

## Chairman's Statement

The Company's emphasis in 2006 will be on the control of resources and increase of gold production and reserve, the implementation of long-term development of the Group and the further enhancement of the competitiveness, with an aim of creating greater returns to shareholders.



**Xu Gaoming**  
*Chairman*

## Dear Shareholders,

I am pleased to announce the profit before tax of the Company of approximately RMB227,000,000 for the year ended 31 December 2005, representing a year-on-year growth of 26.8%. Profit attributable to equity shareholders of the Company amounted to RMB 155,000,000, representing a year-on-year growth of 28.8%. Earnings per share of the Company was RMB0.31 (on the basis of 500,000,000 shares prior to issue of shares upon listing). The significant increase in profit attributable to shareholders of the Group in 2005 was mainly attributed to the continued expansion of the production capacity of the Group, the rise in economic and technological standards, effective control of production costs, strong market demand and the advantage over the high selling price of the main products, etc.

After discussion by the board (the "Board") of directors (the "Directors") of the Company, the Directors recommend the declaration of a final dividend of RMB 0.08 per share, the dividend yield is 40%.

## Review for the Year 2005

The function of gold as a hedging tool against inflation and as a means to maintain value against the backdrop of the changes in the global geopolitics has become more apparent in 2005. International gold prices has been increasing and broke the highs over the past years.

The Group was benefited from (i) the increase of gold prices; (ii) advanced and sophisticated processing technology and facilities; and (iii) the capability to carry out high recovery of gold, silver, copper and sulphur. As a result of these factors, the Group achieved satisfactory results in 2005. According to the research conducted by China Gold Association, the Company's production volume of gold represented approximately 5% of the total gold production in the PRC; and the Company's production volume of smelted gold represented



approximately 14.46% of the total production volume in the PRC and the profit of the Company represented approximately 5.7% of the total profit earned of gold industry in the PRC.

With the successful issuance of H Shares in early 2006, the Group formally entered into the international capital market.

## I. Integration of resources and expansion of scale

Upon the completion of the acquisition of various mines in Xinjiang, Jiangxi and Henan which have an aggregate of 13 exploration rights (covering an area of 594.09 sq.km.) and 3 mining rights (covering an area of 6.18 sq.km.), the Group had an aggregate of 23 exploration and mining rights (involving an area of 654.09 sq.km.) with remained gold reserves and resources of approximately 105 tonnes as of 31 December 2005.

Through acquisitions and integration, the Company successfully expanded its business from Xiaoqinling in Henan Province which is the second largest gold resource region in the PRC as well as the production base of the Company, to the Xinjiang Uygur Autonomous Region and Jiangxi Province which have rich gold resources. The resource base of the Company was therefore strengthened, laying a solid foundation for future development of the Company.

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In 2005, the Company completed the upgrading of processing plants of our Yinxin Gold Mine Branch ("Yinxin Branch") and Qiangma Gold Mine Branch ("Qiangma Branch"). The Company also upgraded its metallurgical technology, which resulted in processing an additional 100 tonnes of refractory gold concentrates per day. With the increase of the processing capacity of Qiangma Branch and Yinxin Branch, the Company's ore processing capacity reached 1,400 tonnes per day and the Company's smelting capacity reached 700 tonnes per day. The gold production capacity of the Company was vastly enhanced.

### II. Focus on geological exploration and increase gold reserve

While the Company focused on acquisition and business expansion in 2005, it also paid attention to the geological exploration in mines. The Company focused especially in exploration in Xiaoqinling region of the PRC. Six core exploration projects were planned in order to lay a solid foundation for the deep underground exploration of the mines in Xiaoqinling.

### III. Scientific management and sound internal control

By adhering to the principle of "being steady, hardworking, innovative, efficient" and by improving internal control and operation innovation, we enhanced the management standard and corporate governance of the Company.

### Outlook of the Year 2006

As a result of the influence of international politics, economy and other uncertain factors, the international gold price increased by 10% in the first quarter of 2006. The steady increase in investors' demand for spot gold, the consumers' demand for ornamental, the rise in energy prices, the uncertain political atmosphere and risk factors including the depreciation of US dollars, will bring more development opportunities for the Company.

According to the Group's business strategy, the Company will strengthen its leading position in the gold industry in the PRC in 2006. Using the gold production base in Xiaoqinling as its foundation and leveraging on its geographical advantage in its mid-west location, the Company will continue to expand its business. It will also focus on acquisition and integration of gold mines and thereby increasing the Company's gold reserve and resources. The Company will also work hard to maintain its capability to generate stable results and sustainable profits through further expansion of production capacity and gold volume by speeding up the geological exploration and construction of existing mines. To ensure a sustainable development, the Company will strive to build up a high quality and highly efficient management and technician team through human resources strategy, technological innovation, training of technicians and expert introduction.

To conclude, with an aim of creating greater returns to shareholders, the Company's emphasis in 2006 will be on the control and increase of gold resources and reserve, the implementation of long-term development of the Group and the further enhancement of the competitiveness.

### Appreciation

On behalf of the Board, I wish to express our sincere gratitude to all the shareholders for their support and trust, and to the management and all the staff for their dedication and hard work over the past year.

By order of the Board

**Xu Gaoming**  
*Chairman*

Hong Kong  
12 April 2006