

Management Discussion and Analysis

The Company's management hereby presents the discussion and analysis on the operating results for the year 2003:

OPERATING RESULTS

In 2003, the Company's management have 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 RMB1,050.53 million during the year, an increase of RMB457.88 million, or 77.3% over the previous year.

For the year ended 31 December, 2003, the Group's turnover was mainly derived from the sale of gold bullion, copper cathodes, gold concentrates, copper concentrates and iron concentrates. Turnover refers to the total sales amount after deducting sales tax and levies.

The table below sets out details of sales by products for the two years ended 31 December, 2002 and 2003:

Product	2003			2002		
	Unit price	Volume	Amount/ RMB'000	Unit price	Volume	Amount/ RMB'000
Gold	RMB96.7/g	10,448kg	1,009,979	RMB80.9/g	7,225kg	584,232
Gold concentrates	RMB66.7/g	179.62kg	11,972	—	—	—
Iron concentrates	RMB267/t	53,706.67t	14,360	RMB168/t	24,615t	4,138
Copper concentrates	RMB10,084/t	577.129t	5,820	—	—	—
Copper cathodes	RMB15,054/t	989.52t	14,896	RMB13,009/t	686.36t	8,929
Others	—	—	524	—	—	—
Less: Sales tax & levies	—	—	(7,022)	—	—	(4,645)
Total	—	—	1,050,529	—	—	592,654

The Group's turnover in 2003 increased by 77.26% over 2002, which was mainly attributable to the commencement of production at Hunchun Zijin and Guizhou Zijin in March and June 2003 respectively. Comprehensive utilisation project of solid tailings of the gold mines have also been partially put into operation, thereby enabling a significant growth in the production of gold. Another important factor was the significant increase in the prices of gold and copper cathodes as illustrated from the above table.

AN ANALYSIS OF GROSS PROFIT AND GROSS PROFIT MARGIN

As a mining enterprise, the Group's cost of sales mainly includes blasting cost, ore transportation cost, raw materials consumption, utilities expenses, salaries and depreciation on fixed assets. Cost of sales in 2003 was RMB482.85 million, representing an increase of approximately 60.27% as compared to RMB301.28 million in 2002, which was mainly attributable to the increase in the output. The table below sets out details of the gross profit margin for the two years ended 31 December, 2002 and 2003.

Product	2003 %	2002 %
Gold	55.16	50.4
Gold concentrates	40.3	—
Iron concentrates	12.26	5.1
Copper concentrates	34.05	—
Copper cathodes	15.8	16.6
Others	100	—
Total	54.04	49.2

The Group's overall gross profit margin increased from 49.16% in 2002 to 54.04% in 2003, which was mainly attributable to the increase in the selling price of gold. In 2003, structures of product portfolio were adjusted. However, sales income from gold products accounted for 95.5% of the total sales income, while the proportion of turnover from gold concentrates and copper concentrates with lower gross profit margins represented only 1.68%. The selling price of gold increased from RMB80.9/g in 2002 to RMB96.7/g in 2003, which was mainly attributable to the increase in international gold price. Average unit production cost of gold increased from RMB41.2/g in 2002 to RMB42.8/g in 2003, and consolidated costs of ore were RMB38.51/g in 2002 and 2003, which did not appear to be volatile to a significant extent.

SELLING AND DISTRIBUTION COSTS

The Group's selling and distribution costs increased by 127.74% from RMB2.16 million in 2002 to RMB4.93 million in 2003, which was mainly attributable to the increase in transportation and insurance fees, handling fees in gold transactions.

ADMINISTRATION EXPENSES

The Group's administration expenses in 2003 amounted to RMB120.94 million, representing an increase of 91.5% over RMB63.17 million in 2002. The increase was mainly attributable to (i) the operating expenses upon the establishment of seven subsidiaries in Sichuan, Jilin Hunchun, Tibet, Anhui Tongling, Shanghang successively in 2003, (ii) Guizhou Zijin commenced production in June 2003, causing increase in the management personnel and expenses, and (iii) increase in the research and development cost to enhance the development of the newly-established subsidiaries of the Group.

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FINANCE COSTS

The Group's finance costs in 2003 was RMB17.13 million, an increase of 8.38% over RMB15.81 million in 2002, which was mainly attributable to the increase in part of the bank loans upon the establishment of seven new subsidiaries of the Group.

WORKING CAPITAL AND SOURCE OF FUNDS

As at 31 December, 2003, the Group's cash and cash equivalents increased by RMB961.13 million from the previous year to RMB1,114.47 million, an increase of over 6 times in the previous year.

During the year, cash in-flow generated from the Group's operation activities amounted to RMB476.38 million, an increase of RMB222.64 million (or increase of 87.7%) over the previous year. The main reasons for the increase in the cash-flow generated from the Group's operation activities were due to increase in the sales quantities and selling price of gold during the year, and some of the projects of the Group commenced production during the year which increased the 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 RMB471.07 million, an increase of RMB279.95 million (or increase of 146.48%) over the previous year. The main reasons for the increase in the cash out-flow generated from the Group's operation activities were that the Group increased its external investments during the year, and established seven 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 to Zijinshan Gold Mine, and increase in the investment to Zijinshan Copper Mine, resulting in considerable increase in the capital expenditures in 2003 compared with previous year.

During the year, net cash in-flow generated from the Group's financing activities amounted to RMB955.83 million, an increase of RMB890.85 million (or increase of 1,370.9%) over the previous year. The main reasons for the significant increase in the net cash in-flow generated from the Group's financing activities were the proceeds received from the Company's Public Offer during the year, and the cash invested by the minority shareholders during the establishment of subsidiaries.

As at 31 December, 2003, the Group's total borrowings amounted to RMB255.9 million (31 December, 2002: RMB401.25 million). Of these, amount repayable within one year was approximately RMB56.5 million, amount repayable within one to five years was approximately RMB174.6 million, and amount repayable over five years was RMB24.8 million. All the bank borrowings bear interest rates between 2.88% to 6.7% (2002: 2.88% to 8.07%).

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 short-term loan facilities provided by its major banks.

PROFITS ATTRIBUTABLE TO SHAREHOLDERS AND EARNINGS PER SHARE

The Group's profits attributable to shareholders as at 31 December, 2003 was approximately RMB313.91 million, representing an increase of 127% over approximately RMB138.28 million in 2002, and an increase of 12.1% compared with the profit forecast of RMB280.0 million contained in the prospectus of the Company. For the year ended 31 December, 2003, the Group's earnings per Share (basic) was RMB0.33, an increase of 120% over the previous year. Earnings per Share in 2002 was RMB0.15.

TAXATION

Income taxes of the Group for 2003 and 2002 are as set out in the table below:

The Group

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
PRC Corporate Income Tax	137,025	67,398
Provision in prior year	(42,077)	—
	94,948	67,398
Income tax of an associate	729	452
	95,677	67,850

No provision for Hong Kong income tax was provided, as the Group did not derive any taxable profits in Hong Kong for both 2003 and 2002. The Group's PRC Corporate Income Tax were provided at a rate of 33% on assessable profit, except for the Group's two subsidiaries in the Western region (Guizhou Zijin and Hunchun Zijin) and Xiamen Zijin which was established in the Special Zone which were subject to a preferential tax rate of 15% in accordance with the relevant tax laws in the PRC.