

## Management Discussion and Analysis

The Company's management hereby presents the discussion and analysis on the operating results for the year 2004:

### OPERATING RESULTS

In 2004, the Company's management have sincerely executed various resolutions passed in the shareholders meetings and Board meetings in every respect, and capitalised on the rise in gold prices, with well-organised production planning, realising sales income of RMB1,507.68 million during the year, an increase of RMB457.15 million, or 43.52% over the previous year.

The table below sets out details of sales by products for the two years ended 31 December, 2003 and 2004:

Product	2004			2003		
	Unit price	Volume	Amount/ RMB'000	Unit price	Volume	Amount/ RMB'000
Gold	RMB109.39/g	12,762kg	1,396,048	RMB96.7/g	10,448kg	1,009,979
Gold concentrates	RMB93.54/g	603.4kg	56,445	RMB66.7/g	179.62kg	11,972
Iron concentrates	RMB335.75/t	17,950.8t	6,027	RMB267/t	53,706.67t	14,360
Copper concentrates	RMB17,839/t	2,092t	37,319	RMB10,084/t	577.129t	5,820
Copper cathodes	RMB23,980/t	850.34t	20,392	RMB15,054/t	989.52t	14,896
Others	—	—	2,417	—	—	524
Less: Sales tax & levies	—	—	(10,969)	—	—	(7,022)
Total	—	—	1,507,679	—	—	1,050,529

Note: The sale of Gold consisted of 817.1kg assignment refinery

The Group's turnover in 2004 increased by 43.52% over 2003, which was mainly attributable to the full range production at Guizhou Zijin and Hunchun Zijin. Comprehensive utilisation project of solid tailings of the gold mines have also been partially put into operation, thereby enabling a significant growth by 21.31% in the production of gold. Another important factor was the significant increase in the prices of gold by 13.1% and copper cathodes by 59.29% and iron concentrates by 25.75% as illustrated from the above table.

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## AN ANALYSIS OF GROSS PROFIT AND GROSS PROFIT MARGIN

The Group mainly involved in mine development. The Group's cost of sales mainly includes mining, processing, and refining costs, ore transportation cost, raw materials consumption, utilities expenses, salaries and depreciation on fixed assets. The table below sets out details of the gross profit margin for the two years ended 31 December, 2003 and 2004.

Product	2004 %	2003 %
Gold	56.4	55.16
Gold concentrates	37.9	40.3
Iron concentrates	47.24	12.26
Copper concentrates	48	34.05
Copper cathodes	44.4	15.8
Others	—	100
Total	54.68	53.38

The Group's overall gross profit margin increased slightly from 53.38% in 2003 to 54.68% in 2004, which was attributable to the decisions of the Board utilizing the low cut off ores in the increase of the selling price of gold that maintained the profits and promoted the utility of resources and prolonged the service time of the mines. During the year, the average cut off of Zijinshan Gold Mine decreased from 0.815 gram per tonnes in 2003 to 0.707 gram per tonnes. Based on the same recovery rate, the processing cost of the ore per tonnes decreased, but the cost of gold production per gram has a moderate increase. About 91.93% of sales income was generated from sales of gold products in 2004. The sale of the gold concentrates and copper concentrates accounted for 6.17% of total sales. The selling price of gold increased from RMB96.7/g in 2003 to RMB109.39/g in 2004. Average unit production cost of gold increased from RMB42.8/g in 2003 to RMB43.4/g in 2004.

## SELLING AND DISTRIBUTION COSTS

The Group's selling and distribution costs increased by 109.48% from RMB4.93 million in 2003 to RMB10.32 million in 2004, which was mainly attributable to (1) the promotion on sales of gold bullions, and Group's advertisement fees, (2) the increase of sale volume of gold, and the increase in transportation and insurance fees, handling fees in gold transactions.

## ADMINISTRATION EXPENSES

The Group's administration expenses in 2004 amounted to RMB167.58 million, representing an increase of 46.96% over RMB114.03 million in 2003. The increase was mainly attributable to (1) the formation expenses upon the establishment of six subsidiaries and seven sub-subsidiaries in Sichuan, Xinjiang, Qinghai etc. in 2004, and (2) the enhancement in the research and development and the cost increased by RMB11.72 million.

## FINANCE COSTS

The Group's finance costs in 2004 was RMB5.84 million, a decrease of 65.9% over RMB17.13 million in 2003, which was mainly attributable to the decrease of loan interests upon repayment of bank loans.

## WORKING CAPITAL AND SOURCE OF FUNDS

As at 31 December, 2004, the Group's cash and cash equivalents was RMB888.75 million, decreased by RMB225.72 million or 20.25% over previous year.

During the year, net cash in-flow generated from the Group's operating activities amounted to RMB576.77 million, an increase of RMB100.39 million or 21.07% over the previous year. The main reasons for the increase in the cash-flow generated from the Group's operating activities were increase in the sales quantities and sales income of gold amounted RMB386.07 million during the year, and some of the projects of the holding company commenced production during the year which increased RMB73.14 million sales incomes of copper cathodes, copper concentrates, gold concentrates and iron concentrates.

During the year, net cash out-flow generated from the Group's investment activities amounted to RMB925.96 million, an increase of RMB454.89 million or 96.56% over the previous year. The main reasons for the increase in the cash out-flow generated from the Group's investment activities were that the Group increased its external investments during the year, acquired and established six subsidiaries and seven sub-subsidiaries successively. At the same time, the Group also increased its investments in the fixed assets of subsidiaries, technical enhancement and construction of low ore-grade systems for Zijinshan Gold Mine, and increase in the investment to Zijinshan Copper Mine, resulting in considerable increase in the capital expenditures in 2004 compared with previous year.

During the year, net cash in-flow generated from the Group's financing activities amounted to RMB60.48 million, a decrease of RMB895.35 million or 93.67% over the previous year. The main reasons for the significant decrease in the net cash in-flow generated from the Group's financing activities were the proceeds received from the Company's Initial Public Offer last year, and only received the cash from the exercise of an over-allotment option in 2004.

As at 31 December, 2004, the Group's total bank borrowings amounted to RMB311.65 million (31 December, 2003: RMB199.4 million). Of these, amount repayable within one year to two-year was approximately RMB85.05 million, amount repayable within two to five years was approximately RMB226.6 million, and no loan was repayable over five years. All the bank borrowings bore interest rates between 2.88% to 6.7% (2003: 2.88% to 6.7%). The borrowings from financial institutions were mainly for the Group's subsidiaries.

The Group's working capital requirements and capital expenditures are expected to be financed from the proceeds of its public offering and internal resources. The Group also possesses substantial amount of uncommitted short-term loan facilities provided by its major banks.

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## PROFITS ATTRIBUTABLE TO SHAREHOLDERS AND EARNINGS PER SHARE

The Group's profits attributable to shareholders as at 31 December, 2004 was approximately RMB417.62 million, representing an increase of 33.04% over approximately RMB313.91 million in 2003.

For the year ended 31 December, 2004, the Group's earnings per Share (basic) was RMB0.16, and it was more or less as the same of last year. The calculation of earnings per share is based on the Group's profit attributable to shareholders of RMB417,619,000 (2003: RMB313,906,000) and the weighted average number of 2,628,261,820 ordinary shares (2003: 1,916,395,676 ordinary shares) in issue during the year.

## TAXATION

Income taxes of the Group for 2004 and 2003 are as set out in the table below:

### The Group

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
PRC Corporate Income Tax	191,460	137,025
Over provision in prior years	(12,644)	(42,077)
	178,816	94,948
Share of tax attributable to associates	7,621	729
	186,437	95,677

No provision for Hong Kong profit tax was provided, as the Group did not derive any taxable profits in Hong Kong for both 2004 and 2003. The Group's PRC Corporate Income Tax were provided at a rate of 33% on assessable profit, except for Guizhou Zijin Mining Company Limited (located in the western region of the PRC) and Xiamen Zijin Science and Technology Company Limited (established in the Xiamen Special Economic Zone) which were subject to a preferential tax rate of 15% in accordance with the relevant tax laws in the PRC.