

INDEBTEDNESS

Borrowings

As at the close of business on 31st October, 2003, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this prospectus, the Group had total outstanding borrowings of approximately RMB436.43 million (comprising short-term bank loans of approximately RMB116.8 million, long-term bank loans of approximately RMB318.4 million and other long term loans of approximately RMB1.23 million), of which approximately RMB181.03 million is repayable within one year, RMB95.8 million is repayable over one year but not exceeding two years, RMB134.8 million is repayable over two years but not exceeding five years and RMB24.8 million is repayable over five years.

As at 31st October, 2003, certain bank loans of approximately RMB92 million were guaranteed by the following:

- approximately RMB30 million was guaranteed by a shareholder of the Company;
- approximately RMB52 million was guaranteed by the Company granted to its subsidiaries;
- approximately RMB10 million was jointly guaranteed by the Company and a minority shareholder of a subsidiary.

As at 31st October, 2003, other loan of RMB1 million was secured by the supplementary retirement fund of the Company.

Contingent liabilities

As at 31st October, 2003, the Group had contingent liabilities of approximately RMB33.48 million, which were bank loans guarantee given to third parties of RMB8.6 million, a minority shareholder of RMB3 million and an associate of RMB15 million, and discounted bills with recourse amounting to RMB6.88 million.

Foreign exchange risk

Since all business operations of the Group are conducted in the PRC, all income and expenditure of the Group are denominated in Renminbi. Therefore, the Directors consider that there will not be any mismatching of currencies for the cash flow of its operations, and that the Group will not be significantly exposed to any foreign currency exchange risk.

Taking into account the proceeds from the Share Offer, the Directors believe the Group will have sufficient foreign currency to pay the dividends on H Shares which may be declared in future.

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Disclaimer

Save as aforesaid, and apart from intra-group liabilities, the Group did not, at the close of business on 31st October, 2003, have any outstanding loan capital, bank overdrafts, debentures, mortgages, legal charges, loans, debt securities or other similar indebtedness, hire purchase commitments, acceptance credits, guarantees or other material contingent liabilities.

No material change

The Directors have confirmed that there has been no material change in the indebtedness and contingent liabilities of the Group since 31st October, 2003.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

Based on the unaudited consolidated management accounts of the Group, as at 31st October, 2003, the Group had net current assets of approximately RMB41,716,000. The current assets comprised cash and cash equivalents of approximately RMB235,256,000, trade receivables of approximately RMB9,347,000, inventories of approximately RMB86,914,000 and prepayments, deposits and other receivables of approximately RMB98,821,000, amount due from related parties of RMB7,955,000 and time deposits of RMB5,000,000. The current liabilities comprised trade and bills payables of approximately RMB124,377,000, accrual liabilities and other payables of approximately RMB79,495,000, tax payable of approximately RMB16,118,000, amount due to related parties of approximately RMB457,000, bank loans and other loans of approximately RMB181,030,000, and government grant of approximately RMB100,000.

After taking into account the Group's internally generated funds, the bank facilities available to the Group and the estimated net proceeds of the New Issue, the Directors are of the opinion that the Group has sufficient fund for the above requirements.

Capital commitments

As at 30th June, 2003, the Group had authorised but not contracted for capital commitments of approximately RMB97,825,000, which were mainly undertakings for the development of infrastructure projects for the overall utilisation of solid waste and environmental control engineering of Zijinshan Gold Mine. In addition, the Group had contracted but not provided for capital commitments of approximately RMB182,246,000 which were related to the acquisition of plants, machinery and mining assets of RMB152,110,000, acquisition of mining and exploration rights of

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RMB10,436,000, additional capital injection in a subsidiary of RMB14,600,000 and capital injection in new subsidiary of RMB5,100,000. Details of which are as follows:

	Fujian Zijin	Anhui Zijin	Xiamen Zijin	Hunchun Zijin	Guizhou Zijin	Xianjiang Ashele	Total	Source of funding net internal proceeds resources	
Construction of plants, purchase of machinery and mining assets	128,477	50	9,907	21,069	7,882	82,550	249,935	97,825	152,110
Acquisition of mining and exploration rights	10,436	—	—	—	—	—	10,436	10,436	—
Capital contribution to subsidiaries	18,500	—	1,200	—	—	—	19,700	14,600	5,100
Total	157,413	50	11,107	21,069	7,882	82,550	280,071	122,861	157,210

In the opinion of directors, the above capital commitments will be financed by the proceeds from the placement and public offer, internally generated funds, the banking facilities, and the estimated net proceeds of the New Issue.

Capital requirements and resources

The Group's principal requirements for funds are in relation to the provisions of construction work, purchases of equipment and materials with regard to its development and expansion projects. Based on the estimation of the Directors, the Group requires additional capital expenditures of approximately RMB155.5 million, RMB580.9 million and RMB310.0 million for the fourth quarter of 2003, 2004 and 2005 respectively for the development of its major planned mining projects as follows.

	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)		
Zijinshan Gold Mine	25,340	46,954	46,952	75,000	75,000	269,246	
Zijinshan Copper Mine	15,210	45,000	45,000	30,000	30,000	165,210	
Shuiyindong Gold Mine	4,000	40,000	40,000	—	—	84,000	
Hunchun Gold-Copper Mine	50,850	13,482	1,000	—	—	65,332	
Paodaoling Gold Mine	5,000	3,900	3,900	—	—	12,800	
Ashele Copper-Zinc Mine	45,103	100,000	100,000	50,000	50,000	345,103	
Caodi Gold Mine	9,992	45,666	9,000	—	—	64,658	
Jiaochong Gold-Base-Metals Mine	1,200	30,988	30,988	—	—	63,176	
Total	156,695	325,990	276,840	155,000	155,000	1,069,525	

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The Group expects to finance its investment in such projects principally from internally generated cash flows, additional borrowings and a portion of the net proceeds from the New Issue. The table below summarises the Group's historical cash flows from operating, investing and financing activities for each of the three years ended 31st December, 2002 and the six months ended 30th June, 2003 and its projected cash flows from such activities for the three years ending 31st December, 2005.

	For the year/period ended						
	31st December,			30th June,		Year end projected	
	2000	2001	2002	2003	2003	2004	2005
	<i>RMB'000</i>						
Net cash inflow							
(outflow) from:							
Operating activities	88,338	120,007	253,736	208,114	464,553	480,410	610,604
Investing activities	(144,103)	(192,128)	(191,124)	(183,687)	(511,604)	(792,378)	(993,709)
Financing activities	71,846	68,530	64,981	14,624	536,705	39,181	324,405
Net	16,081	(3,591)	127,593	39,051	489,654	(272,787)	(58,700)

The above cash flow projections are based on a number of assumptions which are subject to uncertainties and contingencies which are beyond the Group's control. There can be no assurance that any of the projections will be raised, and actual future results may be materially different from such projections.

DISCLOSURE UNDER PRACTICE NOTE 19 OF THE LISTING RULES

The Directors have confirmed that as at 30th June, 2003, they were not aware of any circumstances which would give rise to a disclosure requirement under Practice Note 19 of the Listing Rules.

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ADJUSTED NET TANGIBLE ASSETS

The following pro forma statement of adjusted net tangible assets of the Group is based on the audited consolidated net assets of the Group as at 30th June, 2003 as set out in the accountants' report (the text of which is set out in Appendix I to this prospectus), and adjusted as described below:

	<i>RMB'000</i>	<i>HK\$'000</i>
Audited consolidated net assets of the Group as at 30th June, 2003	387,969	369,494
less: Intangible assets as at 30th June, 2003		
Goodwill and negative goodwill	(14,989)	(14,275)
Intangible assets	<u>(80,235)</u>	<u>(76,414)</u>
	<u>(95,224)</u>	<u>(90,689)</u>
Consolidated net tangible assets of the Group as at 30th June, 2003	292,745	278,805
less: Final dividend for year ended 31st December, 2002 (<i>note 1</i>)	(47,500)	(45,238)
plus: Unaudited consolidated profits after tax and minority interests of the Group for the four months period ended 31st October, 2003 (based on its unaudited consolidated management accounts)	132,751	126,430
Estimated net proceeds from the New Issue (<i>note 2</i>)	980,700	934,000
Adjusted net tangible assets	1,358,696	1,293,997
Adjusted net tangible assets value per Share (<i>note 3</i>)	1.073	1.022

Notes:

- (1) On 1st November, 2003, the shareholders of the Company approved the distribution of a final dividend of RMB47,500,000 for the year ended 31st December, 2002 to the existing shareholders.
- (2) The estimated net proceeds from the New Issue are based on the Offer Price of HK\$3.10 per H Share (being the mid-point of the stated range of the Offer Price of between HK\$2.90 and HK\$3.30 per H Share) and takes no account of any H Shares which may be issued pursuant to the Over-allotment Option. If the Over-allotment Option is exercised in full, the estimated net proceeds of the New Issue will be approximately HK\$1,075.9 million (assuming the Offer Price is determined at the mid-point of the range of the Offer Price as stated above).
- (3) The adjusted net tangible asset value per Share is arrived at after the adjustments above and on the basis that 1,266,636,364 Shares are in issue and that the Over-allotment Option is not exercised.
- (4) The revaluation surplus of the Group's properties as at 30th September, 2003 has not been included in the above adjusted net tangible asset of the Group. Such revaluation surplus will not be incorporated in the consolidated financial statements of the Group for the year ending 31st December, 2003 as the Group accounts for its interests in properties at cost, less any impairment losses.

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TRADING RECORD

The following is a summary of the consolidated results of the Group for the three years ended 31st December, 2002 and the six months ended 30th June, 2003, which have been extracted from the Appendix I to the Prospectus.

	Year ended 31st December,			Six months ended
	2000	2001	2002	30th June, 2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	296,097	369,757	592,654	500,134
Cost of sales	<u>(161,684)</u>	<u>(207,879)</u>	<u>(301,278)</u>	<u>(232,567)</u>
Gross profit	134,413	161,878	291,376	267,567
Other revenue	1,901	2,474	1,994	2,105
Selling and distribution costs	(1,224)	(3,526)	(2,163)	(2,037)
Administrative expenses	(30,330)	(41,296)	(63,166)	(33,812)
Other operating costs	<u>(20,879)</u>	<u>(9,466)</u>	<u>(7,305)</u>	<u>(2,813)</u>
Profit from operating activities	83,881	110,064	220,736	231,010
Finance costs	(6,403)	(10,346)	(15,805)	(8,816)
Share of profit/(loss) of an associate	<u>19</u>	<u>(13)</u>	<u>1,100</u>	<u>514</u>
Profit from operating activities before tax and minority interests	77,497	99,705	206,031	222,708
Tax	<u>(29,183)</u>	<u>(35,209)</u>	<u>(67,850)</u>	<u>(70,350)</u>
Net profit from ordinary activities	48,314	64,496	138,181	152,358
Minority interests	<u>113</u>	<u>1,606</u>	<u>102</u>	<u>1,759</u>
Net profit attributable to shareholders	<u>48,427</u>	<u>66,102</u>	<u>138,283</u>	<u>154,117</u>
Appropriations:				
Transfer to reserves	<u>(3,011)</u>	<u>(9,762)</u>	<u>(20,803)</u>	<u>—</u>
Profit for the year/period, retained	<u>45,416</u>	<u>56,340</u>	<u>117,480</u>	<u>154,117</u>
Distribution to original shareholders	<u>44,520</u>	<u>12,000</u>	<u>—</u>	<u>—</u>
Final dividend proposed after the balance sheet date	<u>11,875</u>	<u>47,500</u>	<u>95,000</u>	<u>—</u>
Earnings per Share — Basic	<u>RMB0.73</u>	<u>RMB0.70</u>	<u>RMB1.46</u>	<u>RMB1.62</u>

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MANAGEMENT DISCUSSION AND ANALYSIS

Overview

Turnover

Turnover of the Group is mainly generated from the sales of gold bullions and gold bearing materials, copper cathodes, gold concentrates, copper concentrates and iron concentrates. It represents gross sales after deducting sales taxes and levies (including resources taxes).

Cost of sales

Cost of sales mainly consists of blasting costs, ore transportation costs, raw materials consumed, utilities expenses, salary and wages and depreciation of fixed assets used for production.

Other revenue

Other revenue mainly consists of interest income, rental income, and income from the provision of processing services such as refinery of gold bearing carbon and equipment modification.

Selling and distribution costs

Selling and distribution costs mainly consist of advertising expenses, gold transaction fee, transportation expenses and insurance expenses.

Administrative expenses

Administrative expenses mainly consist of salary, depreciation, utilities expenses and government administration expenses. Government administration expenses mainly include sewage drainage fee, resources compensation fee, and water and soil protection fee. All these expenses are charged annually and may vary based on the assessment performed by the relevant authority.

Finance costs

Finance costs represent interest expenses on interest-bearing bank loans, less the amount capitalised in construction in progress.

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Taxation

The Group is not subject to Hong Kong profits tax as the Group had no assessable profit arising in or derived from Hong Kong for each of the three years ended 31st December, 2002 and for the six months ended 30th June, 2003.

The Group is normally subject to corporate income tax in the PRC (“CIT”) at a rate of 33% on its assessable profit. Apart from CIT, the Group is subject to resource tax which is a direct tax levied on the mining of metallic mineral ores, including gold and copper ores. Except for gold bullions and gold bearing materials, the Group’s sales of other products are subject to value-added tax (“VAT”) which is the principal indirect tax on the sales of tangible goods (“Output VAT”). Output VAT is calculated at a rate ranging from 5% to 17% of the sales value of goods and is payable by the customer in addition to the sales value of goods. The Group pays VAT on its purchases (“Input VAT”) which is deducted against Output VAT in arriving at the net VAT amount payable. All VAT paid and collected is recorded through the VAT payable account, included in accrued liabilities and other payables on the balance sheet.

Pursuant to “Notice of purchase of domestic machinery for deduction of corporate income tax” (技術改造國產設備投資抵免企業所得稅暫行辦法) promulgated by the State Tax Bureau (國家稅務總局) in December 1999, 40% of the Group’s purchases on domestic machinery for approved technology advancement projects are deductible when calculating the corporate income tax for the corresponding year upon obtaining the approval from the tax authorities.

The Directors confirm that the tax assessment to the Group is final and there is no dispute or disagreement with tax authorities during the Track Record Period. In the opinion of the Directors, the Company has made adequate provision on taxation as at each balance sheet date of the Track Record Period.

Discussion of consolidated results of the Group for the relevant periods

For the year ended 31st December, 2001

For year 2001, the Group’s products were gold bullions and gold containing materials. Prior to October 2002, all gold bullions were sold to PBOC which purchased all gold bullions produced by the Group at a pre-determined price. The gold bearing materials, which represented residual gold elements in gold bearing carbons, were sold to other refining plants.

In 2001, the Group’s turnover increased by approximately 24.9% from approximately RMB296.1 million in 2000 to approximately RMB369.8 million in 2001. The significant growth in turnover of the Group was attributable to the completion of technology advancement project at Zijinshan Gold Mine which enhanced production capacity and output.

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The following table illustrates the details of sales by products for the two years ended 31st December, 2000 and 2001:

	2001			2000		
	Selling price RMB/gram	Quantity kg	Amount RMB'000	Selling price RMB/gram	Quantity kg	Amount RMB'000
Sales of gold bullions	72.4	4,499	325,726	75.4	3,841	289,650
Sales of gold bearing materials	67.0	698	46,780	72.1	116	8,362
Total sales of gold products	71.7	5,197	372,506	75.3	3,957	298,012
Less: sales taxes and levies			(2,749)			(1,915)
			<u>369,757</u>			<u>296,097</u>

Cost of sales increased by approximately 28.6% from approximately RMB161.7 million in 2000 to approximately RMB207.9 million in 2001 which was mainly due to the increase in turnover in 2001. The following table illustrates the details of gross profit margin for the two years ended 31st December, 2000 and 31st December, 2001.

	2001 %	2000 %
Gross profit margin:		
Sales of gold products	43.8	45.4

The decrease in the gross profit margin of the Group from 45.4% in 2000 to 43.8% in 2001 was mainly due to the decrease in average selling price from RMB75.3/g in 2000 to RMB71.1/g in 2001 while the average unit production cost of gold remained stable which was approximately RMB40.9/g in 2000 and approximately RMB40.0/g in 2001.

The Group's other revenue increased by approximately 30.1% from approximately RMB1.9 million in 2000 to RMB2.5 million in 2001. The increase was attributable to the increase in income from the provision of gold refining work to customers, which was approximately RMB1.2 million in 2001, representing an increase by RMB1.1 million from that of 2000.

The selling and distribution costs increased by approximately 188.1% from approximately RMB1.2 million in 2000 to RMB3.5 million in 2001. The significant increase was mainly due to the increase in advertising expenses from approximately RMB0.9 million in 2000 to RMB3.1 million in 2001, for promoting the Group's brand and image.

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The administrative expenses increased from approximately RMB30.3 million (approximately 10.2% of the Group's turnover) in 2000 to RMB41.3 million (approximately 11.2% of the Group's turnover) in 2001. The administrative expenses mainly consist of salaries and allowances of approximately RMB6.5 million in 2000 and RMB11.5 million in 2001, and government administrative expenses of approximately RMB3.8 million in 2000 and RMB4.4 million in 2001. The increase was attributable to the expansion of operation and production scale of the Group.

Due to the technology advancement project undertaken at the Zijinshan Gold Mine, the Group's bank borrowings increased from approximately RMB156.4 million in 2000 to approximately RMB268.1 million in 2001. Accordingly, finance costs increased from approximately RMB6.4 million in 2000 to approximately RMB10.3 million in 2001.

The effective tax rate decreased from 37.7% in 2000 to 35.3% in 2001. The decrease in effective tax rate of the Group was attributable to the decrease in certain non-deductible expenses for income tax purpose in 2001, which primarily arose from the provision for bad and doubtful debts on other receivables, provision for loss on guaranteed bank loans and provision for impairment of certain non-used fixed assets.

Cash inflow from operating activities increased by approximately 35.9% from RMB88.3 million in 2000 to RMB120.0 million in 2001 mainly due to increase in sales of gold products from 3,957 kg to 5,197 kg. Cash outflow from investing activities increased from RMB144.1 million to RMB192.1 million which was attributable to increase of investments in the technology advancement project at Zijinshan Gold Mine, Shuiyindong Gold Mine and Paodaoling Gold Mine. Cashflow from financing activities remained at a similar level in 2001 as compared to that of 2000.

For the year ended 31st December, 2002

In 2002, the Group's turnover increased by approximately 60.3% from approximately RMB369.8 million in 2001 to approximately RMB592.7 million in 2002. The significant growth in turnover of the Group was mainly attributable to the increase in sales of gold as a result of more extensive use of open-pit mining method. Besides, the demand for gold increased worldwide in 2002, especially as a result of the conflicts between the United States and the Middle East, which led to an increase in sales quantities and the selling price.

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The following table illustrates the details of sales by products for the two years ended 31st December, 2001 and 2002:

	2002			2001		
	Selling price <i>RMB/gram</i>	Quantity <i>kg</i>	Amount <i>RMB'000</i>	Selling price <i>RMB/gram</i>	Quantity <i>kg</i>	Amount <i>RMB'000</i>
Sales of gold bullions	80.9	7,225	584,232	72.4	4,499	325,726
Sales of gold bearing materials	—	—	—	67.0	698	46,780
Total sales of gold	80.9	7,225	584,232	71.7	5,197	372,506
Sales of copper cathodes			8,929			—
Sales of iron concentrates			4,138			—
			597,299			372,506
Less: sales taxes and levies			(4,645)			(2,749)
			<u>592,654</u>			<u>369,757</u>

As illustrated in the table above, no gold bearing materials was sold in 2002 as the Group was capable of processing its gold bearing materials to gold bullions due to improved production technology. Furthermore, the Group commenced its trial production of copper cathodes in 2002. Xiamen Zijin, a subsidiary of the Company established in 2002, commenced in trading of iron concentrates business.

Cost of sales increased by approximately 44.9% from approximately RMB207.9 million in 2001 to approximately RMB301.3 million in 2002 which was mainly due to the increase in turnover in 2002. The following table illustrates the details of gross profit margin for the two years ended 31st December, 2001 and 2002.

	2002 %	2001 %
Gross profit margin:		
Sales of gold	50.4	43.8
Sales of copper cathodes	16.6	—
Sales of iron concentrates	5.1	—
Overall	49.2	43.8

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The increase in the overall gross profit margin of the Group from 43.8% in 2001 to 49.2% in 2002 was mainly due to the increase in selling price of gold. Selling price of gold increased from RMB71.7/g in 2001 to RMB80.9/g in 2002 as the demand for gold reserves increased worldwide in 2002, especially as a result of the conflict between the United States and the Middle East. Since October 2002, all gold bullions were sold through the Shanghai Gold Exchange to outsiders, rather than to PBOC, which led to a higher selling price. There was no material fluctuation on the average unit production cost of gold which was RMB40.0/g in 2001 and RMB41.2/g in 2002.

The Group's other revenue decreased by approximately 19.4% from approximately RMB2.5 million in 2001 to approximately RMB2.0 million in 2002. The decrease was mainly due to the decrease in income from the provision of gold refining work to customers.

The selling and distribution costs decreased by approximately 38.7% from approximately RMB3.5 million in 2001 to approximately RMB2.2 million in 2002. With reputation established by the Group, less advertising expense was incurred accordingly.

With respect to the expansion of the Group's scale, administrative expenses increased from approximately RMB41.3 million (approximately 11.2% of the Group's turnover) in 2001 to approximately RMB63.2 million (approximately 10.7% of the Group's turnover) in 2002. The administrative expenses mainly consist of salaries and allowances of approximately RMB11.5 million in 2001 and RMB15.8 million in 2002, and government administrative expenses of approximately RMB4.4 million in 2001 and RMB5.4 million in 2002. The increase was attributable to the rapid expansion of operation and production scale of the Group.

Finance costs increased from approximately RMB10.3 million in 2001 to approximately RMB15.8 million in 2002 as a result of additional long-term bank loans borrowed to finance the construction projects and the expansion of Group's operation.

The effective tax rate decreased from 35.3% in 2001 to 32.9% in 2002. The effective tax rate of the Group decreased because certain subsidiaries recorded a profit in 2002.

Cash inflow from operating activities in 2002 amounted to RMB253.7 million, representing a significant increase of 111.4% as compared to 2001. It was due to the increase in gold sales from 5,197 kg to 7,225 kg and the average selling price of gold from RMB71.7/g to RMB80.9/g during 2001 and 2002. Cash flow from investing activities and financing activities remained at a similar level in 2002 as compared to that of 2001.

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For the six months ended 30th June, 2003

Turnover for the six months ended 30th June, 2003 was approximately RMB500.1 million. Sales of the Group for the six months ended 30th June, 2003 accounted for approximately 84.4% of total sales for 2002. The following table illustrates the details of sales and gross profit margin by products for the six months ended 30th June, 2003:

	For the six months ended 30th June, 2003			For the year ended 31st December, 2002		
	Selling price RMB/gram	Quantity kg	Amount RMB'000	Selling price RMB/gram	Quantity kg	Amount RMB'000
Sales of gold bullions	<u>93.0</u>	<u>5,222</u>	<u>485,257</u>	<u>80.9</u>	<u>7,225</u>	<u>584,232</u>
Total sales of gold	93.0	5,222	485,257	80.9	7,225	584,232
Sales of gold concentrates			4,327			—
Sales of iron concentrates			4,923			4,138
Sales of copper concentrates			1,872			—
Sales of copper cathodes			<u>7,207</u>			<u>8,929</u>
			503,586			597,299
Less: sales taxes and levies			<u>(3,452)</u>			<u>(4,645)</u>
			<u>500,134</u>			<u>592,654</u>

Sales of gold bullions accounted for 96.4% of the Group's gross turnover for the six months ended 30th June, 2003. Sales quantity of gold bullions for the six months ended 30th June, 2003 was 5,222 kg and the average selling price was RMB93.0/g. The increase in selling price from RMB80.9/g in 2002 to RMB93.0/g in 2003 was the main reason for the improvement in gross profit margin. Selling price kept on increasing trend because the demand for gold was still high in early 2003 as a result of the conflicts between the United States and the Middle East.

The Group's cost of sales was approximately RMB232.6 million and the average unit production cost of gold was remained stable which was RMB41.2/g in 2002 and RMB42.9/g for the six months ended 30th June, 2003.

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The Group's other revenue were approximately RMB2.1 million which mainly consist of interest income.

	For the six months ended 30th June, 2003	For the year ended 31st December, 2002
<i>Gross profit margin:</i>		
Sales of gold	54.40%	50.40%
Sales of gold concentrates	39.0%	0
Sales of iron concentrates	7.70%	5.10%
Sales of copper concentrates	36%	0
Sales of copper cathodes	12.80%	16.60%
Overall	53.50%	49.60%

The increase in overall gross profit margin of the Group from 49.6% in 31st December, 2002 to 53.5% in 30th June, 2003 was mainly due to the increase in average selling price of gold.

Selling and distribution costs mainly consist of advertising expenses and insurance expenses for delivery of gold bullions, which were approximately RMB0.8 million and RMB0.5 million, respectively.

Salary expenses and government administrative expenses were approximately RMB11.4 million and RMB4.5 million respectively, representing approximately 33.7% and 13.3% of the total administrative expenses of the Group.

Total interest expenses on bank loans were approximately RMB12.1 million, with approximately RMB3.3 million being capitalised in construction in progress. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

The effective tax rate decreased from 32.9% in 2002 to 31.6% in 2003. The effective tax rate of the Group decreased because there was a refund of corporate income tax amounted to approximately RMB5.2 million in respect of tax allowances for purchase of domestic machinery.

Cash inflow from operating activities during the six-month period was RMB208.1 million, representing approximately 82.0% of cash inflow from operating activities in 2002. The high proportion of cash inflow for the six-month period to that of 2002 was mainly attributable to the growth in gold sales to 5,222 kg and the increase in average selling price to RMB93.0/g during the period. Cash outflow from investing activities for the period amounted to RMB183.7 million, which was relatively high as compared to previous years due to increase of investments in Ashele Copper-Zinc Mine, Shuiyindong Gold Mine and the development of environmental mitigation measure at the Zijinshan Gold Mine. Cash flow from financing activities decreased to RMB14.6 million during the period as the Group reduced its loan requirement in view of sufficient working capital.

PROPERTIES

Property interests held by the Group in the PRC

As at 30th September, 2003, the Group owned various properties in Fujian, Guizhou and Jilin province and Xinjiang, of which 7 properties with a total gross floor area of approximately 31,523.82 sq.m. are located in Shanghang county, Fujian province; a property with a total gross floor area of approximately 21,715.00 sq.m. is located in Longyan city, Fujian province; a property with a planned total gross floor area of approximately 6,524.42 sq.m. is located in Zhenfeng county, Guizhou province; 2 properties with total gross floor area of approximately 24,410.65 sq.m. are located in Hunchun city, Jilin province; a property with a planned total gross floor area of approximately 28,859.49 sq.m. is located in Ashele city, Xinjiang; a property held under development with a planned gross floor area of approximately 10,376.73 sq.m. is located in Xiamen city, Fujian province and a vacant land held for future development with a total site area of approximately 18,609 sq.m. is located in Shanghang county, Fujian province.

These properties are held by the Group for its own occupation and used as mining, warehouses, ancillary offices and dormitories and other ancillary purpose.

Property interest leased by the Group in the PRC

As at 30th September, 2003, the Group leased a property with a total gross floor area of approximately 1,050 sq.m. in Shanghang county, Fujian province. The leased property is occupied and used by the Group as staff quarters.

PROPERTY INTEREST

DTZ Debenham Tie Leung Limited, the independent property valuer, had valued the property interests of the Group as at 30th September, 2003 at approximately RMB113,765,560. Details of the valuations and the text of the letter, a summary of the values and the valuation certificates are set out in Appendix III to this prospectus.

PROFIT FORECAST

In the absence of unforeseeable circumstances and on the bases and assumptions set out in Appendix II to this prospectus, the forecast by the Directors of the Group's consolidated profit after tax and minority interests but before extraordinary items for the year ending 31st December, 2003 will not be less than RMB280,000,000 (about HK\$266,667,000). So far as is aware by the Directors, no extraordinary item will appear or will likely appear in the financial year ending 31st December, 2003. The text of the letters prepared by Ernst & Young and China Everbright in respect of the profit forecast are set out in Appendix II to this prospectus.

FINANCIAL INFORMATION

DIVIDEND POLICY

For each of the years ended 31st December, 2002, the Company declared final dividends of RMB11,875,000, RMB47,500,000 and RMB95,000,000 to the then shareholders respectively during the Track Record Period. Such dividends were recommended by the Directors and approved by the Company's shareholders after taking into account of all relevant factors, including the Group's results and profit levels, its financial condition and anticipated funding requirement. The Directors consider that the relevant dividend amount was appropriate in light of the then cashflow position of the Group which represented a fair and reasonable return to its shareholders.

For the year ending 31st December, 2003, the Directors propose to declare a dividend to the Shareholders equivalent to not less than 30 per cent of the Company's distributable profit of the year. Based on the Group's forecasted distributable profit for the year ending 31st December, 2003 of RMB280,000,000 (approximately HK\$266,667,000) as set out in Appendix II to this prospectus, it is estimated that the dividend will not be less than RMB84,000,000 (approximately HK\$80,000,000) or RMB0.0663 per Share (approximately HK\$0.0632 per Share) assuming the Over-allotment Option is not exercised.

The declaration, payment and amount of dividends will be subject to the discretion of the Shareholders' general meeting and will be dependent upon the earnings, financial conditions, cash requirements and availability of the Company, the provisions of relevant laws and all other relevant factors. Potential investors should note that the historical declaration and distribution of dividends should not be used as a reference or basis to determine the amount of dividend to be declared and distributed in the future.

The Articles of Association require that cash dividends of H Shares be declared in Renminbi and paid in HK dollars to H Share holders. Conversion of Renminbi and Hong Kong dollars will be subject to the relevant PRC foreign exchange regulations and will be calculated at an exchange rate which will be the average of the PBOC Exchange Rate one calendar week preceding the date of declaration of dividends. If the Company does not have sufficient foreign exchange reserves to distribute its dividends in Hong Kong dollars, the Directors intend to exchange the required Hong Kong dollars from authorised banks or through other approved means. Please refer to the section headed "Foreign exchange control" in the section headed "Summary of relevant PRC and Hong Kong laws and regulations" in Appendix V to this prospectus.

WORKING CAPITAL

The Directors are of the opinion that, after taking into account the financial resources of the Group, including internally generated funds, present banking facilities and the estimated net proceeds of the New Issue, the Group has sufficient working capital for its present requirements.

FINANCIAL INFORMATION

DISTRIBUTABLE RESERVES

In accordance with the Articles of Association, the Company declares dividends based on the lower of retained profits as reported in accordance with PRC accounting principles and that reported in accordance with International Financial Reporting Standards (“IFRS”) after deduction of the current year’s appropriations to the reserves. According to the statutory financial statements prepared in accordance with PRC accounting principles and the financial statements prepared in accordance with IFRS, the retained profits as at 30th June, 2003 amounted to approximately RMB233,250,000 and RMB216,493,000 respectively. On 1st November, 2003, the shareholders of the Company approved a final dividend of RMB47,500,000 for the year ended 31st December, 2002. The retained profits available for distribution to shareholders of the Company was thus reduced to RMB168,993,000 under IFRS.