


Report of the Directors

The Directors of the Company (“Directors”) hereby submit the first Report of the Directors and the audited financial statements of the Group for the year ended 31 December 2003.

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 96% of the incomes of its key business.

Details regarding the key business of the Company’s subsidiaries and an associate are set out in note 17 and note 18 of the financial statements.

OPERATING RESULTS

The operating results of the Group for the year ended 31 December 2003 are set out in the consolidated income statement in page 42 of the financial statements.

USE OF THE PROCEEDS

The net proceeds arising from the Initial Public Offering of the Company’s Shares in Hong Kong in December 2003 (after deducting the relevant issue expenses) was approximately RMB1,205,748,000. The proceeds was repatriated back to the Company before the end of February 2004, and was deposited in the bank as short-term deposits. The proceeds has not yet been used during the reporting period.

The Company will use the proceeds in accordance with the future plans as set out in the prospectus as and when the Directors consider such use to be in the best interests of the Company and its shareholders as a whole.

FINAL DIVIDEND

As audited by Ernst & Young, the Company’s net profit for the year ended 31 December, 2003 prepared under International Financial Reporting Standards was RMB313,906,000. The Board of Directors proposed to pay dividends of RMB0.15 per Share in cash on the basis of 1,314,130,910 shares in issue of the Company at the end of 2003. The pay-out ratio is 45.45%.

ISSUE OF NEW SHARES BY CONVERSION

Apart from the proposed final dividend aforesaid, on 3 April 2004, the Board of Directors also proposed to convert an amount of RMB131,413,091 in the Company’s share premium into 1,314,130,910 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 2004 to 27 May 2004 (both days inclusive). Final dividends and additional new ordinary shares will be paid on 25 June 2004 to holders of H Shares whose name appear on the H share register of members of the Company at the close of business on 27 April 2004 (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 25 June 2004).

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 28 May 2004.

RESERVES

Details of changes in the reserves of the Company and the Group for the year ended 31 December 2003 are set out in note 32 of 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 2003, the Company's reserves available for distribution (before proposed final dividend of RMB197,120,000) were approximately RMB270,804,000 (2002: RMB107,272,000).

FIXED ASSETS

Details of changes in the fixed assets of the Company and the Group for the year ended 31 December 2003 are set out in note 12 of the financial statements.

SHARE CAPITAL

Details of the changes in the share capital of the Company for the year ended 31 December 2003 are set out in note 31 of the financial statements.

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DONATIONS

During the year 2003, donations made by the Company was RMB5,890,000.

BANK LOANS

Details of the Group's bank loans are set out in notes 26 to 27 of the financial statements.

TAXATION

The corporate income tax rate of the Company is 33%, details of which are set out in note 8 of 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 23 December 2003, the Company's H Shares commenced its listing on the Main Board of the Stock Exchange of Hong Kong Limited ("Stock Exchange"). Details regarding the issue of H Shares are set out in note 31 of 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 2003.

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 RMB68,037,400 and RMB40,346,000 respectively, representing 50.96%, 30.22% of the total purchases respectively. All transactions between the Company and the related customers 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 2003.

SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the Directors and Supervisors has entered into a service contract with the Company respectively. Except for Mr. Loong Ping Kwan who has been appointed for a term of three years commencing from his appointment on 15 August 2003, the terms of all other directors, supervisors are for a term of three years commencing from their re-appointments at the general meeting held on 28 June 2003. 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.

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ANNUAL REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Annual Remuneration

Details are set out in notes 6 and 7 of 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:

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

BRIEF BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Brief biography of directors, supervisors and senior management are set out in pages 16 to 19 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 2003, 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 2003:

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	114,000,000 (note 1)	Company	Long	12.48%	8.67%

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(b) Shareholding of Directors, supervisors or chief executive in the Company's subsidiaries as at 31 December 2003:

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 2)	50,000 (note 3)	Personal	Long	0.13%
Liu Xiaochu	Jiuzhaigou Zijin	50,000 (note 3)	Personal	Long	0.13%
Luo Yingnan	Jiuzhaigou Zijin	50,000 (note 3)	Personal	Long	0.13%
Lan Fusheng	Jiuzhaigou Zijin	50,000 (note 3)	Personal	Long	0.13%
Rao Yimin	Jiuzhaigou Zijin	50,000 (note 3)	Personal	Long	0.13%
Zeng Qingxiang	Jiuzhaigou Zijin	50,000 (note 3)	Personal	Long	0.13%
Lan Liying	Jiuzhaigou Zijin	25,000 (note 4)	Personal	Long	0.06%

Notes:

- (1) Xiamen Hengxing Construction & Decoration Materials Company Limited holds 47,500,000 Domestic Shares in the Company, and holds 49% shareholding in Fujian Xinhuada Engineering Company Limited (which is holding 66,500,000 Domestic Shares in the Company). Under Section 316 of the SFO, Xiamen Hengxing Construction & Decoration Materials Company Limited is therefore interested in 114,000,000 Domestic Shares in the Company. Mr. Ke Xiping owns 73.21% interest in Xiamen Hengxing Construction & Decoration Materials Company Limited. Under Section 316 of the SFO, Mr. Ke Xiping is regarded as being interested in such Shares.
- (2) Sichuan Jiuzhaigou Zijin Mining Company Limited (“Jiuzhaigou Zijin”) is a subsidiary in which the Company beneficially owns 60%.
- (3) The Committee of Labour Union of the Company owns 15% of the total registered capital of Jiuzhaigou Zijin on behalf of approximately 830 members. Among which, it holds an equity interest of RMB50,000 as an agent for and on behalf of each of Mr. Chen Jinghe, Mr. Liu Xiaochu, Mr. Luo Yingnan, Mr. Lan Fusheng, Mr. Rao Yimin and Mr. Zeng Qingxiang.
- (4) The Committee of Labour Union of the Company owns 15% of the total registered capital of Jiuzhaigou Zijin on behalf of approximately 830 members. Among which, it holds an equity interest of RMB25,000 as an agent for and on behalf of Ms. Lan Liying.

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.

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SHAREHOLDING STRUCTURE

As at 31 December, 2003, the Company has a total of 9,624 shareholders, of which 9,616 are holders of H Shares.

The shareholdings of the Company's top ten shareholders as at 31 December, 2003 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.	421,090,212	(Domestic Shares)	32.04%
2. HKSCC Nominees Limited (Note 1)	379,440,000	(H Shares)	28.87%
3. Xinhudu Industrial Co. Ltd. (Note 2)	172,900,000	(Domestic Shares)	13.16%
4. Shanghang County Jinshan Trading Co., Ltd.	171,095,000	(Domestic Shares)	13.02%
5. Fujian Xinhudu Engineering Company Limited (Note 2)	66,500,000	(Domestic Shares)	5.06%
6. Xiamen Hengxing Construction & Decoration Materials Co., Ltd. (Note 3)	47,500,000	(Domestic Shares)	3.61%
7. Fujian Xinhudu Department Store Co., Ltd. (Note 2)	16,368,500	(Domestic Shares)	1.25%
8. Fujian Gold Group Co., Ltd.	15,071,521	(Domestic Shares)	1.15%
9. Fujian Minxi Geologist	3,061,677	(Domestic Shares)	0.23%
10. SO KWOK BON & YAN LAI PING (Note 4)	58,000	(H Shares)	0.004%

Notes:

- (1) HKSCC Nominees Limited is holding 379,440,000 H Shares in the Company as a nominee, representing 28.87% 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 Construction & Decoration Materials Company Limited holds 49% in Fujian Xinhudu Engineering Company Limited.
- (4) SO KWOK BON & YAN LAI PING are independent third parties which are not connected with the Directors, supervisors, chief executive and the substantial shareholders of the Company or their respective associates.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 31 December 2003, 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	Number of Shares/equity interest held	Class of shares	Nature of interests	Long/Short Position	Proximate percentage of shareholding in such class of securities	Proximate percentage of shareholding in the registered capital
Minxi Xinghang State-owned Assets Investment Co., Ltd.	421,090,212	Domestic Shares	Company	Long	46.09%	32.04%
HKSCC Nominees Ltd.	379,440,000	(H Shares)	Custodian	—	94.73%	28.87%
Fujian Xinhudu Industrial Company Limited	255,768,500 (Note 1)	Domestic Shares	Company	Long	28%	19.46%
Chen Fashu	255,768,500 (Note 2)	Domestic Shares	Company	Long	28%	19.46%
Shanghai County Jinshan Trading Co., Ltd.	171,095,000	Domestic Shares	Company	Long	18.72%	13.02%
Xiamen Hengxing Construction & Decoration Materials Co., Ltd.	114,000,000 (Note 3)	Domestic Shares	Company	Long	12.48%	8.67%
Ke Xiping	114,000,000 (Note 4)	Domestic Shares	Company	Long	12.48%	8.67%
Fujian Xinhudu Engineering Company Limited	66,500,000	Domestic Shares	Company	Long	7.28%	5.06%

Notes:

- (1) Xinhudu Industrial Company Limited holds 172,900,000 Domestic Shares in the Company, and holds 51% in Fujian Xinhudu Engineering Company Limited (which holds 66,500,000 Domestic Shares in the Company), holds 64.54% in Fujian Xinhudu Department Store Company Limited (which holds 16,368,500 Domestic Shares in the Company). Therefore, under Section 316 of the SFO, Xinhudu Industrial Company Limited is interested in 255,768,500 Domestic Shares in the Company.
- (2) Mr. Chen Fashu holds 73.56% interests in the issued share capital of Xinhudu Industrial Company Limited, therefore, under Section 316 of the SFO, Mr. Chen Fashu is deemed to be interested in 255,768,500 Domestic Shares in the Company.

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- (3) Xiamen Hengxing Construction & Decoration Materials Company Limited holds 47,500,000 Domestic Shares in the Company, and holds 49% in Fujian Xinhua Engineering Company Limited (which holds 66,500,000 Domestic Shares in the Company). Under Section 316 of the SFO, Xiamen Hengxing Construction & Decoration Materials Company Limited is therefore interested in 114,000,000 Domestic Shares in the Company.
- (4) Mr. Ke Xiping holds 73.21% interests in the issued share capital of Xiamen Hengxing Construction & Decoration Materials Company Limited. Under Section 316 of the SFO, Mr. Ke Xi Ping is deemed to be interested in 114,000,000 Domestic Shares in the Company.

As at 31 December 2003, no shares of any of the shareholders holding 5% or more in the Company have been pledged or are under lock-up.

Save as disclosed above, as far as the Directors, Supervisors and chief executive are aware, as at 31 December 2003, 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.

CONNECTED TRANSACTIONS

Related party transactions entered into by the Group for the year ended 31 December 2003 are set out in note 34 of 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 connected transactions/ongoing connected transactions are summarised as follows:

Contracted parties	Relationship with the Company	Contract Date	Nature of transaction	Combined consideration (for the year ended 31 Dec 2003) (RMB'000)	Combined consideration (for the year ended 31 Dec 2002) (RMB'000)	Under the applicable Listing Rules at the time	
1. Purchases of materials from Connected Parties							
1.1	Shanghang County Jinshan Trading Co Ltd	Shareholder of the Company	The respective occurrence dates of each transaction	Purchase of construction materials	915	3,737	Rule 14.24(5), this transaction was an exempted connected transaction (note 1)
2. Services provided by Connected Parties							
2.1	Guizhou Bureau of Geology & Mineral Resources 105	Shareholder of a subsidiary of the Company	19 Feb 2003	Geologic exploration services	80	0	Rule 14.24(5), this transaction was an exempted connected transaction (note 1)
2.2	Anhui Geological and Mining Bureau, Geological Team 321	Shareholder of a subsidiary of the Company	One of the contracts on 13 Dec 2002, and two other contracts on 31 Mar 2003	Geologic exploration and drilling services	368	0	Rule 14.24(5), this transaction was an exempted connected transaction (note 1)
2.3	Xinjiang Non-ferrous Metals Industry Engineering Quality Control Team	Company controlled by a shareholder of a subsidiary of the Company	27 Oct 2002	Supervisory service	114	0	Rule 14.24(5), this transaction was an exempted connected transaction (note 1)

	Contracted parties	Relationship with the Company	Contract Date	Nature of transaction	Combined consideration (for the year ended 31 Dec 2003) (RMB'000)	Combined consideration (for the year ended 31 Dec 2002) (RMB'000)	Under the applicable Listing Rules at the time
2.4	Xinjiang Aletai Zhenan Blast Limited	Company controlled by a shareholder of a subsidiary of the Company	1 Jul 2002	Drainage construction works	845	0	Rule 14.24(5), this transaction was an exempted connected transaction (note 1)
2.5	Hunchun Gold and Copper Mine Mining Co Ltd	Shareholder of a subsidiary of the Company	Two contracts on 27 Mar 2003, and a supplementary agreement on 27 May 2003	Stripping works	3,222	0	Rule 14.25(1), this transaction was a non-exempt connected transaction (note 2)
2.6	Fujian Xinhuadau Engineering Co Ltd	Shareholder of the Company	3 May 2000, 4 Nov 2002	Stripping works	97,093	102,276	Rule 14.26, this transaction was a non-exempt connected transaction (note 3 and 3A)
2.7	Fujian Shanghang Hongyang Mine Engineering Co Ltd	Shareholder of two subsidiaries of the Company	26 Sep 2000, 15 Apr 2002, 25 Apr 2003	Stripping works	72,290	0	Rule 14.26, this transaction was a non-exempt connected transaction (note 3 and 3B)
2.8.1	Urumqi Non-ferrous Metal Refining Research Institute	Company controlled by a shareholder of a subsidiary of the Company	2 Mar 2001, and 20 May 2002 (supplementary agreement)	Construction design services	2,050	0	Rule 14.25(1), this transaction was a non-exempt connected transaction (note 2)
2.8.2	Xinjiang Non-ferrous Gold Construction Co	Company controlled by a shareholder of a subsidiary of the Company	3 May 2002	Mining tunnel construction works	1,282 (advance payment of construction fee), 3,768 (infrastructure construction fee)	292 0	Rule 14.25(1), this transaction was a non-exempt connected transaction (note 2)

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Contracted parties	Relationship with the Company	Contract Date	Nature of transaction	Combined consideration (for the year ended 31 Dec 2003) (RMB'000)	Combined consideration (for the year ended 31 Dec 2002) (RMB'000)	Under the applicable Listing Rules at the time	
3. Financial assistance provided to Connected Parties							
3.1	Zhenfeng Industrial Investment Ltd	Shareholder of a subsidiary of the Company	20 Feb 2003	The Company provided a loan of RMB800,000	800 (loan)	0	Rule 14.26, this transaction was a non-exempt connected transaction (note 4)
3.2	Hunchun Gold and Copper Mining Ltd	Shareholder of a subsidiary of the Company	16 Dec 2002	The Company provided loans with annual cap of RMB3,500,000	2,905 (loan)	0	Rule 14.26, this transaction was a non-exempt connected transaction (notes 3 and 3C)
3.3	Fujian Shanghang Hongyang Mine Engineering Co Ltd	Shareholder of two subsidiaries of the Company	28 Mar 2003	The Company provided guarantee of RMB3,000,000			Rule 14.26, this transaction was a non-exempt connected transaction (notes 4 and 4A)
4. Financial assistance provided by Connected Parties							
4	Xinjiang Non-ferrous Metal Industry (Group) Ltd	Shareholder of a subsidiary of the Company	8 May 2003, 9 May 2003	For provision of guarantee on the bank loans of a subsidiary (max RMB116 million)			Rule 14.24(8), this transaction was an exempted connected transaction (note 5)
5. Financial assistance provided to non-wholly-owned subsidiaries							
5.1	Xinjiang Ashele Copper Co Ltd	Non-wholly-owned subsidiary of the Company	8 May 2003, 9 May 2003	Guarantee provided by the Company for loans of the subsidiary (utilized guarantee)	173,400 (maximum guarantee), 10,000 (utilized guarantee)	180,200 (maximum guarantee)	Rule 14.25(2)(a), this transaction was a non-exempt connected transaction (note 6)
5.2	Xiamen Zijin Science and Technology Co Ltd	Non-wholly-owned subsidiary of the Company	14 Oct 2002, 9 Feb 2003, 26 May 2003	Guarantee provided by the Company for loans of the subsidiary (utilized guarantee)	25,000 (maximum guarantee), 25,000 (utilized guarantee)	10,000 (maximum guarantee), 10,000 (utilized guarantee)	Rule 14.26, this transaction was a non-exempt connected transaction (notes 3 and 3D)

Contracted parties	Relationship with the Company	Contract Date	Nature of transaction	Combined consideration (for the year ended 31 Dec 2003) (RMB'000)	Combined consideration (for the year ended 31 Dec 2002) (RMB'000)	Under the applicable Listing Rules at the time
5.3 Guizhou Zijin Mining Co Ltd	Non-wholly-owned subsidiary of the Company	21 Jan 2003	Guarantee provided by the Company for loans of the subsidiary	27,000 (maximum guarantee), 27,000 (utilized guarantee)	0	Rule 14.26, this transaction was a non-exempt connected transaction (note 7)

Note (1): Exempted connected transactions - The Directors (including Independent Non-executive Directors) confirmed that such connected transaction has been or will continue to be conducted under normal commercial terms which are fair and reasonable and to the overall interests of shareholders. The connected transaction will also constitute exempted ongoing connected transaction under the Listing Rules from time to time after the listing date, as the total annual consideration involved under the connected transaction is less than HK\$1,000,000 or 0.03% of the book value of the Group's net tangible assets in its latest audited consolidated accounts (whichever is higher). Therefore, the connected transaction falls under the scope of rule 14.24(5) of the Listing Rules at the time, and as an exempted ongoing connected transaction, is not subject to disclosure or approval by independent shareholders.

Note (2): Non-exempt connected transaction not requiring a waiver - The Directors (including Independent Non-executive Directors) confirmed that such connected transaction has been or will continue to be conducted under normal commercial terms which are fair and reasonable and in the overall interests of shareholders. The connected transaction will constitute a non-exempt ongoing connected transaction under the Listing Rules from time to time after the listing date. Under rule 14.25(1) of the Listing Rules at the time, such connected transaction does not require the approval by independent shareholder, as the total annual consideration involved under the connected transaction is less than HK\$10,000,000 or 3% of the book value of the Group's net tangible assets in its latest audited consolidated accounts (whichever is higher).

Note (3): Non-exempt connected transaction which have applied for a waiver - The Directors (including Independent Non-executive Directors) confirmed that such connected transaction has been or will continue to be conducted (i) under normal and general business operations of the Group (other than item 3.2 above); and (ii) under normal commercial terms which are fair and reasonable and in the overall interests of shareholders. The connected transaction will constitute a non-exempt connected transaction after the listing date. As a non-exempt connected transaction, it will be subject to disclosure and approval by independent shareholders.

Note (3A): For the three financial years ending 31 December 2005, the annual cap being the total value of transactions shall not exceed higher of 20.9% of the total cost 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.

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Note (3B): For the three financial years ending 31 December 2005, the annual cap on the total consideration shall not exceed the higher of 15.6% of the total cost of sales of the Group or RMB80,000,000. The annual cap has been determined based on the historical figures payable by the Group to Fujian Shanghang Hongyang Mine Engineering Company Limited under the relevant contract agreements during the Track Record Period, taking into account the possible increase in the Group's output in the future.

Note (3C): For the three financial years ending 31 December 2005, the annual cap of 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 have been determined with reference to the relevant agreements.

Note (3D): For the three financial years ending 31 December 2005, the annual cap of the total guaranteed amounts under the relevant guarantee contracts shall not exceed the amounts of the continuation or renewal of the existing guarantees (being RMB25,000,000). Such annual cap has been determined with reference to the past figures of the total amounts of the guarantees provided by the Group to Xiamen Zijin Science and Technology Co., Ltd.

Note (4): Non-exempt connected transaction not requiring a waiver - The Directors (including Independent Non-executive Directors) confirm that such connected transaction has been or will continue to be conducted under normal commercial terms which are fair and reasonable and in the overall interests of shareholders. The connected transaction will constitute a non-exempt ongoing connected transaction after the listing date. As a non-exempt connected transaction, it is not subject to disclosure and approval by independent shareholders.

Note (4A): As Fujian Shanghang Hongyang Mine Engineering Company Limited has repaid such loan to the bank prior to 31 December 2003, therefore the connected transaction has been released.

Note (5): The Directors (including Independent Non-executive Directors) confirm that the financial assistance provided by the connected parties to the Group under such connected transactions is or will continue to be under normal or better commercial terms.

The financial assistance will be extended or replaced by similar financial assistance, until the relevant loan has been fully repaid. Pursuant to rule 14.24(8) of the Listing Rules at the time, it will also constitute an exempted ongoing connected transaction. As an exempted ongoing transaction, it will not be subject to disclosure and approval by independent shareholders.

Note (6): Non-exempt connected transaction not requiring a waiver - This transaction constitute a transaction, the main objective and purpose of which is to provide financial assistance by the Company to a non-wholly-owned subsidiary. The connected parties of the non-wholly-owned subsidiary are shareholders of Xinjiang Ashele (other than persons who become connected parties through their shareholding in Xinjiang Ashele). The Directors (including Independent Non-executive Directors) confirm that such connected transaction has been or will continue to be conducted under normal commercial terms which are fair and reasonable and to the overall interests of shareholders. The connected transaction will constitute a non-exempt connected transaction after the listing date. As a non-exempt connected transaction, it is not subject to approval by independent shareholders under rule 14.25(2)(a) of the Listing Rules at the time.

Note (7): Non-exempt connected transaction not requiring a waiver - The Directors (including Independent Non-executive Directors) confirm that such connected transaction has been or will continue to be conducted under normal commercial terms which are fair and reasonable and in the overall interests of shareholders. The connected transaction will constitute a non-exempt connected transaction after the listing date. As a non-exempt connected transaction, it is not subject to disclosure and approval by independent shareholders.

In respect of the connected transactions under items 2.6, 2.7, 3.2 and 5.2 mentioned above, the Directors believe that strict compliance with the Listing Rules regarding disclosure and approval by independent shareholders is not practical. Therefore, the Directors have made an application to the Stock Exchange for a waiver from the strict compliance with such requirement. The Stock Exchange has granted the Company with an exemption on the transactions involved for the three financial years ending 31 December 2005 from the strict compliance of the Listing Rules regarding disclosure and approval by independent shareholders, subject to the following conditions:

- (a) For each of the three financial years ending 31 December 2005, the total amount of the relevant connected transactions shall not exceed their respective annual caps;
- (b) The above non-exempt ongoing connected transactions have been entered into in accordance with their respective agreements, and the terms of agreement governing such transactions:
 - (i) in ordinary and normal business of the Company (other than the financial assistance provided to Hunchun Gold and Copper Mining Limited); and
 - (ii) under (1) normal commercial terms or (2) under terms not less favourable than those provided by independent third parties to the Company (or provided by the Company to independent third parties), or (3) if no comparable transaction is available to judge whether (1) or (2) above has been entered into under normal commercial terms, then under terms which are fair and reasonable to the shareholders of the Company; and
- (c) Details of the transactions under the above agreements must be disclosed in the Company's annual report and accounts in compliance with rule 14.25(1)(a) to (d) of the Listing Rules at the time;
- (d) Independent Non-executive Directors shall review the above transactions annually and confirm in the Company's annual report whether the transactions have been conducted in the way as stated in paragraphs (a) and (b) above;
- (e) The Company's auditors shall review the above transactions annually and confirm in writing to the Board (with copy to the Stock Exchange) on the following:
 - (i) that the transactions have been approved by the Board;
 - (ii) that the transactions have been conducted in accordance with the terms of the relevant agreement and the Company's pricing policies; and
 - (iii) whether the total of such transactions have not exceeded their respective annual caps as mentioned in paragraph (a) above;
- (f) The connected parties of the above connected transactions have undertaken to the Stock Exchange that they will 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; and
- (g) 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 the conditions as set out in paragraphs (d) and (e) above respectively, to immediately notify the Stock Exchange, and the Company may have to re-comply with the conditions as set out in paragraphs (d) and (e) above, and any other conditions as the Listing Division of the Stock Exchange may deem to be appropriate in respect of non-exempt ongoing connection transactions.

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 the conditions as set out in paragraphs (d) and (e) above respectively, to immediately notify the Stock Exchange, and the Company may have to re-comply with the conditions as set out in paragraphs (d) and (e) above, and any other conditions as the Listing Division of the Stock Exchange may deem to be appropriate in respect of non-exempt ongoing connection transactions.
- (c) Independent directors of the Group has confirmed that all the connected transactions of the Group or its subsidiaries involved in the year 2003 were:
 - (i) entered into under normal and general business operations of the Group or its subsidiaries (other than the financial assistance provided to Hunchun Gold Copper Mine Limited);
 - (ii) entered into under (1) normal commercial terms, or (2) where no comparisons are available, then under terms which are fair and reasonable to the shareholders of the Company;
 - (iii) entered into under (1) the terms of the agreement governing such transactions or (2) 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 34 of the financial statements), and confirmed to the Board that:
 - (i) The transactions have been approved by the Board;
 - (ii) Terms of the agreement of the relevant transactions were attached to the connected transactions;
 - (iii) The aggregated amounts of the transactions have not exceeded the respective annual caps as set out in Notes 3A to 3D 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 2003.

MAJOR LITIGATION, ARBITRATION

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

ACQUISITIONS, DISPOSALS AND MERGERS

The Company has no acquisitions, disposals and mergers of assets during the reporting period.

POST BALANCE SHEET DATE MATTERS

Details of the post balance sheet date matters of the Group are set out in note 39 of the financial report.

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 audit committee meeting was held on 2 April 2004 to review the Group's annual report and provide advice and recommendations to the Board.

Report of the Directors

COMPLIANCE WITH THE CODE OF BEST PRACTICE UNDER THE LISTING RULES

To the best knowledge of the Directors, the Company has complied with the Code of Best Practice under the Listing Rules for the year ended 31 December 2003.

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 2004 respectively.

On behalf of the Board

Chen Jinghe

Chairman

Fujian, the PRC

3 April, 2004