Xinjiang Non-ferrous Metal Industry (Group) Company Limited will, subject to a limit of RMB116,000,000, extend to this further amount. The loan will expire on 8th May, 2008, but the guarantee will continue for a term of two years after the expiry of the loan.

Xinjiang Non-ferrous Metal Industry (Group) Company Limited has not received a fee in respect of the provision of the guarantee, and the Group has not pledged assets or provided a counter-guarantee in favour of Xinjiang Non-ferrous Metal Industry (Group) Company Limited in respect of the provision of its guarantee.

Reasons for granting of financial assistance:

Xinjiang Geological, Mining and Prospecting Development Bureau holds a 13% shareholding in Xinjiang Ashele. As a government unit, it is unable to provide a guarantee in respect of the obligations of a third party without the prior approval of the relevant authority. The remaining shareholder, Xinjiang BaoDi Mining Company Limited, holds a 2% shareholding in Xinjiang Ashele. Accordingly, a guarantee, even if given by Xinjiang BaoDi Mining Company Limited (assuming it is limited to its percentage of interest in Xinjiang Ashele) will be of negligible value. Therefore, the Directors believe that, for these reasons, the Agriculture Bank of China did not require Xinjiang Geological, Mining and Prospecting Development Bureau and Xinjiang BaoDi Mining Company Limited to provide a guarantee; rather, it only required the Company and Xinjiang Non-ferrous Metal Industry (Group) Company Limited to provide guarantees.

Pricing basis:

The Directors, including the independent non-executive directors, confirm that the transaction was, or will be, carried out on normal commercial terms that are fair and reasonable and in the interest of the shareholders as a whole.

Applicable Listing Rules:

The transaction is regarded as an exempt connected transaction under rule 14.24(8) of the Listing Rules for the reasons set out in the paragraph “Exempt connected transactions” in this section. As an exempt connected transaction, no disclosure or approval by independent shareholders will be required.

The Company also provided a guarantee for the loan facility. For details, please refer to the connected transaction no. 5.1 below.

## 5. *Financial Assistance given to non-wholly owned subsidiaries*

### 5.1 *Guarantee provided for the loan of Xinjiang Ashele*

Transaction nature:

Xinjiang Ashele is a non-wholly owned subsidiary of the Company. The Company holds a 51% shareholding in Xinjiang Ashele. Other than this, no connected person is a shareholder of Xinjiang Ashele (excluding a person who is a connected person by virtue only of its shareholding therein).

The Company holds directly a 51% shareholding in Xinjiang Ashele. Xinjiang Non-ferrous Metal Industry (Group) Company Limited holds directly a 29% shareholding and indirectly a 5% shareholding through Xinjiang Non-ferrous Metal Industry Company Kalatongke Copper-nickel Ore in Xinjiang Ashele.

Under a loan agreement dated 9th May, 2003 entered into between Xinjiang Ashele and the Agriculture Bank of China, Agriculture Bank of China provided a term loan facility of RMB10,000,000 to Xinjiang Ashele. On 8th May, 2003, the Company and Xinjiang Non-ferrous Metal Industry (Group) Company Limited entered into separate guarantee contracts with the Agriculture Bank of China to guarantee, without charge, the obligations of Xinjiang Ashele under the term loan facility from 9th May, 2003 to 31st December, 2006, subject to limits of RMB173,400,000 and RMB116,000,000 respectively. At the Latest Practicable Date, Xinjiang Ashele utilised the entire amount under the loan facility and the outstanding principal loan amount covered by the Company's guarantee was RMB10,000,000. Xinjiang Ashele could request a further loan facility from the Agriculture Bank of China. In the event that the further loan facility was granted by the Agriculture Bank of China, and was drawn down by Xinjiang Ashele before 31st December, 2006, the guarantee provided by Xinjiang Non-ferrous Metal Industry (Group) Company Limited will, subject to a limit of RMB116,000,000, extend to this further amount. The loan will expire on 8th May, 2008, but the guarantee will continue for a term of two years after the expiry of the loan.

Xinjiang Non-ferrous Metal Industry (Group) Company Limited has not received a fee in respect of the provision of the guarantee, and the Group has not pledged assets or provided a counter-guarantee in favour of Xinjiang Non-ferrous Metal Industry (Group) Company in respect of the provision of its guarantee.

Reasons for granting of financial assistance:

Xinjiang Geological, Mining and Prospecting Development Bureau holds a 13% shareholding in Xinjiang Ashele. As a government unit, it is unable to provide a guarantee in respect of the obligations of a third party without the prior approval of the relevant

authority. The remaining shareholder, Xinjiang BaoDi Mining Company Limited, holds a 2% shareholding in Xinjiang Ashele. Accordingly, a guarantee, even if given by Xinjiang BaoDi Mining Company Limited (assuming it is limited to its percentage of interest in Xinjiang Ashele) will be of negligible value. Therefore, the Directors believe that, for these reasons, the Agriculture Bank of China did not require Xinjiang Geological, Mining and Prospecting Development Bureau and Xinjiang BaoDi Mining Company Limited to provide guarantees; rather, it only required the Company and Xinjiang Non-ferrous Metal Industry (Group) Company Limited to provide guarantees.

Pricing basis:

The Directors, including the independent non-executive directors, confirm that the transaction has been, or will be, carried out on normal commercial terms that are fair and reasonable and in the interest of the shareholders as a whole.

Applicable Listing Rules:

This transaction is regarded as a non-exempt connected transaction under rule 14.25(2)(a) of the Listing Rules. As a non-exempt connected transaction, disclosure will be required in the annual report of the Company in accordance with rule 14.25(2)(a) but approval by independent shareholders will not.

Xinjiang Non-ferrous Metal Industry (Group) Company Limited also provided a guarantee for the loan facility which is exempt under rule 14.24(8) of the Listing Rules. For details, please refer to connected transaction no. 4 above.

## 5.2 *Guarantee provided for the loan of Xiamen Zijin*

Transaction nature:

Xiamen Zijin is a non-wholly owned subsidiary of the Company. The Company holds a 86.5% shareholding in Xiamen Zijin. In addition, Xinquadu Engineering, Xiamen Hengxing and Xinquadu Technology (a subsidiary of Xinquadu Industrial) hold 1%, 5% and 5% shareholdings in Xiamen Zijin respectively. Xinquadu Engineering, Xiamen Hengxing and Xinquadu Technology are Promoters and will be connected persons of the Group under the Listing Rules.

On 14th October, 2002, 9th February, 2003 and 26th May, 2003, Xiamen Zijin entered into three loan agreements in respect of loan facilities of RMB10,000,000 and RMB5,000,000 provided by the Construction Bank of China, Xiamen Branch and RMB10,000,000 provided by China Everbright Bank, Xiamen Branch. On the date of the loan agreements, the Company entered into three corresponding guarantees contracts with the respective banks to guarantee, without charge, the liabilities incurred by Xiamen Zijin.

At the Latest Practicable Date, Xiamen Zijin utilized the entire amount of RMB25,000,000 under the loan facilities and the outstanding principal loan amount covered

by the Company's guarantee was RMB25,000,000. The loans will expire on 14th October, 2005, 9th February, 2006 and 28th May, 2004 respectively and the corresponding guarantees will continue for a term of two years after the expiry of the loans. The guarantees are expected to continue after the Listing Date.

For the purpose of the waiver application, in each of the financial years from 1st January, 2003 to 31st December, 2005, the annual cap of the relevant total amount of guarantee involved in the above guarantee contract will not exceed the amount of the continuation or renewal of the existing guarantee, which is RMB25,000,000. The annual cap was determined with reference to past figures of the total amount of the guarantee provided by the Group for Xiamen Zijin.

Reasons for granting of financial assistance:

The Directors believe that it was in the commercial interest of the Company to provide financial assistance to its subsidiary for its business expansion. The Directors also believe that the Construction Bank of China, Xiamen Branch and China Everbright Bank, Xiamen Branch only required the Company (and not the other shareholders of Xiamen Zijin) to guarantee the obligations under the loan facilities because of the strong financial condition of the Company and its substantial shareholding in Xiamen Zijin.

Pricing basis:

The Directors, including the independent non-executive directors, confirm that the transaction was, or will be carried out on terms that are fair and reasonable and in the interest of the shareholders as a whole.

Applicable Listing Rules:

The transaction is in general regarded as a non-exempt connected transaction under rule 14.26 of the Listing Rules for the reasons set out in the paragraph "Non-exempt connected transactions for which waiver is applied" in the section headed "Business". As a non-exempt connected transaction, disclosure and approval by independent shareholders will be required.

### 5.3 *Guarantee provided for the loan of Guizhou Zijin*

Transaction nature:

Guizhou Zijin is a non-wholly owned subsidiary of the Company. The Company holds a 51% shareholding in Guizhou Zijin. Other than this, each of Xiamen Zijin and Xiamen Hangxing Mining Co., Ltd. (being a subsidiary of Xiamen Hangxing, the Promoter and the connected person of the Company) holds a 5% equity interest in the registered share capital of Guizhou Zijin.



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Under a loan agreement dated 21st January, 2003 entered into between Guizhou Zijin and the Construction Bank of China, Zhenfeng Branch, the Construction Bank of China, Zhenfeng Branch provided a loan facility of RMB25 million to Guizhou Zijin. On the same day, the Company entered into a guarantee contract with the Construction Bank of China, Zhenfeng Branch to guarantee, without charge, the liabilities incurred by Guizhou Zijin.

At the Latest Practicable Date, Guizhou Zijin utilised the entire amount under the loan facility. The guarantee entered into by the Company extended to the amount of RMB25,000,000. The loan will expire on 20th January, 2006, but the guarantee will continue for a term of two years after the expiry of the loan. The guarantee is expected to continue after the Listing Date, or to be replaced by a guarantee on a new loan facility of not more than the amount outstanding under the original loan facility.

Reasons for granting of the financial assistance:

The Directors believe that it was in the commercial interest of the Company to provide financial assistance to its subsidiary for its business expansion. The Directors also believe that the Construction Bank of China, Zhenfeng Branch only required the Company (and not the other shareholders of Guizhou Zijin) to guarantee the obligations under the loan facilities because of the strong financial condition of the Company and its substantial shareholding in Guizhou Zijin.

Pricing basis:

The Directors, including the independent non-executive directors, confirm that the transaction was, or will be, carried out on terms that are fair and reasonable and in the interest of the shareholders as a whole.

Applicable Listing Rules:

The transaction is in general regarded as a non-exempt connected transaction under rule 14.26 of the Listing Rules for the reasons set out in the paragraph “Non-exempt connected transactions for which no waiver is necessary” in this section. As a non-exempt connected transaction, disclosure and independent shareholders approval are required.

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The following table sets out, as at the Latest Practicable Date, the consideration for each connected transactions under the category of “Financial assistance given to non-wholly owned subsidiaries”:

<b>Transaction no.</b>	<b>Connected person</b>	<b>Nature of transaction</b>	<b>Total value given under the financial assistance</b> <i>RMB'000</i>	<b>Amount utilised as at the Latest Practicable Date</b> <i>RMB'000</i>	<b>Amount unutilised as at the Latest Practicable Date</b> <i>RMB'000</i>
5.1	Xinjiang Ashele	Guarantee provided by the Company	173,400	10,000	163,400
5.2	Xiamen Zijin	Guarantee provided by the Company	25,000	25,000	—
5.3	Guizhou Zijin	Guarantee provided by the Company	25,000	25,000	—
Total			<u>223,400</u>	<u>60,000</u>	<u>163,400</u>

At the Latest Practicable Date, one loan facility of RMB10,000,000 provided to Xinjiang Ashele was guaranteed by the Company subject to a limit of RMB173,400,000. For details, please refer to connected transaction no. 5.1 above.

*Note:* Some of the related-party transactions as set out in section j of the Accountants' Report in Appendix I are not disclosed in this paragraph because such transactions either will not continue after the Listing Date or will not constitute connected transactions under the Listing Rules even if continued.

### EXEMPT CONNECTED TRANSACTIONS

- The Directors, including the independent non-executive directors, confirm that connected transactions no. 1 and 2.1-2.4 were, or will be, carried out on normal commercial terms that are fair and reasonable and in the interest of the shareholders as a whole. Such connected transactions will, upon the Listing Date, constitute exempt continuing connected transactions under the Listing Rules as the annual total consideration involved in each relevant transaction is, and will be, less than the higher of HK\$1,000,000 or 0.03% of the book value of the net tangible assets of the enlarged group in its latest published audited consolidated accounts. Accordingly, such connected transactions will fall within rule 14.24(5) of the Listing Rules. As exempt continuing connected transactions, no disclosure or approval by independent shareholders is required.

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- The Directors, including the independent non-executive directors, further confirm that the financial assistance given by connected persons to the Group under connected transaction no. 4 were, or will be, carried out on normal commercial terms or better.

Such financial assistance will continue or will be replaced by equivalent financial assistance until the relevant loans are fully repaid, and will, upon the Listing Date, constitute exempt continuing connected transactions under rule 14.24(8) of the Listing Rules. As exempt continuing transactions, no disclosure or approval by independent shareholder will be required.

### **NON-EXEMPT CONNECTED TRANSACTIONS FOR WHICH NO WAIVER IS NECESSARY**

- The Directors, including the independent non-executive directors, confirm that connected transactions no. 2.5 and 2.8 were, or will be, carried out on normal commercial terms that are fair and reasonable and in the interest of the shareholders as a whole. Such connected transactions will, upon the Listing Date, constitute non-exempt connected transactions. Such connected transactions will not be subject to approval by independent shareholders under rule 14.25(1) as the annual total consideration involved in each relevant transaction is, and will be, less than the higher of HK\$10,000,000 or 3% of the book value of the net tangible assets of the enlarged group in its latest published audited consolidated accounts.
- The Directors, including the independent non-executive directors, confirm that connected transaction no. 5.3 was, or will to be, carried out in the usual and ordinary course of business of the Group, and connected transactions no. 3.1, 3.3 and 5.3 were, or will be, carried out on terms that are fair and reasonable and in the interest of the shareholders as a whole. Such connected transactions will, upon the Listing Date, constitute non-exempt connected transactions. As a non-exempt connected transaction, disclosure and approval by independent shareholders will be required.
- The connected transaction no. 5.1 constitutes and will constitute a transaction the principal purpose and effect of which is the granting of financial assistance by the Company to a non-wholly owned subsidiary in which no connected person is a shareholder of Xinjiang Ashele (excluding a person who is a connected person by virtue only of its shareholding therein). The Directors, including the independent non-executive directors, confirm that such transaction was, or will be, carried out on normal commercial terms that are fair and reasonable and in the interest of the shareholders as a whole such connected transactions will, upon the Listing Date, constitute non-exempt connected transactions. As a non-exempt connected transaction, independent shareholders' approval under rule 14.25(2)(a) will not be required.

### NON-EXEMPT CONNECTED TRANSACTIONS FOR WHICH WAIVER IS APPLIED

The Directors, including the independent non-executive directors, confirm that connected transactions no. 2.6-2.7 and 5.2 were, or will be, conducted in the ordinary and usual course of business of the Group, and connected transactions no. 2.6-2.7, 3.2 and 5.2 were, or will be, carried out on normal commercial terms that are fair and reasonable and in the interest of the shareholders as a whole such connected transactions will, upon the Listing Date, constitute non-exempt connected transactions. As a non-exempt connected transaction, disclosure and approval by independent shareholders will be required.

### APPLICATION FOR WAIVERS

Under the Listing Rules, non-exempt connected transactions are in general subject to disclosure requirements, and, depending on the nature and value of the transactions, are subject to approval by independent shareholders. The Directors confirm that, save as disclosed above, there are no other connected transactions involving the Company which will be ongoing after completion of the Share Offer. In respect of the transactions under the heading “Non-exempt connected transactions for which no waiver is necessary” in the section headed “Business”, further disclosure will be made in the annual report of the Company. In respect of the transactions under the heading “Non-exempt connected transactions for which waiver is applied” in the section headed “Business”, the Directors, including the independent non-executive Directors, confirm that the non-exempt continuing connected transactions for which waivers are applied for and the respective contracts are:

- in the ordinary and usual course of business of the Company (save for the financial assistance provided to Hunchun Gold and Copper Mining Company Limited);
- either (a) on normal commercial terms, or (b) on the terms that are no less favourable to (or from) the Company than terms available from (or to) independent third parties or (c) where there is no available comparison for the purpose of determining whether (a) or (b) is satisfied, on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
- in respect of non-exempt continuing connected transactions for which waivers is applied, the annual caps are reasonable as far as the operations of the Company are concerned.

Under the Listing Rules, the above non-exempt connected transactions for which waiver is applied are deemed continuing connected transactions, and are normally subject to disclosure and approval by independent shareholders prior to commencement of the transactions. As these transactions are continuing, the Directors believe that disclosure and approval by independent shareholders of the transactions in full compliance with Listing Rules would be impracticable. Accordingly, the Directors have applied to the Stock Exchange for a waiver from strict compliance

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with these requirements. The Stock Exchange has granted a waiver to the Company in respect of the subject transactions for a period of three financial years ending 31st December, 2005 from strict compliance with the requirements for disclosure and approval by independent shareholders under the Listing Rules, subject to the following conditions:

- (a) in each of the three financial years ending 31st December, 2005, the aggregate amount relating to the connected transaction will not exceed their respective annual caps;
- (b) the above non-exempt continuing connected transactions under the respective agreements were entered into, and the terms of the agreements governing such transactions were:
  - (i) in the ordinary and usual course of business of the Company (save for the financial assistance provided to Hunchun Gold and Copper Mining Company Limited); and
  - (ii) either (1) on normal commercial terms, or (2) on the terms that are no less favourable to (or from) the Company than terms available from (or to) independent third parties or (3) where there is no available comparison for the purpose of determining whether (1) or (2) is satisfied, on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and
- (c) the details of the transaction under the above agreements will be disclosed in the annual report and accounts of the Company pursuant to Rules 14.25(1) (A) to (D) of the Listing Rules;
- (d) the independent non-executive Directors will review the above transactions annually and confirm in the annual report of the Company as to whether the transactions have been entered into in the manner stated in paragraph (a) and (b) above;
- (e) the auditors of the Company will review the transactions annually and confirm in writing (with a copy provided to the Stock Exchange) to the Board as to whether:
  - (i) the transactions have been approved by the Board;
  - (ii) the transactions have been entered into in accordance with the terms of the relevant agreements governing such transactions and in accordance with the pricing policy of the Company; and
  - (iii) the aggregate amount of the transactions have not exceeded their respective annual caps as mentioned in paragraph (a) above;
- (f) the connected persons to the connected transactions shall undertake to the Company and the Stock Exchange to provide sufficient facility for the Company's auditors to inspect their respective accounts and records, thus enabling the auditors to assess the above connected transactions and make the relevant reports; and

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- (g) the Company undertakes to the Stock Exchange to promptly notify the Stock Exchange if it comes to its knowledge or has reason to believe that the independent non-executive Directors and/or auditors will be unable to confirm the matters set out in paragraphs (d) and (e) above respectively in which event the Company may have to re-comply with paragraphs (d) and (e) above and any other conditions which the Listing Division of the Stock Exchange considers appropriate in respect of the non-exempt continuing connected transactions.

The Stock Exchange has indicated that in the event of any changes to important terms of the above-mentioned agreements or arrangements (except those made under the terms of the agreement or arrangement), or entry by the Group into future agreements or arrangements with connected persons (as defined in the Listing Rules) and pursuant to the future agreements or arrangements, the total consideration to be paid or payable by the Group will exceed the annual cap mentioned above, the Company will be subject to the relevant provisions relating to connected transactions under the Listing Rules, unless the Company has applied to, and obtained a separate waiver from the Stock Exchange.

Based on the documents and information provided by the Company and relying on the statements and confirmations made by the Directors as well as the information and/or independent professional opinions provided to the Sponsor, the Sponsor considers that the above connected transactions have been entered:

- in the ordinary and usual course of business of the Company (save the financial assistance granted to Hunchun Gold and Copper Mining Limited); and
- either (a) on normal commercial terms, or (b) on the terms that are no less favourable to (or from) the Company than terms available from (or to) independent third parties or (c) where there is no available comparison for the purpose of determining whether (a) or (b) is satisfied, on terms that are fair and reasonable so far as the shareholders of the Company are concerned; and

Please note that:

- the Sponsor has assumed and relied upon the accuracy and completeness of the data, past figures, statements and confirmation of the documents; and
- the above opinions of the Sponsor have been issued as of the date of this prospectus, and the relevant opinions were issued based on the economic, market and other situations on the date of this prospectus and on the information obtained by the Sponsor for the purpose of this prospectus on the assumption of no future change to the above situation and information.