

## GENERAL

Zijin Mining Group Co., Ltd. (the “Company”) (Formerly Fujian Zijin Mining Industry Co., Ltd.) was incorporated on 6 September 2000 with the approval of the People’s Government of Fujian Province as a joint stock limited company in the PRC by Minxi Xinghang State-owned Assets Investment Company Limited, Shanghang County Jinshan Trading Company Limited, Xinhua Industrial Company Limited, Fujian Xinhua Engineering Company Limited, Xiamen Hengxing Industry Company Limited, Fujian Xinhua Department Store Company Limited, Fujian Gold Group Company Limited, and Fujian Minxi Geologist as its promoters.

In December 2003, 400,544,000 H Shares were issued by the Company and was listed on the Stock Exchange of Hong Kong Limited on 23 December 2003. The Company was the first mainland gold production enterprise to be listed overseas. In 2004, the Company used reserves to issue new shares to the shareholders on 1:1 basis. As at 31 December 2004, the Company has a total of 2,628,261,820 Shares (Nominal value RMB0.1 each) of which 801,088,000 Shares are listed, representing 30.48% of the total share capital of the Company.

The Company is a comprehensive mining conglomerate in China primarily engaged in gold production, and specifically engaged in the exploration, mining, processing, refining of gold and non-ferrous metals and other mineral resources, and the sale of mineral products. The Company invests and controls 14 subsidiaries and produces more than 10 tonnes of gold a year. Every economic-efficiency indicator showed that the Company is the most efficient operator in the industry in China.

By the end of 2004, the Company possesses the proven reserves of approximately 315 tonnes gold metal, approximately 3,450,000 tonnes of copper metal, approximately 600,000 tonnes of zinc metal, and approximately 187,890,000 tonnes of iron metal. At the same time, the Group also obtains the exploration rights of approximately 1,612.79 sq. km. It is expected that, with further geological exploration, the mineral resources of the Group for gold, copper, and iron can be increased.



## EXECUTIVE DIRECTORS

Chen Jinghe (*Chairman*)  
Liu Xiaochu  
Luo Yingnan  
Lan Fusheng  
Rao Yimin

## NON-EXECUTIVE DIRECTORS

Ke Xiping

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Yang Dali  
Yao Lizhong  
Loong Ping Kwan

## SUPERVISORS

Zeng Qingxiang  
Xu Qiang  
Lan Liying

## COMPANY SECRETARY

Fan Cheung Man

## AUDIT COMMITTEE

Yang Dali  
Yao Lizhong  
Ke Xiping

## AUTHORISED REPRESENTATIVE

Chen Jinghe  
Liu Xiaochu

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## LEGAL ADDRESS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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## AUDITORS

*International Auditors:*  
Ernst & Young

*PRC Auditors:*  
Ernst & Young Hua Ming

## HONG KONG H SHARE REGISTRAR AND TRANSFER OFFICE

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## WEBISTE

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## STOCK CODE

2899

## Financial Highlights

In this annual report, unless otherwise stated, monetary units are denominated in Renminbi.

### FINANCIAL INFORMATION AS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

	For the year ended 31 December				
	2004 RMB'000	2003 RMB'000	2002 RMB'000	2001 RMB'000	2000 RMB'000
<b>Results</b>					
Turnover	1,507,679	1,050,529	592,654	369,757	296,097
Cost of sales	(683,333)	(489,770)	(301,278)	(207,879)	(161,684)
Gross profit	824,346	560,759	291,376	161,878	134,413
Other revenue	20,805	3,975	1,994	2,474	1,901
Selling and distribution costs	(10,319)	(4,926)	(2,163)	(3,526)	(1,224)
Administrative expenses	(167,579)	(114,027)	(63,166)	(41,296)	(30,330)
Other operating costs	(39,766)	(12,119)	(7,305)	(9,466)	(20,879)
Profit from operating activities	627,487	433,662	220,736	110,064	83,881
Finance costs	(5,836)	(17,129)	(15,805)	(10,346)	(6,403)
Share of profits/(losses) of associates	22,655	2,018	1,100	(13)	19
Profit from operating activities before tax and minority interests	644,306	418,551	206,031	99,705	77,497
Tax	(186,437)	(95,677)	(67,850)	(35,209)	(29,183)
Net profit from ordinary activities	457,869	322,874	138,181	64,496	48,314
Minority interests	(40,250)	(8,968)	102	1,606	113
Net profit attributable to shareholders	417,619	313,906	138,283	66,102	48,427

## For the year ended 31 December

	<b>2004</b> <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
<b>Assets and liabilities</b>					
Total assets	<b>3,266,112</b>	2,695,401	1,009,361	557,601	417,008
Total liabilities	<b>956,698</b>	767,621	607,302	361,335	269,557
Minority interests	<b>382,010</b>	221,418	120,707	6,594	—
Shareholders' interests	<b>1,927,404</b>	1,706,362	281,352	189,672	147,451

## LIQUIDITY

	<b>2004</b> <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Cash and cash equivalents	<b>888,747</b>	1,114,466	153,339	25,746	29,337
Current ratio (%)	<b>217.96</b>	304.3	140.8	64.2	67.1
Trade receivables turnover (days)	<b>1.24</b>	0.8	1.0	0.1	3.5

# Chairman's Statement

To all shareholders:

I wish to take this opportunity to express my sincere gratitude towards your trust and support to Zijin Mining Group Co., Ltd. ("the Company"). I am pleased to report herewith the operating results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December, 2004 as follows:

The Company achieved (turnover) sales income of RMB1,507,679,000, an increase of 43.52% over the previous year, and achieved net profit after tax (net profit attributable to shareholders) of RMB417,619,000, an increase of 33.04% over the previous year. Earnings per share (basic) was RMB0.16 and about the same as previous year (Earning per share is based on the net profit attributable to shareholders in this year RMB417,619,000 (for 2003 was RMB313,906,000) and weighted average issued ordinary shares of this year 2,628,261,820 shares (for 2003 was 1,916,395,676 shares)).

## ■ MARKET REVIEW

In 2004, the gold market continued the trend in 2003, and the gold price generally stayed at high position. The world gold price inflated 6% in 2004. The net consumption demand increased by 7% over 2003. In China, the gold price inflated from the beginning of 2004 RMB110.8 per gram to RMB118 per gram by the end of the year (the lowest price is RMB100.88 per gram), increased 6.6%. The trends of gold price in the domestic market and international market were almost the same, but the price performance in the domestic market was slightly stronger than the international market.

During the year, the PRC's and global economy grew quickly and the demand of major mineral raw materials increased rapidly. The prices of mineral products surged substantially due to the conflicts between the demand and supply.

During the year, the average selling price of the Company's gold was RMB109.39/g, representing an increase of 13.1% when compared with that of the corresponding period in 2003.

## ■ OPERATION OVERVIEW

### 1. ENLARGE PRODUCTION SCALE AND INCREASE EFFICIENCY

Zijinshan Gold Mine continued to be the main production and profit centre of the Group. In 2004, it produced 10,663kg of gold (342,826 troy ounce), representing an increase of 7.8% when compared with that of the previous year.

Guizhou Shuiyindong Gold Mine's operation was smooth and produced 1,457kg of gold (46,844 troy ounce) in 2004, representing an increase of 159.13% when compared with that of the previous year. It became a group's important profit centre with growth. Following commencement of the phase two of the technological improvement project in the second half of next year, it is expected that the productivity capacity of the mine will further increase.

Hunchun Zijin's 4000t/d ore-processing plant was built and in operation in August 2004. The total ore process capacity of the mine reached 5000t/d (with the old system). In 2004, the mine produced copper concentrates consisting of 618kg gold (19,869 troy ounce) and 2,264 tonnes of copper. Hunchun Zijin became the largest low grade primary gold processing mine in China.

Ashele Copper Mine completed infrastructure investments of RMB136.39 million, with the aggregate investments of RMB402.39 million. The mine substantially completed construction and successfully underwent trial production. It produced 4,798 tonnes of copper concentrates with copper reaching 823 tonnes. It is expected to become a new profit centre with growth in 2005.

Jiuzhaigou Caodi Gold Mine finished its first phase construction of infrastructures. The mining, processing, and refining systems have commenced trial operation.

Paodaoling Gold Mine's production facilities primary ore were in operation, and it successfully co-ordinated the production of oxidized gold ore and primary gold ore.

Xinjiang Mengku Iron Mine which was under the shareholding control of the Group at the beginning of 2004 achieved instant results in the year it was invested and it commenced operation based on the original foundation of the mine. A ore-processing system of 4,000 t/d underwent trial production partially. It produced 26,000 tonnes of iron concentrates in that year.

Anhui Tongling Jiaochong Gold Mine has increased the speed of infrastructure construction. The newly acquired and controlled Deérni Copper Mine has finished initial phase of development. The newly invested 100,000 tonnes zinc refinery plant in Inner Mongolia has successfully started the initial phase of development.

Zijinshan copper mine speeded up the construction in mining, crush, and transportation systems, and the test on the mining underground was successful.

Fujian Zijin Investment Co., Ltd. invested and obtained actual progress in copper manufacturing plant, electricity plant, ore processing chemical plants, standard factory construction, and mine explorations.

In 2004, the Group set up an International Department, and formed a window company in Hong Kong. At the beginning of 2005, Zijin International Mining Co., Ltd. has been set up in Beijing. All these new developments could build various links with overseas mining markets and speed up the preparation work for participation in the competitive international mining market.

## 2. EFFECTIVE INCREASE IN RESERVE BY EXPLORATIONS

By the end of 2004, the Group obtained 29 new mine exploration rights, covering 706.68 square km which might have reserves of gold, copper, iron, molybdenum, lead, zinc, coal, and aluminum. The Group has obtained 14 mining rights in total which covers 26.3136 square km. The accumulated mine exploration rights are 59 which covers 1,612.7 square km.

After additional mine explorations at the peripheral zones of Zijinshan Gold Mine, about 20.6 tonnes of gold and 9,740 tonnes of copper new reserve have been found. It firstly achieved new found reserve exceeding the consumption of resource. By the end of 2004, Zijinshan Gold Mine had 162 tonnes of gold reserve at 0.3g/t grade or above, and 173 tonnes at 0.2g/t grade or above.

Guizhou Shuiyindong Gold Mine passed an audit by National Mineral Reserve Assessment Centre and reported 56.62 tonnes (newly increased reserve of 34.86 tonnes) gold reserve at average 10.95g/t grade. The technological improvement and expansion project built a solid resources foundation. The explorations at the peripheral of gold mine also made new progress.

Sichuan Jiuzhaigou Caodi Gold Mine became a large gold mine and confirmed 36.576 tonnes of gold reserve, which included newly found additional reserve of 10.156 tonnes in 2004. A good prospect in finding additional reserve is expected to at the mine and its peripherals.

Guizhou Huajiangbeixie Coal Mine is the first risk-taking exploration of the Company in anthracite coal, with mine area of 34 square km. Its reserve reaches more than 60 million tonnes. It might become the first coal mine base of the Group. After an earth surface survey, a good prospect of mine reserve is expected in Guizhou Qinglong Yangzhai Coal Mine.

In respect of resources exploration in 2004, the Group gained newly found reserve of gold 65.6 tonnes, copper 9,740 tonnes and coal 60 million tonnes. The major gold mines like Zijinshan, Shuiyindong, and Hunchun achieved the new found gold reserve larger than the consumption.

By the end of 2004, the Company controlled reserve of 315 tonnes of gold, 3.45 million tonnes of copper, 600,000 tonnes of zinc, and 187.89 million tonnes of iron.

### 3. TO ENHANCE REFORMS AND STANDARDIZE MANAGEMENT

During the year, we actively explored corporate management for the Group and launched organization reforms and functional modification. The reforms featuring authorization on operation and enhancement of system establishment as well as supervision were in full swing. As a result, the Group's management could devote more effort on analyzing and implementing development strategies.

Standardization in organization of Zijinshan Gold Mine and the gold refinery achieved remarkable results. Zijinshan Gold Mine has obtained the quality management system and environmental management system recognition certificates. The gold refinery was the first plant to accomplish the quality, environment, occupational health and safety management system certification.

### 4. TECHNOLOGY INNOVATIONS AND A STEP FORWARD

In 2004, the Company continued to increase effort in scientific research and development. The Mining Industry Institute has commenced more than 80 trial projects in 2004 and has completed 27 projects, providing strong technological support for the Company's sustainable development;

The results of two research projects, namely "the research and industrialized application on normal pressure and catalytic pre-oxidation Guizhou Shuiyindong refractory gold ores" and "the research on safe and efficient operation in deep wells of Zijinshan Open Pit Ore" were recognized as up to international advanced level in an assessment conference on technological projects organized by China Gold Association;

The Company has acquired the following invention patents and practical new patents in 2004:

A new method for continuous preparation of pure gold solution (invention patent ZL 02 1 10402.6).

A method for copper extraction in mixed types of copper mine.

An ore processing method for low-grade oxidized gold mines (invention patent ZL 03 1 11966.2)

An artesian static absorption method in heap-leaching of gold mine

A self-contraction hook for hanging large ore (practical new model patent ZL03 2 16321.5)

Delicate disseminated gold mine closed pre-processing device (practical new model patent ZL03 2 63263.0)

The Company was continued to be recognized as an "Key High-tech Enterprise" (State Torch Plan);



## ■ OUTLOOK

### 1. BUSINESS ENVIRONMENT

Based on the forecast of the International Monetary Fund (IMF), the global economy will continue to grow in 2005. The PRC economy will maintain faster rate of development than the rest of the world, but its growth pace will slow down under the macro-economic control measures. Under the changes in international politics, economy and monetary system, the glamour of gold as a special commodity remains. The weak US dollar policy leads to higher investment sentiment in gold. It is expected that the international gold market in 2005 will be operating on a high price level with fluctuating and uprising characteristics. The changes in the growth rate of the world economy will have substantial impact on the development of the global industrial basic metal industry. The prices of major mineral raw materials will still be on a high level. Growth in demands will cause competition in the control of mining resources to be more intensified, and cost for obtaining mining sites will be increasing significantly.

### 2. BUSINESS STRATEGIES

#### 1. To strengthen management for projects in operation

Zijinshan Gold mine will continue to play its role as a profit center, strengthen cost control, enhance utilisation rate of resources, and suitably increasing the production of gold under the new progress in mine exploration and increase in reserves.

Ashlele Copper-Zinc Mine aims to achieve production yield, raising well mining capacity, and recovery rate in ore processing and the ore grades of copper and zinc concentrates, and to make appropriate contributions for the profit growth of the group company by capitalising on the favorable opportunities of the current high standing copper prices.

The phase 2 of the expansion project of the Guizhou Shuiyindong Gold Mine will be completed during the year, and will further optimize the process, enhance ore processing volume, realising a significant growth in gold production and profits.

Hunchun Company will not only realize steady production, but also devote to construction of the copper mine wet smelting plant, and strive to complete construction and commerce trial production during the year.

Xinjiang Mengku Iron Mine aims to achieve production yield and realise the planned profits at the earliest possible, and also strengthen exploration work to the mining site and the peripheral mining areas so as to increase the reserve.

We will achieve the target production level of Anhui Paodaoling Gold Mine at the earliest possible, increase the efforts in resources exploration, and enhance the protection level of resources.

### 2. To accelerate the progress as to projects under construction

The Zijin Copper Mine construction project will proceed in full swing, so as to ensure that production will commence at the end of 2005.

We will increase our efforts in the geologic exploration to Jiuzhaigou Caodi Gold Mine, striving to have a greater breakthrough in the control of resources, at the same time making overall planning on the development of the mine, upgrade the first phase construction works of the mine, and organise production under safety guarantee and environmental production.

We will accelerate the construction of Anhui Tongling Jiaochong Gold Mine and aim at finishing the infrastructural project by the first half of next year.

Construction of infrastructure of Deérni Copper Mines in Qinghai begins. It is planned that the main project will complete by the end of the year and the whole project will be completed by the end of 2006 for production.

Bayannaor Zinc Smelting Factory in Inner Mongolia will complete construction of main project during the year.

### 3. To devote more efforts in risk exploration and development of new projects

It is expected that new mines, prospective areas with mining resources and prospective development projects will be obtained through various ways and methods, including acquisition, contribution, participation in restructuring of state-owned enterprises and registration of mining right in new areas.

The scale of geologic and mine exploration in Zijinshan Gold Mine, Shuiyindong Gold Mine, Caodi Gold Mine, Hunchun Gold Copper Mine, Ashele Copper Mine, Deérni Copper Mine, Xinjiang Mengku Iron Mine and in the peripheral areas and Ganzili Tang will be enhanced, striving to have new progress and breakthrough.

We will speed up survey on foreign resources and preparation for initial stage of project for materializing development in overseas mining investment.

We will adopt the resource expansion strategies to enrich resource reserve. We will further broaden the field of mining industry, and place high importance on the exploration and control on ore species such as nickel, platinum, molybdenum, iron, aluminium, lead, zinc, tin and coal in addition to non-ferrous metals such as gold and copper. At the same time, we will develop and make use of the technology and expertise reserves, and carry out project researches for the construction of non-ferrous metal bases in the coastal regions by leveraging on the coastal ports, markets and expertise advantages as well as capitalising on overseas resources, and seek for opportunities to carry out construction.

# Chairman's Statement

## 4. To achieve technological advancement for supporting and safeguarding corporate development

More investment will be made to technology projects. Through conducting development with the bases at the Mine Refining Institute, Xiamen Zijin Science and Technology Co. and Post-doctorate research activities, technological innovation capability will be enhanced, and technological management system will be upgraded.

We adhere to the direction of focusing on application of science and research on production. We will expedite the optimization of mining techniques, reduce and control depletion rate of ores, reduce cutoff, enhance the utilisation rate of resources and technological advancement for low-grade refractory ores. We will strengthen communication, connection and cooperation with science and search institutes, schools and universities to maintain our leading position in hydrometallurgy in China.

In the light of the conditions of the mining resources controlled by the Company, we will attach great importance on the reform of metallurgic material technology, and extend industrial chain to refining materials.

In accordance with the current situation and the future needs in the Company's business development, we will enhance the efforts in the training and recruitment of expertise, enhance the quality and level of senior management, set up a perfect staff remuneration and performance appraisal system, and provide good personnel foundation for the corporate development.

The operating results the Group achieved in the past year has been attributable to the supports of our entire staff and the shareholders. I would like to express herewith my sincere thanks to all of you. In the future operation developments, the Company will continue to create outstanding results, and provide satisfactory returns to shareholders.

**Chen Jinghe**  
*Chairman*

Fujian, the PRC  
7 April, 2005

## 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.

# Management Discussion and Analysis

## 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.

# Management Discussion and Analysis

## 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.

## BRIEF BIOGRAPHY OF THE DIRECTORS, SUPERVISORS, AND SENIOR OFFICERS

### Executive Directors

Mr. Chen Jinghe , aged 48, chairman of the Company. He graduated from Fuzhou University with a bachelor's degree in engineering in 1982. He is a senior geology engineer with professor status. Mr. Chen is currently the vice president of the Gold Association of China, president of the Gold Association of Fujian province and a delegate to the Tenth People's Congress of Fujian province. Prior to joining the Company in August 1993, he was the head of a sub-team of Minxi Geologist and the in-charge of the exploration of gold and copper mines at Zijinshan from January 1986 to December 1992. He was the chairman and general manager of the Company from August 1993 to August 2000. In August 2000, he was appointed as chairman of the Company.

Mr. Liu Xiaochu , aged 58, vice-chairman of the Company. He graduated from Fuzhou University with a bachelor's degree in science in 1982. Mr. Liu was the division head, deputy department head and department head of the Fujian Economic Reform Commission from December 1986 to December 1999. Prior to joining the Company in August 2000, he was the director and vice-president of Xinhua Industrial from December 1999 to March 2002. Mr. Liu was appointed as the vice-chairman of the Company in August 2000.

Mr. Luo Yingnan , aged 48, general manager of the Company. He graduated from Fuzhou University with a bachelor's degree in engineering in 1982. He is a senior geology engineer. Mr. Luo was the head of the Geological Unit of the Third Team of the Second Geological Prospecting Bureau under the Ministry of Metallurgy and the head of the Second Team from 1982 to 1992. Prior to joining the Company in July 2000, he was the manager of Longyan Metallurgy Industry Company from 1998 to 2000. He is the chairman of Longyan Makeng Mining Company Limited since 1999. Mr. Luo was appointed as an executive director and a general manager of the Company in August 2000.

Mr. Lan Fusheng , aged 41, deputy general manager (General Affairs) of the Company. He graduated from Fuzhou University with a bachelor's degree in engineering in 1984 and obtained a master's degree in business administration from La Trobe University in 2000. He is a geology engineer. Prior to joining the Company in October 1994, he participated in geological works in a mine exploration organization (including exploration of Zijinshan gold and copper mines) from 1984 to 1992. he was the manager of Shanghang County Xinhui Jewellery Company from 1992 to 1994. Mr. Lan was appointed as an executive director and a deputy general manager of the Company in August 2000.

Mr. Rao Yimin , aged 56, deputy general manager of the Company. He graduated from Fuzhou University with a bachelor's degree in engineering in 1982. He is a mechanic engineer. Prior to joining the Company in November 1999, from 1982 to 1985, he participated in the management of a enterprise in Shanghang county, he was the director of the Economic and Trade Commission of Shanghang County and the director of the Labour Bureau of Shanghang County from 1986 to 1999. Mr. Rao was appointed as an executive director and the deputy general manager of the Company in August 2000.



# Directors, Supervisors and Senior Management

## Non-executive Director

Mr. Ke Xiping , aged 45. He graduated from Xiamen University with a bachelor's degree in business in 1993. Mr. Ke is chairman of the General Chamber of Commerce of Huli District, Xiamen City, a delegate to the 12th People's Congress for Xiamen City and a member of the People's Political Consultative Committee of Quanzhou City. He is one of the promoters and chairman of Xiamen Hengxing. Mr. Ke was appointed as a non-executive director of the Company in August 2000.

## Independent Non-executive Directors

Mr. Yang Dali , aged 67. He graduated from Zhongnan Mineral & Metallurgy College (Zhongnan Industrial University) with a bachelor's degree in engineering in 1960. He was an engineer of the Beijing Non-ferrous Metallurgy Design and Research Institute. He held positions such as department head, director of external affairs and chief engineer of organizations such as the Gold Bureau under the Ministry of Metallurgy, the Gold Company of China, Headquarters of the Military Police for Gold, the State Gold Administration and the Gold Administration under the State Economic and Trade Commission from 1975 to 1998. He is also a member of the Precious Metal Reserves Commission and a member of the Land and Geology Society of China. He is a senior adviser and expert (registered) of the Mineral Resources Association of China and a part-time professor at Zhongnan Industrial University. Mr. Yang was appointed as an independent non-executive director in March 2001.

Mr. Yao Lizhong , aged 64, graduated from Xiamen University with a bachelor's degree in 1970. He is a registered accountant and registered asset valuer and registered taxation consultant. Mr. Yao held positions such as associate professor and director of teaching and research at the faculty of accounting of Xiamen University from 1988 to 1998. He was a director of Xiamen Tianjian Accountants' Firm and senior partner of Tianjian Accountants' Firm from 1998 to 2000. Presently, Mr. Yao is a senior partner and person-in-charge of Xiamen Tianjian Huatian Accountants' Firm, the deputy chairman of the Association of Registered Valuers of Xiamen and a member of the Registered Asset Valuation Experts of Fujian. Mr. Yao was appointed as an independent non-executive director of the Company in November 2002.

Mr. Loong Ping Kwan , aged 40, is a practicing solicitor admitted in Hong Kong and England and Wales. Mr. Loong graduated from the University of Hong Kong with a bachelor's degree in Art and is a founder of Messrs. Loong and Yeung in Hong Kong. Mr. Loong is an associate member of the Hong Kong Institute of Bankers. Mr. Loong was appointed as an independent non-executive director of the Company in August 2003.

## Supervisory Committee and Supervisors

Mr. Zeng Qingxiang , aged 57, chairman of the Supervisory Committee of the Company. He graduated from Fujian Television Broadcasting University. Mr. Zeng was the chief controller of Shanghang County Decorative Boards Factory from 1981 to 1986 and deputy chief for technology of Taibo Township from 1988 to 1992. From 1993 to 1999 he was the secretary of the party in the Company. Mr. Zeng was appointed the chairman of the supervisory committee of the Company in August 2000.

## Directors, Supervisors and Senior Management

Mr. Xu Qiang , aged 53, tertiary educated and a supervisor of the Company. He is a chief accountant of Fujian Huaqiang Accountants Firm, senior accountant, certified public accountant and registered valuer. He was the deputy director of Fujian Huaxing Accountants Firm from 1994 to 1999, and the director of Fujian Asset Valuation Centre and senior accountant of Fujian Zhongxing Accountants Firm from 1999 to 2000. Mr. Xu was appointed as a supervisor of the Company in August 2000.

Ms. Lan Liying , aged 39, supervisor of the Company. She is a certified public accountant. Ms. Lan was the head of the financial division of Shanghang County Jiannan Cotton Spinning Factory from 1985 to 1994 and the deputy manager of the financial department of the Company from 1995 to 1999. Ms. Lan was appointed as a supervisor of the Company in August 2000.

### SENIOR MANAGEMENT

Mr. Li Da , aged 43, deputy general manager of the Company. He graduated from Science and Technology University of China in 1985 and obtained his doctor's degree Economics at Jilin University in 1998. Mr. Li was engaged in teaching and research in international finance, securities and foreign exchange in the Financial Management School of the Industrial and Commercial Bank of China from 1988 to 1993. He was the head of the Clearing Division of Changchun Commodity Exchange from December 1993 to August 1994, the director of the Operation Centre of Tianjin Joint Features Exchange from August 1994 to August 1995 and the vice-president of Dalian Commodity Exchange from August 1995 to May 1997. Prior to joining the Company in September 2000, he participated in the establishment of the Shanghai Silver Exchange. Mr. Li was appointed as a deputy general manager in 2001.

Mr. Liu Rongchun , aged 41, deputy general manager of the Company. He graduated from Zhongnan Industrial University in 1984. Mr. Liu worked for the Company since December 1993 and is responsible for execution of special projects and office administration. Mr. Liu was appointed as a deputy general manager of the Company in February 2001.

Mr. Zou Laichang , aged 37, chief engineer of the Company. He graduated from Forest College of Fujian in 1990. Mr. Zou was the head of production division of Shanghang County Forestry and Chemical Factory from August 1990 to March 1996. He worked for the Company as the deputy director of gold refinery, the deputy chief engineer and the deputy head of the Institute of Mining and Refining Design and Research since March 1996. Mr. Zou was appointed as the chief engineer of the Company in May 2003.

Mr. Zhou Zhengyuan , aged 57, chief financial officer of the Company. He graduated from Fujian Economics and Management College in 2000. Mr. Zhou was the director of financial section and manager of Shanghang County Second Light Industry Company from 1976 to 1984, head of the financial division of Shanghang County Second Light Industry Bureau from 1985 to 1993. He worked for the Company as the manager of financial department, the chief economist and the chief accountant since October 1994. Mr. Zhou was appointed as the chief financial officer of the Company in June 2003.

## Directors, Supervisors and Senior Management

Mr. Zheng Yuqiang , aged 51, secretary to the Board of Directors. He graduated from Fujian Television Broadcasting University in 1986. Mr. Zheng becomes a qualified secretary to the board of directors after taking the 5th training course in Beijing which was jointly sponsored by the Shenzhen Stock Exchange and the Hong Kong Institute of Company Secretaries. He was the division head of production of Fuzhou Construction Machinery Factory from 1986 to 1989, the director of the Electronics Factory of Shenzhen Dongnan Economic Development Company from 1989 to 1990 and the director and secretary to the Board of Directors of Fujian Sannong Group Company Limited from 1996 to 2001. Mr. Zheng was appointed as the secretary to the Board of Directors of the Company in June 2001.

Mr. Fan Cheung Man, aged 44, Company Secretary (HK) of the Company. Mr. Fan graduated from University of New England, Australia in 1993 and holds a Master Degree of Business Administration. He is an associate member of The Hong Kong Institute of Certified Accountants, and a fellow member of The Association of Chartered Certified Accountants, UK. He was a deputy general manager of Kingtronic Industrial Company Ltd. from 1993 to 1994, and a financial controller of Vigers HK Ltd. from 1994 to 2002. Mr. Fan was appointed as the Company Secretary and Qualified Accountant of the Company in December 2004.

### Other Senior Management

Mr. Zeng Xianhui , aged 49, deputy general manager of the Company. He graduated from Fuzhou University in 1982. He is a senior geology engineer with professor status. Mr. Zeng worked for the Third Team of the Second Geological Prospecting Bureau of the Ministry of Metallurgical from 1982 to 1995. He has held various positions at the Company such as deputy chief engineer and chief engineer since September 1995. Mr. Zeng was appointed as a deputy general manager of the Company in May 2003.

Mr. Xie Chengfu, aged 39, managing director of Jilin Hunchun Zijin Mining Company Limited, general manager of Zijin Mining Group Company Limited North-east Mine Exploration Branch. He graduated from Changchun Geology College with a bachelor's degree in engineering in 1990. He is a senior geology engineer. Mr. Xie worked with Minxi Geology Division No. 8 Team, and Fujian Geology Division Team No.2. In July 1994, he joined Zijin as plant manager of gold refinery, mine chief of Zijinshan Mine, Zijin Mining Group Company Limited's deputy general manager. In March 2004, he was appointed as managing director of Jilin Hunchun Zijin Mining Company Limited, and also appointed as general manager of Zijin Mining Group Company Limited North-east Mine Exploration Branch in January 2005.

Mr. Chen Jiahong, aged 35, managing director of Xinjiang Ashele Copper Mine Company Limited, and managing director of Xinjiang Zijin Mining Company Limited. He graduated from China Geology University (Wuhan) by distant learning with a bachelor degree. He is an engineer. Mr. Chen worked with Fujian No. 8 Geology Division. In July 1994, he joined Zijin as deputy mine chief of Zijinshan Mine, then held positions of mine chief of Zijinshan Mine and deputy manager of Minxi Zijin Mining Company Limited. In April 2002, he was appointed as managing director of Xinjiang Ashele Copper Mine Company Limited. In August 2004, he was appointed as managing director of Xinjiang Zijin Mining Company Limited.

The Directors of the Company (“Directors”) hereby submit the Report of the Directors and the audited financial statements of the Company and the Group for the year ended 31 December 2004.

## PRIMARY BUSINESS

The Company is principally engaged in the exploration, mining, processing, refining and sale of gold and non-ferrous metals and other mineral resources in the PRC, and is a large mining conglomerate primarily engaged in the production of gold and non-ferrous metals. The Company produces mainly gold bullions of 99.99% and 99.95% purity under the “ZIJIN” brand, and copper cathodes, copper concentrates and iron concentrates. Currently, the sales of gold products represent over 92% of the income of its key business.

Details regarding the key business of the Company’s subsidiaries and an associate are set out in notes 18, 19 and 20 of the financial statements.

## OPERATING RESULTS

The operating results of the Group for the year ended 31 December 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on page 49 to 109.

## USE OF THE PROCEEDS

The net proceeds arising from the Initial Public Offering of the Company’s Shares in Hong Kong in December 2003 was approximately RMB1,205,748,000 by issued 400,544,000 shares H Share. The Company used RMB642.395 million (or 53.27%) of the proceeds by the end of 2004.

The table below sets out details of the use of the proceeds.

						<i>RMB’000</i>
Project	Planned Injection	Last Year Injection	This Year Injection	Accumulated Injection	Completion Percentage	Note
Zijinshan Copper						
Mine Development	85,000	*23,360	70,040	93,400	109.88%	1
Gold Containing Solid Waste	168,000	*97,830	24,890	122,720	72.7%	2
Investment in Subsidiaries	100,000	—	90,865	90,865	90.87%	3
Acquisition of Mines in Central & Western China	150,000	—	156,410	156,410	104.27%	4
Acquisition of Mining rights around Zijinshan	80,000	—	82,160	82,160	102.7%	5
Loan repayment	—	161,400	56,630	218,030	—	

\* The Zijinshan Copper Mine Development Project and Gold Containing Solid Waste Project were originally funded by the Company’s bank borrowings, and a total of RMB121.19 million of such bank borrowings were repaid by the proceeds.

# Report of the Directors

## *Note 1*

Zijinshan copper mine was planned to use RMB198 million to build plants to process 10,000t/d copper ore and produce 13,000 tonnes copper cathodes per annum. It originally planned to be funded RMB85 million from the proceeds and the rest of investment would come from Company's internal source. The construction was started in May 2002, and it will be in operation by the end of 2005.

## *Note 2*

It was a project which uses advanced technology to collect gold from 0.3-0.7g/t gold containing solid waste, and it aimed to utilise the waste and protect the environment. It combined the solutions of permanent dumping of the waste and the protection and management of the environment of the mine. The project can handle the waste 6.12 million tonnes per annum and produce 1700 kg gold. The total investment of the project was RMB168 million which was totally funded by the proceeds. The construction was started in March 2003 and the main plant has been completed and in operation.

## *Note 3*

During the year, the Company increased RMB26.8 million investment in Hunchun Zijin and Hunchun Zijin's registered capital reached RMB50 million with unchanged shareholding. In 2004, the Company increased RMB64.065 million investment in Xiamen Zijin, and its registered capital reached RMB80 million and the Company's shareholding increased to 96.3%.

## *Note 4*

During the year, the Company contributed RMB7.2 million to explore mineral deposits in the northern part of Litong mine, Ganzi, Sichuan with the cooperation of Sichuan Geological and Mining Exploration Bureau Exploration Team. The Company contributed RMB72 million to control Deerni copper mine in Qinghai. The Company contributed RMB71.41 million to form Xinjiang Zijin, and Xinjiang Zijin acquired shareholding of Xinjiang Jinbao in order to control Mongku iron mine and acquire the exploration rights around the mine for development. The Company contributed RMB3.6 million to acquire Qitai Jinshangou gold mine, and RMB2.2 million to acquire Guizhou Huangping aluminum, and Qinglong coal mine exploration right.

## *Note 5*

During the year, the Company contributed RMB82.16 million to acquire mining right and exploration right of the South-east section of Zijinshan gold and copper mines, and total exploration right 3.47 square km and total mining right 0.28 square km in Ermiaogou gold-copper mine, Longjiangting copper mine, Xinwuxia gold-copper mine.

The Company repaid aggregately RMB218 million loan which reduced the financial cost to the Company.

The Directors considered that the raise of the proceeds exceeded the expectation and it should be prudently used. In the original investment plan of Zijinshan copper mine, the total planned investment was RMB198 million, and RMB85 million would be financed by the proceeds, and the rest would be financed by the Company's financial arrangement. It has been changed that the mine was totally financed by the proceeds. The use of the proceeds tended to invest in acquisition of resources, and it was regarded as a standing point of the Company to gain a continuous development. The early repayment of the loans funded by Company's cash is in the best interests of the Company and its shareholders as a whole. The Directors sincerely consider any effective and efficient ways of using the proceeds to maximize the returns to the shareholders.

## ESTABLISHMENT OF SUBSIDIARIES

1. On 18 February 2004, Sichuan Ganzi Zijin Mining Company Limited was established with a registered capital of RMB12 million. Of which the Company contributed RMB7.2 million and accounted for 60% of shares. Sichuan Geological and Mining Exploration Bureau Exploration Team contributed RMB 4.8 million and accounted for 40% of shares. After the establishment of the company, it will conduct risk exploration as to the northern section of Ganji-Litong gold and copper ore belt in Sichuan.
2. In April 2004, the Company contributed RMB30 million to acquire the new shares of Xinjiang Jinbao Mining Company Limited and accounted for 60% of shares. It allows the company to develop and explore 3.6 million tonnes iron deposit in Mongku iron mine.
3. On 30 April 2004, Fujian Zijin Investment Company Limited was established with registered capital of RMB100 million. The Company contributed RMB95 million and accounted for 95% of shares. Xiamen Zijin contributed RMB5 million and accounted for 5% of shares. The company mainly focused on the non-mining business and risk exploration projects.
4. On 17 May 2004, the Company contributed RMB72 million to acquired new shares of Qinghai West Copper Mining Company Limited and accounted for 60% of shares and its registered capital is RMB120 million. Sanxi Renlong Mining Company Limited contributed RMB40.2 million and accounted for 33.5% shares. The Labour Union of Zijin contributed RMB7.8 million and accounted for 6.5% of shares. The subsidiary is mainly responsible to develop Deerni Copper and Cobalt mine in Qinghai.
5. On 17 May 2004, the Group's subsidiary – Xiamen Zijin Science and Technology Company Limited contributed RMB1.4099 million to acquire 49.47% of Wuhan Dida Nano Rare Earth Materials Development Company Limited from Wuhan Telecom Industrial Company Limited, and the Company also contributed RMB43,600 to acquire 1.53% of Wuhan Dida Nano Rare Earth Materials Development Company Limited from Wuhan Dida High Tech Industrial Group Limited. The total capital contribution is RMB1,453,600 for 51% of shares of Wuhan Dida Nano Rare Earth Materials Development Company Limited. The investment is mainly for the research and development of nano rare earth materials.
6. On 13 May 2004, the Group's subsidiary – Xiamen Zijin Science and Technology Company Limited contributed RMB3.2 million to acquire 51% of shares of Hubei Gedian Dida Nano Technologies Development Company Limited from Sinopec Dianqiangui Petroleum Exploration Bureau. The investment is mainly for the research and development of nano compound materials.
7. On 18 May 2004, the Group's subsidiary – Fujian Zijin Investment Company Limited invested RMB24.5 million to acquire 49% of Fujian Shanghang County Ting River Hydro-electricity Limited. It will build 2 power stations including a 12,000 kw hydro-power station, and a 10,000 kw hydro-power station at Ting River at the bottom of Zijin Mountain to guarantee the power supply to Zijinshan Copper mine.

## Report of the Directors

8. On 5 July 2004, Fujian Zijin Investment Company Limited, Shanghang Gutian Construction and Development Company Limited and Longyan City Gutian Tourism Development Company Limited, invested in and established Fujian Province Shanghang County Ganlong Railway Construction and Development Company Limited. The total registered capital is RMB10 million. Fujian Zijin Investment Company Limited contributed RMB8 million and accounted for 80% of shares. Shanghang County Gutian Construction and Development Company Limited contributed RMB1.5 million and accounted for 15% of shares. Longyan City Gutian Tourism Development Company Limited contributed RMB0.5 million and accounted for 5% of shares. The company will mainly invest and construct warehouses and depots at newly constructed Gutian Railway Station of Ganlong Railway and will engage in logistic business.
9. On 9 August 2004, Xinjiang Zijin Mining Company Limited was established in Urumqi, Xinjiang. Its registered capital is RMB100 million. The Company contributed RMB68 million and accounted for 68% of shares, and China Metallurgy Xibei Bureau contributed RMB32 million and accounted for 32% of shares. The company is mainly to co-ordinate the Group's investment and risk exploration in Xinjiang.
10. On 3 September 2004, Fujian Zijin Copper Company Limited was established and its registered capital is RMB105 million. Shanghai Boai Investment Company Limited contributed RMB35.7 million and accounted for 34% of shares, Hong Kong Hung Fung Holdings Company Limited contributed RMB34.65 million and accounted for 33% of shares, Fujian Zijin Investment Company Limited contributed RMB31.5 million and accounted for 30% of shares, Xiamen Zijin Science and Technology Company Limited contributed RMB2.1 million and accounted for 2% of shares, and Shanghai Baisun Industrial Company Limited contributed RMB1.05 million and accounted for 1% of shares. The main business of the company would be the production and development of high density copper based alloy folding plate. The project is under construction.
11. On 3 November 2004, Gold Mountains (HK) International Mining Company Limited was established in Hong Kong. As a wholly-owned subsidiary, the company would be a window company and a foreign investment vessel of the Company for the collection and analysis of information of international mining market and financial markets. Its establishment co-ordinates with our Beijing company for the foundation of Zijin's international business.
12. On 22 November 2005, Bayannaer Zijin Non-ferrous Metal Company Limited was established in Bayannaer District, Inner Mongolia, and its registered capital is RMB250 million. The Company contributed RMB150 million and accounted for 60% of shares, Gansu Jiangxin Industrial Company Limited contributed RMB75 million and accounted for 30% of shares, Gansu Yate Investment Company Limited contributed RMB25 million and accounted for 10% of shares. The initial capital injection is RMB25 million, and the balance of capital will be injected in 2005. The company will build a 100,000 t/y zinc refinery plant in Bayannaer District.

13. On 3 August 2004, the Group entered into an agreement with Luanchuan County Government of Henan Province and Luanchuan Sanqiang Muwu Co., Ltd, Luanchuan Dadongpo Muwu Mining Co., Ltd. in respect of jointly development of Luanchuan Nannihu Molybdenum Mine. The parties proposed to contribute RMB65 million into Luanchuan Sanqiang MuWu Company Limited and have investment holding over the company, so as to develop the mineral resources of Luanchuan Mannihu Molybdenum Mine. Because of the surged price of Molybdenum and the local authority could not solve the mining right problem, this project had no progress at the moment.
14. On 5 August 2004, Fujian Zijin Investment Company Limited (“Zijin Investment”), a subsidiary of the Company, entered into a joint venture contract with Gold Fields Fujian BVI Ltd. a company established in the British Virgin Islands by Jintian Company, for the establishment of Fujian Jitian Zijin Mining Limited Company. It is intended that the registered address of the company will be in Shanghang County, Fujian Province. Zijin Investment and Gold Fields Fujian BVI Ltd. will invest US\$333,000 and US\$500,000 respectively and account for 40% and 60% equity interests in Fujian Jitian Zijin Mining Limited Company. Upon the establishment of the company, it is intended to engage in the exploration, mining, processing, refining. Domestic sales and exports of gold, copper, mining by-products, and other products related to mining in Fujian Province. The company is now filing for registration. Progress on the establishment of the joint venture will be promptly updated and disclosed.

### **SOLD SHARES OF SUBSIDIARIES**

On 23 April 2004, the Company sold all the shares of Fujian Shangdang Jinshan Construction Engineering Company Limited (“Jinshan Construction”) (80% shareholding). 64% of shareholding was sold to Xiamen Zijin Science and Technology Company Limited, 10% of shareholding was sold to Shanghang County Chilun Industrial and Trading Company Limited, and 6% of shareholding was sold to Shanghang County Huafai Mine Enterprise Company Limited. After all these transactions, the Company did not hold shares of Jinshan Contruaction directly.

On 23 September 2004, the Company sold all the shares of Xinjiang Jinbao Mining Company Limited (60% shareholding) to another subsidiary Xinjiang Zijin Mining Company Limited. After the Transaction, the Company did not hold shares of Xinjiang Jinbao Mining Company Limited directly.

### **FINAL DIVIDEND**

The Company’s net profit for the year ended 31 December, 2004 prepared under International Financial Reporting Standards was RMB417,619,000. The Board of Directors proposed to pay dividends of RMB0.1 per Share in cash on the basis of 2,628,261,820 shares in issue of the Company at the end of 2004. The pay-out ratio is 62.9%.



## ISSUE OF NEW SHARES BY CONVERSION

Apart from the proposed final dividend aforesaid, on 7 April 2005, the Board of Directors also proposed to convert an amount of RMB262,826,182 in the Company's share premium into 2,628,261,820 shares of RMB0.1 each, and the Company will issue additional new shares on the basis of 10 new ordinary shares for every 10 existing ordinary shares to shareholders.

The H share register of the Company will be closed from 28 April 2005 to 27 May 2005 (both days inclusive). Final dividends and additional new ordinary shares will be paid on 23 June 2005 to holders of H Shares whose name appear on the H share register of members of the Company at the close of business on 3 May 2005 (being the record date).

For the distribution of dividends, dividends for domestic shares will be distributed and paid in RMB, while dividends for H Shares will be declared in RMB but paid in Hong Kong dollars (conversion of RMB to HK\$ shall be calculated on the average price of the middle prices of the conversion of RMB to HK\$ announced by the People's Bank of China one calendar week preceding 10 May 2005).

Proposed distribution of final dividends and conversion of share premium into new shares are subject to the approval at the annual general meeting to be held on 31 May 2005.

## RESERVES

Details of movements in the reserves of the Company and the Group for the year ended 31 December 2004 are set out in note 36 to the financial statements and in the consolidated statement of changes in equity.

## DISTRIBUTABLE RESERVES

According to the articles of association of the Company, the reserves available for distribution are based on the lower of the Company's profits determined under PRC accounting standards and regulations and IFRS.

In accordance with the Company Law of the PRC, profit after tax can be distributed as dividends after the transfer to the statutory surplus reserve and public welfare fund.

As at 31 December 2004, the Company's reserves available for distribution (before proposed final dividend of RMB262,826,182) were approximately RMB381,025,000 (2003: RMB270,804,000).

## FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group for the year ended 31 December 2004 are set out in note 12 to the financial statements.

## SHARE CAPITAL

Details of the movements in the share capital of the Company for the year ended 31 December 2004 are set out in note 35 to the financial statements.

## DONATIONS

During the year 2004, donations made by the Company was RMB8.27 million.

## BANK LOANS

Details of the Group's bank loans are set out in notes 30 to 31 to the financial statements.

## TAXATION

The corporate income tax rate of the Company is 33%, details of which are set out in note 8 to the financial statements.

## PRE-EMPTIVE RIGHTS

According to the Articles of Association of the Company and the laws of the PRC, there are no provisions for pre-emptive rights requiring the Company to offer new shares to the existing shareholders of the Company in proportion to their shareholdings.

## FINANCIAL HIGHLIGHTS

The financial highlights of the Group are set out in pages 4 to 5 of this annual report.

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

On 25 June 2004, the Company issued 1,314,130,910 new shares by conversion of reserve fund, which included 400,544,000 H Shares commenced its listing on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") on 28 June 2004. Details regarding the issue of new shares are set out in note 35 to the financial statements.

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2004.

# Report of the Directors

## SHARE OPTION SCHEME

The Company has adopted the Share Option Scheme on 28 June 2003.

As at the date of this report, the Company has not granted or agree to grant any option to its Directors or Supervisors or to the employees of the Company or its subsidiaries.

## MAJOR SUPPLIERS AND CUSTOMERS

Transactions of the Company's gold products were conducted and settled through the Shanghai Gold Exchange. Information about the ultimate customer is unknown.

The Company's total purchases from the five largest suppliers and the largest supplier amounted to RMB86,520,819 and RMB49,247,422 respectively, representing 57.03%, 32.46% of the total purchases respectively. All transactions between the Company and the related suppliers were entered into under normal commercial terms.

As far as the Directors are aware, none of the Directors, Supervisors and their respective associates (as defined in the Listing Rules of the Stock Exchange ("Listing Rules")) has any interest in the above five largest suppliers in the year 2004.

## SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the Directors and Supervisors has entered into a service contract with the Company respectively. All these contracts will be ended on the date of AGM in 2006.

Pursuant to article 92 of the Articles of Association, the terms for Directors will be for three years, (commencing from the date of its appointment or re-appointment) subject to re-appointment. Under the Company Law of the PRC, the term of appointment for supervisors are also for three years, and subject to re-appointment. Remuneration of Directors and Supervisors can be amended at Annual General Meetings.

Save as disclosed above, there are no service contracts (excluding contracts expiring or terminable by the Company within one year without payment of compensation other than statutory compensation) between the Company and any of the Directors or Supervisors.

## ANNUAL REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### Annual Remuneration

Details are set out in note 6 and 7 to the financial statements.

### Procedures and basis for determination of remuneration

Pursuant to the Articles of Association of the Company, procedures for determination of remuneration of directors and supervisors shall be subject to consideration and approval in general meeting, whereas remuneration of senior officers shall be considered and approved by the Board. The remuneration of the Company's directors, supervisors and senior management is determined according to the resolutions passed at the general meeting/by the Board, service contracts of directors, and the improvement in the Company's operating results for the year.

## DIRECTORS AND SUPERVISORS

During the year and up to the date of this report, the terms of the existing Directors and Supervisors are:

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### EXECUTIVE DIRECTORS:

### TERMS

Chen Jinghe	3 years from his re-appointment on 28 June 2003
Liu Xiaochu	3 years from his re-appointment on 28 June 2003
Luo Yingnan	3 years from his re-appointment on 28 June 2003
Lan Fusheng	3 years from his re-appointment on 28 June 2003
Rao Yimin	3 years from his re-appointment on 28 June 2003

### NON-EXECUTIVE DIRECTORS:

Ke Xiping	3 years from his re-appointment on 28 June 2003
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### INDEPENDENT NON-EXECUTIVE DIRECTORS:

Yang Dali	3 years from his re-appointment on 28 June 2003
Yao Lizhong	3 years from his re-appointment on 28 June 2003
Loong Ping Kwan	3 years from his appointment on 15 August 2003

### SUPERVISORS:

Zeng Qingxiang	3 years from his re-appointment on 28 June 2003
Xu Qiang	3 years from his re-appointment on 28 June 2003
Lan Liying	3 years from her re-appointment on 28 June 2003

# Report of the Directors

## BRIEF BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Brief biography of directors, supervisors and senior management are set out in pages 17 to 20 in this report.

## DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Save for the service contracts of directors and supervisors as disclosed above, there were no contracts of significance to which the Company or its subsidiaries was a party and in which a director or supervisor of the Company had a material interest, either directly or indirectly, subsisting at the end of the year or at any time during the year.

## INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE IN THE ISSUED SHARES OF THE COMPANY

As at 31 December 2004, the interests and short positions of directors, supervisors and chief executive in the share capital of the Company or its associated corporations (as defined under Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, are as follows:

(a) Shareholdings of directors, supervisors or chief executive in the Company as at 31 December 2004:

Director	Number of Domestic Shares/amount of equity interests held	Nature of interests	Long/short positions	Proximate percentage of shareholding in such class of securities	Proximate percentage of shareholding in the registered capital
Ke Xiping	228,000,000 (note 1)	Company	Long	12.48%	8.67%
Chen Jinghe	10,000,000 (note 2)	Personal	Long	0.54%	0.38%

(b) Shareholding of Directors, supervisors or chief executive in the Company's subsidiaries as at 31 December 2004:

Directors/ Supervisors	Name of subsidiaries	Amount of equity interests held	Nature of interests	Long/short positions	Proximate percentage of shareholding in the registered capital
Chen Jinghe	Jiuzhaigou Zijin (note 3)	50,000 (note 4)	Personal	Long	0.13%
Liu Xiaochu	Jiuzhaigou Zijin	50,000 (note 4)	Personal	Long	0.13%
Luo Yingnan	Jiuzhaigou Zijin	50,000 (note 4)	Personal	Long	0.13%
Lan Fusheng	Jiuzhaigou Zijin	50,000 (note 4)	Personal	Long	0.13%
Rao Yimin	Jiuzhaigou Zijin	50,000 (note 4)	Personal	Long	0.13%
Zeng Qingxiang	Jiuzhaigou Zijin	50,000 (note 4)	Personal	Long	0.13%
Lan Liying	Jiuzhaigou Zijin	25,000 (note 5)	Personal	Long	0.06%

# Report of the Directors

## Notes:

- (1) Xiamen Hengxing Industrial Company Limited holds 95,000,000 Domestic Shares in the Company, and holds 49% shareholding in Fujian Xinhudu Engineering Company Limited (which is holding 133,000,000 Domestic Shares in the Company). Under Section 316 of the SFO, Xiamen Hengxing Industrial Company Limited is therefore interested in 228,000,000 Domestic Shares in the Company. Mr. Ke Xiping owns 73.21% interest in Xiamen Hengxing Industrial Company Limited. Under Section 316 of the SFO, Mr. Ke Xiping is regarded as being interested in such Shares.
- (2) On 12 July 2004, Fujian Xinhudu Department Store Company Limited and Shanghang County Jinshan Trading Company Limited, the shareholders of the Company, agreed to transfer 4,000,000 domestic shares and 6,000,000 domestic shares they held, to Mr. Chen Jinghe (a Director) respectively. Mr. Chen Jinghe personally holds the above 10,000,000 domestic shares.
- (3) Sichuan Jiuzhaigou Zijin Mining Company Limited (“Jiuzhaigou Zijin”) is a subsidiary in which the Company beneficially owns 60%.
- (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 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.
- (5) 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.

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 year. 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 year, 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.

## SHAREHOLDING STRUCTURE

### 1. Change of issued shares

1.1 On 28 May 2004, the proposal of “Conversion of Reserve Funds into Capital” was passed in the AGM of 2003. Based on 1,314,130,910 issued shares by the end of 2003, the Company issued new shares to the shareholders on 1 to 1 basis at nominal value of RMB0.1 each.

The distribution of new shares was completed on 25 June 2004 and the new H Shares were started to trade on 28 June 2004 in the Stock Exchange.

As at 31 December 2004, the Company issued 2,628,261,820 ordinary shares at nominal value of RMB0.1 each.

Unit: share

	31 December 2004	31 December 2003
Domestic Shares	1,827,173,820	913,586,910
H Shares	801,088,000	400,544,000
<b>Total Shares</b>	<b>2,628,261,820</b>	1,314,130,910

1.2 On 12 July 2004, Fujian Xinhua Department Store Company Limited and Shanghang County Jinshan Trading Company Limited, the shareholders of the Company, agreed to transfer 4,000,000 domestic shares and 6,000,000 domestic shares they held, to Mr. Chen Jinghe (a Director) respectively. Mr. Chen Jinghe’s interest has been reported and disclosed accordingly.



# Report of the Directors

## 2. The Status of Major Shareholders

As at 31 December, 2004, the Company has a total of 1,263 shareholders, of which 1,254 are holders of H Shares and 9 are holders of Domestic Shares.

The shareholdings of the Company's top ten shareholders as at 31 December, 2004 are as follows:

Shareholders' Names	Number of Shares held	Class of Shares	Proximate percentage of shareholding in the registered capital
1. Minxi Xinghang State-owned Assets Investment Co., Ltd.	842,180,424	Domestic Shares	32.04%
2. HKSCC Nominees Limited (Note 1)	793,257,800	H Shares	30.18%
3. Xinhudu Industrial Co. Ltd. (Note 2)	345,800,000	Domestic Shares	13.16%
4. Shanghang County Jinshan Trading Co., Ltd.	336,190,000	Domestic Shares	12.79%
5. Fujian Xinhudu Engineering Company Limited (Note 2)	133,000,000	Domestic Shares	5.06%
6. Xiamen Hengxing Industrial Co., Ltd. (Note 3)	95,000,000	Domestic Shares	3.61%
7. Fujian Gold Group Co., Ltd.	30,143,042	Domestic Shares	1.15%
8. Fujian Xinhudu Department Store Co., Ltd. (Note 2)	28,737,000	Domestic Shares	1.09%
9. Chen Jinghe	10,000,000	Domestic Shares	0.38%
10. Fujian Minxi Geologist	6,123,354	Domestic Shares	0.23%

*Notes:*

- (1) HKSCC Nominees Limited is holding 793,257,800 H Shares in the Company as a nominee, representing 30.18% of the Company's Shares in issue. HKSCC Nominees Limited is a member of the Central Clearing and Settlement System, which carries out securities registration and trust business for customers.
- (2) Xinhudu Industrial Company Limited, Fujian Xinhudu Engineering Company Limited and Fujian Xinhudu Department Store Company Limited are connected with each other. Xinhudu Industrial Company Limited holds 51% in Shanghang County Huadu Construction Engineering Company Limited and holds 64.54% in Fujian Xinhudu Department Store Company Limited.
- (3) Xiamen Hengxing Industrial Company Limited holds 49% in Fujian Xinhudu Engineering Company Limited.

## SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 31 December 2004, the interests and short positions of substantial shareholders (other than directors, supervisors and the chief executives of the Company) in the issued share capital of the Company which will be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein, or holding 5% or above in the issued share capital of the Company which will be required to be notified to the Company are as follows:

Names of shareholders	Class of shares	Number of Shares/equity interest held	Proximate percentage of shareholding in the registered of capital	Proximate percentage of shareholding in Domestic Shares	Proximate percentage of shareholding in H Shares	Long/Short Position
Minxi Xinghang State-owned Assets Investment Co., Ltd.	Domestic Share	842,180,424	32.04%	46.09%	—	Long
Xinhuadu Industrial Company Limited	Domestic Shares	507,537,000 (Note 1)	19.31%	27.78%	—	Long
Chen Fashu	Domestic Shares (Note 2)	507,537,000	19.31%	27.78%	—	Long
Shanghang County Jinshan Trading Co., Ltd.	Domestic Shares	336,190,000	12.79%	18.40%	—	Long
Xiamen Hengxing Industrial Co., Ltd.	Domestic Shares	228,000,000 (Note 3)	8.67%	12.48%	—	Long
Ke Xiping	Domestic Shares	228,000,000 (Note 4)	8.67%	12.48%	—	Long
Fujian Xinhuadu Engineering Company Limited	Domestic Shares	133,000,000	5.06%	7.28%	—	Long
HKSCC Nominees Ltd.	H Shares	793,257,800	30.18%	—	99.02%	—

# Report of the Directors

## Notes:

- (1) Xinhua Industrial Company Limited holds 345,800,000 Domestic Shares in the Company, and holds 51% in Fujian Xinhua Engineering Company Limited (which holds 133,000,000 Domestic Shares in the Company), and holds 64.54% in Fujian Xinhua Department Store Company Limited (which holds 28,737,000 Domestic Shares in the Company). Therefore, under Section 316 of the SFO, Xinhua Industrial Company Limited is interested in 507,537,000 Domestic Shares in the Company.
- (2) Mr. Chen Fashu holds 73.56% interests in the issued share capital of Xinhua Industrial Company Limited, therefore, under Section 316 of the SFO, Mr. Chen Fashu is deemed to be interested in 507,537,000 Domestic Shares in the Company.
- (3) Xiamen Hengxing Industrial Company Limited holds 95,000,000 Domestic Shares in the Company, and holds 49% in Fujian Xinhua Engineering Company Limited (which holds 133,000,000 Domestic Shares in the Company). Under Section 316 of the SFO, Xiamen Hengxing Industrial Company Limited is therefore interested in 228,000,000 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 228,000,000 Domestic Shares in the Company.

Save as disclosed above, as far as the Directors, Supervisors and chief executive are aware, as at 31 December 2004, there are no interest or short position of other parties in the shares or related securities of the Company which will be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

## SHARE PLEDGED

On 26 July 2004 and 14 September 2004, Fujian Xinhua Engineering Company Limited pledged the Company's Domestic Shares 244,280,000 and 101,520,000 to XingYe Bank (Tungjie Branch, Fuzhou) as security of loans RMB80 million and RMB40 million respectively. The loan periods were 26 July 2004 to 26 July 2005, and 14 September 2004 to 20 July 2005. All these pledged Domestic Shares have been registered as security and also informed the Stock Exchange.

Save as disclosed above, as at 31 December 2004, no shares of any of the shareholders holding 5% or more in the Company have been pledged on are under lock-up.

## CONNECTED TRANSACTIONS

Connected transactions entered into by the Group for the year ended 31 December 2004 are set out in note 38 to the financial statements. Certain of these transactions constitute connected transactions/ongoing connected transactions under the Listing Rules at the time when such transactions were entered into, and which are required to be disclosed under rule 14A.45 of the Listing Rules. Such transactions/ongoing connected transactions are summarised as follows:

Contracted Parties	Relationship with the Company	Contract Date	Nature of Transaction	Combined Consideration (RMB'000)		Under the applicable Listing Rules at the time
				2004	2003	
<b>1. Purchases of materials from Connected Parties</b>						
Shanghang County Jinshan Trading Company Limited	Shareholder of the Company	The respective occurrence dates of each transaction	Purchase of construction materials	53	915	Rule 14.31(2) (note 1)
Xinjiang Non-ferrous Metals Group Material Company	Shareholder of Ashele	The respective occurrence dates of each transaction	Purchase of mining facilities	316	0	Rule 14.31(2) (note 1)
Aletai Kaiyun Mining Company Limited	Company controlled by a shareholder of Ashele	The respective occurrence dates of each transaction	Purchase of construction materials	130	0	Rule 14.31(2) (note 1)
<b>2. Services provided by Connected Parties</b>						
Fujian Xinhua Engineering Company Limited	A shareholder of the Company	November 2002	Stripping works	86,226	97,093	Rule 14A.35 (note 2 and 2A)
Fujian Shanghang Hongyang Mine Engineering Company Limited	A shareholder of two subsidiaries	April 2002 April 2003	Stripping works	67,526	72,290	Rule 14A.35 (note 2 and 2B)
Guizhou Bureau of Geology & Mineral Resources Geological Team 105	Guizhou Zijin shareholder	February 2003	Geologic exploration services	450	80	Rule 14A.31(2) (note 1)
Shanghang Fuxin Mining Engineering Company	Anhui Zijin shareholder	January 2004	Construction services	485	0	Rule 14A.31(2) (note 1)
Sichuan Geologist Exploration Team	Ganzi Zijin shareholder	March 2004	Geologic exploration services	491	0	Rule 14A.31(2) (note 1)
Tibet Autonomous Region Geologic Minerals Exploration & Development Bureau Dire Geothermal Geologic Team	Tibet Jindi shareholder	December 2003	Geologic exploration services	2,500	0	Rule 14A.32 (note 3)

# Report of the Directors

Contracted Parties	Relationship with the Company	Contract Date	Nature of Transaction	Combined Consideration (RMB'000)		Under the applicable Listing Rules at the time
				2004	2003	
Fuyun Jinbao Transportation Company	Company controlled by a shareholder of Xinjiang Jinbao	July 2004	Transportation services	3,661	0	Rule 14A.32 (note 3)
Xinjiang Aletai Zhenan Blast Limited	Company controlled by a shareholder of Ashele	July 2002	Construction services	839	845	Rule 14A.31(2) (note 1)
Xinjiang Non-ferrous Gold Construction Co	Company controlled by a shareholder of Ashele	May 2002	Construction services	761	1,282	Rule 14A.31(2) (note 1)
Xinjiang No-ferrous Metals Industry Engineering Quality Control Team	Company controlled by a shareholder of Ashele	October 2002	Supervisory services on construction projects	50	114	Rule 14A.31(2) (note 1)

### 3. Financial assistance provided to Connected Parties

Hunchun Gold and Copper Mining Co., Ltd.	A shareholder of Hunchun Zijin		Loan	2,512	2,905	Rule 14A.66(2) (note 4)
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### 4. Transfer of equity interests and assets to Connected Parties

Fuyun Jinbao Transportation Company	Company controlled by a shareholder of Xinjiang Jinbao	July 2004	Transfer of facilities	5,000	0	Rule 14A.32 (note 3)
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Note 1: Pursuant to Rule 14A.31(2) of the Listing Rules, such connected transactions have been conducted on normal commercial terms where each of the percentage ratios based on scale testing was less than 0.1%, and the total consideration was less than HK\$1,000,000. It was a connected transaction, exempt from the reporting, announcement and independent shareholders' approval requirements.

Note 2: Non-exempt connected transaction which has applied for a waiver. The Directors confirmed that: 1. such connected transactions has been or will continue to be conducted under normal and general business operations of the Group; 2. under normal commercial terms which are fair and reasonable and in the overall interests of shareholders; 3. Pursuant to rule 14A.31 of the Listing Rules, it will be subject to reporting, announcement and independent shareholders' approval requirements.

2A: For the three financial years ending 31 December 2005, the annual cap being the total value of transaction shall not exceed the higher of 20.9% of the total costs of sales of the Group or RMB105,000,000. The annual cap has been determined by reference to the Group's historical figures based on the relevant contract agreements, and on the possible increase in the Group's production scope in future.

2B: For the three financial years ending 31 December 2005, the annual cap being the total value of transaction shall not exceed the higher of 15.6% of the total costs of sales of the Group or RMB80,000,000. The annual cap has been determined by reference to the Group's historical figures based on the relevant contract agreements, and on the possible increase in the Group's production scope in future.

Note 3: Pursuant to Rule 14A.32 of the Listing Rules, such connected transactions have been conducted on normal commercial terms where each of the percentage ratios based on scale testing was less than 2.5%. It was a connected transaction, exempt from the reporting, announcement and independent shareholders' approval requirements.

Note 4: Non-exempt connected transaction which has applied for a waiver from independent shareholders' approval requirement. Pursuant to Rule 14A.66(2), the financial assistance provided by the listed issuer not in the ordinary and usual course of business but on normal commercial terms where each of the percentage ratios based on scale testing was less than 2.5%. It will be subject to reporting and announcement requirements but can be exempted from obtaining independent shareholders' approval.

For the three financial years ending 31 December 2005, the relevant loan facilities shall not exceed the amounts of the continuation or renewal of the existing loan facilities (being RMB3,500,000). Such annual cap has been determined with reference to the relevant agreements.

In respect of the connected transactions mentioned in note 2 and note 4, the Company has obtained the transaction waivers for the three financial years ending 31 December 2005. The details of the transactions mentioned above shall be disclosed in the annual reports and accounts of the Company in compliance with the relevant requirements of the Listing Rules.

## Report of the Directors

Accordingly, it is confirmed by the Directors that :

- (a) The connected parties in the above connected transactions have undertaken to the Company and the Stock Exchange to provide adequate access for the inspection of the relevant books and records, in order to review the above connected transactions and prepare the relevant reports;
- (b) The Company has undertaken to the Stock Exchange, if it is aware or has reasons to believe that the Independent Non-executive Directors and/or auditors are unable to confirm that the relevant transactions comply with the Listing Rules and the restrictions under the waiver conditions, it shall immediately notify the Stock Exchange. The Company may have to comply with the disclosure and independent shareholders' approval obligation, or make correction based on the instructions of the Listing Division of the Stock Exchange.
- (c) Independent directors of the Group has confirmed that all the connected transactions of the Group or its subsidiaries involved in the year 2004 were:
  - 1. entered into in the ordinary and usual course of business of the Group or its subsidiaries;
  - 2. entered into on normal commercial terms; or where no comparisons are available, then under terms which are fair and reasonable to the shareholders of the Company;
  - 3. entered into under the terms of the agreement governing such transactions; or where no such agreement is available, under terms not inferior from those available from or to independent third parties.
- (d) The Group's auditors have reviewed the transactions (details of which are set out in note 38 to the financial statements), and confirmed to the Board that:
  - 1. The transactions have been approved by the Board;
  - 2. Terms of the agreement of the relevant transactions are attached to the connected transactions;
  - 3. The aggregated amounts of the transactions have not exceeded the respective annual caps as set out in Note 2 and Note 4 above.

## MANAGEMENT CONTRACTS

There was no management and administrative contracts relating to the business as a whole or any principal operations of the Company entered into by the Company or existing for the year ended 31 December 2004.

## MAJOR LITIGATION, ARBITRATION

The Company has no major litigation, arbitration during the reporting period.

## ACQUISITIONS, DISPOSALS AND MERGERS

### Asset acquisition

On 5 July 2004, Fujian Zijin Investment Company Limited, which the Group has equity interests, entered into a transfer contract with Guizhou Province Huangping County Xinda Mining Company Limited (貴州省黃平縣興達礦業有限公司), to acquire the entire assets of Xinda Mining Company Limited at a consideration of RMB4.5 million. The acquisition included the mining right of aluminium ore in Huangping County Wangjiashai, covering an area of 0.8997sq. km, and the mining right covering an area of 5.78 sq. km, under application. The aluminium reserve in the ore amounts to about 3.48 million tonnes.

## EVENTS AFTER THE BALANCE SHEET DATE

On 1 January 2005, Xinhua Industrial Company Limited pledged 133,000,000 shares and 28,737,000 shares of the Company owned by its controlling subsidiaries Fujian Xinhua Engineering Co Ltd. and Fujian Xinhua Department Store Company Limited to Fuzhou East Road Branch of Industrial Bank Co. Ltd. as a collateral for RMB50 million credit facility granted. The pledge period started from 1 January 2005 to 1 January 2006. The portion of shares have been registered for equity pledge in domestic share custodian unit. We have notified and filed to the Stock Exchange.

Details of the other events after the Balance Sheet date of the Group are set out in note 43 of the financial report.



# Report of the Directors

## AUDIT COMMITTEE

The Audit Committee of the Company consists of the two independent non-executive directors, namely Mr. Yang Dali, Mr. Yao Lizhong and the non-executive director, Mr. ke Xiping in accordance with the requirements of the Code of Best Practice (“Code of Best Practice”) as set out in Appendix 14 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls. An meeting of the Audit Committee was held on 5 April 2004 to review the Group’s annual report and provide advice and recommendations to the Board.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE

To the best knowledge of the Directors, the Company has complied with the paragraph 14 of Appendix 14 of the Code of Best Practice (replaced by C.3 of the Code on Corporate Governance Practices starting from 1 January 2005) under the Listing Rules.

## AMENDMENTS TO THE ARTICLES OF ASSOCIATION

At the 2003 annual general meeting of the Company held on 28 May 2004, resolutions on amendments of the Articles of Association of the Company were passed. Details of the amendments are set out in the Notice of Annual General Meeting sent to the shareholders on 8 April 2004 and the relevant announcement published on the Standard on the same date.

Relevant approval for the above amendments to the Articles of Association has obtained from the relevant authority on 16 June 2004.

## CHANGE OF COMPANY NAME

Upon filing for the change in registration for industrial and commercial entities at the Industry and Commerce Administration of Fujian Province by the Company on 16 June 2004, the Company name has been changed from Fujian Zijin Mining Industry Co., Ltd. to Zijin Mining Group Co., Ltd. The registered address has been changed from 277 Beihuan Road, Shanghang County, Fujian Province, PRC to 1 Zijin Road, Shanghang County, Fujian Province, PRC. The procedures for the change in registration at the Company Registry in Hong Kong was completed on 28 June 2004.

## **CHANGE OF COMPANY SECRETARY AND APPOINTMENT OF QUALIFIED ACCOUNTANT**

On 1 December 2004, Mr. Wang Yuanheng has resigned as the Company Secretary. The Board of Directors appointed Mr. Fan Cheung Man as the Company Secretary and Qualified Accountant. Mr. Fan is currently an associate member of Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. The Company has published an announcement on this issue on the website of the Stock Exchange and the Standard.

## **AUDITORS**

In the Annual General Meeting to be held, the Company will submit a resolution for the reappointment of Ernst & Young Hua Ming and Ernst & Young as the domestic and international auditors of the Company for the year 2005 respectively.

On behalf of the Board

**Chen Jinghe**

*Chairman*

Fujian, the PRC

7 April, 2005

# Report of the Supervisory Committee

## I. MEETINGS OF THE SUPERVISORY COMMITTEE WITH THE REPORTING PERIOD

In 2004, the Supervisory Committee held two Supervisory Committee Meetings.

The Third Meeting of the Second Supervisory Committee was held at the Company's conference room on 3 April 2004. The senior officers of the Company presented their reports on the Company's operations in 2004 in the meeting. The Company's final financial statements of 2003 year and the audit report issued by Ernst & Young Hua Ming were reviewed. Conclusions were drawn on the annual performance of the Supervisory Committee, where the "2003 Working Report of the Supervisory Committee" was considered and approved in the meeting for submission to the general meeting.

The Fourth Meeting of the Second Supervisory Committee was held at the Company's conference room on 28 June 2004. In the Meeting, deployments have been made to strengthen supervisory administration works on external investment projects, and set down a 2004 working plan for the Supervisory Committee.

## II. INDEPENDENT WORKING REPORT OF THE SUPERVISORY COMMITTEE

During the reporting period, the Supervisory Committee attended all the Board meetings. The chairman of the Supervisory Committee also participated in the meeting for the General Manager's office, attended to the working reports of the Board and the management, and participated in the studies and issued opinions on the resolutions on major decisions, significant change in appointments, and guarantee for funding of the Company.

### 1. Compliance of the Company's operations

In accordance with the relevant resolutions in general meetings, the Board seriously implemented the various resolutions. Its decision procedures complied with the Company Law and the Articles of Association, strictly implemented the various rules and systems, such as internal control system, management on project investment, rules for connected transactions, management on guarantees to external parties, material purchasing system, management on engineering project tendering, There was no discovery of violation of the laws, regulations, the Articles of Association or the Company's interests being hampered by the Company's Directors and senior managerial officers in the course of performance of their duties.

### 2. Basic financial situation

The Company's financial statements for the year was audited by Ernst & Young, which has issued an audited report without qualified opinion. During the year, the Company realised sales income of RMB1,508 million and net profits of RMB417.6 million, an increase of 33% over the previous year.

### 3. Use of proceeds

The net proceeds from the listing was RMB1,205,748,000. As at 31 December 2004, an aggregate of RMB642,395,000 from the proceeds have been applied, representing 53.27% of the total proceeds. The application of the proceeds have not changed the use of proceeds as set out in the prospectus as follows:

Unit: RMB'000

Name of project	Plan as set out in the prospectus	Actual aggregate investments	Percentage of completion
Combined utilisation of gold-containing solid waste in Zijinshan	168,800	122,720	72.7%
Development of Zijinshan Copper Mine	85,000	93,400	109.88%
Acquisition of mining resources in the Central and Western parts of China	150,000	156,410	104.27%
Contributions to subsidiaries	100,000	90,865	90.87%
Acquisition of mining rights in the peripheral zones of Zijinshan	80,000	82,160	102.7%
Repayment of loans	Balance for use as working capital	218,030	

### 4. Connected transactions

Upon review and examination, no action in the Company's connected transactions has been discovered to be harmful to the Company's interests, and full disclosures were made in accordance with Article 14A.45 of the Listing Rules, of which, the major services provided by the connected parties being: "Sub-contracting contracts of Zijinshan Gold Mine open pit project". In 2004, the transaction actually conducted between the Company and Xinhua Engineering was RMB86,230,000 in terms of monetary amount, representing 34.7% of similar transactions (cap of waiver was RMB105,000,000). The transaction actually conducted by the Company with Hongyang Mine Engineering Company was RMB67,530,000 in terms of monetary amount, representing 27.2% of similar transactions (cap of waiver was RMB80,000,000). These transactions were non-exempted connected transactions for which waivers have been applied, and the total value of the transactions in the year have not exceeded the caps as required.

## 5. Guarantees to external parties

Total utilised guarantees to external parties as at the end of 2004 amounted to RMB175,500,000, of which, RMB13,500,000 was provided to Longyan Makeng, RMB137,000,000 was provided to Xinjiang Ashele Copper Mine, RMB25,000,000 was provided to Guizhou Zijin. Save as disclosed above, the Supervisory Committee was not aware of any other guarantee items.

## 6. Routine supervisory works:

During the reporting period, the Supervisory Committee has enhanced inspection on the external investment projects of the Company. The Supervisory Committee closely cooperated with the supervisory division of the group company and the supervisory committees of the controlling subsidiaries, and in accordance with the principles of "Overall inspection, focussing on key points", enhanced in the inspection on the construction and implementation of the internal control system of newly established wholly-owned and controlling subsidiaries. Regularisation of internal management process, enhancing control and inspection on project total investments, and raising proposals for inspection on important and key problems affecting the infrastructure and production of the company. In 2004, supervisions and audits were made to Jilin Hunchun Zijin Mining Company Limited, Guizhou Zijin Mining Company Limited, Xinjiang Ashele Copper Company Limited, Jinbao Mining Company Limited, Sichuan Jiuzhaigou Zijin Mining Company Limited, Xiamen Zijin, Guizhou Kaiyang Aluminium Bauxite Project and Longyan Makeng Iron Mine, and audit reports issued, which regularised and promoted the operation management of external invested projects.

During the reporting period, local investment projects audited and supervised mainly included new investment projects such as Zijin Shuidian Company, Dingjiang Hydraulic Power Company, Zijin Investment Company, Zijin Design Company, Ganlong Railway, Copper Mining Company, focussing in helping the enterprises to set up various rules and regulations, standardise management process, participate in major project works and tendering of material purchases, and make timely feedback to problems discovered during the process of audit and supervision, and make requests for adjustments and tracking works.

The committee organised the review on the 2004 combined statements prepared by the Company, verified the major adjustment to the recorded matters and statements in the Hong Kong audits, connected transactions, and issued their opinions. The committee also reviewed the relevant accounting information such as loan guarantees of the Company. Upon the inspection, the Supervisory Committee considered that the annual financial report truly reflected the Company's financial situation and operating results in the past one year.

## III. 2005 WORKING PLAN

The Supervisory Committee organised the supervision on the Company's external investment projects, supervise the Company in strengthening appraisal system to the staff on assignment, regularising in the supervisory management of major investment projects.

1. In respect of the downward delegation of management duties of the Company, to continue clearing and inspecting the establishment and implementation of the relevant internal control system of the Company and its subsidiaries, with focus on the supervision of the project set-up, contract, inspection acceptance, settlement management, financial approval power limit management, logistics management, and propose amendments and upgrading to the existing system in accordance with the needs in the Company's production operations;
2. Make use of the supervisory functions of supervision and audits, and reflect problems existing in the decision process and other operating management of the Company and its subsidiaries through supervision to the operating activities, and propose feasible solutions, so as to promote the enhancement of operating management and regularised operation of the Company;
3. Be concerned on the actual investment projects on the Company's funds, and inspect whether these are in line with the investment projects undertaken. In the event of changes in the actual investment projects, whether the process of changes are lawful;
4. Be concerned whether the connected transactions of the Company are fair and are not harmful to the Company's interests;
5. Enhancement in the management of appointment and removal, working inspection on the Company's supervisors on assignment.

By Order of the Supervisory Committee

**Zeng Qingxiang**

*Chairman of the Supervisory Committee*

Shanghang, Fujian, the PRC

April 7, 2005

# Report of the Auditors



To the members

Zijin Mining Group Co., Ltd.

*(A joint stock limited Company incorporated in the People's Republic of China with limited liability)*

We have audited the financial statements on pages 49 to 109 which have been prepared in accordance with International Financial Reporting Standards.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

## OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

*Certified Public Accountants*

Hong Kong

7 April, 2005

# Consolidated Income Statement

Year ended 31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
Turnover	3	1,507,679	1,050,529
Cost of sales		(683,333)	(489,770)
Gross profit		824,346	560,759
Other revenue	3	20,805	3,975
Selling and distribution costs		(10,319)	(4,926)
Administrative expenses		(167,579)	(114,027)
Other operating costs		(39,766)	(12,119)
Profit from operating activities	4	627,487	433,662
Finance costs	5	(5,836)	(17,129)
Share of profits of associates		22,655	2,018
Profit before tax		644,306	418,551
Tax	8	(186,437)	(95,677)
Profit before minority interests		457,869	322,874
Minority interests		(40,250)	(8,968)
Net profit from ordinary activities attributable to shareholders	9	417,619	313,906
Proposed final dividend	10	262,826	197,120
Earnings per share - basic	11	RMB0.16	RMB0.16



# Consolidated Balance Sheet

31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	12	1,371,398	876,249
Land use rights	13	15,503	15,236
Long term deferred assets	14	108,792	63,499
Prepayments	15	70,820	50,336
Intangible assets	16	419,266	117,213
Goodwill	17	15,767	14,520
Interests in associates	19	50,313	10,990
Interests in jointly-controlled entities	20	7,040	—
Available-for-sale financial assets	21	19,990	40
		<b>2,078,889</b>	<b>1,148,083</b>
<b>CURRENT ASSETS</b>			
Inventories	22	194,558	121,624
Prepayments, deposits and other receivables	23	56,223	290,239
Trade receivables	24	7,834	2,373
Bills receivable		700	—
Due from related parties	25	2,707	4,141
Other financial assets	26	12,766	—
Pledged deposits	27	23,688	14,475
Cash and cash equivalents	27	888,747	1,114,466
		<b>1,187,223</b>	<b>1,547,318</b>
<b>CURRENT LIABILITIES</b>			
Accrued liabilities and other payables	28	253,391	317,897
Trade payables	29	139,418	103,222
Current portion of interest-bearing bank loans	30	45,000	—
Short term bank loans	31	—	56,500
Government grants		1,693	553
Current portion of other long term loans	32	1,000	230
Tax payable		104,203	28,031
		<b>544,705</b>	<b>506,433</b>

# Consolidated Balance Sheet

31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
<b>NET CURRENT ASSETS</b>		642,518	1,040,885
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		2,721,407	2,188,968
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank loans	30	266,647	199,400
Other long term loans	32	—	1,000
Provision for land restoration and environmental costs	33	26,170	14,414
Long term other payables	34	119,176	46,374
		411,993	261,188
<b>MINORITY INTERESTS</b>		382,010	221,418
		1,927,404	1,706,362
<b>CAPITAL AND RESERVES</b>			
Issued capital	35	262,826	131,413
Reserves		1,401,752	1,377,829
Proposed final dividend	10	262,826	197,120
		1,927,404	1,706,362

Chen Jinghe  
Director

Liu Xiaochu  
Director

# Consolidated Statement of Changes in Equity

Year ended 31 December 2004

	Notes	Issued share capital RMB'000	Share premium account RMB'000	Statutory surplus reserve RMB'000 Note 36(a)	Public welfare fund RMB'000 Note 36(b)	Capital reserve RMB'000	Retained profits RMB'000 Note 36(c)	Proposed final dividend RMB'000	Total RMB'000
At 1 January 2003		95,000	45,043	22,380	11,190	897	11,842	95,000	281,352
Dividend paid		—	—	—	—	—	—	(95,000)	(95,000)
Share of capital reserve of an associate		—	—	—	—	356	—	—	356
New shares issued	35(c)	36,413	1,243,926	—	—	—	—	—	1,280,339
Share issue expenses	35(c)	—	(74,591)	—	—	—	—	—	(74,591)
Net profit for the year		—	—	—	—	—	313,906	—	313,906
Transfer to reserves		—	—	33,133	16,567	—	(49,700)	—	—
Proposed final dividend	10	—	—	—	—	—	(197,120)	197,120	—
As at 31 December 2003 and 1 January 2004		131,413	1,214,378	55,513	27,757	1,253	78,928	197,120	1,706,362
Dividend paid		—	—	—	—	—	—	(197,120)	(197,120)
Share of capital reserve of an associate		—	—	—	—	543	—	—	543
Share premium converted into share capital	35(d)	131,413	(131,413)	—	—	—	—	—	—
Net profit for the year		—	—	—	—	—	417,619	—	417,619
Transfer to reserves		—	—	49,386	24,742	—	(74,128)	—	—
Proposed final dividend	10	—	—	—	—	—	(262,826)	262,826	—
At 31 December 2004		262,826	1,082,965	104,899	52,499	1,796	159,593	262,826	1,927,404
Reserves retained by:									
Company and subsidiaries		262,826	1,082,965	104,899	52,499	—	142,603	262,826	1,908,618
Associates		—	—	—	—	1,796	16,990	—	18,786
At 31 December 2004		262,826	1,082,965	104,899	52,499	1,796	159,593	262,826	1,927,404
Company and subsidiaries		131,413	1,214,378	55,513	27,757	—	76,972	197,120	1,703,153
Associate		—	—	—	—	1,253	1,956	—	3,209
At 31 December 2003		131,413	1,214,378	55,513	27,757	1,253	78,928	197,120	1,706,362

# Consolidated Cash Flow Statement

Year ended 31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		644,306	418,551
Adjustments for:			
Finance costs	5	5,836	17,129
Share of profit of associates		(22,655)	(2,018)
Interest income	3	(11,761)	(710)
Dividend income	3	(6)	—
Gain on disposal of other financial assets	3	(2,243)	—
Gain on deemed disposal of equity interests in subsidiaries, net	3,4	(130)	(148)
Gain on disposal of 16% equity interest in a subsidiary	3	(9)	—
Negative goodwill recognised as income	3	(44)	(40)
Depreciation charges	4	101,099	89,313
Amortisation of land use rights	4	543	305
Amortisation of long term deferred assets	4	6,465	3,500
Amortisation of intangible assets	4	13,297	3,112
Amortisation of goodwill	4	1,845	1,613
Provision for/(write-back of) inventory obsolescence	4	493	(143)
Provision for bad and doubtful trade receivables	4	45	179
Provision for bad and doubtful other receivables	4	8,077	1,095
Loss on disposal of 2% equity interest in a subsidiary	4	—	164
Loss on disposal of fixed assets	4	20,473	2,613
Write-back of impairment of fixed assets	4	(94)	(149)
Operating profit before working capital changes		765,537	534,366
Increase in inventories		(68,727)	(25,239)
Increase in prepayments, deposits and other receivables		(27,256)	(47,471)
Increase in trade receivables		(5,056)	(893)
Increase in bills receivable		(700)	—
Decrease in an amount due from an associate		—	41
(Decrease)/increase in accrued liabilities and other payables		(35,482)	58,159
Increase in trade payables		24,807	26,542
Movements in balances with related parties		641	(4,544)
Increase in long term other payables		23,104	—
Increase in provision for land restoration and environmental costs		12,793	14,414
Utilisation of land restoration and environmental costs		(1,037)	—
Increase in pledged cash		(9,213)	(12,475)
Cash generated from operations		679,411	542,900
Income tax paid		(102,644)	(66,525)
Net cash inflow from operating activities		576,767	476,375

# Consolidated Cash Flow Statement

Year ended 31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
Net cash inflow from operating activities		576,767	476,375
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received		11,761	710
Dividends received from an available-for-sale financial asset		6	—
Dividends received from an associate		794	158
Purchase of available-for-sale financial assets		(19,850)	—
Purchase of other financial assets		(51,766)	—
Proceeds from disposal of other financial assets		41,243	—
Purchases of fixed assets	12, 37(c)	(557,226)	(411,065)
Proceeds from disposal of fixed assets		7,404	381
Additions to land use rights	13	(810)	(3,535)
Additions to long term deferred assets	14, 37(a)	(48,360)	(21,500)
Additions to intangible assets	16, 37(a)	(244,532)	(37,818)
Acquisition of an associate		(24,500)	—
Acquisition of jointly controlled entities		(7,040)	—
Acquisition of subsidiaries	37(a)	26,860	—
Proceeds from disposal of 16% equity interest in a subsidiary	37(b)	2,261	—
Proceeds from disposal of 2% equity interest in a subsidiary	37(b)	—	5,300
Loans advanced to related parties		(4,012)	(12,405)
Repayment of loans advanced to related parties		4,805	8,700
Increase in bank deposits with original maturity over three months when acquired		(63,000)	—
Net cash outflow from investing activities		(925,962)	(471,074)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from new shares issued	23, 35(c)	247,657	1,160,716
Share issue expenses	35(c)	(61,574)	(20,476)
New bank loans		134,000	244,900
Repayment of bank loans		(86,589)	(390,250)
Cash received from other long term loans		—	1,000
Repayment of other long term loans		(14,730)	—
Interest paid		(12,673)	(22,677)
Dividend paid		(197,120)	(95,000)
Dividends paid to minority shareholders		(4,620)	—
Cash received from government grants		1,520	553
Utilisation of government grants		(380)	—
Cash received from minority shareholders upon additional capital injection in subsidiaries		5,785	9,700
Cash received from minority shareholders upon establishment of subsidiaries		49,200	67,360
Net cash inflow from financing activities		60,476	955,826
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(288,719)</b>	<b>961,127</b>
Cash and cash equivalents at beginning of year		1,114,466	153,339
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>825,747</b>	<b>1,114,466</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	27	825,747	1,044,466
Non-pledged time deposits with original maturity of less than three months when acquired	27	—	70,000
		825,747	1,114,466

# Balance Sheet

31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	12	550,451	476,916
Land use rights	13	8,462	8,771
Long term deferred assets	14	70,663	54,782
Prepayments	15	12,849	10,147
Intangible assets	16	160,633	28,770
Interests in subsidiaries	18	738,451	362,228
Interests in an associate	19	25,705	10,990
Available-for-sale financial assets	21	19,890	40
		<b>1,587,104</b>	<b>952,644</b>
<b>CURRENT ASSETS</b>			
Inventories	22	134,316	105,159
Prepayments, deposits and other receivables	23	19,763	272,060
Trade receivables	24	4,113	437
Bills receivable		700	—
Due from related parties	25	400	800
Other financial assets	26	12,635	—
Pledged deposits	27	23,688	14,475
Cash and cash equivalents	27	682,627	962,275
		<b>878,242</b>	<b>1,355,206</b>
<b>CURRENT LIABILITIES</b>			
Accrued liabilities and other payables	28	197,879	279,282
Trade payables	29	66,241	94,261
Current portion of interest-bearing bank loans	30	40,000	—
Short term bank loans	31	—	44,000
Government grants		1,043	553
Current portion of other long term loans	32	1,000	230
Tax payable		73,719	22,781
		<b>379,882</b>	<b>441,107</b>
<b>NET CURRENT ASSETS</b>		<b>498,360</b>	<b>914,099</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>2,085,464</b>	<b>1,866,743</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank loans	30	109,400	149,400
Other long term loans	32	—	1,000
Provision for land restoration and environmental costs	33	26,170	13,377
Long term other payables	34	77,035	4,233
		<b>212,605</b>	<b>168,010</b>
		<b>1,872,859</b>	<b>1,698,733</b>
<b>CAPITAL AND RESERVES</b>			
Issued capital	35	262,826	131,413
Reserves	36	1,347,207	1,370,200
Proposed final dividend	10	262,826	197,120
		<b>1,872,859</b>	<b>1,698,733</b>

# Notes to Financial Accounts

31 December 2004

## 1. CORPORATE INFORMATION

The Company was established as a joint stock limited liability company under the Company Law of the People's Republic of China (the "PRC") on 6 September 2000. The Company and its subsidiaries (the "Group") are mainly engaged in the gold and copper mining business and geological studies.

On 16 June 2004, the name of the Company was changed from Fujian Zijin Mining Industry Co., Ltd. to Zijin Mining Group Co., Ltd.

The registered office and principal place of business of the Company is located at 1 Zijin Road, Shanghang County, Fujian Province, the PRC.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

The consolidated financial statements have been prepared in Renminbi and in accordance with International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations approved by the International Accounting Standard Board and International Accounting Standards ("IAS") and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect.

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale financial assets and other financial assets as further explained below.

### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December each year after the elimination of all material intercompany transactions. The financial statements of subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the Company has control.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Impact of recently issued International Financial Reporting Standards

The following revised, amended and new standards which are generally effective for accounting periods beginning on or after 1 January 2005 may result in changes in the future as to how the Group's financial performance and financial position are prepared and presented:

- IAS 1 Presentation of Financial Statements (amended 2004);
- IAS 2 Inventories (revised 2003);
- IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (revised 2003);
- IAS 10 Events after the Balance Sheet Date (amended 2004);
- IAS 16 Property, Plant and Equipment (amended 2004);
- IAS 17 Leases (amended 2004);
- IAS 24 Related Party Disclosure (revised 2003);
- IAS 27 Consolidated and Separate Financial Statements (amended 2004);
- IAS 32 Financial Instruments: Disclosure and Presentation (amended 2004);
- IAS 33 Earning per Share (amended 2004);
- IAS 39 Financial Instruments: Recognition and Measurement (amended 2004);
- IFRS 2 Share-Based Payments; and
- IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations.

The Group has not early adopted the revised, amended and new standards for the year ended 31 December 2004. The Group has commenced its assessment of the impact of these standards but it is not yet in a position to state whether these standards would have a material impact on its results of operations and financial position.

### Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities. A subsidiary is consolidated from the date the Company obtains control until such time as control ceases. A subsidiary is excluded from consolidation if it operates under severe long term restrictions which may impair its ability to transfer funds to the Company.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the ventures stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the ventures, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

### Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly controlled entity.

The Group's and Company's share of the post-acquisition results and reserves of jointly-controlled entities are included in the results and reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Company's interests in jointly-controlled entities are stated in the balance sheet at the Company's share of net assets under the equity method of accounting, less any impairment losses.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. The reporting dates of the associates and the Group are identical and both use consistent accounting policies.

The Group's and Company's share of the post-acquisition results and reserves of associates are included in the results and reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Company's interests in associates are stated in the balance sheet at the Company's share of net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates is included as part of the Group's and the Company's interests in associates.

### Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's share of the fair value of identifiable net assets of subsidiaries, associates and jointly-controlled entities at the date of acquisition. For agreement date of acquisition before 31 March 2004, goodwill is amortised on the straight-line basis over its useful life up to a presumed maximum of 10 years. It is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. For agreement date of acquisition after 31 March 2004, goodwill is not amortised, and is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Goodwill is stated at cost less accumulated amortisation and any impairment losses.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

### Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition as at the date of acquisition.

To the extent that negative goodwill relates to expectations of future losses or expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the income statement when the future losses and expenses are recognised.

# Notes to Financial Accounts

31 December 2004

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Negative goodwill *(continued)*

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates and jointly-controlled entities, any negative goodwill not yet recognised in the income statement is included in the carrying amount thereof, rather than as a separately identified item on the balance sheet.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the income statement and any relevant reserves as appropriate.

### Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed assets, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account their estimated residual value. The estimated useful lives of fixed assets are as follows:

Buildings	8 - 35 years
Electricity generation plant	8 - 45 years
Leasehold improvements	5 years
Plant, machinery and equipment	5 -15 years
Furniture and fixtures	4 -10 years
Motor vehicles	6 years

Also included in fixed assets are mining assets which comprise the openpit platform, leaching piles, mine shafts and buildings located at the mining sites. Depreciation is provided to write off the cost of the openpit platform, leaching piles and mine shafts using the units of production method based on the estimated proven and probable mineral reserves. The buildings located at the mining sites are depreciated on the straight-line basis between 7 to10 years.

The gain or loss on disposal or retirement of a fixed asset recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset at the time of disposal.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Construction in progress

Construction in progress represents buildings, mining structures, various plant and equipments and other fixed assets under construction and pending installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction and interest charges on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

### Long term deferred assets

Long term deferred assets are stated at cost less accumulated amortisation and any impairment losses. Long term deferred assets include exploration and development costs and land compensation costs.

Exploration and development costs include expenditure incurred to secure further mineralisation in existing ore bodies and to expand the capacity of a mine. Expenditure during the initial exploration stage is written off as incurred. When it can be reasonably ascertained that a mining property is capable of commercial production, exploration and development costs are capitalised and written off on the straight-line basis over the estimated useful life of 3 to 10 years. If any project is abandoned during the development stage, the total expenditure thereon will be written off.

Land compensation costs represent the compensation paid to inhabitants for relocating them from the areas nearby the mining sites so that the Group can use the land as leaching piles and dumping areas for waste ores. Such costs are written off on the straight-line basis over the estimated useful life of 10 years.

### Mining rights

Mining rights, including exploration rights and development rights, are stated at cost less accumulated amortisation and any impairment losses. The mining rights are amortised on the straight-line basis over the estimated useful life of 5 to 20 years. The useful lives of the mining rights are reviewed annually in accordance with the production plans of the Group and the proven and probable reserves of the mines. Amortisation of mining rights commences once the mining rights are used when production commences. Mining rights are written off to the income statement if the mining property is abandoned.

### Land use rights

Land use rights are stated at cost less accumulated amortisation and any impairment losses. The land use rights are amortised on the straight-line basis over the unexpired period of the rights.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Research and development costs

All research costs are charged to the income statement as incurred. Development expenditure incurred on an individual project basis regarding research and development related to mining technology is capitalised as intangible assets only when the project is clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Any expenditure capitalised is amortised over the period of expected future sales from the related project.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, and otherwise when events or changes in circumstances indicate that the carrying value may not be recoverable.

### Investments

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments which are classified as held for trading and available-for-sale, are measured at fair value. Gains or losses on investments held for trading are recognised as income. Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. For investments carried at amortised cost, gains and losses are recognised as income when the investments are derecognised or impaired, as well as through the amortisation process.

For investments that are actively traded in organised financial markets, fair value is determined by reference to the Stock Exchange quoted market bid prices at the close of business on the balance sheet date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

All regular way purchases of financial assets are recognised on the trade date i.e., the date that the Group commits to purchase the asset. All regular way sales of financial assets are recognised on the settlement date i.e., the date the asset is delivered to the counterparty. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

### Inventories

Inventories are valued at the lower of cost and net realisable value. Cost incurred in bringing each product to its present location and condition is accounted for as follows:

Raw materials	—	purchase cost on a first-in, first-out basis
Finished goods and work in progress	—	cost of direct material and labour and a proportion of manufacturing overheads

Net realisable value represents the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale.

### Trade and other receivables

Trade receivables are recognised and carried at original invoiced amounts less allowances for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Other receivables are recognised and carried at cost less allowances for any uncollectible amounts.

### Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

# Notes to Financial Accounts

31 December 2004

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowings.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issued costs, and any discount or premium on settlement.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised or impaired, as well as through the amortisation process.

### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

### Trade payables and other payables

Trade payables and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

### Revenue recognition

Revenue is recognised when it is probable that economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) revenue from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) processing income, when the relevant service is rendered;
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (d) rental income, on an accrual basis; and
- (e) dividend income, when the shareholders' right to receive payment has been established.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivables under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as expenses in the period in which they are incurred.

### Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

PRC corporate income tax is provided at rates applicable to enterprises in the PRC on the Company and its subsidiaries' income for financial reporting purposes, as adjusted for income and expense items which are not assessable or deductible for income tax purposes.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- (i) except where the deferred income tax liability arises from goodwill amortisation or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (ii) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Income tax *(continued)*

Deferred income tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carryforward of unused tax assets and unused tax losses can be utilised:

- (i) except where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (ii) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates that have been enacted or substantively enacted at the balance sheet date.

### Retirement benefits

The companies now comprising the Group that were established in the PRC participate in a defined contribution retirement plan managed by the local municipal government in the PRC in which they operate. The relevant authorities of the local municipal government in the PRC undertake the retirement obligations of the Group's employees. The Group has no obligation for payment of retirement benefits beyond the annual contributions. The contribution payable is charged as an expense to the income statement as and when incurred.

### Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match them on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

### Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheets, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

### Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the income statement.

On consolidation, the financial statements of overseas subsidiaries are translated into Renminbi using the net investment method. The income statement of overseas subsidiaries is translated into Renminbi at the weighted average exchange rates for the year, and their balance sheets are translated into Renminbi at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Renminbi at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Renminbi at the weighted average exchange rates for the year.

# Notes to Financial Accounts

31 December 2004

## 3. 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:

	Notes	2004 RMB'000	2003 RMB'000
Turnover:			
Sale of gold bullions		1,396,048	1,009,979
Sale of gold concentrates		56,445	11,972
Sale of copper concentrates		37,319	5,820
Sale of copper cathodes		20,392	14,896
Sale of iron concentrates		6,027	14,360
Others		2,417	524
Less: Sales taxes and levies (Note)		(10,969)	(7,022)
		1,507,679	1,050,529
Other revenue:			
Interest income		11,761	710
Rental income		807	338
Processing income		371	—
Dividend income		6	—
Others		4,998	2,294
		17,943	3,342
Gains:			
Exchange gains		423	445
Gain on disposal of 16% equity interest in a subsidiary	37(b)	9	—
Gain on deemed disposal of equity interests in subsidiaries		143	148
Gain on disposal of other financial assets		2,243	—
Negative goodwill recognised	17, 19	44	40
		2,862	633
		20,805	3,975

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

The Group conducts its business within one business segment, i.e., the business of refining, exploration, mining, process of gold and non-ferrous metals and other mineral resources 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 data is presented.

#### 4. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	Notes	2004 RMB'000	2003 RMB'000
Cost of inventories sold		650,235	468,439
Amortisation of land use rights	13	543	305
Amortisation of long term deferred assets	14	6,465	3,500
Amortisation of intangible assets	16	13,297	3,112
Provision for land restoration and rehabilitation costs	33	12,793	14,414
		<b>683,333</b>	<b>489,770</b>
Depreciation (note (i))	12	101,099	89,313
Research and development expenditures		21,032	9,309
Minimum lease payments under operating leases on land and buildings		1,146	362
Auditors' remuneration		1,900	856
Staff costs (including directors' remuneration (note 6)):			
Salaries and other staff costs (note (ii))		115,496	53,818
Retirement benefits - defined contribution fund (note (iii))		3,629	3,742
		<b>119,125</b>	<b>57,560</b>
Provision for/(write-back of) inventory obsolescence		493	(143)
Provision for bad and doubtful trade receivables*		45	179
Provision for bad and doubtful other receivables*		8,077	1,095
Loss on disposal of fixed assets*		20,473	2,613
Donations*		8,269	5,885
Amortisation of goodwill*	17	1,845	1,613
Loss on disposal of 2% equity interest in a subsidiary*		—	164
Loss on deemed disposal of equity interests in subsidiaries*		13	—
Write-back of impairment provision of fixed assets*	12	(94)	(149)

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

# Notes to Financial Accounts

31 December 2004

## 4. PROFIT FROM OPERATING ACTIVITIES *(continued)*

Notes:

- (i) Depreciation cost of approximately RMB85,394,000 was included in the cost of sales for the year ended 31 December 2004 (2003: RMB80,080,000).
- (ii) Staff costs of approximately RMB45,200,000 were included in the cost of sales for the year ended 31 December 2004 (2003: RMB25,626,000).
- (iii) According to the 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 16% 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 pension benefits beyond the annual contributions to the local social security bureau as set out above.

## 5. FINANCE COSTS

	Group	
	2004 RMB'000	2003 RMB'000
Interest on bank loans wholly repayable within five years	12,673	22,677
Less: Interest capitalised as construction in progress	(6,837)	(5,548)
	5,836	17,129

The interest capitalisation rate represents the cost of capital from raising the related borrowings and ranges from 5.184% to 6.696% (2003: 2.88% to 7.84%) per annum.

## 6. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	Group	
	2004 RMB'000	2003 RMB'000
Fees	—	—
Other emoluments:		
Salaries, allowances and benefits in kind	2,567	692
Discretionary bonuses	3,630	2,789
Retirement benefits scheme contributions	17	12
	6,214	3,493

The emolument payable to the independent non-executive directors during the year is RMB306,000 (2003: RMB128,000).

**6. DIRECTORS' REMUNERATION** *(continued)*

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2004	2003
Nil to HK\$1,000,000	7	9
HK\$1,000,001 to HK\$1,500,000	1	—
HK\$1,500,001 to HK\$2,000,000	1	—
	9	9

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2003: Nil).

There was no emolument paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2003: Nil).

**7. FIVE HIGHEST PAID EMPLOYEES**

The five highest paid employees in the Group during the year included four (2003: three) directors for the year ended 31 December 2004, details of whose remuneration are set out in note 6 above. Details of the remuneration of the remaining one (2003: two) non-director, highest paid employee for the year are as follows:

	Group	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Salaries, allowances and benefits in kind	276	336
Discretionary bonuses	395	834
Retirement benefits scheme contributions	4	11
	675	1,181

The non-director, highest paid employee during the year ended 31 December 2004 and 2003 fell within the band of nil to HK\$1,000,000 (equivalent to approximately RMB1,064,000). There was no arrangement under which the non-director, highest paid employee waived or agreed to waive any remuneration during the year (2003: Nil).

There was no emolument paid by the Group to the non-director, highest paid employee as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2003: Nil).

# Notes to Financial Accounts

31 December 2004

## 8. TAX

	2004 RMB'000	2003 RMB'000
Group:		
Current - Hong Kong	—	—
- Mainland China	191,460	137,025
Overprovision in prior years (note (ii))	(12,644)	(42,077)
	178,816	94,948
Share of tax attributable to associates:	7,621	729
	186,437	95,677

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

- (i) Pursuant to "Guo Shui Fa [2002] No. 47" issued by the State Council of the PRC and "Qian Di Shui Han [2003] No. 317" issued by the local tax bureau of Guizhou Province, Guizhou Zijin located in the western region of China was granted a tax concession to pay 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 10 year period to 31 December 2010 as long as the subsidiary continues to engage in qualified operations in its respective regions.

In addition, Xiamen Zijin is taxed at a preferential tax rate of 15% since its operation as it is established in the Xiamen Special Economic Zone.

- (ii) Pursuant to "Ji Guo Shui Fa [2004] No. 290" issued by the Provincial Tax Bureau of Jilin Province, Hunchun Zijin was exempted from corporate income tax ("CIT") for the year ended 31 December 2003. The tax expenses of RMB1,145,000 for the year ended 31 December 2003 were offset against the tax liabilities of the Group for the year ended 31 December 2004.

Pursuant to relevant PRC tax regulations and subject to the approval of the local tax authority, the Company can claim an additional deduction when calculating the income tax provision if machinery was purchased locally. Such machinery was purchased in 2003 or before (2003: 2002 or before) and an approval from the local tax bureau to reduce income tax liabilities was obtained in 2004. An overprovision of tax payable in relation to such deduction for the previous years amounting to RMB11,499,000 (2003: RMB7,944,000) was written back during the year.

**8. TAX** (continued)

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 rates) to the effective tax rates, are as follows:

	2004		2003	
	RMB'000	%	RMB'000	%
Profit before tax	644,306		418,551	
At PRC statutory tax rate	212,621	33.0	138,122	33.0
Expenses not deductible for tax	9,548	1.48	4,304	1.03
Income not subject to tax	(60)	(0.01)	(130)	(0.03)
Differential tax rate on the profit of certain subsidiaries	(18,157)	(2.82)	(4,542)	(1.09)
Reduction of income tax in respect of the tax benefit on locally purchased machinery (Note)	(4,871)	(0.76)	—	—
Overprovision in prior years	(12,644)	(1.96)	(42,077)	(10.05)
Tax charge at the Group's effective rate	186,437	28.93	95,677	22.86

At 31 December 2004, there was no significant unrecognised deferred tax liability (2003: 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.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

*Note:* A reduction of income tax in relation to the machinery locally purchased in 2004 amounting to RMB4,871,000 (2003: Nil) was approved by the local tax bureau and used to offset against the income tax provision for the year.

**9. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS**

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company was RMB370,703,000 (2003: RMB306,031,000) (note 36).



# Notes to Financial Accounts

31 December 2004

## 10. PROPOSED FINAL DIVIDEND

	2004 RMB'000	2003 RMB'000
Proposed final – RMB0.10 (2003: RMB0.15) per ordinary share	262,826	197,120

At the shareholders' meeting on 28 May 2004, the directors declared a final dividend of RMB197,120,000 (based on 1,314,130,910 ordinary shares as at 31 December 2003) in respect of the year ended 31 December 2003.

The proposed final dividend of RMB262,826,000 for the year ended 31 December 2004 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

In accordance with the articles of association of the Company, the net profit after tax of the Company for the purpose of profit distribution is based on the lower of the net profit determined under PRC accounting standards and regulations and IFRS.

## 11. EARNINGS PER SHARE

On 28 May 2004, the proposal regarding the issue of new shares by conversion of the Company's share premium was approved at the annual general meeting (note 35(d)). When calculating the earnings per share for the year ended 31 December 2003, the number of ordinary shares outstanding has been adjusted as if the conversion of the Company's share premium to new shares had taken place on 1 January 2003.

The calculation of earnings per share is based on the Group's net 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.

Diluted earnings per share amounts for the years ended 31 December 2004 and 2003 have not been disclosed as there were no potential dilutive ordinary shares outstanding during these years.

## 12. FIXED ASSETS

## Group

	Buildings RMB'000	Electricity generation plant RMB'000	Mining assets RMB'000 (Note 1)	Leasehold improvements RMB'000	Plant, machinery and equipment RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:									
At 1 January 2004	75,555	28,192	441,767	8,263	172,254	9,224	15,561	398,968	1,149,784
Additions	1,445	1,266	12,135	—	46,847	5,789	10,463	486,118	564,063
Additions through business combination	1,154	—	3,091	—	2,751	235	10,353	44,647	62,231
Transfer from/(to)	6,087	1,781	250,106	—	106,229	1,539	—	(365,742)	—
Reclassifications	—	—	203	—	1,283	222	(1,708)	—	—
Disposals	(33)	(18)	(33,222)	—	(5,543)	(206)	(8,926)	—	(47,948)
At 31 December 2004	84,208	31,221	674,080	8,263	323,821	16,803	25,743	563,991	1,728,130
Accumulated depreciation and impairment:									
At 1 January 2004	15,172	5,394	189,494	2,058	53,314	2,871	5,232	—	273,535
Charge for the year	3,865	1,522	63,393	1,679	25,384	2,081	3,175	—	101,099
Additions through business combination	72	—	160	—	604	86	1,341	—	2,263
Reclassifications	—	—	61	—	117	43	(221)	—	—
Reversal of impairment upon disposal during the year recognised in the income statement	—	—	—	—	(94)	—	—	—	(94)
Disposals	(9)	(11)	(15,868)	—	(1,965)	(159)	(2,059)	—	(20,071)
At 31 December 2004	19,100	6,905	237,240	3,737	77,360	4,922	7,468	—	356,732
Net book value:									
At 31 December 2004	65,108	24,316	436,840	4,526	246,461	11,881	18,275	563,991	1,371,398
At 31 December 2003	60,383	22,798	252,273	6,205	118,940	6,353	10,329	398,968	876,249

# Notes to Financial Accounts

31 December 2004

## 12. FIXED ASSETS (continued)

### Company

	Buildings RMB'000	Electricity generation plant RMB'000	Mining assets RMB'000 (Note 2)	Leasehold improvements RMB'000	Plant, machinery and equipment RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:									
At 1 January 2004	52,063	26,926	412,109	8,263	130,962	6,751	9,274	93,271	739,619
Additions	812	—	32	—	17,806	3,322	4,231	148,643	174,846
Transfer from/(to)	3,250	—	97,837	—	7,969	—	—	(109,056)	—
Reclassifications	—	—	—	—	(100)	21	79	—	—
Transfer to a subsidiary	(26)	—	—	—	(85)	—	—	—	(111)
Disposals	(7)	(18)	(33,222)	—	(5,028)	(168)	(517)	—	(38,960)
At 31 December 2004	56,092	26,908	476,756	8,263	151,524	9,926	13,067	132,858	875,394
Accumulated depreciation and impairment:									
At 1 January 2004	15,009	5,382	185,685	2,058	47,703	2,544	4,322	—	262,703
Charge for the year	2,974	1,408	56,785	1,679	15,290	1,424	1,137	—	80,697
Reclassifications	—	—	—	—	(29)	23	6	—	—
Transfer to a subsidiary	(8)	—	—	—	(81)	—	—	—	(89)
Reversal of impairment upon disposal during the year recognised in the income statement	—	—	—	—	(94)	—	—	—	(94)
Disposals	(1)	(11)	(15,868)	—	(1,765)	(151)	(478)	—	(18,274)
At 31 December 2004	17,974	6,779	226,602	3,737	61,024	3,840	4,987	—	324,943
Net book value:									
At 31 December 2004	38,118	20,129	250,154	4,526	90,500	6,086	8,080	132,858	550,451
At 31 December 2003	37,054	21,544	226,424	6,205	83,259	4,207	4,952	93,271	476,916

As at 31 December 2004, fixed assets with net book value of RMB346,000 (2003: Nil) were pledged to a bank for a bank loan granted to a subsidiary (note 30).

*Note 1:* Included in the balance of the Group are building structures located in the gold mines with a net book value of RMB23,715,000 (2003: RMB26,057,000) in respect of which the Group had not obtained the relevant land use rights as at 31 December 2004.

*Note 2:* Included in the balance of the Company are building structures located in the gold mines with a net book value of RMB20,651,000 (2003: RMB22,056,000) in respect of which the Company had not obtained the relevant land use rights as at 31 December 2004.

**13. LAND USE RIGHTS**

	Group <i>RMB'000</i>	Company <i>RMB'000</i>
Cost:		
At beginning of year	18,824	12,323
Additions	810	—
<b>At 31 December 2004</b>	<b>19,634</b>	<b>12,323</b>
Accumulated amortisation and impairment:		
At beginning of year	3,588	3,552
Provided during the year	543	309
<b>At 31 December 2004</b>	<b>4,131</b>	<b>3,861</b>
Net book value:		
<b>At 31 December 2004</b>	<b>15,503</b>	<b>8,462</b>
At 31 December 2003	15,236	8,771

# Notes to Financial Accounts

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## 14. LONG TERM DEFERRED ASSETS

### Group

	Exploration and development costs <i>RMB'000</i>	land compensation costs <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:				
At beginning of year	10,238	61,918	—	72,156
Additions	15,754	32,414	3,590	51,758
<b>At 31 December 2004</b>	<b>25,992</b>	<b>94,332</b>	<b>3,590</b>	<b>123,914</b>
Accumulated amortisation and impairment:				
At beginning of year	2,304	6,353	—	8,657
Provided during the year	1,607	3,248	1,610	6,465
<b>At 31 December 2004</b>	<b>3,911</b>	<b>9,601</b>	<b>1,610</b>	<b>15,122</b>
Net book value:				
<b>At 31 December 2004</b>	<b>22,081</b>	<b>84,731</b>	<b>1,980</b>	<b>108,792</b>
At 31 December 2003	7,934	55,565	—	63,499

**14. LONG TERM DEFERRED ASSETS** *(continued)*

## Company

	Land compensation costs <i>RMB'000</i>
Cost:	
At beginning of year	61,072
Additions	18,784
<b>At 31 December 2004</b>	<b>79,856</b>
Accumulated amortisation and impairment:	
At beginning of year	6,290
Provided during the year	2,903
<b>At 31 December 2004</b>	<b>9,193</b>
Net book value:	
<b>At 31 December 2004</b>	<b>70,663</b>
At 31 December 2003	54,782

**15. PREPAYMENTS**

Included in the balance of the Group are mainly prepayments for purchases of mining and exploration rights of RMB45,440,000 (2003: RMB46,060,000), and land use rights of RMB22,665,000 (2003: RMB4,276,000). The certificates of mining and exploration rights and land use rights were not obtained as at 31 December 2004.

Included in the balance of the Company are prepayments for purchases of mining and exploration rights of RMB3,360,000 (2003: RMB7,850,000), and land use rights of RMB9,489,000 (2003: RMB2,297,000). The certificates of mining and exploration rights and land use rights were not obtained as at 31 December 2004.

# Notes to Financial Accounts

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## 16. INTANGIBLE ASSETS

### Group

	Mining rights <i>RMB'000</i>	Trading right in Shanghai Gold Exchange <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:				
At beginning of year	127,895	500	—	128,395
Additions	314,602	—	748	315,350
<b>At 31 December 2004</b>	<b>442,497</b>	<b>500</b>	<b>748</b>	<b>443,745</b>
Accumulated amortisation and impairment:				
At beginning of the year	11,132	50	—	11,182
Provided for the year	12,767	50	480	13,297
<b>At 31 December 2004</b>	<b>23,899</b>	<b>100</b>	<b>480</b>	<b>24,479</b>
Net book value:				
<b>31 December 2004</b>	<b>418,598</b>	<b>400</b>	<b>268</b>	<b>419,266</b>
31 December 2003	116,763	450	—	117,213

**16. INTANGIBLE ASSETS** *(continued)*

## Company

	Mining rights <i>RMB'000</i>	Trading right in Shanghai Gold Exchange <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:			
At beginning of year	36,720	500	37,220
Additions	137,108	—	137,108
<b>At 31 December 2004</b>	<b>173,828</b>	<b>500</b>	<b>174,328</b>
Accumulated amortisation and impairment:			
At beginning of the year	8,400	50	8,450
Provided for the year	5,195	50	5,245
<b>At 31 December 2004</b>	<b>13,595</b>	<b>100</b>	<b>13,695</b>
Net book value:			
<b>31 December 2004</b>	<b>160,233</b>	<b>400</b>	<b>160,633</b>
31 December 2003	28,320	450	28,770



# Notes to Financial Accounts

31 December 2004

## 17. GOODWILL

### Group

	<i>RMB'000</i>
Cost:	
At beginning of year	16,133
Acquisition of subsidiaries (note 37(a))	3,088
<b>At 31 December 2004</b>	<b>19,221</b>
Accumulated amortisation and impairment:	
At beginning of the year	1,613
Amortisation provided less negative goodwill recognised as income during the year	1,841
<b>At 31 December 2004</b>	<b>3,454</b>
Net book value:	
<b>31 December 2004</b>	<b>15,767</b>
31 December 2003	14,520

## 18. INTERESTS IN SUBSIDIARIES

	Company	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Unlisted shares, at cost	585,156	281,291
Due (to)/from subsidiaries	(3,705)	30,937
Loans to subsidiaries	157,000	50,000
	<b>738,451</b>	<b>362,228</b>

The amounts due to/from subsidiaries are unsecured, interest-free and repayable on demand.

The loans to subsidiaries are unsecured, bearing interest at rates ranged from 5.58% to 6.336% (2003: 5.5755%) per annum and repayable according to the repayment schedules stipulated in the loan agreements.

**18. INTERESTS IN SUBSIDIARIES** *(continued)*

As at 31 December 2004, particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Legal status	Nominal value of paid-up capital/ registered capital RMB'000	Percentage of equity attributable to the Group		Principal activities
				Direct	Indirect	
Anhui Zijin Mining Company Limited ("Anhui Zijin")	PRC	Limited liability company	8,000	75%	—	Gold mining and geological studies
Guizhou Zijin Mining Company Limited ("Guizhou Zijin")	PRC	Joint stock company	30,000	51%	4.8%	Gold mining and geological studies
Xiamen Zijin Science and Technology Company Limited ("Xiamen Zijin")	PRC	Joint stock company	80,000	96.3%	—	Geological studies and the provision of mining technique consultancy services
Xinjiang Ashele Copper Company Limited ("Xinjiang Ashele")	PRC	Joint stock company	250,000	51%	—	Copper mining and geological studies
Hunchun Zijin Mining Company Limited ("Hunchun Zijin")	PRC	Limited liability company	50,000	67%	5.8%	Gold mining and geological studies
Tongling Zijin Mining Company Limited ("Tongling Zijin")	PRC	Limited liability company	34,280	51%	—	Gold mining and geological studies
Fujian Shanghang Zijin Shuidian Company Limited ("Zijin Shuidian")	PRC	Limited liability company	25,000	—	50.9%	Dormant
Fujian Shanghang Jinshan Construction Engineering Company Limited ("Jinshan Construction")	PRC	Limited liability company	9,000	—	61.6%	Provision of construction works

# Notes to Financial Accounts

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## 18. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Legal status	Nominal value of paid-up capital/ registered capital RMB'000	Percentage of equity attributable to the Group		Principal activities
				Direct	Indirect	
Tibet Jindi Mining Company Limited ("Tibet Jindi")	PRC	Limited liability company	30,000	51%	1%	Gold mining and geological studies
Sichuan Jiuzhaigou Zijin Mining Company Limited ("Jiuzhaigou Zijin")	PRC	Limited liability company	40,000	60%	—	Gold mining and geological studies
Qinghai West Copper Mining Company Limited ("Qinghai West")	PRC	Limited liability company	120,000	60%	—	Copper mining and geological studies
Xinjiang Jinbao Mining Company Limited * ("Xinjiang Jinbao")	PRC	Limited liability company	50,000	—	40.8%	Iron mining and geological studies
Xinjiang Zijin Mining Company Limited ("Xinjiang Zijin")	PRC	Limited liability company	100,000	68%	—	Dormant
Sichuan Ganzi Zijin Mining Company Limited ("Ganzi Zijin")	PRC	Limited liability company	12,000	60%	—	Gold mining and geological studies
Fujian Zijin Investment Company Limited ("Zijin Investment")	PRC	Limited liability company	100,000	95%	4.8%	Investment holding
Bayannaer Zijin Non-ferrous Metal Company Limited ("Bayannaer Zijin")	PRC	Limited liability company	25,000/ 250,000	60%	—	Refinery of zinc

\* Xinjiang Jinbao is a subsidiary of a non wholly-owned subsidiary of the Company and accordingly, is accounted for as a subsidiary by virtue of the Company's control over it.

The statutory audited financial statements of the above subsidiaries, prepared in accordance with PRC GAAP, are not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 19. INTERESTS IN ASSOCIATES

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Share of net assets of associates	50,590	11,307	25,982	11,307
Negative goodwill arising on acquisition of an associate, less amortisation and impairment	(277)	(317)	(277)	(317)
	50,313	10,990	25,705	10,990

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 Company Limited	Corporate	PRC	31.5%	Iron mining and geological studies
Fujian Shanghang Ting River Hydro-electricity Limited	Corporate	PRC	49%	Electricity generation

The statutory audited financial statements of the above associates, prepared in accordance with PRC GAAP, are not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

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## 20. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

	Group	
	2004 RMB'000	2003 RMB'000
Unlisted shares, at cost	7,040	—

Particulars of the jointly-controlled entities are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Ownership interest	Voting power	Percentage of Profit sharing	Principal activities
Fujian Zijin Copper Company Limited	Corporate	PRC	30%	33%	30%	Manufacture and sale of copper alloy plate in roll
Guizhou New Henken Minerals Inc	Corporate	PRC	20%	20%	20%	Gold mining and geological studies

The statutory audited financial statements of the above companies, prepared in accordance with PRC GAAP, are not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

## 21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Unlisted equity investments	19,990	40	19,890	40

Available-for-sale financial assets consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate.

## 22. INVENTORIES

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Raw materials and consumable supplies	47,631	24,824	17,830	13,812
Work in progress	84,703	77,369	72,740	73,522
Finished goods	62,224	19,431	43,746	17,825
	194,558	121,624	134,316	105,159

The carrying amount of inventories of the Group and the Company carried at net realisable value included in the above balance was approximately RMB2,921,000 (2003: RMB1,688,000).

**23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES****Group and Company**

Included in the balance of the Group and the Company in the prior year is receivable of proceeds from the issue of new H shares upon the exercise of an over-allotment option by the underwriters amounting to RMB247,657,000. The amount was fully settled in the current year.

**24. TRADE RECEIVABLES**

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

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Within 4 months	7,170	2,373	3,900	437
Over 4 months but within 12 months	198	—	193	—
Over 1 year but within 2 years	165	—	20	—
Over 2 years	301	—	—	—
	<b>7,834</b>	<b>2,373</b>	<b>4,113</b>	<b>437</b>

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

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## 25. BALANCES WITH RELATED PARTIES

	Notes	Group		Company	
		2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Due from minority shareholders:					
Zhenfeng Industrial Investment Limited (貞豐縣工業投資有限公司)	(i)	400	800	400	800
Hunchun Gold and Copper Mining Company Limited (琿春金銅礦業有限責任公司)	(ii)	2,307	2,905	—	—
		<b>2,707</b>	<b>3,705</b>	<b>400</b>	<b>800</b>
Due from companies controlled by minority shareholders:					
Xinjiang Non-ferrous Gold Construction Company (新疆有色黃金建設公司)	(iii)	—	436	—	—
		—	436	—	—
		<b>2,707</b>	<b>4,141</b>	<b>400</b>	<b>800</b>

Notes:

- (i) The loan to Zhenfeng Industrial Investment Limited is unsecured, interest-free and has no fixed terms of repayment.
- (ii) The loan to Hunchun Gold and Copper Mining Company Limited is unsecured, interest-free and has no fixed terms of repayment.
- (iii) The balance represented an advance of construction fees to Xinjiang Non-ferrous Gold Construction Company in the prior year, which was unsecured, interest-free and fully repaid in the current year.

## 26. OTHER FINANCIAL ASSETS

	Notes	Group		Company	
		2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Convertible corporate bonds, listed	(i)	766	—	635	—
Corporate bonds, unlisted	(ii)	10,000	—	10,000	—
Loan note	(iii)	2,000	—	2,000	—
		<b>12,766</b>	—	<b>12,635</b>	—

## Notes:

- (i) The listed convertible corporate bonds are carried at market value as at 31 December 2004. Interest is earned at a rate of 1.2% per annum.
- (ii) The unlisted corporate bonds are repayable on 16 November 2014. Interest is earned at a rate of 4.94% per annum.
- (iii) The loan note is repayable on 13 October 2005. Interest is earned at a rate of 5.844% per annum.

## 27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Cash and bank balances	827,747	1,046,466	641,627	964,275
Time deposits	84,688	82,475	64,688	12,475
	<b>912,435</b>	1,128,941	<b>706,315</b>	976,750
Less: Quality guarantee deposit pledged to a bank for gold bullions sold	(2,000)	(2,000)	(2,000)	(2,000)
Time deposit restricted for land restoration and environmental costs upon the closure of the mines (Note)	(21,688)	(12,475)	(21,688)	(12,475)
	<b>(23,688)</b>	(14,475)	<b>(23,688)</b>	(14,475)
	<b>888,747</b>	1,114,466	<b>682,627</b>	962,275

Note: Pursuant to a directive issued by the Longyan municipal government, the Company is required to pledge certain deposits to a bank which is restricted for land restoration and environmental costs upon the closure of the mines. As at 31 December 2004, the Company has pledged bank deposits of RMB21,688,000 (2003: RMB12,475,000). The use of these bank deposits are subject to approval by the Shanghang municipal government. During the year ended 31 December 2004, the Company made a provision for land restoration and environmental costs amounting to RMB12,793,000 (2003: RMB13,377,000) (note 33).



# Notes to Financial Accounts

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## 28. ACCRUED LIABILITIES AND OTHER PAYABLES

### Group and Company

Included in the balance of the Group and the Company is an amount payable to the Social Security Fund of RMB120,575,000 (note 35(b)) (2003: RMB120,575,000).

## 29. TRADE PAYABLES

An aged analysis of trade payables, based on invoice date, is as follows:

	Group		Company	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Within one year	131,633	102,890	61,026	93,929
Over 1 year but within 2 years	4,221	66	1,656	66
Over 2 years but within 3 years	3,033	40	3,028	40
Over 3 years	531	226	531	226
	<b>139,418</b>	103,222	<b>66,241</b>	94,261

Trade payables of the Group include trading balances due to shareholders of RMB4,545,000 as at 31 December 2004 (2003: RMB32,225,000). Trade payables also include trading balances due to a minority shareholder of RMB12,154,000 as at 31 December 2004 (2003: RMB29,647,000). The balances due to shareholders and a minority shareholder are unsecured, interest-free and repayable in accordance with normal commercial terms.

Trade payables of the Company include trading balances due to shareholders of RMB4,527,000 as at 31 December 2004 (2003: RMB31,673,000). Trade payables also include trading balances due to a minority shareholder of RMB12,154,000 as at 31 December 2004 (2003: RMB27,563,000). The balances due to shareholders and a minority shareholder are unsecured, interest-free and repayable in accordance with normal commercial terms.

**30. INTEREST-BEARING BANK LOANS**

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Total bank loans	311,647	199,400	149,400	149,400
Less: Amounts due within one year included under current liabilities	(45,000)	—	(40,000)	—
Amounts due after one year	266,647	199,400	109,400	149,400
Bank loans:				
Unsecured	149,400	149,400	149,400	149,400
Secured	162,247	50,000	—	—
	311,647	199,400	149,400	149,400
Bank loans repayable:				
Within one year	45,000	—	40,000	—
Between one and two years	40,047	55,000	29,800	40,000
Between two and five years	226,600	119,600	79,600	84,600
More than five years	—	24,800	—	24,800
	311,647	199,400	149,400	149,400

The bank loans carry interest at rates ranging from 2.88% to 6.70% (2003: 2.88% to 6.70%) per annum.

The bank loans are secured by guarantee from a minority shareholder of a subsidiary (note 38) and a pledge of fixed assets with net book value of RMB346,000 (2003: Nil) as at 31 December 2004 (note 12). Bank loans of certain subsidiaries are also secured by guarantees from the Company (note 38).

**31. SHORT TERM BANK LOANS**

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Unsecured	—	44,500	—	44,000
Secured	—	12,000	—	—
	—	56,500	—	44,000

The short term bank loans were secured by guarantees from the Company.

# Notes to Financial Accounts

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## 32. OTHER LONG TERM LOANS

	Notes	Group and Company	
		2004 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
Shanghang County Technology Bureau (上杭縣科技局)	(ii)	—	30
Shanghang County Social Labour Insurance Company (上杭縣社會勞動保險公司)	(iii)	1,000	1,000
		1,000	1,230
Portion classified under current liabilities		(1,000)	(230)
		—	1,000
Other long term loans are repayable as follows:			
Within one year		1,000	230
Between one and two years		—	1,000
		1,000	1,230

Notes:

- (i) The balance is unsecured, bears interest at 20% per annum and is repaid during the year.
- (ii) The balance is unsecured, interest-free and repaid during the year.
- (iii) The balance is secured by a retirement fund of the Company managed by the Shanghang municipal government which bears interest at 5.76% per annum and was fully repaid in March 2005.

## 33. PROVISION FOR LAND RESTORATION AND ENVIRONMENTAL COSTS

	Group RMB'000	Company RMB'000
At beginning of year	14,414	13,377
Additional provision for the year	12,793	12,793
Utilisation during the year	(1,037)	—
<b>At 31 December 2004</b>	<b>26,170</b>	<b>26,170</b>

The provision for land restoration and environmental costs is determined by the directors based on their best estimates.

## 34. LONG TERM OTHER PAYABLES

Notes	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Xinjiang Geological, Mining and Prospecting Development Bureau (新疆地質礦產勘察開發局) (i)	32,420	32,420	—	—
Xinjiang Non-ferrous Metal Industry Company (新疆有色金屬工業公司) (i)	9,721	9,721	—	—
Shanghang Finance Bureau (上杭縣財政局) (ii)	50,498	—	50,498	—
Fujian Minxi Geologist Team (福建省閩西地質大隊) (iii)	3,433	4,233	3,433	4,233
Bonus of directors and senior executives (iv)	23,104	—	23,104	—
	<b>119,176</b>	<b>46,374</b>	<b>77,035</b>	<b>4,233</b>

## Notes:

- (i) The balances represent amounts payable to the promoters of Xinjiang Ashele upon the injection of assets for the establishment of Xinjiang Ashele on 13 August 1999, which is unsecured, interest-free and repayable in five years with equal yearly instalments from 2006 onwards.
- (ii) The balance represents an amount payable to Shanghang Finance Bureau for the purchase of mining right of the copper mine located in the northwest area of Zijinshan, which is unsecured, interest-free and repayable in 10 years from July 2005 onwards. The current portion of RMB5,611,000 has been included in accrued liabilities and other payables as at 31 December 2004.
- (iii) The balance represents an amount payable to Fujian Minxi Geologist Team for the purchase of mining rights of the gold mine located at the southeast area of Zijinshan, which is unsecured, interest-free and repayable in five years with equal yearly instalments from 2004 onwards. The current portion of RMB800,000 has been included in accrued liabilities and other payables as at 31 December 2004 (2003: RMB800,000).
- (iv) The balance represents the bonus payable to directors and senior executives after the completion of the tenure.

An aged analysis of long term other payables are as follows:

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Between two and five years	86,855	24,231	48,748	3,200
More than five years	32,321	22,143	28,287	1,033
	<b>119,176</b>	<b>46,374</b>	<b>77,035</b>	<b>4,233</b>

# Notes to Financial Accounts

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## 35. SHARE CAPITAL

	2004 Number of shares '000	2004 Nominal value RMB'000	2003 Number of shares '000	2003 Nominal value RMB'000
Registered	2,628,262	262,826	1,314,131	131,413
Issued and fully paid:				
Domestic Shares of RMB0.10 each (2003: RMB0.10 each)	1,827,174	182,717	913,587	91,359
H shares of RMB0.10 each	801,088	80,109	400,544	40,054
	2,628,262	262,826	1,314,131	131,413

A summary of the movements in the Company's issued share capital during the year were as follows:

	2004 Number of shares '000	2004 Nominal value RMB'000	2003 Number of shares '000	2003 Nominal value RMB'000
At beginning of the year	1,314,131	131,413	95,000	95,000
Share subdivision (note (a))	—	—	855,000	—
Domestic Shares converted into Sale H Shares (note (b))	—	—	(36,413)	(3,641)
Share placement and public offer (note (c))	—	—	400,544	40,054
Share premium converted into share capital (note (d))	1,314,131	131,413	—	—
At end of year	2,628,262	262,826	1,314,131	131,413

**35. SHARE CAPITAL** *(continued)**Notes:*

- (a) Pursuant to a resolution adopted at an extraordinary general meeting of the Company held on 28 June 2003 and an approval issued by the China Securities Regulatory Commission on 18 November 2003, each Domestic Share of the Company with nominal value of RMB1.00 each was sub-divided into 10 Domestic Shares of nominal value of RMB0.10 each.
- (b) Pursuant to the "Provisional Administrative Measures for the Reduction of State-owned Shares and the Raising of the Social Security Fund" (減持國有股籌集社會保障資金暫行辦法), an aggregate of 36,413,090 Domestic Shares were converted into 36,413,090 Sale H Shares. The proceeds from the sale of the 36,413,090 Sale H Shares of RMB128,034,000 after netting off the portion of share issue expenses of RMB7,459,000, which should be borne by the Social Security Fund in connection with these Sale H Shares, should be remitted to the Social Security Fund (note 28).
- (c) On 23 December 2003, 348,300,000 ordinary H Shares of RMB0.10 each, which represented 316,636,364 New H Shares and 31,663,636 Sale H Shares, were issued to foreign investors at a price of HK\$3.30 (equivalent to approximately RMB3.516). On 29 December 2003, 52,244,000 additional ordinary H Shares of RMB0.10 each, which represented 47,494,546 New H Shares and 4,749,454 Sale H Shares, were issued to foreign investors at a price of HK\$3.30 (equivalent to approximately RMB3.516) upon the exercise of an over-allotment option. After deducting net proceeds of approximately RMB120,575,000 from the sale of an aggregate 36,413,090 Sale H Shares which should be remitted to the Social Security Fund as explained in note (b) above and share issue expenses of approximately RMB82,050,000 (before deducting issue expenses of RMB7,459,000 borne by the Social Security Fund as referred to in note (b) above), the Company raised net proceeds of RMB1,205,748,000, of which paid-up share capital amounted to RMB36,413,000 and share premium amounted to RMB1,169,335,000 (note 36).
- (d) On 28 May 2004, the proposal regarding the issue of new shares by conversion of the Company's share premium was approved at the annual general meeting. Accordingly, the Company issued additional 1,314,130,910 ordinary shares of RMB0.1 each on the basis of one new ordinary share to every one existing share.

The ordinary H shares rank *pari passu*, in all material respects, with the Domestic Shares of the Company.

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## 36. RESERVES

### Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 52 of the financial statements.

### Company

	Notes	Share premium account RMB'000	Statutory surplus reserve RMB'000 Note (a)	Public welfare fund RMB'000 Note (b)	Capital reserve RMB'000	Retained profits RMB'000 Note (c)	Proposed final dividend RMB'000	Total RMB'000
At 1 January 2003		45,043	22,257	11,129	897	12,272	95,000	186,598
Dividend paid		—	—	—	—	—	(95,000)	(95,000)
Share of capital reserve of an associate		—	—	—	356	—	—	356
New shares issued	35(c)	1,243,926	—	—	—	—	—	1,243,926
Share issue expenses	35(c)	(74,591)	—	—	—	—	—	(74,591)
Net profit for the year		—	—	—	—	306,031	—	306,031
Transfer to reserves		—	31,666	15,833	—	(47,499)	—	—
Proposed final dividend	10	—	—	—	—	(197,120)	197,120	—
As at 31 December 2003 and 1 January 2004		1,214,378	53,923	26,962	1,253	73,684	197,120	1,567,320
Dividend paid		—	—	—	—	—	(197,120)	(197,120)
Share of capital reserve of an associate		—	—	—	543	—	—	543
Share premium converted into share capital	35(d)	(131,413)	—	—	—	—	—	(131,413)
Net profit for the year		—	—	—	—	370,703	—	370,703
Transfer to reserves		—	42,242	21,120	—	(63,362)	—	—
Proposed final dividend	10	—	—	—	—	(262,826)	262,826	—
At 31 December 2004		1,082,965	96,165	48,082	1,796	118,199	262,826	1,610,033

#### Notes:

#### (a) Statutory surplus reserve ("SSR")

In accordance with the Company Law of the PRC and the respective articles of association of the Company and the subsidiaries incorporated in 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 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 capital.

#### (b) Public welfare fund ("PWF")

In accordance with the Company Law of the PRC and the respective articles of association of the Company and the subsidiaries incorporated in 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 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 properties of the Company and the subsidiaries.

**36. RESERVES** *(continued)*

## (c) Distributable reserves

According to the articles of association of the Company, the reserves available for distribution are based on the lower of the Company's profits determined under PRC accounting standards and regulations and International Financial Report Standards.

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 as set out above.

As at 31 December 2004, the Company's reserves available for distribution were approximately RMB381,025,000 (2003: RMB270,804,000).

**37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT****(a) Acquisition of subsidiaries**

On 16 March 2004, Xiamen Zijin entered into agreements with Wuhan Dida High-tech Industry Group Co., Ltd. (武漢地大高科產業集團有限責任公司) and Wuhan Telecom Industry Group Co., Ltd. (武漢電信實業有限責任公司), respectively, independent third parties, to acquire 51% equity interests in Rare-earth Materials at an aggregate consideration of RMB1,747,000.

On 18 March 2004, Xiamen Zijin entered into an agreement with Sinopec Group Dianqiangui Oil Exploration Bureau (中國石化集團滇黔桂石油勘探局), an independent third party, to acquire 51% equity interests in Nanometer Technology at a consideration of RMB3,200,000.

Pursuant to an agreement entered into between the Company and Qinghai West dated 11 April 2004, the capital of Qinghai West increased from RMB10,000,000 to RMB120,000,000. The Company injected RMB72,000,000 into Qinghai West as capital injection for 60% of enlarged capital in Qinghai West.

Pursuant to an agreement entered into between the Company and Xinjiang Jinbao dated 18 March 2004, the capital of Xinjiang Jinbao increased from RMB5,000,000 to RMB 50,000,000. The Company injected RMB30,000,000 into Xinjiang Jinbao as capital injection for 60% of enlarged capital in Xinjiang Jinbao.



# Notes to Financial Accounts

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## 37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

### (a) Acquisition of subsidiaries *(continued)*

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

	<i>RMB'000</i>
Fixed assets	59,968
Intangible assets	99,620
Long term deferred assets	3,398
Available-for-sale financial assets	100
Cash and cash equivalents	133,807
Inventories	4,700
Trade receivables	450
Prepayment, deposits and other receivables	14,946
	<hr/> 316,989
Trade payables	(11,389)
Accrued liabilities and other payables	(109,150)
Interest-bearing bank loans	(8,336)
Other long term loans	(14,500)
Minority interests	(69,755)
	<hr/> (213,130)
Fair value of net assets	103,859
Goodwill arising on acquisition (note 17)	3,088
	<hr/> 106,947
Consideration:	
Cash paid	106,947
	<hr/>
Cash inflow on acquisition is as follows:	
Amount of cash paid	(106,947)
Net cash acquired	133,807
	<hr/>
Net cash inflow	26,860

Since the acquisition, the aforementioned subsidiaries had no significant impact on the turnover or the consolidated profit after tax and before minority interests for the year.

**37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT** *(continued)***(b) Disposal of equity interests in subsidiaries**

On 23 April 2004, the Company entered into agreements with Fujian Shanghang Huahui Mine Construction Industry Co., Ltd. (福建省上杭縣華輝礦建實業有限公司) and Fujian Shanghang Qilin Trading Co., Ltd. (福建省上杭縣麒麟工貿有限公司), respectively, to dispose of 16% equity interest in Jinshan Construction at an aggregate consideration of RMB2,261,000. The disposal resulted in a gain on disposal of RMB9,000 for the year ended 31 December 2004 (note 3).

On 11 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 13 January 2003, the Company received RMB300,000 from Zhongbao Technology Investment Company Limited 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. The disposal resulted in a loss on disposal of RMB164,000 (note 4) and a release of unamortised goodwill of RMB633,000 for the year ended 31 December 2003.

**(c) Major non-cash transactions**

During the year, the Group capitalised interest expenses of RMB6,837,000 (2003: RMB5,548,000) in fixed assets (note 5).

On 9 January 2003, 20 May 2003 and 9 December 2003, a minority shareholder of Hunchun Zijin injected fixed assets and intangible assets with carrying value of RMB6,000,000 and RMB4,000,000, respectively, as capital injection for 20% equity interest in Hunchun Zijin.

# Notes to Financial Accounts

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## 38. RELATED PARTY TRANSACTIONS

(i) In addition to the transactions and balances detailed elsewhere in the financial statements, the Group had the following material transactions with the following related parties during the year:

Name of related party	Relationship with the Company	Nature of transaction	Notes	2004 RMB'000	2003 RMB'000
Fujian Xinhua Engineering Company Limited (福建省新華都工程有限責任公司)	A shareholder	Construction service fees	(a)	86,226	97,093
Fujian Minxi Geologist Team (福建省閩西地質大隊)	A shareholder	Purchase of exploration and mining rights	(b)	—	10,736
Hunchun Gold and Copper Mining Company Limited (琿春金銅礦業有限責任公司)	A shareholder of Hunchun Zijin	Construction service fees	(a)	—	3,222
		Loan	(c)	2,512	2,905
		Deposit for acquisition of equity share	(d)	5,993	—
Fujian Shanghang Hongyang Mine Engineering Company Limited (福建省上杭鴻陽礦山工程有限公司)	A shareholder of Hunchun Zijin and Guizhou Zijin	Construction service fees	(a)	67,526	72,290
Tibet Autonomous Region Geologic Minerals Exploration & Development Bureau Dire Geothermic Geologic Team (西藏自治區地質礦產勘查開發局地熱地質大隊)	A shareholder of Tibet Jindi	Exploration services	(f)	2,500	—
		Prepayment for the purchase of exploration and mining rights	(g)	—	13,200
Fujian Shanghang Jinma Economic Development Company Limited (福建省上杭縣金馬經濟開發有限公司)	A shareholder of Jinshan Construction	Loan	(h)	1,500	500
Shanghang Da Guang Ming Electricity Group Limited (上杭大光明電力集團有限公司)	A shareholder of Zijin Shuidian	Loan	(h)	—	6,860
Tongling Jin Chan Mining Company Limited (銅陵金蟾礦業有限責任公司)	A shareholder of Tongling Zijin	Purchase of exploration and mining rights	(i)	—	16,800

**38. RELATED PARTY TRANSACTIONS** (continued)

(i) (continued)

Name of related party	Relationship with the Company	Nature of transaction	Notes	2004 RMB'000	2003 RMB'000
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	Disposal of 2% equity interest in Xinjiang Ashele	(j)	—	5,000
Xinjiang Baodi Mining Company Limited (新疆寶地礦業有限責任公司)	A shareholder of Xinjiang Ashele	Infrastructure construction	(l)	—	1,300
Fuyun Jinbao Transportation Company (富蘊縣金豹運輸公司)	A company controlled by a minority shareholder of Xinjiang Jinbao	Sale of fixed assets	(e)	5,000	—
		Transportation services	(e)	3,661	—
Shanghang Mining Construction Limited (上杭縣礦業建築有限公司)	A shareholder of a minority shareholder of Jinshan Construction	Loan	(h)	—	1,100
Xinjiang Non-ferrous Gold Construction Company (新疆有色黃金建設公司)	A company controlled by Xinjiang Ashele's shareholder	Advance of construction fees	(k)	761	1,282
		Infrastructure construction fees	(m)	—	3,768

Notes:

- (a) These transactions were made according to the published prices and conditions similar to those offered to independent third parties.
- (b) In accordance with an agreement entered into between the Company and Fujian Minxi Geologist Team dated 28 June 2003, the Company purchased exploration and mining rights of the gold mine located at the southeast area of Zijinshan from Fujian Minxi Geologist Team at a consideration of RMB10,736,000.
- (c) The loans were unsecured, interest-free and had no fixed terms of repayment.
- (d) Pursuant to an agreement entered into between Hunchun Zijin and Hunchun Gold and Copper Mining Company Limited dated 15 April 2004, the Group made a deposit of RMB5,993,000 to Hunchun Gold and Copper Mining Company Limited for the acquisition of 20% equity shares of Hunchun Zijin which was held by Hunchun Gold and Copper Mining Company Limited.
- (e) These transactions were conducted on terms mutually agreed between the parties.
- (f) The payments were made for exploration services provided by minority shareholders of subsidiaries. The transactions were conducted on prices by reference to the standard fee scale issued by the PRC government.

# Notes to Financial Accounts

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## 38. RELATED PARTY TRANSACTIONS *(continued)*

(i) *(continued)*

*Notes: (continued)*

- (g) In accordance with an agreement entered into between the Company on behalf of its subsidiary, Tibet Jindi, and Tibet Autonomous Region Geologic Minerals Exploration & Development Bureau Dire Geothermic Geologic Team on 16 July 2003, Tibet Jindi agreed to purchase exploration and mining rights of Muyan Gold Mine of Mayou (馬攸木岩金礦) from Tibet Autonomous Region Geologic Minerals Exploration & Development Bureau Dire Geothermic Geologic Team at a consideration of RMB13,200,000. Prepayment of RMB13,200,000 was made as at 31 December 2003. The exploration and mining certificates were obtained as at 31 December 2004.
- (h) The loans were unsecured, interest-free and fully repaid during the year. The loans in the prior year were fully repaid on 19 August 2003.
- (i) In accordance with an agreement entered into between Tongling Zijin and Anhui Tongling Jin Chan Mining Company Limited dated 1 June 2003, Tongling Zijin purchased exploration and mining rights of Jiaochong Gold-Base-Metals Mine (焦沖金礦), Hamaling Gold Mine (蛤蟆嶺金礦) and Qingyang County Yinjiasha Gold Mine (青陽縣尹家榨金礦) from Anhui Tongling Jin Chan Mining Company Limited at a consideration of RMB16,800,000. Tongling Zijin obtained these exploration and mining certificates during the year.
- (j) In accordance with an agreement entered into between the Company and Xinjiang Uygur Autonomous Region Geologic Minerals Exploration & Development Bureau dated 11 January 2003, the Company disposed of 5,000,000 shares of Xinjiang Ashele to Xinjian Uygur Autonomous Region Geologic Minerals Exploration & Development Bureau at a consideration of RMB5,000,000.
- (k) The balances represented loans to Xinjiang Ashele's shareholder and its controlled company which was engaged in the infrastructure construction works of Xinjiang Ashele in 2003. The loans were unsecured, interest-free and were repaid by offsetting construction fees.
- (l) In accordance with agreements entered into between Xinjiang Ashele and Xinjiang Baodi Mining Company Limited dated 10 October 2002, Xinjiang Baodi Mining Company Limited was engaged in the water pipe construction works of Xinjiang Ashele. The contract sum for the water pipe construction works were charged to Xinjiang Ashele according to prices by reference to the standard fee scale issued by the PRC government. The construction works were completed in October 2003.
- (m) In accordance with agreements entered into between Xinjiang Ashele and Xinjiang Non-ferrous Gold Construction Company dated 3 May 2002 and 1 July 2002, Xinjiang Non-ferrous Gold Construction Company was engaged in water pipe and mining tunnel construction works of Xinjiang Ashele. The water pipe construction works was completed in September 2003 and the mining tunnel construction works was transferred to an independent third party in 2004. The water pipe construction works were charged to Xinjiang Ashele according to prices by reference to the standard fee scale issued by the PRC government.

In addition to the above, and in accordance with an agreement entered into between Xinjiang Ashele, Urumqi Non-ferrous Metal Refining Research Institute (烏魯木齊有色冶金設計研究院), a company controlled by one of Xinjiang Ashele's shareholders, and Beijing Non-ferrous Metal Refining Research Institute (北京有色冶金設計研究總院), an independent third party, on 2 March 2001, Urumqi Non-ferrous Metal Refining Research Institute and Beijing Non-ferrous Metal Refining Research Institute (collectively known as the "Research Institutes") were jointly engaged in the overall design for the initial construction works of copper mine of Xinjiang Ashele with a contract sum of RMB6,500,000. On 20 May 2002, Xinjiang Ashele and the Research Institutes entered into a supplemental agreement to confirm that the value of the contract was increased by an additional RMB650,000 and the Research Institutes provided a revised feasibility report to Xinjiang Ashele for an additional consideration of RMB100,000. In 2003, an aggregate design fee of RMB2,050,000 was paid to Research Institutes.

**38. RELATED PARTY TRANSACTIONS** *(continued)*

- (ii) (a) Guarantees in respect of bank loans provided by a minority shareholder to a subsidiary

On 8 May 2003, a shareholder of Xinjiang Ashele, Xinjiang Non-ferrous Metal Industry (Group) Company Limited (新疆有色金屬工業(集團)有限責任公司), entered into a guarantee agreement with a PRC bank. Pursuant to the agreement, Xinjiang Non-ferrous Metal Industry (Group) Company Limited provides a maximum corporate guarantee amounting to RMB116,000,000 in respect of a long term bank loan granted to Xinjiang Ashele. As at 31 December 2004, the guarantee was utilised to the extent of RMB116,000,000.

- (b) Guarantees in respect of bank loans granted by the Company to an associate

Name of associate	Nature of guarantee	2004 RMB'000	2003 RMB'000
Fujian Longyan Makeng Mining Company Limited	Corporate guarantee		
Maximum guarantees		15,000	15,000
Guarantees utilised		13,500	15,000

- (c) Guarantees in respect of bank loans granted by the Company to its subsidiaries

Name of subsidiary	Nature of guarantee	2004 RMB'000	2003 RMB'000
Xiamen Zijin	Corporate guarantee		
Maximum guarantees		25,000	25,000
Guarantees utilised		—	25,000
Guizhou Zijin	Corporate guarantee		
Maximum guarantees		25,000	27,000
Guarantees utilised		25,000	27,000
Xinjiang Ashele	Corporate guarantee		
Maximum guarantees		173,400	173,400
Guarantees utilised (Note)		137,000	10,000

As at 31 December 2004, a long term bank loan of Xinjiang Ashele amounting to RMB137,000,000 was secured by guarantees provided by the Company and Xinjiang Non-ferrous Metal Industry (Group) Company Limited (note 38(ii)(a) above).

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## 39. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Corporate guarantees in respect of bank loans granted to:				
Third parties	—	7,600	—	7,600
Subsidiaries	—	—	223,400	225,400
An associate	15,000	15,000	15,000	15,000
Bills discounted with recourse	—	8,300	—	—
	<b>15,000</b>	<b>30,900</b>	<b>238,400</b>	<b>248,000</b>

As at 31 December 2004, the banking facilities granted to the subsidiaries and an associate subject to guarantees given to the banks by the Company were utilised to the extent of approximately RMB162,000,000 (2003: RMB60,500,000) and RMB13,500,000 (2003: RMB15,000,000), respectively.

## 40. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases its office properties and motor vehicles under operating lease arrangements, with leases negotiated for terms ranging from two to five years.

At 31 December 2004, the Group and the Company had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Within one year	1,245	510	246	273
In the second to fifth years, inclusive	3,699	1,064	152	135
	<b>4,944</b>	<b>1,574</b>	<b>398</b>	<b>408</b>

**40. OPERATING LEASE ARRANGEMENTS** *(continued)***(b) As lessee**

The Group leases certain of its office properties and land under operating lease arrangements. Leases for office properties are negotiated for terms of one year, and those for land for terms ranging between one to ten years.

At 31 December 2004, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Within one year	1,152	1,163	1,152	1,146
In the second to fifth years, inclusive	4,540	4,540	4,540	4,540
After five years	1,135	2,270	1,135	2,270
	<b>6,827</b>	<b>7,973</b>	<b>6,827</b>	<b>7,956</b>

**41. COMMITMENTS**

In addition to the operating lease commitments detailed in note 40 above, the Group and the Company had the following commitments at the balance sheet date:

	Group		Company	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Contracted, but not provided:				
— acquisition of plants, machinery and mining assets	175,640	136,166	16,244	20,335
— acquisition of exploration and mining rights	49,000	51,850	49,000	51,850
— acquisition of land use rights	13,332	—	9,950	—
— capital injection in subsidiaries	—	—	219,702	82,867
— acquisition of additional equity shares in a subsidiary	23,967	—	23,967	—
	<b>261,939</b>	<b>188,016</b>	<b>318,863</b>	<b>155,052</b>
Authorised, but not contracted for:				
— overall utilisation of solid waste & environmental engineering	58,959	81,549	58,959	81,549
— Nangang staff quarters project	5,400	—	—	—
— establishment of dressing medicament factory	10,627	—	—	—
	<b>74,986</b>	<b>81,549</b>	<b>58,959</b>	<b>81,549</b>
	<b>336,925</b>	<b>269,565</b>	<b>377,822</b>	<b>236,601</b>



## 42. FINANCIAL INSTRUMENTS AND CONCENTRATION OF RISKS

The Group conducts its major operations in the PRC and exposes to market risk from changes in interest rate. Financial assets of the Group include cash, deposits with banks, amounts due from related parties, other financial assets, trade and bills receivables, prepayments, deposit and other receivables and available-for-sale financial assets. Financial liabilities of the Group include accrued liabilities and other payables, trade payables, bank loans and other borrowings.

### (i) Credit risk

Substantial amounts of the Group's cash balances are deposited with the People's Bank of China, the Industrial and Commercial Bank of China, the Agriculture Bank of China, the Bank of China Limited, the China Construction Bank, the Bank of Communications, the Industrial Bank Co., Ltd., the China Everbright Bank, the China Minsheng Banking Corp., Ltd., the Citic Industrial Bank, the China Merchants Bank, the Rural Credit Cooperatives and the City Credit Cooperatives.

Included in the cash & cash equivalents of the Group are amounts of RMB2,979,000 and RMB1,416,000, respectively, deposited with the Rural Credit Cooperatives and the City Credit Cooperatives, which are registered in PRC and engaged in the provision of banking facility. The terms and conditions of the deposits are the same as those deposits in other commercial banks. The Rural Credit Cooperatives and the City Credit Cooperatives have the obligation to repay the amounts upon request.

The directors consider it prudent to account for any interest income arising from these deposits on a receipt basis; no other provisions have been made in the financial statements for these deposits accordingly.

Other than the aforesaid, the Group has no other significant concentration of credit risk with any single counterparty of group counterparties.

### (ii) Liquidity risk

The Group policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed annual credit facilities from banks to meet its commitment over the next year in accordance with its strategic plan.

### (iii) Interest rate risk

The Group's exposure to interest rate risk relates principally to its bank loans.

The Group's income and operating cash flows are substantially independent of changes in market interest rate prices.

### (iv) Foreign exchange risk

The Group has no significant foreign exchange risk due to limited foreign currency transactions.

## 42. FINANCIAL INSTRUMENTS AND CONCENTRATION OF RISKS *(continued)*

### (v) Fair values

The fair values of cash, deposits with banks, amounts due from related parties, other financial assets, trade and bills receivables, prepayments, deposit and other receivables, accrued liabilities and other payables, trade payables, bank loans and other borrowings are not materially different from their carrying amounts. The Group did not enter into any foreign exchange forward contracts to hedge against fluctuations.

As at 31 December 2004, the carrying amounts of the Group's long term borrowings approximated their fair values based on the prevailing borrowing rates available for loans with similar terms and maturities.

Available-for-sale financial assets are measured at cost less impairment losses if there are no quoted market prices in an active market and their fair values cannot be reliable (note 21).

Other financial assets are estimated by reference to their quoted market prices at the balance sheet date or measured at cost less impairment losses if there are no quoted market prices in an active market and their fair values cannot be reliable (note 26).

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

# Notes to Financial Accounts

31 December 2004

## 43. EVENTS AFTER THE BALANCE SHEET DATE

- (i) On 10 January 2005, the Company and Xiamen Zijin established a new company, namely Zijin International Mining Co., Ltd. (“Zijin International”) which is engaged in mining business of both domestic and overseas mineral resources. The registered share capital of Zijin International is RMB50,000,000. The Company and Xiamen Zijin contributed RMB47,500,000 and RMB2,500,000, respectively, in Zijin International as paid-up capital, representing 95% and 5%, respectively, of equity interests in Zijin International.
- (ii) Pursuant to an agreement entered into among the Company, Guangdong Gold Company (廣東省黃金公司) and Xinyi Gold Company (信宜市黃金公司) dated 16 January 2005, the Company acquired 80% equity interests in Guangdong Xinyi Dongkeng Gold Mine Company Limited (“Guangdong Xinyi”) (廣東信宜東坑金礦有限責任公司) from Guangdong Gold Company and Xinyi Gold Company at a consideration of RMB6,400,000. Guangdong Xinyi is engaged in gold mining business. The registered capital of Guangdong Xinyi is RMB1,000,000.
- (iii) On 4 February 2005, the Company, Liaoning Central Part City Economy and Technology Development Co., Ltd. (遼寧中部城市經濟技術聯合開發有限公司) and Shenyang Biyuetan Hotspring Holiday Hotel Co., Ltd. (沈陽碧月潭溫泉度假酒店有限公司) established a new company, namely Liaoning Zijin Mining Co., Ltd. (“Liaoning Zijin”) (遼寧紫金礦業有限公司), which is engaged in gold and copper mining and geological studies. The registered share capital of Liaoning Zijin is RMB100,000,000. The Company takes up 75% equity interests in Liaoning Zijin according to the agreement.
- (iv) Pursuant to an agreement entered into among the Company, West Mining Company Limited (西部礦業股份有限公司), Tibet Autonomous Region Geologic Minerals Exploration & Development Bureau No. 6 Geologic Team (西藏自治區地質礦產勘查開發局第六地質大隊), Tibet Autonomous Region Changdu State-owned Assets Management Company (西藏自治區昌都地區國有資產經營公司) and Tibet Autonomous Region Mining Development Company (西藏自治區礦業開發總公司) dated 6 April 2005, they will set up a new company namely Tibet Yulong Copper Mining Company Limited (“Tibet Yulong”) (西藏玉龍銅業股份有限公司) which is engaged in the copper mining and geological studies. The registered share capital of Tibet Yulong is RMB625,000,000 and the Company takes up 39% equity interests in Tibet Yulong according to the agreement.
- (v) On 7 April 2005, the Board of Directors proposed a final dividend of RMB0.10 per ordinary share, totaling approximately RMB262,826,000. The proposed final dividend is subject to the approval of the Company’s shareholders at the forthcoming annual general meeting.
- (vi) On 7 April 2005, the Board of Directors proposed to convert an amount of RMB262,826,182 in the Company’s share premium into 2,628,261,820 shares of RMB0.1 each, and the Company will issue additional new shares on the basis of 10 new ordinary shares for every 10 existing ordinary shares to shareholders.

## 44. COMPARATIVE AMOUNTS

Certain comparative amounts for the year ended 31 December 2003 were reclassified as in the opinion of the directors, such reclassification would produce a more appropriate presentation of the Group's financial position. A summary of the reclassification is as follows:

- (i) Prepayment for land use rights of RMB4,276,000 and mining rights of RMB46,060,000 of the Group were reclassified to prepayments under non-current assets on the consolidated balance sheet.
- (ii) Prepayment for land use rights of RMB2,297,000 and mining rights of RMB7,850,000 of the Company were reclassified to prepayments under non-current assets on the balance sheet of the Company.
- (iii) Included in accrued liabilities and other payables of the Group and the Company, balance payable to Fujian Minxi Geologist Team of RMB4,233,000 for the purchase of mining rights was reclassified to long term other payables.
- (iv) Provision for land restoration and environmental costs of the Group and the Company of RMB14,414,000 and RMB13,377,000, respectively, were classified to non-current liabilities on the balance sheets.
- (v) Amortisation charges of land use right, long term deferred assets and intangible assets with an aggregate amount of RMB6,917,000 was classified to cost of sales on the income statement.

## 45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 7 April 2005.

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN THAT** an Annual General Meeting (“**AGM**”) of Zijin Mining Group Co., Ltd. (the “**Company**”) for the year ended 31 December, 2004 will be held at 10:00 a.m. on 31 May, 2005, Tuesday, at the conference room on the 1st floor of the Company’s office building at Shanghang County, Fujian Province, the PRC to consider, approve and authorise the following businesses:

## **ORDINARY RESOLUTIONS**

1. to consider and approve:
  - 1.1 Report of the Board of Directors of the Company for 2004
  - 1.2 Report of Supervisory Committee of the Company for 2004
  - 1.3 consolidated audited financial statements and Report of the international auditors of the Company for the year ended 31 December, 2004;
2. to consider and approve the profit distribution proposal of the Company and the relevant declaration and payment of a final dividend for the year ended 31 December, 2004;
3. to consider and approve the remuneration of the Directors and Supervisors for the year ended 31 December, 2004;
4. to consider and approve the annual remuneration proposal of the Directors and Supervisors of the Company for the year ended 31 December, 2005;
5. to consider and approve, the reappointment of Ernst & Young Hua Ming and Ernst & Young as the Company’s domestic and international auditors respectively for the year ending 31 December, 2005, and to authorise the Board of Directors to determine their remuneration;
6. to consider and approve the proposal of conversion of the Company into a joint stock limited company with foreign investment;

## **SPECIAL RESOLUTIONS**

7. to consider and approve the proposal regarding issue of new shares by conversion of the surplus reserve fund:

An amount of RMB262,826,182 in the Company’s surplus reserve fund will be converted into 2,628,261,820 shares of RMB0.1 each and to issue 10 additional new ordinary shares by the conversion of every 10 Ordinary Shares on the basis of 2,628,261,820 shares in issue at the end of 2004 to shareholders.

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8. to consider and authorize the Board of Directors of the Company (among other thing):
  - a) to issue, allot and deal with additional Shares, whether Domestic Shares or H Shares, which shall not exceed 20 per cent of the aggregate nominal amount of Domestic Shares or H Shares of the Company in issue as of the date of passing this Resolution, subject to obtaining approval from any government and/or regulatory authorities in accordance with the applicable laws; and
  - b) to amend the Articles of Association, if necessary, in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Company Law of the People's Republic of China (as the same may be amended from time to time) and only if all necessary approvals from the relevant PRC government authorities are obtained; and
9. to consider and approved each of the proposed amendments to certain provisions of the Articles of Association of the Company, which is independent and shall not affect the validity of others;

9.1 In the view of combination of two mining permits of the Company into one,

9.1.1 The second paragraph of Article 10 of the Articles of Association be amended as:

“The principal scope of operations of the Company includes exploration, development (mining, selection and refining), design and research of solid mine (limited to type of mine with mining permit), design, manufacturing and sales of mineral products and ordinary machinery and facilities, retail sales of gold products; information technology services, industrial production data base, hydraulic power generation, production (subject to those with production permit) and sales (excluding hazardous chemical products) of chemical products, investment in hotels and mining projects, exporting self-produced products and technology, operation of raw material and auxiliary materials for its own production, importing apparatus and device, machinery and facilities, parts and components and technology (excluding commodity limited to Company's operation and prohibited importing or exporting), processing and “three incoming and one auxiliary” business. (The above business operation involves the provision on special projects of the State).”

9.2 In the view of the changes in domestic share capital of the Company in 2004, and subject to passing of the No. 7 resolution above, the Company's registered capital and capital structure will be changed.

9.2.1 The Article 16 of the Articles of Association be amended as:

“The existing share capital structure of the Company: The total issued ordinary share capital of the Company is 5,256,523,640 of nominal value of RMB0.1 each, including:

Minxi Xinghang State-owned Assets Investment Company Limited owns 1,684,360,848 Shares, representing 32.04% of the total issued ordinary share capital of the Company;

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Xinhuadu Industrial Company Limited owns 691,600,000 Shares, representing 13.16% of the total issued ordinary share capital in issue of the Company;

Shanghang County Jinshan Trading Company Limited owns 672,380,000 Shares, representing 12.79% of the total issued ordinary share capital of the Company;

Fujian Xinhuadu Engineering Company Limited owns 266,000,000 Shares, representing 5.06% of the total issued ordinary share capital of the Company;

Xiamen Hengxing Industry Company Limited owns 190,000,000 Shares, representing 3.62% of the total issued ordinary share capital of the Company;

Fujian Gold Group Company Limited owns 60,286,084 Shares, representing 1.15% of the total issued ordinary share capital of the Company;

Fujian Xinhuadu Department Store Company Limited owns 57,474,000 Shares, representing 1.09% of the total issued ordinary share capital of the Company;

Mr. Chen Jinghe owns 20,000,000 Shares, representing 0.38% of the total issued ordinary share capital of the Company;

Fujian Minxi Zijin Mining Group Limited owns 12,246,708 Shares, representing 0.23% of the total issued ordinary share capital of the Company; and

Holders of the overseas listed foreign shares owns 1,602,176,000 Shares, representing 30.48% of the total issued ordinary share capital of the Company.”

9.2.2 The Article 19 of the Articles of Association be amended as:

“The registered capital of the Company is RMB525,652,364.”

10. with reference to the resolutions no. 6 to 9 above, the Board of Directors be authorised:

- (a) to approve, execute and do, all such documents, deeds and things as it may consider necessary in connection therewith;
- (b) to make such amendments to the Articles of Association of the Company as it thinks fit; and
- (c) to make all necessary filings and registrations with the relevant PRC, Hong Kong and/or other authorities.

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11. to consider and approve resolutions (if any) raised by any shareholder holding 5% and above of the total number of Shares having voting rights on the general meeting.

By order of the Board of Directors

**Fan Cheung Man**

*Company Secretary*

Fujian, the PRC, 7 April, 2005

*Notes:*

- (A) The Company's register of H Shares members will be closed from Thursday, 28 April, 2005 to Friday, 27 May, 2005 (both days inclusive), during which period no transfer of H Shares will be registered. Holders of H Shares whose names appear on the register of members at the close of business on Tuesday, 3 May, 2005, upon the completion of the registration procedures, will be entitled to attend the AGM and to vote in the meeting. To be entitled to attend the AGM and to vote in the meeting, their instruments of transfer must be delivered to the Registrar of H Shares of the Company no later than 4:00 p.m. on Wednesday 27 April, 2005.

The address of the Hong Kong Registrar of H Shares of the Company is:

Computershare Hong Kong Investor Services Limited,  
Room 1712-1716,  
17th Floor, Hopewell Centre,  
183 Queen's Road East,  
Wanchai,  
Hong Kong

- (B) Holders of H Shares and Domestic Shares who intend to attend the AGM, must complete and return the reply slip in writing to the Board secretariat of the Company twenty days before the convening of the AGM, that is Tuesday, 10 May, 2005.

Details of the Office for the Secretary to the Board of the Company is as follows:

1 Zijin Road  
Shanghang County  
Fujian Province  
The PRC  
Tel: (86) 597 384 1468 (86) 592 396 9662  
Fax: (86) 592 396 9667

- (C) Holders of H Shares who has the right to attend and vote at the AGM are entitled to appoint one or more proxies (whether or not a member) to attend and vote on his behalf. Shareholders who appoint over one proxies, such proxies can only exercise their voting rights by way of polls. Shareholders who intend to appoint one or more proxies should first read the Company's 2004 annual report.
- (D) The instrument appointing a proxy must be writing under the hand of the appointor or his attorney duly authorised in writing. In the event that such instrument is signed by an attorney of the appointor, an authorisation that authorised such signatory shall be notarized.



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- (E) To be valid, a form of proxy (or if it is signed by his attorney duly authorised in writing, then together with such power of attorney or other authority) must be deposited at the Company's Registrar of H Shares of the Company - Computershare Hong Kong Investor Services Limited no later than 24 hours before the specified time for the holding of the AGM. The address is: 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (F) Holders of H Shares who has the right to attend and vote at the AGM are entitled to appoint one or more proxies (whether or not a member) to attend and vote on his behalf. Notes (C) and (D) are also applicable for holders of Domestic Shares, but to be valid, the relevant proxy forms or other authorisation documents must be delivered to the Board secretariat of the Company 24 hours before the specified time for the holding of the AGM, its address is set out in Note (B) above.
- (G) If a proxy is appointed to attend the AGM on behalf of a shareholder, the proxy must indicate its identification and the authorisation instrument with the date of issue and duly signed by the proxy and its legal representative, and in the case of legal representative of legal person shareholders, such legal representative must indicate its own identification and effective document to identify its identity as legal representative. If a legal person shareholder appoints a company other than its legal representative to attend the AGM, such representative must indicate its own identification and the authorisation instrument bearing the company chop of the legal person shareholder and duly authorised by its legal representative.
- (H) The AGM is expected to be for half a day, and shareholders attending the AGM will be responsible for their own travelling and accommodation expenses.