

(r) Dividend payable

Group and Company

The dividend payable as at 31st December, 2000 represented the outstanding amount payable to the Original Shareholders in respect of the distribution of retained profits of the Predecessor Entity.

(s) Other long term loans

Group and Company

	Notes	31st December,			30th June,
		2000 RMB'000	2001 RMB'000	2002 RMB'000	2003 RMB'000
Office of Longyan City Party Committee Intellectual Working Leadership Team (龍岩市委知識分子工作領導小組辦公室)	(i)	200	200	200	200
Shanghang County Technology Bureau (上杭縣科技局)	(ii)	30	30	30	30
Shanghang County Social Labour Insurance Company (上杭縣社會勞動保險公司)	(iii)	—	—	—	1,000
		230	230	230	1,230
Portion classified under current liabilities		—	—	(30)	(230)
		230	230	200	1,000
Other long term loans repayable as follows:					
Within one year		—	—	30	230
Between 1 and 2 years		—	30	200	1,000
Between 2 and 5 years		230	200	—	—
		<u>230</u>	<u>230</u>	<u>230</u>	<u>1,230</u>

Notes:

- (i) The balance is unsecured, bears interest at 20% per annum and repayable by 12th February, 2004.
- (ii) The balance is unsecured, interest-free and repayable by 1st December, 2003.
- (iii) The balance is secured by the supplementary retirement fund, bears interest at 5.49% per annum and repayable by 28th February, 2005.

(t) Commitments

(i) Capital commitments

Group

	2000	31st December, 2001	2002	30th June, 2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracted, but not provided for:				
— acquisition of plants, machinery and mining assets	30,355	32,512	67,267	152,110
— acquisition of mining and exploration rights of gold and copper mine at the southern end of Shanghang Zijinshan Gold and Copper Mine (上杭縣紫金山銅金礦東南礦段金銅礦)	—	—	—	10,436
— additional capital injection in a subsidiary	—	—	—	14,600
— capital injection in a new subsidiary	—	—	—	5,100
	<u>30,355</u>	<u>32,512</u>	<u>67,267</u>	<u>182,246</u>
Authorised, but not contracted for:				
— Overall utilisation of solid waste & environmental control engineering (固體廢物綜合利用及環境治理工程)	<u>168,840</u>	<u>166,549</u>	<u>112,510</u>	<u>97,825</u>
	<u>199,195</u>	<u>199,061</u>	<u>179,777</u>	<u>280,071</u>

Company

	2000	31st December,	2002	30th June,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracted but not provided for:				
— acquisition of plants, machinery and mining assets	29,394	28,457	48,837	30,652
— acquisition of mining and exploration rights of gold and copper mine at the southern end of Shanghang Zijinshan Gold and Copper Mine (上杭縣紫金山銅金礦東南礦段金銅礦)	—	—	—	10,436
— additional capital injection in a subsidiary	—	—	—	13,400
— capital injection in a new subsidiary	—	—	—	5,100
	<u>29,394</u>	<u>28,457</u>	<u>48,837</u>	<u>59,588</u>
Authorised, but not contracted for:				
— Overall utilisation of solid waste & environmental control engineering (固體廢物綜合利用及環境治理工程)	168,840	166,549	112,510	97,825
	<u>198,234</u>	<u>195,006</u>	<u>161,347</u>	<u>157,413</u>

(ii) *Operating lease commitments*

(a) As lessor

At 31st December, 2000, 2001 and 2002 and 30th June, 2003, the Group and the Company had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

Group and Company

	2000	31st December,	2002	30th June,
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	—	162	62	299
In the second to fifth year, inclusive	—	69	7	201
Over five years	—	—	—	—
	<u>—</u>	<u>231</u>	<u>69</u>	<u>500</u>

(b) As lessee

At 31st December, 2000, 2001 and 2002 and 30th June, 2003, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

Group

	31st December,			30th June,
	2000	2001	2002	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	263	266	266	246
In the second to fifth year, inclusive	1,019	970	921	925
Over five years	<u>7,270</u>	<u>7,056</u>	<u>6,842</u>	<u>6,949</u>
	<u>8,552</u>	<u>8,292</u>	<u>8,029</u>	<u>8,120</u>

Company

	31st December,			30th June,
	2000	2001	2002	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	263	263	263	242
In the second to fifth year, inclusive	1,019	970	921	925
Over five years	<u>7,270</u>	<u>7,056</u>	<u>6,842</u>	<u>6,949</u>
	<u>8,552</u>	<u>8,289</u>	<u>8,026</u>	<u>8,116</u>

(u) **Contingent liabilities***Group*

	31st December,			30th June,
	2000	2001	2002	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Guarantees in respect of bank loans granted to:				
a shareholder (<i>note 4(k)(ii)</i>)	27,400	—	—	—
a minority shareholder (<i>note 4(k)(ii)</i>)	—	—	500	3,000
third parties	56,045	40,855	11,400	14,000
an associate (<i>note 4(k)(ii)</i>)	—	—	18,500	15,000
	<u>83,445</u>	<u>40,855</u>	<u>30,400</u>	<u>32,000</u>

Company

	31st December,			30th June,
	2000	2001	2002	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Guarantees in respect of bank loans granted to:				
a shareholder (<i>note 4(k)(ii)</i>)	27,400	—	—	—
a minority shareholder (<i>note 4(k)(ii)</i>)	—	—	500	3,000
third parties	56,045	40,855	11,400	14,000
subsidiaries (<i>note 4(k)(ii)</i>)	—	—	190,200	223,400
an associate (<i>note 4(k)(ii)</i>)	—	—	18,500	15,000
	<u>83,445</u>	<u>40,855</u>	<u>220,600</u>	<u>255,400</u>

As at 30th June, 2003, the bank facilities granted to the subsidiaries and an associate subject to guarantees given to the banks by the Company were utilised to the extent of RMB56,200,000 and RMB15,000,000, respectively. As at 31st December, 2002, the bank facilities granted to the subsidiaries and an associate subject to guarantees given to the banks by the Company were utilised to the extent of RMB10,000,000 and RMB5,000,000, respectively.

6. CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

The movements in the consolidated shareholders' equity of the Group for the Relevant Periods prepared on the basis set out in Section 2 above are as follows:

Note	Owner's equity	Share capital	Share premium	Statutory surplus reserve	Public welfare fund	Capital reserve	Retained profits/ (accumulated losses)	Proposed final dividend	Total
	RMB'000	RMB'000	RMB'000	RMB'000 (Note 1)	RMB'000 (Note 2)	RMB'000	RMB'000 (Note 3)	RMB'000	RMB'000
At 1st January, 2000	76,692	—	—	—	—	—	3,501	—	80,193
Net profit for the year	—	—	—	—	—	—	48,427	—	48,427
Issuance of shares	(76,692)	62,710	28,736	—	—	—	—	—	14,754
New shares issued for cash	—	32,290	16,307	—	—	—	—	—	48,597
Transfer to reserves	—	—	—	2,007	1,004	—	(3,011)	—	—
Distribution	—	—	—	—	—	—	(44,520)	—	(44,520)
Proposed final dividend	4(h)	—	—	—	—	—	(11,875)	11,875	—
As at 31st December, 2000 and 1st January, 2001	—	95,000	45,043	2,007	1,004	—	(7,478)	11,875	147,451
Dividend paid	—	—	—	—	—	—	—	(11,875)	(11,875)
Net profit for the year	—	—	—	—	—	—	66,102	—	66,102
Transfer to reserves	—	—	—	6,508	3,254	—	(9,762)	—	—
Distribution	—	—	—	—	—	—	(12,000)	—	(12,000)
Proposed final dividend	4(h)	—	—	—	—	—	(47,500)	47,500	—
Release of reserves upon deemed disposal of an associate	—	—	—	(4)	(2)	—	—	—	(6)
As at 31st December, 2001 and 1st January, 2002	—	95,000	45,043	8,511	4,256	—	(10,638)	47,500	189,672
Dividend paid	—	—	—	—	—	—	—	(47,500)	(47,500)
Net profit for the year	—	—	—	—	—	—	138,283	—	138,283
Transfer to reserves	—	—	—	13,869	6,934	—	(20,803)	—	—
Share of capital reserve of an associate	—	—	—	—	—	897	—	—	897
Proposed final dividend	4(h)	—	—	—	—	—	(95,000)	95,000	—
As at 31st December, 2002 and 1st January, 2003	—	95,000	45,043	22,380	11,190	897	11,842	95,000	281,352
Dividend paid	—	—	—	—	—	—	—	(47,500)	(47,500)
Net profit for the period	—	—	—	—	—	—	154,117	—	154,117
As at 30th June, 2003	—	95,000	45,043	22,380	11,190	897	165,959	47,500	387,969

Notes:

- (1) In accordance with the Company Law of the PRC, the Company and the subsidiaries are required to allocate 10% of their profit after tax, as determined in accordance with PRC accounting standards and regulations, to the statutory surplus reserve ("SSR") until such reserve reaches 50% of the registered capital of the Company and the subsidiaries. Subject to certain restrictions set out in the relevant PRC regulations, the SSR may be converted to increase the share capital of the Company, provided that the remaining balance after the capitalisation is not less than 25% of the registered share capital.
- (2) In accordance with the Company Law of the PRC, the Company and the subsidiaries are required to transfer 5% to 10% of their profit after tax, as determined in accordance with PRC accounting standards and regulations, to the statutory public welfare fund ("PWF") which is a non-distributable reserve other than in the event of the liquidation of the Company and the subsidiaries. The PWF must be used for capital expenditure on staff welfare facilities and these facilities remain the property of the Group.
- (3) As set out in Section 4(h), for dividend purposes, the amount which the Company and its subsidiaries can legally distribute by way of a dividend is determined by reference to their profits as reflected in their PRC statutory financial statements which are prepared in accordance with PRC GAAP. These profits differ from those that are reflected in this report which are prepared in accordance with IFRS.

Upon listing of the Company's shares on The Stock Exchange of Hong Kong Limited, the directors intend to distribute dividends based on the lower of the Group's profits determined under PRC GAAP and IFRS.

In accordance with the Company Law of the PRC, profit after tax can be distributed as dividends after the transfer to the SSR and PWF and as set out above.

7. CONSOLIDATED CASH FLOW STATEMENTS

The consolidated cash flow statements of the Group for the Relevant Periods prepared on the basis set out in Section 2 above are as follows:

	Notes	Six months ended			
		Year ended 31st December,		30th June,	
		2000	2001	2002	2003
		RMB'000	RMB'000	RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit from operating activities before tax and minority interests		77,497	99,705	206,031	222,708
Adjustment for:					
Finance costs	4(d)	6,403	10,346	15,805	8,816
Share of (profit)/loss from an associate		(19)	13	(1,100)	(514)
Interest income	4(a)	(280)	(568)	(370)	(996)
Dividend income from other investments	4(a)	(32)	(33)	(8)	—
(Gain)/loss on deemed disposal of an associate	4(c)	(37)	5	—	—
Gain on deemed disposal of 8.325% equity interest in a subsidiary	4(a)	—	—	—	(148)
Depreciation	4(c)	29,502	43,769	64,627	37,117
Amortisation of land use rights	4(c)	133	170	147	117
Amortisation of long term deferred assets	4(c)	695	1,821	2,641	1,571
Amortisation of intangible assets	4(c)	1,680	1,949	2,761	1,381
Amortisation of goodwill	4(c)	—	—	—	807
Negative goodwill recognised as income	4(a)	—	—	(40)	(20)
Impairment of fixed assets	4(c)	—	891	—	—
Loss on disposal of fixed assets	4(c)	9,494	2,947	4,105	255
Write off of exploration cost	4(c)	—	2,789	—	—
Loss on disposal of 2% of equity interest in a subsidiary	4(c)	—	—	—	164
Provision for inventory obsolescence	4(c)	1,072	544	59	—
Provision for/(write back of) bad and doubtful trade receivables	4(c)	489	(422)	8	7
Provision for/(write back of) bad and doubtful other receivables	4(c)	3,653	323	(1,512)	85
Provision for/(write back of) loss on guaranteed bank loans	4(c)	3,255	—	(14)	—

	Six months ended			
	Year ended 31st December, 2000	2001	2002	30th June, 2003
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Operating profit before working capital changes	133,505	164,249	293,140	271,350
(Increase)/decrease in inventories	(25,806)	(22,405)	(32,381)	24,672
(Increase)/decrease in prepayments, deposits and other receivables	(20,024)	12,990	(2,269)	(34,004)
(Increase)/decrease in trade receivables	87	3,155	(1,597)	(11,375)
(Increase)/decrease in amount due from an associate	—	—	(41)	41
Decrease in provision	—	—	(3,241)	—
Increase/(decrease) in accrued liabilities and other payables	(16,318)	12,398	37,103	(5,114)
Increase/(decrease) in trade and bills payables	37,302	(5,250)	28,312	20,150
Movements in balances with shareholders	293	290	(290)	—
Movements in balances with related parties	—	—	5,000	(5,135)
Cash generated from operations	109,039	165,427	323,736	260,585
Income tax paid	(20,701)	(45,420)	(70,000)	(52,471)
Net cash inflow from operating activities	88,338	120,007	253,736	208,114
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	280	568	370	996
Dividends received from other investments	32	33	8	—
Dividend received from an associate	—	—	432	156
Purchase of fixed assets	5(a) (123,236)	(169,715)	(151,494)	(131,393)
Proceeds from disposal of fixed assets	969	498	45	7
Additions to land use rights	5(b) (2,108)	(462)	(5,303)	(6,138)
Additions to long term deferred assets	5(c) (13,138)	(18,315)	(16,347)	(10,636)
Additions to intangible assets	—	(8,372)	(1,405)	(3,109)
Acquisition of an associate	(2,520)	—	(5,776)	—
Disposal of an associate	1,100	—	—	—
Acquisition of a subsidiary	7(a) —	—	(11,654)	—
Disposal of 2% equity interest of a subsidiary	7(b) —	—	—	5,300
Disposal of an other investment	5	150	—	—
Loans advanced to related parties	—	—	—	(9,640)
(Increase)/decrease in pledged cash	(5,487)	3,487	—	(1,430)
Increase in time deposits	—	—	—	(27,800)
Net cash outflow from investing activities	(144,103)	(192,128)	(191,124)	(183,687)

	Six months ended			
	Year ended 31st December,			30th June,
	2000	2001	2002	2003
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issue of share capital	63,351	—	—	—
New bank loans	257,160	271,720	342,460	91,000
Repayment of bank loans	(211,513)	(160,000)	(209,310)	(61,450)
Repayment of long term other payables	—	(3,360)	(5,040)	—
Interest paid	(6,403)	(10,346)	(15,805)	(8,816)
Dividend paid	(30,739)	(37,720)	(47,500)	(47,500)
Cash received from government grants	—	36	—	190
Cash received from other long term loans	30	—	—	1,000
Utilisation of government grants	(40)	—	(500)	—
Cash received from minority shareholders upon additional capital injection in subsidiaries	—	—	676	9,700
Cash received from minority shareholders upon establishment of subsidiaries	—	8,200	—	30,500
Net cash inflow from financing activities	71,846	68,530	64,981	14,624
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS				
Cash and cash equivalents at beginning of year/period	16,081	(3,591)	127,593	39,051
	<u>13,256</u>	<u>29,337</u>	<u>25,746</u>	<u>153,339</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD				
	<u>29,337</u>	<u>25,746</u>	<u>153,339</u>	<u>192,390</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances	<u>29,337</u>	<u>25,746</u>	<u>153,339</u>	<u>192,390</u>
	<u>29,337</u>	<u>25,746</u>	<u>153,339</u>	<u>192,390</u>

(a) Acquisition of a subsidiary

On 20th December, 2002, the Company entered into agreements with Zhongbao Technology Investment Company Limited (中寶科技投資股份有限公司) and Zhongguo Geology & Mining Company (中國地質礦業總公司), respectively, independent third parties, to acquire 53% equity interests in Xinjiang Ashele. The aggregate acquisition consideration was RMB144,800,000.

The fair value of the identifiable assets and liabilities of Xinjiang Ashele assumed by the Group were as follows:

	<i>RMB'000</i>
Fixed assets	81,486
Intangible assets	60,000
Cash and bank balances	133,146
Prepayments and other receivables	19,567
Due from related parties	<u>892</u>
	<u>295,091</u>
Accrued liabilities and other payables	(11,376)
Tax payable	(1)
Long term other payables	(42,141)
Minority interests	<u>(113,539)</u>
	<u>(167,057)</u>
Fair value of net assets	128,034
Goodwill arising on acquisition	<u>16,766</u>
	<u>144,800</u>
Consideration:	
Cash paid	<u>144,800</u>
	<i>RMB'000</i>
Cash outflow on acquisition is as follows:	
Amount of cash paid	(144,800)
Net cash acquired	<u>133,146</u>
Net cash outflow	<u>(11,654)</u>

(b) Disposal of 2% equity interest in a subsidiary

On 11th January, 2003, the Company entered into an agreement with Xinjiang Uygur Autonomous Region Geologic Minerals Exploration & Development Bureau (新疆維吾爾自治區地質礦產勘查開發局), a shareholder of Xinjiang Ashele, to dispose of 2% equity interest in Xinjiang Ashele at a consideration of RMB5,000,000. On 13th January, 2003, the Company received RMB300,000 from Zhongbao Technology Investment Company Limited (中寶科技投資股份有限公司), a promoter of Xinjiang Ashele, to compensate the losses suffered by the Company for the disposal of a 2% equity interest to Xinjiang Uygur Autonomous Region Geologic Minerals Exploration & Development Bureau (新疆維吾爾自治區地質礦產勘查開發局). The disposal resulted in a loss on disposal of RMB164,000 and a release of unamortised goodwill of RMB633,000.

(c) Major non-cash transaction

On 9th January, 2003 and 20th May, 2003, a minority shareholder of Hunchun Zijin injected fixed assets with an aggregate carrying value of RMB6,000,000 as capital injection for 20% equity interest in Hunchun Zijin.

8. FINANCIAL INSTRUMENTS**(a) Fair values**

The carrying amounts of the Group's cash and bank balances, trade receivables, trade and bills payables approximate their fair values because of the short maturity of these instruments. The Group did not enter into any foreign exchange forward contracts to hedge against fluctuations.

(b) Credit risks

The Group's credit risk is primarily attributable to its trade and other receivables. The amounts presented are net of allowances for doubtful receivables, estimated by the Group's management based on past experience and the current economic environment.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the ability to apply for bank loan facilities if necessary.

9. EVENTS AFTER THE BALANCE SHEET DATE

- (a) Subsequent to the balance sheet date, on 16th July, 2003, the Company entered into an agreement with Tibet Geologic Exploration & Development Bureau Geothermal Geologic Team (西藏自治區地質礦產勘查開發局地熱地質大隊) to establish a new company, Tibet Jindi Mining Limited (“Tibet Jindi”) (西藏金地礦業有限公司) which is engaged in gold mining and geological studies. According to the capital verification report issued by Tibet Shenda Accountants (西藏申達會計師事務所) on 31st July, 2003, the registered share capital of Tibet Jindi is RMB30,000,000, the Company and its subsidiary, Xiamen Zijin, have contributed RMB15,300,000 and RMB300,000, respectively as paid up capital in Tibet Jindi, representing 51% and 1% equity interests in Tibet Jindi.
- (b) Subsequent to the balance sheet date, on 25th July, 2003, the Group entered into an agreement with Sichuan Geologic Prospecting Bureau No. 405 Geologic Engineering Team (四川省地質勘查局四零五地質工程隊) to establish a new company, Sichuan Shimian Zijin Platinum Company Limited (“Shimian Zijin”) (四川石棉縣紫金鉛業有限公司). Pursuant to the agreement, the registered share capital of Shimian Zijin is RMB10,000,000. The Group is required to contribute RMB5,100,000 as paid up capital in Shimian Zijin, representing 51% equity interest in Shimian Zijin.
- (c) Subsequent to the balance sheet date, on 28th July, 2003, the Company entered into an agreement with Sichuan Jiuzhaigou Minerals Development Company (四川九寨溝縣礦產開發總公司), Fujian Xinhua Engineering Company Limited (福建省新華都工程有限責任公司), and Fujian Zijin Mining Co., Ltd. Labour Commission (福建紫金礦業股份有限公司工會委員會) to establish a new company, Sichuan Jiuzhaigou Zijin Mining Company Limited (“Jiuzhaigou Zijin”) (四川省九寨溝縣紫金礦業有限公司), with a registered share capital of RMB40,000,000. Pursuant to the agreement, the Company will contribute RMB24,000,000 as paid up capital, which represents a 60% equity interest in Jiuzhaigou Zijin. Jiuzhaigou Zijin will be engaged in gold and copper mining and geological studies.

On 30th July, 2003, the registered share capital of Jiuzhaigou Zijin was fully paid up.

10. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30th June, 2003.

Yours faithfully,
Ernst and Young
Certified Public Accountants
Hong Kong