



中期報告



紫金礦業集團股份有限公司

ZIJIN MINING GROUP COMPANY LIMITED\*

(在中華人民共和國註冊成立的股份有限公司)

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

Stock Code 股份代號: 2899

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\*For identification purpose only

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# Operation Overview

## MARKET REVIEW

In the first half year of 2006, the international gold price continued increasing, similar to the trend in year 2005, which was affected by the geopolitical factors, trend of US dollar, oil trends, and the correlation of resource commodities. The gold price rose by US\$84 per ounce in total, from US\$530 per ounce on 1 January 2006 to US\$614 per ounce on 30 June 2006 during this period (the gold price hit a record high in 26 years when it reached US\$730 per ounce) representing 15.8% growth. The average gold price in first half year 2006 was US\$589 per ounce which represented 38% growth in comparison with the same period last year. The average price in Shanghai Gold Exchange was RMB152.68 per gramme. The Group's average selling price of gold in the reporting period was RMB151.55 per gramme (about US\$589 per ounce).

In the first half year of 2006, the operation of the PRC gold industry was in good shape. The price of gold had risen more than its volume of production. From January 2006 to June 2006, the PRC domestic gold production was 106 tonnes (including 77.33 tonnes gold produced from mines) which represented 6.33% growth in comparison with the same period last year. It realised RMB2,470 million profit and represented 53.21% growth in comparison with the same period last year. The Group's gold production from mines and its profit represented 12.24% and 30.35% respectively of the PRC total gold production from mine and profit.

In year 2006, the situation of demand and supply of copper had not been changed. There was no solution to ease the insufficient global copper supply. The Group's average selling price of copper cathodes in the reporting period was RMB49,974 per tonne (about US\$6,246 per tonne).

[1 troy ounce = 31.1035 gramme]

## Production and operation status

In the reporting period, the prices of global mineral products were consistently increasing, and remained at the peak prices. During the reporting period, the Group achieved good results by attentively management of production. The Group produced 21,149.59 kg gold (679,974 ounces) in total, representing a 183.66% growth rate in comparison with the corresponding period last year of the total amount provided, 9,463.09 kg (304,245 ounces) was produced from mines and 11,686.5 kg (375,729 ounces) was produced from smelting facilities, respectively representing 32.57% and 3,575% in growth rates with the corresponding period last year. The Group produced 18,821 tonnes of copper, showing a 133.42% growth rate over the same period last year. The Group produced 208,982 tonnes of iron concentrates and this represents a 213.95% growth rate over the same period last year. The Group produced zinc concentrates containing 6,864.7 tonnes zinc. The Group generated an income of RMB3,949,243,000 and a net profit of RMB662,089,000, representing 267.58% and 100% growth rates respectively in comparison with the corresponding period last year.

### 1. Gold Mine Business

In the reporting period, the Group's gold production kept a steady growth. Zijinshan Gold Mine, Guizhou Shuiyindong Gold Mine, and Hunchun Gold Copper Mine are the three major mines for gold production, and they each produced 6,580.55 kg, 1,511.31 kg, and 515.92 kg of gold respectively. In total, these three mines produced about 90.96% of the Group's total gold production from mines. The Group has been modifying the gold production systems, upgrading existing technology, and enlarging the current productions in Shanxi Yixingzhai Gold Mine, Hebei Dongping Gold Mine, and Yunnan Dixu Gold Mine. In the meantime, these mines could produce gold in small scale by using its existing facilities. In total, these mines produced 855.31 kg of gold which represents 9.04% of the Group's total gold production from mines.

## 2. Copper Mine Business

Copper mine business gradually became one of the most profitable businesses in the Group. In the reporting period, Ashele Copper Mine produced copper concentrates which contained 14,647.5 tonnes of copper. Zijinshan Copper Mine produced 2,459.46 tonnes copper cathodes. Hunchun Gold Copper Mine produced copper concentrates which contained 1,714.2 tonnes of copper. Ashele Copper Mine will gradually achieve the production target. The new production system in Zijinshan Copper Mine has been improving and the production volume of ore has been increased significantly. Qinghai Deerni has almost finished the infrastructure construction and equipment installation, it will start a trial production in October 2006.

## 3. Other Mine Business

In the reporting period, Xinjiang Jinbao (Mengku) Iron Mine produced 208,982 tonnes in iron concentrates. The associated enterprise of the Group – Makeng Iron Mine produced 170,000 tonnes in iron concentrates. Ashele Copper Mine produced 4,498.8 tonnes of associated zinc. Yun Ye Jin Yuan Mining Co., Ltd., a subsidiary of Yunnan Huaxi Mining Co., Ltd. produced zinc concentrates which contained 2,365.9 tonnes of zinc. In June 2006, Inner Mongolia Wulate Houqi Lead Zinc Mine was acquired by the Group. In order to ensure the supply of raw material to our Bayannaer Zinc Refinery, the Group will use the mine as a base to control the lead and zinc resources in the region.

## 4. Refinery Business

### 4.1 Gold refinery

The Group gold refinery had obtained LBMA (LONDON BULLION MARKET ASSOCIATION) certificate. An international certificate has been obtained for the Company's gold products. Luoyang Zijin Yinhui Co., Ltd. (a newly established company at the end of 2005) had utilised and integrated its resources, and by doing so gained advantages in production capacity, brand name, technology and finance. In the reporting period, it produced 11,389 kg gold and sold 15,695 kg gold (including agency). It realised RMB1,756 million income.

### 4.2 Zinc refinery

Bayannaer Zinc Refinery started a trial run of its production facility in May 2006 with 100,000 tonnes of annual production capacity and in July it produced the first lot of electrolytic zinc. The construction of the plant hit records in zinc refinery industry.

### 4.3 Reduction Iron

In order to uplift resource value and reduce transportation cost, the Group formed Jinshan Fuyun Mining & Refinery Co., Ltd. in Xinjiang and invested money in order to build a plant with production capacity of 300,000 tonnes/year reduction iron (initial stage 150,000 tonnes/year). It will promote Fuyun's competition and value in iron business.

## Mining Right Management and Increase Reserve by Exploration

In 2006, the Company put more effort in management of mining rights and tried to improve the quality of mining rights by cancellation, maintain, and transfer. Up to 30 June 2006, the Group owns 158 exploration rights, its total area is 5,893.61 km square and locate in 13 different provinces and autonomous. In which, 28 exploration rights were newly acquired in this year and it covers 969.91 km square. The Group owns 21 mining rights which covers 39.657 km square. In which, 6 mining rights were newly acquired in this year and it covers 10.1247 km square. The Group increases its reserve in gold, zinc and other metals by risk explorations. The operation enables the continuous development of the Group.

In order to adopt the international practice, the Group started to conduct a grading process and certification of reserves. We will announce the details of resources and reserve of the Group in year 2006 annual report.

# Management Review and Analysis

## OPERATION RESULTS

As at 30 June 2006, the Group's turnover was RMB3,949.243 million, which increased RMB2,874.842 million since last year and represented 267.58% growth in comparison with the corresponding period last year.

The table below sets out details of sales by products for the six months ended 30 June 2006 and 30 June 2005 respectively:

Product	30 June 2006 (Unaudited)			30 June 2005 (Unaudited)		
	Unit price RMB	Volume	Amount/ RMB'000	Unit price RMB	Volume	Amount/ RMB'000
Gold	151.55/g	20,786.94 (kg)	3,150,291	114.19/g	7,976.8 (kg)	910,843
Gold concentrates	125.42/g	422.3 (kg)	52,965	93.07/g	394 (kg)	36,670
Iron concentrates	305.28/t	61,850 (t)	18,882	299/t	35,335 (t)	10,566
Copper concentrates	37,975.3/t	14,302.95 (t)	543,159	18,803/t	5,646.9 (t)	106,180
Copper cathodes	49,974.89/t	2,348.8 (t)	117,381	27,936/t	563 (t)	15,728
Zinc concentrates	13,544.75/t	4,681.69 (t)	63,412	—	—	—
Others	—	—	26,098	—	—	813
Less: Sales tax & levies			(22,945)			(6,399)
<b>Total</b>			<b>3,949,243</b>			<b>1,074,401</b>

Note: The sales of gold was 21,209.24kg which included a purchase of 11,686.50kg refined from gold-containing metal/ore.

The Group's turnover for the first half year of 2006 increased by 267.58% over the same period last year, which was mainly attributable to (i) the growth in gold selling by 153.37%, in which the gold production in Guizhou Shuiyindong and Hunchun, subsidiaries of the Company, has been increased by 60.13% and the sales of 11,389.5 kg gold refined by Luoyang Yinhui Gold Refinery; (ii) the sales of copper increase by 168.15% over the same period last year, and it was mainly attributed to the production at Ashele Copper Mine that has almost reached its production target, and that Zijinshan Copper Mine's 10,000 tonnes facility has commenced production, and (iii) selling prices of gold and copper increased substantially over the same period last year. The selling price of gold and copper increased by 32.72% and 102% respectively over the same period last year.

## AN ANALYSIS OF GROSS PROFIT AND GROSS PROFIT MARGIN

In the first half year of 2006, the Group realised RMB1,521.45 million gross profit, which represents an increase of RMB874.29 million (increase of 135%) over the same period last year. This was mainly affected by the increases of production volume and price. The Group's production costs include processing, and refining, ore transportation, raw materials consumption, utilities expenses, raw materials purchased for gold refinery, and depreciation on fixed assets. The cost of sales was increased by 468.2% from RMB427.25 million to RMB2,427.8 million for the periods ended 30 June 2005 and 30 June 2006 respectively. Such increase was mainly caused by an increase of production of refining gold. The table below sets out details of the gross profit margin for the two periods ended 30 June, 2005 and 2006.

Product	As at 30 June	
	2006 %	2005 %
Gold	67	63.57
Gold concentrates	60.73	37.52
Refined gold	0.76	0.56
Iron concentrates	48.58	52.5
Copper concentrates	80.50	57.3
Copper cathodes	68.98	48.7
Zinc concentrates	78.90	—
Others	14.47	30
<b>Total</b>	<b>38.3</b>	<b>60.23</b>

The Group's overall gross profit margin decreased from 60.23% in the period ended 30 June 2005 to 38.3% in the period ended 30 June 2006, which was attributable to the low profit margin of gold refinery business, decreased profit margin in iron concentrates, and low sales income in iron concentrates. After deduction of the gold refinery business, the overall gross profit margin is 69.55%, representing 9.32% growth in comparison with the same period last year. The main reasons were (i) gold price grew 32.72%, and (ii) copper price grew 102%. The average gold price rose from RMB114.19/g in the period ended 30 June 2005 to RMB151.55/g in the period ended 30 June 2006.

Average unit production cost of gold increased from RMB41.54/g in the period ended 30 June 2005 to RMB49.65/g in the period ended 30 June 2006. The main reasons were (i) most newly acquired mines were with refractory ores and the processing costs was high, (ii) the restoration and re-organisation of new acquired business caused additional costs, (iii) Zijinshan Gold Copper Mine and Guizhou Shuiyindong Gold Mine used lower cutoff to preserve the resource which caused an increase in costs.

## SELLING AND DISTRIBUTION COSTS

The Group's selling and distribution costs increased from RMB11.21 million to RMB38.466 million in the periods ended 30 June 2005 and 30 June 2006 respectively, which was mainly attributable to the costs of road and train transportation for the iron concentrates, copper cathodes, and copper concentrates caused by high sales volume. The transportation costs has directly been booked under selling and distribution costs.

# Management Review and Analysis

## ADMINISTRATION COSTS

For the 6 months ended 30 June 2006, the Group's administration costs was RMB194.16 million which increased 78% over the same period last year that was RMB108.88 million. The main reasons were (i) investment in new subsidiaries like Hebei Chongli, Shanxi Zijin, and other subsidiaries increased RMB45.16 million administration costs, (ii) paid various levies increased RMB17.89 million, (iii) salaries and welfares increased RMB12.6 million, (iv) depreciation increased RMB7.65 million, (v) technology research and development increased RMB6 million, and (vi) labour insurance premium increased RMB1.71 million.

## FINANCE COSTS

For the 6 months ended 30 June 2006, the Group's finance costs was RMB39.467 million which increased 385.09% over the same period last year (that was RMB8.136 million). It was mainly caused by an increase of financial need for the Group's projects and subsidiaries. In the reporting period, the short term finance and long term finance have been increased by RMB684.818 million, and RMB1,738.63 million respectively over the same period last year. The increase in loan caused increase in interest costs.

## OTHER OPERATING COSTS

In the first half year of 2006, the Group's other operating costs was RMB254.50 million which increased RMB237.45 million over the same period last year. The main reason was that the Company and its subsidiaries realised RMB68.2 million loss in settlement of future contracts and also made a RMB168.75 million provision for the existing future contracts. It would affect the Company's net profit about RMB89 million (based on shareholding and after tax).

## WORKING CAPITAL AND SOURCES OF FUND

For 6 months ended 30 June 2006, the Group's cash and cash equivalents were RMB1,170.6 million, increased by RMB698.97 million or 148.2% from previous year.

For 6 months ended 30 June 2006, net cash in-flow generated from the Group's operating activities was RMB455.36 million, representing a decrease of RMB57.15 million over the previous period in 2005. The main reasons for the decrease in the cash-flow generated from the Group's operating activities were (i) a deposit of RMB196 million for Bayannaor Zinc Refinery's raw materials purchase, and (ii) the Company paid the corporate tax of RMB130 million levied in previous years.

During the reporting period, net cash out-flow from the Group's investment was RMB1,649.25 million, which represents an increase of RMB683.03 million from the corresponding period last year. The increase in the net cash out-flow generated from the Group's investment was mainly due to: (i) the Group has increased the investment this year and has established 9 subsidiaries and 2 associated companies and (ii) the investment in the Company's projects relating to copper mining techniques improvement and the subsidiaries' infrastructure has increased and therefore the capital expenditure has increased substantially from the corresponding period last year.

During the reporting period, net cash in-flow generated from the Group's financing activities was RMB1,358.69 million, which represents an increase of RMB1,259.09 million from the corresponding period last year. The increase in the net cash in-flow generated from the Group's financing activities was mainly due to the increase in the bank borrowings and cash contribution by the minority shareholders at the time of establishment of the subsidiaries.

As at 30 June 2006, the Group's total borrowings amounted to RMB3,111.095 million (it was RMB687.65 million as at 30 June 2005). Among which, the amount repayable within one year was approximately RMB980.065 million, the amount repayable within one-year to two-years was approximately RMB152 million, the amount repayable within two to five years was approximately RMB1,949.8 million, and the amount repayable over five years was approximately RMB29.23 million. The interest rates of all the bank borrowings range between 2.55% to 6.696% (which it ranges from 2.55% to 6.696% for the same period last year).

As at 30 June 2006, the Group has not charged any of its assets or provide guarantee for the liabilities of the entities outside the Group.

As the Group has small investment overseas, it is not subject to any risk relating to exchange rate fluctuation.

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

## INVESTMENT STATUS

### Formation of subsidiaries

In January 2006, Shanxi Zijin Mining Co., Ltd. ("Shanxi Zijin") was formed with registered capital RMB159.1 million. The Group contributed capital of RMB81.14 million in cash for 51% of its shareholding. Fenji County Yixingjai Gold Mining Co., Ltd. contributed RMB54.1 million of physical asset for 34% of its shareholding, while Zijin International Mining Co., Ltd. ("Zijin International") contributed RMB23.86 million in cash for 15% shareholding of Shanxi Zijin. The company will mainly carry out mining business in Yixingjai Gold Mine after formation.

On 20 January 2006, the Group entered into an agreement with Yunnan Wenshanzhou Longxing Mining Co., Ltd. to acquire 51% shareholding of Guangnan Country Longxing Mining Co., Ltd. ("Guangnan Longxing") for the consideration of RMB25.5 million. The registered capital of Guangnan Longxing is RMB50 million. Yunnan Wenshanzhou Longxing Mining Co., Ltd. and Xiamen Minxing Investment Co., Ltd. are the shareholders of Guangnan Longxing and they own 25% and 24% shareholding of Guangnan Longxing respectively. Guangnan Longxing mainly carries out mining business in Dixu Gold Mine.

In January 2006, the Group's subsidiary Fujian Zijin Investment Co., Ltd. ("Zijin Investment") entered into an agreement with Mr. Peng Qinhuo to form Zijin Process Chemistry Co., Ltd. in Shanghang ("Zijin Process") with registered capital RMB10 million. Zijin Investment invested RMB9 million and owns 90% of Zijin Process. Mr. Peng Qinhuo contributed RMB1 million by his patented technology and owns 10% of Zijin Process. Zijin Process will build a plant to produce 2,000 tonnes chemistry for floating process and 300 tonnes chemistry for copper extraction, and the production will be expected in this year.

In February 2006, the Group's subsidiary Yunnan Huaxi Mining Resource Co., Ltd. ("Yunnan Huaxi") entered into an agreement with Mr. Huang Jinyun to form Wenshan Huayuan Mining Co., Ltd. ("Wenshan Huayuan") in Wenshan Country, Yunnan with registered capital of RMB3 million. Yunnan Huaxi contributed RMB1.8 million and owns 60% shareholding of Wenshan Huayuan. Mr. Huang Jinyun contributed RMB1.2 million and owned 40% shareholding of Wenshan Huayuan. Wenshan Huayuan will mainly carry out risk exploration in Wenshan County for gold and non-ferrous metals.

On 5 April 2006, the Group's subsidiary Xinjiang Zijin Mining Co., Ltd. ("Xinjiang Zijin") and the Company's Labour Union agreed to form a company – Fuyun Jinshan Mining & Refinery Co., Ltd. and its registered capital is RMB120 million. Xinjiang Zijin invested RMB72 million and owns 60% shareholding of Fuyun Jinshan Mining & Refinery Co., Ltd. the Company's Labour Union invested RMB 48 million and owns 40% shareholding of Fuyun Jinshan Mining & Refinery Co., Ltd. After the formation of the company, a reduction iron plant with 300,000 tonnes/year capacity will be built. The company will develop the east section of Mengku Iron Mine.

In April 2006, the Company and Shandong Longkou Jinxing Gold Co. ("Longkou Jinxing") entered into an agreement to inject further capital into Shandong Longkou Jintai Co., Ltd. ("Longkou Jintai"), boosting its capital to RMB200 million. The Company invested RMB102 million in cash for 51% of Longkou Jintai's shareholding, and Longkou Jinxing invested RMB98 million of assets for 49% shareholding. Longkou Jintai is primarily engaged in the development of gold mines in Shandong Longkou.



## Management Review and Analysis

In May 2006, the Company, Chongli County National Assets Management Centre and Dongping Gold Mine Labour Union (Chongli Zijin Labour Union) agreed to form Chongli Zijin Mining Co., Ltd. (“Chongli Zijin”). The proposed registered capital was RMB237.5 million, the Company shall invest RMB142.5 million for 60% shareholding of Chongli Zijin, while Chongli County National Assets Management Centre shall invest RMB85.5 million for 36%, and Chongli Zijin Labour Union shall invest RMB9.5 million for 4%. By 22 June 2006, the Company and Chongli Zijin Labour Union have fully paid the investment and Chongli Zijin’s paid up capital was RMB181.685 million. According to the agreement, Chongli County National Assets Management Centre will pay the remaining capital RMB55.815 million within 2 years. Chongli Zijin will fully integrate and develop Hebei Dongping Gold Mine and the other mining rights in the region.

In May 2006, Zijin International and Rushan Daye Gold Mine entered into an agreement to form a company – Rushan Zijin Mining Co., Ltd. (“Rushan Zijin”) and its registered capital was RMB35.7 million. Zijin International agreed to invest RMB24.99 million for 70% shareholding of Rushan Zijin. While Rushan Daye Gold Mine agreed to invest RMB10.71 million for 30%. Rushan Zijin will be primarily involved in exploration and development work in Yulin Gold Mine Area.

On 21 June 2006, the Group’s wholly owned subsidiary Best Ground Group Ltd. (“Best Ground”) entered into a share transfer agreement with four shareholders of China Gold Development Co., Ltd. (“CGD”) – China Mining Investment Limited (“CMI”), German Kingston Financial Investment Inc. (“GKF”), Gold Rich International Mining Investment Inc. (“GRI”), and Sonic International Investment Inc. (“SII”) for the consideration of US\$20 million. Best Ground acquired 25%, 25%, 19.99%, and 0.01% shareholdings of CGD from GRI, SII, GKF, and CMI respectively. In total, Best Ground acquired 70% shareholding of CGD (57,330,000 shares). CGD owns 52% shareholding of Shandong Guoda Gold Co., Ltd. The Company indirectly controls Shandong Guoda Gold Co., Ltd. after the acquisition. For details of the transaction, please refer to the Company’s circular dated 13 July 2006.

### Formation of Associated Companies

On 5 January 2006, the Company, together with Western Mining Co., Ltd., Heilongjiang Mining Group Co., Ltd., Heilongjiang Heilong Mining Group Co., Ltd., and Haerbin Baifu Investment Co., Ltd. formed a company called – Heilongjiang Duobaoshan Copper Co., Ltd. (“Duobaoshan Copper”). The company’s registered capital was RMB300 million. The Company owns 31% shareholding and is the largest shareholder of Duobaoshan Copper. Duobaoshan Copper mainly carries out mining of copper and molybdenum in Duobaoshan area.

In February 2006, the Group injected RMB1.5 million into Shanghang Rural Credit Society. After this capital increase, Shanghang Rural Credit Society’s registered capital increased to RMB30 million whereby the Group owns 5% of its shareholding.

Save as disclosed above, in this reporting period, the Group did not have substantial purchase and disposal of subsidiary and associated company.

### Connected Transaction

On 18 January 2006, the Company entered into outsourcing mining and process contracts with Shanghang Hongyang Mine Co., Ltd. (“Hongyang”) and Fujian Xinhua Engineering Co., Ltd. (“Xinhua”). The Company outsourced partial mining and process works in Zijinshan to these 2 companies for 3 years. Xinhua is a promoter of the Company and Hongyang is a promoter of Hunchun Zijin Mining Co., Ltd. Pursuant to the Listing Rules, these contracts constituted non-exempted continuing connected transactions. As the consideration exceeded 2.5% in the relevant percentage as applicable in the Listing Rules, the contracts were subject to Independent Shareholders’ approval pursuant to Rule 14A.35. The Company announced the transactions in newspapers and the website of The Hong Kong Stock Exchange Ltd. on 27 January 2006 and has issued an Extraordinary General Meeting (“EGM”) notice on 21 February 2006. On 7 April 2006, the EGM approved these transactions.

Other than those disclosed above, details of other continuing connected transactions in relation to the purchase of good, provision of services, etc. are set out in Note 12 to the financial report of 2006 Interim Report.

## OUTLOOK

### Business environment

We estimated that the global political and economic situation will maintain the same in second half year of 2006. The geopolitical tension, high oil price, the trend of US dollar, and gold production volume will not be changed substantially in a short period of time. The international gold price will maintain at high price. Copper price will be soft. With the growth of global economy and the high speed growth of China economy, metal price will maintain at high price. Macro economic environment will remain good for the mining industry.

### Business strategy

#### Gold Mine Business

In order to enlarge gold production in mine and minimise the consumption of resources, Zijinshan Gold Copper Mine will endeavour to enlarge its mining scale (copper mine) and execute joint-mining of gold and copper as planned. Guizhou Shuiyindong Gold Mine will carry out its third phase technology modification and lower down its mining cutoff of ores to promote its resources utilization. Hunchun Gold Copper Mine will enlarge exploration to confirm its reserve and prepare a new development plan. According to the practical situations, other gold mines will strengthen the management in mine and resources, and make plans to promote production capacity and technology.

#### Copper Mine Business

The Group will try to enlarge copper production capacity for the good market. Ashele Copper Mine will adopt a precise plan to achieve the production target with stability. Qinghai Deerni Copper Mine will ensure the progress of infrastructure construction and equipment installation as schedule and it will start a trial production in October 2006. Yulong Copper Mine and Duobaoshan Copper Mine need to have an intensive plan for construction as a big mine. After completion of all initial preparation works, these mines will start the construction as soon as possible.

#### Other Mine Business

Mengku Iron Mine, Makeng Iron Mine, and Wulatehouqi Lead Zinc Mine need to strengthen their basic management of mines. These mines will execute their resources strategies by explorations for reserve increase and promotion of production technology and capacity. Tangjiaping Molybdenum Mine will endeavour to prepare the initial preparation work and start the construction as soon as possible.

#### Refinery Business

Luoyang Yinhui will consistently strengthen its refinery business by utilising its brand name, technology, capital and building a secure source of raw materials supply. Luoyang Yinhui will try to have a development in gold mine business.

In order to ensure a safe transfer from construction phase to production phase, Bayannaer Zinc Refinery will focus on steady production and supply of raw materials. Bayannaer Zinc Refinery will become a new profit centre after achieved these targets.

# Management Review and Analysis

## Investment and Acquisition

The Group will reinforce in investment and acquisition as the quickest way to develop gold business and non-ferrous metals business. Simultaneously, the Group will strengthen its image as a gold mining enterprise. In order to provide a strong support for future development, the Group will try to have a breakthrough in new mines and internationalization in the second half year of 2006.

Except for increasing reserve by acquisition and carrying out risk exploration on prospected areas, the Group will reinforce supplementary exploration in the surrounding area of existing mines. The Group manages the mining resources as its biggest asset and grasps the detail of resources changes. The Group will keep on promoting the work flow of mining and process and uplifting the standard of resources utilization.

## Extraordinary General Meeting

The Company will convene an extraordinary general meeting on 18 August 2006 for election of a new Board. The new Board and management will focus on management system building for the Group and perfect the Group's management system to be a lean, effective, structured, and orderly management system gradually.

## Acquisition of Shares

In accordance with the Company Law of the PRC effective on 1 January 2006 and in view of the actual situations of the Company's subsidiaries, the Company started to acquire shares from minority shareholders of non-wholly owned subsidiaries and turn them into wholly owned subsidiaries. On 29 June 2006, the Company acquired all shares from the minority shareholders of Xiamen Zijin High-tech Co., Ltd. ("Xiamen Zijin"). Xiamen Zijin's registered capital is RMB80 million. Originally, the Company owned 96.3% of Xiamen Zijin and acquired shares at RMB1.6 per share from connected parties – Fujian Xinquadu Engineering Co., Ltd., Xinquadu Technology Co., Ltd., and Xiamen Hengxing Industrial Co., Ltd. which owned 160,000 shares (0.2%), 800,000 shares (1%), and 800,000 shares (1%) respectively. This acquisition involved RMB2.816 million as consideration. This transaction was below the minimum level for disclosure (below 0.1% in each of the 5 tests). Also, the Company acquired 1.2 million shares (1.5%) of Xiamen Zijin from Longyan Wangyuan Technology Co., Ltd. for the consideration of RMB1.92 million. The Company also turned Xiamen Zijin to be a limited liability company and a wholly owned subsidiary of the Company.

In this acquisition, all the legal procedures has been completed, the Company and Xiamen Zijin jointly invested companies – Zijin International Mining Co., Ltd., and Fujian Zijin Investment Co., Ltd. became wholly owned subsidiaries of the Company.

## Share Capital and Shareholders

### CHANGES OF SHARES

On 18 May 2006, the proposal regarding issue of new shares by capitalisation of the Company's surplus reserve fund was considered and approved at the Group's 2005 annual general meeting. Pursuant to which and on the basis of 5,256,523,640 shares in issue of RMB0.1 each at the end of 2005, new shares would be issued to shareholders on the basis of one new ordinary share for every one existing ordinary share then.

Distribution of new shares by the Group was completed on 16 June 2006. New H shares issued by the capitalisation commenced trading on the Hong Kong Stock Exchange on 19 June 2006.

As at 30 June 2006, the Group had issued 10,513,047,280 ordinary shares of RMB0.1 each.

	<i>Unit: share</i>	
	30 June 2006	30 June 2005
Domestic Shares:	7,308,695,280	3,654,347,640
H Shares:	3,204,352,000	1,602,176,000
<b>Total</b>	<b>10,513,047,280</b>	5,256,523,640

### SHAREHOLDING STRUCTURE

As at 30 June 2006, the Company had a total of 884 shareholders, of which 875 were holders of H shares ("H shares") and 9 were holders of domestic shares ("Domestic Shares"). The shareholdings of the Company's top ten shareholders are as follows:

No.	Shareholders' Names	Class of Shares	Number of Shares holds (shares)	Approximate percentage of Shareholding in the registered capital
1.	Minxi Xinghang State-owned Assets Investment Co., Ltd.	Domestic Shares	3,368,721,696	32.04%
2.	HKSCC Nominees Limited	H Shares	3,182,221,250	30.27%
3.	Xinhuadu Industrial Group Co., Ltd.	Domestic Shares	1,383,200,000	13.16%
4.	Shanghang County Jinshan Trading Co., Ltd.	Domestic Shares	1,324,760,000	12.60%
5.	Fujian Xinhuadu Engineering Company Limited	Domestic Shares	532,000,000	5.06%
6.	Xiamen Hengxing Industrial Co., Ltd.	Domestic Shares	380,000,000	3.62%
7.	Fujian Gold Group Co., Ltd.	Domestic Shares	120,572,168	1.15%
8.	Fujian Xinhuadu Department Store Co., Ltd.	Domestic Shares	114,948,000	1.09%
9.	Chen Jinghe	Domestic Shares	60,000,000	0.57%
10.	Fujian Minxi Geologist	Domestic Shares	24,493,416	0.23%

# Share Capital and Shareholders

## SUBSTANTIAL SHAREHOLDERS

So far as the Director, supervisors and chief executive of the Company are aware, as at 30 June 2006, no other person (other than the Directors, Supervisors, chief executives or members of senior management of the Company) had an interest or short position in the Company's shares or underlying shares which would fall to be disclosed to the Company and as recorded in the register required to be kept under section 336 of the SFO. Each of the substantial shareholders who owns 5% or more of the issued capital of the Company (as such term is defined in the Listing Rules) were as follows:

Name of Shareholder	Class of shares	Number of shares/equity interest holds	Proximate percentage of shareholding in the registered capital	Proximate percentage of shareholding Domestic shares	Proximate percentage of shareholding in H shares	Long /short positions
Minxi Xinghang State-owned Assets Investment Co., Ltd.	Domestic Shares	3,368,721,696	32.04%	46.09%	—	Long
Xinhuadu Industrial Group Company Limited	Domestic Shares	2,030,148,000 (Note 1)	19.31%	27.78%	—	Long
Chen Fashu	Domestic Shares	2,030,148,000 (Note 2)	19.31%	27.78%	—	Long
Shanghang County Jinshan Trading Co., Ltd.	Domestic Shares	1,324,760,000	12.60%	18.13%	—	Long
Xiamen Hengxing Industrial Co., Ltd.	Domestic Shares	912,000,000 (Note 3)	8.68%	12.48%	—	Long
Ke Xiping	Domestic Shares	912,000,000 (Note 4)	8.68%	12.48%	—	Long
Fujian Xinhuadu Engineering Company Limited	Domestic Shares	532,000,000	5.06%	7.28%	—	Long
Merrill Lynch & Co., Inc.	H Shares	821,704,646 (Note 5)	7.82%	—	25.64%	Long

### Notes:

- (1) Xinhuadu Industrial Group Company Limited holds 1,383,200,000 Domestic Shares in the Company, and holds 51% in Fujian Xinhuadu Engineering Company Limited (which holds 532,000,000 Domestic Shares in the Company), and holds 64.54% in Fujian Xinhuadu Department Store Company Limited (which holds 114,948,000 Domestic Shares in the Company). Therefore, under Section 316 of the SFO, Xinhuadu Industrial Group Company Limited is interested in 2,030,148,000 Domestic Shares in the Company.
- (2) Mr. Chen Fashu holds 73.56% interests in the issued share capital of Xinhuadu Industrial Group Company Limited, therefore, under Section 316 of the SFO, Mr. Chen Fashu is deemed to be interested in 2,030,148,000 Domestic Shares in the Company.
- (3) Xiamen Hengxing Industrial Company Limited holds 380,000,000 Domestic Shares in the Company, and holds 49% in Fujian Xinhuadu Engineering Company Limited (which holds 532,000,000 Domestic Shares in the Company). Under Section 316 of the SFO, Xiamen Hengxing Industrial Company Limited is therefore interested in 912,000,000 Domestic Shares in the Company.
- (4) Mr. Ke Xiping holds 73.21% interests in the issued share capital of Xiamen Hengxing Industry Company Limited. Under Section 316 of the SFO, Mr. Ke Xi Ping is deemed to be interested in 912,000,000 Domestic Shares in the Company.
- (5) Merrill Lynch & Co., Inc. is interested in 821,704,646 H Shares (Long position) of the Company (representing approximately 25.64% of the total issued H Shares). 813,378,000 H Shares of which were held through Merrill Lynch & Co., Inc.'s subsidiaries including Merrill Lynch Group, Inc., ML Invest. Inc., ML Invest Holdings Ltd., Merrill Lynch Investment Managers Group Ltd., and Merrill Lynch Investment Managers Ltd. 8,326,646 H shares of which were held through Merrill Lynch & Co., Inc.'s subsidiaries including Merrill Lynch Int'l Incorporated, Merrill Lynch Int'l Holdings Inc., Merrill Lynch Europe Plc., Merrill Lynch Europe Intermediate Holdings, Merrill Lynch Holdings Limited, ML UK Capital Holdings, and Merrill Lynch International.

## Share Capital and Shareholders

Save as disclosed above and so far as the Directors are aware, as at 30 June 2006, no other person (other than the Directors, Supervisors, chief executives or members of senior management of the Company) had an interest or short position in the Company's shares or underlying shares (as the case may be) which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under section 336 of the SFO, or was otherwise a substantial shareholder (as such term is defined in the Listing Rules) of the Company.

### CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006 (unaudited)

	Issued share capital RMB'000	Share premium account RMB'000	Statutory surplus reserve RMB'000	Public welfare fund RMB'000	Capital reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000
Balance at 1 January 2006	525,652	820,139	199,438	99,768	4,497	300,900	420,522	2,370,916
Dividend paid	—	—	—	—	—	—	(420,522)	(420,522)
Net profit for the period	—	—	—	—	—	662,089	—	662,089
Additional shares by conversion	525,652	(525,652)	—	—	—	—	—	—
Others	—	—	—	—	(686)	—	—	(686)
<b>At 30 June 2006</b>	<b>1,051,304</b>	<b>294,487</b>	<b>199,438</b>	<b>99,768</b>	<b>3,811</b>	<b>962,989</b>	<b>—</b>	<b>2,611,797</b>
Balance at 1 January 2005	262,826	1,082,965	104,899	52,499	1,796	159,593	262,826	1,927,404
Dividend paid	—	—	—	—	—	—	(262,826)	(262,826)
Net profit for the period	—	—	—	—	—	330,947	—	330,947
Additional shares by conversion	262,826	(262,826)	—	—	—	—	—	—
<b>At 30 June 2005</b>	<b>525,652</b>	<b>820,139</b>	<b>104,899</b>	<b>52,499</b>	<b>1,796</b>	<b>490,540</b>	<b>—</b>	<b>1,995,525</b>

## Disclosure of Interests of the Directors, Supervisors and Chief Executive of the Company

As at 30 June 2006, the interests of the Directors, Supervisors or the Chief Executive of the Company in the shares or equity or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO to be entered into the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Hong Kong Stock Exchange are as follows:

(a) Shareholdings of Directors, Supervisors and Chief executive in the Company as at 30 June 2006:

Director	Number of Domestic Shares/ amount of Equity interest holds	Nature of Interest	Long/ short positions	Proximate percentage of shareholding in such class of securities	Proximate percentage of shareholding in the registered capital
Ke Xiping	912,000,000 (Note 1)	Company	Long	12.48%	8.68%
Chen Jinghe	60,000,000	Personal	Long	0.82%	0.57%

(b) Shareholdings of Directors, Supervisors and Chief Executive in the Company's associated corporation as at 30 June 2006:

Directors/ Supervisors/ Chief Executive	Name of subsidiaries	Amount of equity interests holds	Nature of interests	Long/ short positions	Proximate percentage of shareholding registered in the capital
Chen Jinghe	Jiuzhaigou Zijin (Note 2)	50,000 (Note 3)	Personal	Long	0.13%
	Guizhou Zijin (Note 5)	1,404,000 (Note 6)	Company	Long	2.34%
Liu Xiaochu	Jiuzhaigou Zijin	50,000 (Note 3)	Personal	Long	0.13%
Luo Yingnan	Jiuzhaigou Zijin	50,000 (Note 3)	Personal	Long	0.13%
Lan Fusheng	Jiuzhaigou Zijin	50,000 (Note 3)	Personal	Long	0.13%
Rao Yimin	Jiuzhaigou Zijin	50,000 (Note 3)	Personal	Long	0.13%
Zeng Qingxiang	Jiuzhaigou Zijin	50,000 (Note 3)	Personal	Long	0.13%
Lan Liying	Jiuzhaigou Zijin	25,000 (Note 4)	Personal	Long	0.06%

# Disclosure of Interests of the Directors, Supervisors and Chief Executive of the Company

## Notes:

- (1) Xiamen Hengxing Industrial Co., Ltd. holds 380,000,000 Domestic Shares in the Company, and holds 49% shareholding in Fujian Xinhua Engineering Company Limited (which is holding 532,000,000 Domestic Shares in the Company). Under Section 316 of the SFO, Xiamen Hengxing Industrial Co., Ltd. is therefore interested in 912,000,000 Domestic Shares in the Company. Mr. Ke Xiping owns 73.21% interest in Xiamen Hengxing Industrial Co., Ltd.. Under Section 316 of the SFO, Mr. Ke Xiping is regarded as being interested in such shares.
- (2) Sichuan Jiuzhaigou Zijin Mining Company Limited (“Jiuzhaigou Zijin”) is subsidiary in which the Company beneficially owns 60%.
- (3) The Committee of Labour Union of the Company owns 15% of the total registered capital of Jiuzhaigou Zijin on behalf of approximately 830 members. Among which, it holds an equity interest of RMB50,000 as an agent for and on behalf of each of Mr. Chen Jinghe, Mr. Liu Xiaochu, Mr. Luo Yingnan, Mr. Lan Fusheng, Mr. Rao Yimin and Mr. Zeng Qingxiang.
- (4) The Committee of Labour Union of the Company owns 15% of the total registered capital of Jiuzhaigou Zijin on behalf of approximately 830 members. Among which, it holds an equity interest of RMB25,000 as an agent for and on behalf of Ms. Lan Liying.
- (5) Guizhou Zijin Mining Company Limited (“Guizhou Zijin”) is subsidiary in which the Company beneficially owns 51%.
- (6) On 15 March 2006, Xiamen Hengxing Mining Company Limited, a shareholder of Guizhou Zijin Mining Company Limited (being a subsidiary of the Company) transferred 1,404,000 shares it held in Guizhou Zijin to Xiamen Jinhua Technology Consultant Company Limited is held as to 34% by Mr. Chen Jinghe, a Director, and as to 32.7% by his wife Mrs. Lai Jinlian. Mr. Chen Jinghe is accordingly deemed as being interested in such shares under Rule 316 of the SFO. The relevant share transfer has been registered with the Domestic Shares Trust, and also filed with the Stock Exchange.

Save as disclosed above, none of the Directors, Supervisors and the Chief Executive or their associates has any interest in the securities of the Company or its associated company (as defined in the SFO) during the reporting period. None of the directors, supervisors and the chief executive or their spouse or children under the age of 18 years is holding any option to subscribe securities of the Company, or has exercised any such option.

Save as disclosed above, no arrangement has been entered into between the Company or its holding company or its subsidiaries during any time in the reporting period, which will allow the Directors, Supervisors or Chief Executive of the Company to be benefited by acquiring the shares or debentures of the Company or other body corporates.



# Others

## **INTERIM DIVIDEND**

The Board proposed to pay no dividend for the 6 months ended 30 June 2006. (The dividend for the 6 months ended 30 June 2005 was nil)

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period ended 30 June 2006.

## **STAFF MEMBERS**

As at 30 June 2006, the Company employed 1,492 staff. To encourage conscientiousness and diligence in the workplace, it is the Company's Policy that staff remuneration concords with the Company's profits. The Company has no share option scheme for its staff.

## **CORPORATE GOVERNANCE**

For a period of 6 months ended 30 June 2006, the Board considered that the Group has adopted and complied with the code provisions of Code on Corporate Governance Practice and most of the recommended best practice and there was no deviation. (for details, please refer to the Group's 2005 Annual Report).

## **AUDIT COMMITTEE**

The audit committee has reviewed the Group's adopted accounting methods, standards, and principles, internal controls, and financial reports which included a review of the financial report for the 6 months ended 30 June 2006. The audit committee agreed to the Group's financial report for the 6 months ended 30 June 2006 and the accounting methods, standards, and principles adopted, and the compliance with legal and disclosure requirements.

## **INDEPENDENT NON-EXECUTIVE DIRECTORS**

In compliance with rules 3.10(1) and 3.10(2) of the Listing Rules, the Company appointed sufficient number of independent non-executive directors and that at least one of them must possess the appropriate professional qualifications or accounting or related financial management expertise. The Company appointed 3 independent non-executive directors and one of them possesses appropriate professional qualifications in accounting and related financial management expertise. The details of the independent non-executive directors have been provided in the Group's 2005 annual report.

## **SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS**

During the reporting period, the Company adopted the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 of the Listing Rules. Having made a detailed inquiry, it was found that no director and supervisor of the Company has violated the standard related to securities transactions stated Model Code. As at 30 June 2006, the Group confirmed that all directors and supervisors complied with the Model Code.

**POST BALANCE SHEET EVENT**

On 26 July 2006, the Company and two connected parties Fujian Shanghang Hongyang Mine Co., Ltd. and Xiamen Hengxing Mining Co., Ltd. entered into a share acquisition agreement. The Company acquired 7.875% shareholding of Hunchun Zijin for the consideration of RMB39.4 million. The Company also acquired 10% shareholding of Hunchun Zijin for the consideration of RMB49.975 million from five independent third parties. Upon the completion of the acquisition, Hunchun Zijin will become a wholly owned subsidiary of the Company. The Company announced this transaction in the newspapers and at the website of the Hong Kong Stock Exchange on 28 July 2006.

This announcement is written in both Chinese and English. In the case of any discrepancy the Chinese version of this report shall prevail over its English version.

By Order of the Board  
Zijin Mining Group Co., Ltd.\*  
Chen Jinghe  
Chairman

Fujian, China  
7 August 2006

As at the date of this report, the Board of Directors of the Company comprises Messrs. Chen Jinghe (Chairman), Liu Xiaochu, Luo Yingnan, Lan Fusheng, and Rao Yimin as executive directors, Mr. Ke Xiping as non-executive director, and Messrs. Yang Dali, Yao Lizhong, and Loong Ping Kwan as independent non-executive directors.

\* *The Company's English name is for identification purpose only*

# Condensed Consolidated Income Statement

For 6 months ended 30 June 2006

	Note	For the 6 months ended 30 June	
		2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Turnover	2	3,949,243	1,074,401
Cost of sales	3	(2,427,797)	(427,248)
Gross profit		1,521,446	647,153
Other Income and gains	2	104,654	15,559
Selling and distribution costs		(38,466)	(11,213)
Administrative expenses		(194,160)	(108,879)
Other operating costs		(254,499)	(17,045)
Profit from operating activities		1,138,975	525,575
Finance costs	4	(39,467)	(8,136)
Share of profit of associates		6,705	14,570
Profit before tax		1,106,213	532,009
Tax	5	(212,850)	(167,896)
Profit before minority interests		893,363	364,113
Minority interests		(231,274)	(33,166)
Net profit from ordinary activities attributable to shareholders		662,089	330,947
Proposed dividend		—	—
Earnings per share – basic	6	RMB0.063	RMB0.031

# Condensed Consolidated Balance Sheet

As at 30 June 2006

		30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
	Note		
<b>NON-CURRENT ASSETS</b>			
Property, plant & equipment		3,085,255	2,394,982
Land use rights		99,249	54,583
Long term deferred assets		303,943	211,765
Prepayments		425,263	85,059
Intangible assets		608,680	530,163
Goodwill	8	69,899	65,665
Interest in associates	9	448,283	361,754
Interest in joint-controlled entities		5,295	5,295
Other investment		156,774	90,928
		<b>5,202,641</b>	<b>3,800,194</b>
<b>CURRENT ASSETS</b>			
Inventories		499,327	302,584
Prepayments, deposits and other receivables	10	978,652	243,615
Trade receivables	7	174,837	61,668
Bills receivables		600	7,693
Due from connected parties		—	—
Financial assets at fair value through profit & loss		109,506	6,100
Pledged cash		41,157	23,688
Cash and cash equivalents		1,173,601	1,029,836
		<b>2,977,680</b>	<b>1,675,184</b>
<b>CURRENT LIABILITIES</b>			
Accrued liabilities and other payables		573,043	413,596
Trade payables		290,910	213,165
Interest-bearing bank loans	11	980,065	630,627
Government grants		11,693	10,693
Tax payable		84,202	215,718
Derivative financial instruments		179,037	10,287
		<b>2,118,950</b>	<b>1,494,086</b>

# Condensed Consolidated Balance Sheet

As at 30 June 2006

	Note	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
<b>NET CURRENT ASSETS</b>		858,730	181,098
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		6,061,371	3,981,292
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank loans	11	2,131,030	655,030
Provision for land restoration and environmental costs		43,715	37,628
Other long term payables		114,142	109,990
		2,288,887	802,648
<b>NET ASSETS</b>		3,772,484	3,178,644
<b>EQUITY</b>			
Equity attributable to equity holders of the Parent			
Issued capital		1,051,305	525,652
Reserves		1,560,492	1,845,264
		2,611,797	2,370,916
<b>MINORITY INTERESTS</b>		1,160,687	807,728
<b>TOTAL EQUITY</b>		3,772,484	3,178,644

# Condensed Consolidated Statement of Cash Flow

For the 6 months ended 30 June 2006

	For the 6 months ended 30 June	
	2006 <i>RMB'000</i> (Unaudited)	2005 <i>RMB'000</i> (Unaudited)
Net cash inflow from operating activities	455,356	512,506
Net cash outflow from investing activities	(1,649,247)	(966,224)
Net cash inflow from financing activities	1,358,691	99,598
Net increase/(decrease) in cash and cash equivalent	164,800	(354,120)
Cash and cash equivalent at beginning of the period	1,005,801	825,747
Cash and cash equivalent at end of the period	1,170,601	471,627

# Notes to the Condensed Financial Statements

As at 30 June 2006

## 1. ACCOUNTING POLICIES

The condensed financial statements were prepared in accordance with International Financial Reporting Standards.

The policies adopted to prepare these consolidated interim financial statements are consistent with the policies adopted to prepare the financial statements for the year ended 31 December 2005.

## 2. TURNOVER, REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold, net of trade discounts and returns.

An analysis of turnover, other revenue and gains is as follows:

	For the 6 months ended 30 June	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Turnover:		
Sale of gold bullions	3,150,291	910,843
Sale of gold concentrates	52,965	36,670
Sale of iron concentrates	18,882	10,566
Sale of copper concentrates	543,159	106,180
Sale of copper cathodes	117,381	15,728
Sale of zinc concentrates	63,412	—
Others	26,098	813
Less: Sales taxes and levies ( <i>note</i> )	(22,945)	(6,399)
	<b>3,949,243</b>	<b>1,074,401</b>
Other revenue:		
Interest income	3,833	6,583
Rental income	624	1,471
Processing income	4	60
Dividend income from other investment	11,444	132
Sale revenue of silver powder	1,195	620
Others	21,868	6,673
	<b>38,968</b>	<b>15,539</b>
Gains:		
Gain on a transaction	—	—
Available-for-sale investment at fair value through profit or loss	55,780	—
Gain on disposal of equity interest in associated companies	9,906	—
Amortisation of negative goodwill	—	20
	<b>65,686</b>	<b>20</b>
	<b>104,654</b>	<b>15,559</b>

*Note:* Sales taxes and levies consisted of resources tax, business tax, education surcharge and city construction tax.

The Group has one business segment only, i.e., the business of gold and copper mining and geological studies in the PRC. Accordingly, no business segment information is presented. The Group also operates within one geographical segment because its revenues are primarily generated in the PRC and its assets are mainly located in the PRC. Accordingly, no geographical segment analysis is presented.

# Notes to the Condensed Financial Statements

As at 30 June 2006

## 3. PROFIT FROM OPERATING ACTIVITIES

The Group's profit before tax is arrived at after charging:

	For the 6 months ended 30 June	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Cost of inventory sold	2,400,500	405,341
Provision for land restoration and environmental costs	6,087	5,654
Amortisation of land use rights*	1,998	218
Amortisation of long term deferred assets*	8,224	7,243
Amortisation of intangible assets*	10,988	8,792
	<b>2,427,797</b>	<b>427,248</b>
Depreciation (note (i))	114,694	61,816
Research expenditures	19,001	13,535
Staff costs (Including Directors, Supervisors, and Senior Staff)		
Salaries and remunerations (note (ii))	104,408	74,456
Retirement benefits – defined contribution fund (note (iii))	6,579	4,046
	<b>110,987</b>	<b>78,502</b>
Provision for obsolete stock (writeback)	—	—
Provision for bad and doubtful trade receivables**	—	—
Provision for bad and doubtful other receivables (writeback)**	297	—
Loss on disposal of fixed assets**	(282)	(126)
Donations**	12,017	1,565
Amortisation of goodwill**	—	1,052
Provision for devaluation of equity investment	2,822	14,100

\* Items classified under "Administrative expenses" in the consolidated income statement of the Group.

\*\* Items classified under "Other operating costs" in the consolidated income statement of the Group.

Notes:

- (i) Depreciation cost of approximately RMB114,694,000 was included in the cost of sales for the six months ended 30 June 2006 (2005: RMB61,816,000).
- (ii) Staff costs of approximately RMB104,408,000 were included in the cost of sales for the six months ended 30 June 2006 (2005: RMB74,456,000).
- (iii) According to relevant rules and regulations of the PRC, the Company and its subsidiaries participate in a defined contribution retirement plan. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount within the geographical area of their last employment at their retirement date. The Company and its subsidiaries are required to make contributions to the local social security bureau at rates ranging from 18% to 24% of the previous year's average basic salaries within the geographical area where the employees are under employment with the Company and its subsidiaries. The Company and its subsidiaries have no obligation for the payment of retirement benefits contribution beyond the annual contributions to the local social security bureau as set out above.



# Notes to the Condensed Financial Statements

As at 30 June 2006

## 4. FINANCE COSTS

	For the 6 months ended 30 June	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Interest paid on bank loans repayable within five years	63,344	14,976
Less: Amount capitalised as construction in progress	(23,877)	(6,840)
	39,467	8,136

The interest capitalisation rate represents the cost of capital from raising the related borrowings and ranges from 2.55% to 6.696% per annum (2005: 2.55% to 6.696% per annum).

## 5. TAX

	For the 6 months ended 30 June	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Group:		
Current		
– Hong Kong	—	—
– Mainland China	212,850	167,896
Overprovision in the period	—	—
	212,850	167,896

Provision for Hong Kong profits tax has not been made as the Group had no assessable profits arising in Hong Kong during the year. Provision for the PRC corporate income tax has been made at a rate of 33% based on the taxable profits except for those related to the following operations in the Group:

Pursuant to “Guo Shui Fa [2002] No. 47” issued by the State Council of the PRC and the separate approval from the local tax bureaus by the end of 2003, two subsidiaries of the Group, Guizhou Zijin and Hunchun Zijin, located in the western region of China, were granted a tax concession of PRC income tax at a preferential rate of 15%. The preferential tax rate is applicable to qualified operations in specified regions with retroactive effect from 1 January 2001 for a period of 10 years to 31 December 2010 as long as the subsidiaries continue to engage in qualified operations in their respective regions. As Guizhou Zijin and Hunchun Zijin began their operations in 2003, no overprovision for tax has been made as at 30 June 2006.

Since Xiamen Zijin was established in Xiamen’s economic region, they were charged the preferential tax rate of 15% from the first day of their establishment.

# Notes to the Condensed Financial Statements

As at 30 June 2006

## 5. TAX (continued)

Pursuant to “Ha Di Shui Han [2005] No. 80” issued by the local tax bureau of Habahe County, Xinjiang Ashel is exempted from corporate income tax for a five-year period from 1 January 2005 to 31 December 2009. In addition, Xinjiang Ashele was granted a tax concession at a preferential rate of 15% from 2010 onwards.

Pursuant to “Xin Di Shui Han [2005] No. 522” issued by the local tax bureau of Uigur Municipality, Xinjiang Jinbao is exempted from corporate income tax from 1 January 2004 to 31 December 2006.

Pursuant to “Pan Guo Shui Han [2005] No. 59” issued by the state tax bureau of Panlong District in Kunming, Yunnan Huaxi is exempted from corporate income tax from 1 January 2004 to 31 December 2006 and was granted a tax concession of 50% reduction for the years ended 31 December 2007 and 2008.

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the locations in which the Company, its subsidiaries and associates are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	For the 6 months ended 30 June			
	2006		2005	
	<i>RMB'000</i> (Unaudited)	%	<i>RMB'000</i> (Unaudited)	%
Profit before tax	1,060,683		532,009	
At the PRC statutory tax rate	350,025	33.0	175,563	33.0
Expenses not deductible for tax	—	—	4,967	0.92
Income not subject to tax	—	—	—	—
Differential tax rate on the profit of certain subsidiaries	(137,175)	(12.93)	(12,634)	(2.37)
Overprovision in prior years	—	—	—	—
Tax charge at the Group's effective rate	212,850	20.07	167,896	31.55

At 30 June 2006, there was no significant unrecognised deferred tax liability (2005: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and associates as the Group had no liability to additional tax should such amounts be remitted.

At 30 June 2006, the share of tax attributable to associates amounting to RMB3,302,000 (2005: RMB7,039,000).

There is no income tax implication attached to the dividends distributed by the Company to its shareholders.

# Notes to the Condensed Financial Statements

As at 30 June 2006

## 6. EARNINGS PER SHARE

On the basis of the Group's net profit from ordinary activities attributable to shareholders in the amount of RMB662,089,000 during the reporting period (Six months ended 30 June 2005: RMB330,947,000) and the total number of 10,513,047,280 ordinary shares in issue during the reporting period, the earnings per share attributable to the ordinary shareholders of the Company is RMB0.063. (The total number of issued shares the Company was 10,513,047,280 as at 30 June 2006 and 5,256,523,640 as at 30 June 2005 respectively. For the purpose of providing comparable figures, the earnings per share as at 30 June 2005 was RMB0.031 on the basis of doubling the number of shares as at 30 June 2005 to 10,513,047,280 ordinary shares.)

Diluted earnings per share amount have not been disclosed as there were no potential dilutive ordinary shares outstanding in 2006 and 2005.

## 7. TRADE RECEIVABLES

An aged analysis of trade receivables, based on the respective due dates of the sale of goods, is as follows:

	Group		Company	
	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Within 4 months	110,582	53,110	52,525	19,074
Over 4 months but within 12 months	1,476	7,493	171	436
Over 1 year but within 2 years	61,081	1,065	159	625
Over 2 years	1,698	—	609	—
	174,837	61,668	53,464	20,135

The sale of gold bullions are settled on the day after the transaction day. The credit period on sale of other products ranges from 30 to 120 days.

# Notes to the Condensed Financial Statements

As at 30 June 2006

## 8. GOODWILL

### Group

	<i>RMB'000</i>
Cost:	
At beginning of year	69,119
Accumulated amortisation and impairment:	
At beginning of the year	(3,454)
Net book value as at 31 December 2005 (audited)	65,665
Acquisition of subsidiaries	(331)
Acquisition of shareholdings from minorities	4,565
Net book value as at 30 June 2006 (unaudited)	69,899

## 9. INTEREST IN ASSOCIATES

	(Group and Company)	
	30 June 2006 <i>RMB'000</i> (Unaudited)	31 December 2005 <i>RMB'000</i> (Audited)
Share of net assets of associates	448,283	361,754
Negative goodwill arising on acquisition of an associate, less amortisation	—	—
	448,283	361,754

# Notes to the Condensed Financial Statements

As at 30 June 2006

## 9. INTEREST IN ASSOCIATES (continued)

Particulars of the associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group	Principal activities
Fujian Longyan Makeng Mining Co., Ltd.	Corporate	PRC	31.50%	Iron mining and geological studies
Shanghang Ting River Hydro-electric Co., Ltd.	Corporate	PRC	49%	Electricity generation
Wuping Zijin Hydro-electric Co., Ltd.	Corporate	PRC	38%	Electricity generation
Yulong Copper Co., Ltd.	Corporate	PRC	39%	Copper mining and geological studies
Fujian Jintian Zijin Mining Co., Ltd.	Corporate	PRC	40%	Mine exploration & development
Fujian Jinyi Copper Co., Ltd.	Corporate	PRC	40%	Copper products production
Heilongjiang Duobaoshan Copper Co., Ltd.	Corporate	PRC	31%	Copper Mining
Pinnacle Mines Ltd.	Corporate	Canada	15.38%	Mine exploration

# Notes to the Condensed Financial Statements

As at 30 June 2006

## 10. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

### Group and Company

As at 30 June 2006, the Group mainly made RMB269,289,783 as deposit for future contracts and RMB196,791,396 (2005: nil) as a deposit for Bayannaer Zinc Refinery's raw materials purchase under the heading of Prepayments, Deposits and Other Receivables.

## 11. INTEREST-BEARING BANK LOANS

	Group		Company	
	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Total bank loans	3,111,095	1,285,657	1,649,600	569,400
Less: Amounts due within one year included under current liabilities	(980,065)	(630,627)	(550,000)	(409,800)
Amounts due after one year	2,131,030	655,030	1,099,600	159,600
Bank loans:				
Unsecured	2,992,848	1,167,410	1,649,600	569,400
Secured	118,247	118,247	—	—
	3,111,095	1,285,657	1,649,600	569,400
Bank loans repayable:				
Within one year	980,065	630,627	550,000	409,800
Between one and two years	152,000	81,000	50,000	—
Between two and five years	1,949,800	569,600	1,024,800	159,600
More than five years	29,230	4,430	24,800	—
	3,111,095	1,285,657	1,649,600	569,400

The bank loans carry interest at rates ranging from 2.55% to 6.696% (2005: 2.55% to 6.696%) per annum.

The bank loans to Xinjiang Ashele Copper Mine were secured by guarantees from its parent company and a minority shareholder of a subsidiary and a pledge of fixed assets. Bank loans of certain subsidiaries are also secured by guarantees from the Company.

# Notes to the Condensed Financial Statements

As at 30 June 2006

## 12. CONNECTED TRANSACTIONS

In accordance with the Listing Rules 14A.45, the Company disclosed all the connected transactions related to purchases of commodities, providing services and other continuous transactions. All details have been disclosed in the Company's annual report 2005. As at 30 June 2006, there is no change in all these connected transactions.

The summary of the Group's connected transactions for the period up to 30 June 2006 are as the following:

			<i>RMB'000</i>	
Connected Party	Relationship with the Company	Nature of Transaction	Amount (up to 30 June 2006) (unaudited)	Amount (up to 30 June 2005) (unaudited)
1. Purchase from connected party				
1.1 Shnghang Jinshan Trading Co., Ltd.	A shareholder of the Company	Purchase building materials	—	188
1.2 Xinjiang Non-ferrous Group Co., Ltd.	A shareholder of Xinjiang Ashele	Purchase raw materials	72	—
2. Services provided by connected party				
2.1 Guizhou Geology and Mineral Exploration Bureau 105 Team	Shareholder of Guizhou Zijin	Geology exploration services	120	20
2.2 Fujian Shanghang Fuxin Mining Engineering Co., Ltd.	Shareholder of Anhui Zijin	Construction services	—	632
2.3 Fujian Xihuadu Engineering Co., Ltd.	Shareholder of the Company	Stripping	37,393	29,876
2.4 Fujian Hongyang Mine Engineering Co., Ltd.	Shareholder of 2 subsidiaries	Stripping	34,964	22,106
2.5 Xiangyun County Feilong Enterprise Co., Ltd.	Shareholder of Yinjiang Hualong	Mine exploration works	948	—
2.6 Sichuan Geology and Mineral Exploration Bureau Team	Shareholder of Sichuan Ganzi	Mine exploration works	42	—
2.7 Anhui Geology and Mineral Exploration Bureau 321 Team	Shareholder of Anhui Tongling	Mine exploration works	50	—

# Notes to the Condensed Financial Statements

As at 30 June 2006

## 12. CONNECTED TRANSACTIONS (continued)

			<i>RMB'000</i>	
Connected Party	Relationship with the Company	Nature of Transaction	Amount (up to 30 June 2006) (unaudited)	Amount (up to 30 June 2005) (unaudited)
2.8 Fuyun County Jinbao Transportation Co.	Shareholder of Xinjiang Jinbao	Transportation service	6,864	2,010
3. Provide services to connected party				
3.1 Xiamen Hengxing Industrial Co., Ltd.	Shareholder of the Company	Catering and property leasing	117	169
4. Provide financial assistance to connected party				
4.1 Sichuan Geology and Mineral Exploration Bureau XiBei Team	Shareholder of Songpan Zijin		2,900	2,900
4.2 Hebei Chongli National Assets Management Centre	Shareholder of Hebei Chongli Zijin	Loan	4,000	—
5. Provide financial assistance from connected party				
5.1 Xinjiang Non-ferrous Industrial (Group) Co., Ltd.	Shareholder of Xinjiang Ashele	Loan guarantee to a subsidiary	177,000	77,000



# Notes to the Condensed Financial Statements

As at 30 June 2006

## 12. CONNECTED TRANSACTIONS *(continued)*

			<i>RMB'000</i>		
Connected Party	Relationship with the Company	Nature of Transaction	Amount (up to 30 June 2006) (unaudited)	Amount (up to 30 June 2005) (unaudited)	
6.		Provide financial assistance to non-wholly owned subsidiary			
6.1	Xinjiang Ashele Copper Co., Ltd.	Non-wholly owned subsidiary	Provide loan guarantee to a subsidiary	177,000	77,000
6.2	Fujian Zijin Copper Co., Ltd.	Non-wholly owned subsidiary	Provide loan guarantee to a subsidiary	50,000	—
6.3	Guizhou Zijin Mining Co., Ltd.	Non-wholly owned subsidiary	Provide loan guarantee to a subsidiary	20,000	27,000
6.4	Fujian Zijin Investment Co., Ltd.	Non-wholly owned subsidiary	Provide loan guarantee to a subsidiary	20,000	—
6.5	Zijin International Mining Co., Ltd.	Non-wholly owned subsidiary	Provide loan guarantee to a subsidiary	30,000	—
7.		Provide loan guarantee to associate company			
7.1	Fujian Longyan Makeng Mining Co., Ltd.	An associate company of the Company	Provide loan guarantee to an associate company	11,250	15,000
7.2	Wuping Zijin Hydro-electric Co., Ltd.	An associate company of the Company	Loan	7,144	—

