

## OPERATING RESULTS

In 2005, the management fully and vigorously implemented various resolutions passed at the shareholders' meetings and by the Board, and utilised the favorable opportunity of rising gold prices, carefully organized production, recorded a sales income of RMB3,036.22 million in the year, an increase of RMB1,528.54 million, or 101.38% over the previous year.

The table below sets out the sales by products for the two years ended 31 December 2004 and 2005:

Product	2005			2004		
	Unit price	Volume	Amount/ RMB'000	Unit price	Volume	Amount/ RMB'000
Gold	119.25/g	20,155 kg	2,403,434	109.39/g	12,762 kg	1,396,048
Gold concentrates	108.37/g	892 kg	96,688	93.54/g	603 kg	56,445
Iron concentrates	332.13/t	335,025 t	111,272	335.75/t	17,951 t	6,027
Copper concentrates	23,476/t	17,067 t	400,667	17,839/t	2,092 t	37,319
Copper cathodes	33,608/t	1,125 t	37,809	23,980/t	850 t	20,392
Zinc concentrates	8,965/t	1,418 t	12,712	—	—	—
Others			6,192			2,417
Less: Sales Tax and levies			(32,559)			(10,969)
<b>Total</b>			<b>3,036,215</b>			<b>1,507,679</b>

Note: The sales of gold include refined and processed gold of 5,679 kg

The Group's turnover in 2005 increased by 101.38% over 2004, which was mainly attributable to a further increase in the production of gold and copper at Zijinshan Gold Mine, the successive commencement of operation of Ashele Copper Mine and Xinjiang Mengku Iron Mine and increased production capacity of Guizhou Shuiyindong Gold Mine, which increased the operating income by RMB570.13 million, representing 37% of the total growth. Operating income of Luoyang Yinhui Gold Processing Enterprise increased by RMB625.70 million, representing 41% of the total growth. Increase in the operating income attributable to the increase in gold prices amounted to RMB202.41 million, representing 13% of the total growth.

# Management Discussion and Analysis

## AN ANALYSIS OF GROSS PROFIT AND GROSS PROFIT MARGIN

The Group is mainly engaged in mine development. The Group's cost of sales mainly includes mining, processing, and refining costs, ore transportation cost, raw materials consumption, public management expenses, salaries and depreciation of fixed assets employed for production. The table below sets out details of the gross profit margin for the two years ended 31 December, 2004 and 2005.

Product	2005 %	2004 %
Gold (gold produced from mines)	66.02	60.73
Gold (processed refined gold)	0.51	1.24
Gold concentrates	51.51	37.9
Iron concentrates	59.32	47.24
Copper concentrates	62.88	48
Copper cathodes	50.63	44.4
Others	—	—
Total	48.51	54.68

The Group's overall gross profit margin decreased from 54.68% in 2004 to 48.51% in 2005, which was mainly attributable to the gold refining enterprise which the Company jointly established in Luoyang recording a high operating income with a low gross profit margin. The overall gross profit margin for mine production of the Group's other gold enterprises increased by 5.29%, and the gross profit margin for copper and iron also indicated a trend of substantial growth.

## SELLING AND DISTRIBUTION COSTS

The Group's selling and distribution costs increased by 540% from RMB10.32 million in 2004 to RMB66.06 million in 2005, which was mainly attributable to the increase in long distance transportation costs in the sales of copper concentrates in Xinjiang Ashele Copper Mine and sales of iron concentrates in Xinjiang Mengku Iron Mine in 2005.

## ADMINISTRATION EXPENSES

The Group's administration expenses in 2005 amounted to RMB244.89 million, representing an increase of 46.13% over RMB167.58 million in 2004. The increase was mainly attributable to the increase in administration expenses since the operation of Ashele Copper Mine and Xinjiang Mengku Iron Mine, and the increase in pre-operating expenses upon the establishment of new companies.

## FINANCE COSTS

The Group's finance costs in 2005 amounted to RMB18.44 million, an increase of 215.75% over RMB5.84 million in 2004, which was mainly attributable to an increase in external investment and the fact that various subsidiaries were in the peak period of infrastructure construction, which increased interest expenses on bank loans.

## WORKING CAPITAL AND CAPITAL RESOURCES

As at 31 December, 2005, the Group's cash and cash equivalents amounted to RMB1,005.81 million, an increase of RMB180.05 million, or 21.8% over the previous year.

During the year, net cash inflow generated from the Group's operating activities amounted to RMB1,114.82 million, an increase of RMB538.05 million or 93.29% over the previous year. The main reasons for the increase in the cash-flow generated from the Group's operating activities were the commissioning of Xinjiang Ashele Copper Mine and Xinjiang Mengku Iron Mine, an increase in the production capacity of Zijinshan Gold and Copper Mine and Guizhou Shuiyindong Gold Mine which increased product sales income, and an increase in gold and copper prices which increased the operating cash inflow.

During the year, net cash outflow generated from the Group's investing activities amounted to RMB1,743.59 million, an increase of RMB817.63 million or 88.3% over the previous year. The main reasons for the increase in the outflow in the investing activities were the Group's acquisition of equity interests at in Yulong Copper Mine in Tibet, Hunan Non-ferrous Metals Corporation Limited, Xinjiang Xinxin Mining Industry Company Limited of RMB343.74 million and investments of RMB1,219.03 million in property, plant, mining and exploration rights and land in respect of construction projects such as the technical reform of Zijinshan Copper Mine, the production capacity expansion and technical reform of Shuiyindong Gold Mine, Hunchun Refinery Plant and Bayannaer Infrastructure.

During the year, net cash inflow generated from the Group's financing activities amounted to RMB808.83 million, representing an increase of RMB748.35 million or 1,237% over the previous year, which was mainly due to more bank loans were obtained for external investment and investment in fixed assets.

As at 31 December 2005, the Group's total borrowings amounted to RMB1,285.66 million (2004: RMB311.65 million) among approximately RMB711.63 million will be due within next one to two years, and approximately another RMB569.60 million will be due within the next two to five years, and RMB4.43 million will be due in more than five years time. All the bank borrowings bore interest rates between 2.55% to 6.696% (2004: 5.148% to 6.696%). The borrowings from financial institutions were mainly for the subsidiaries.

# Management Discussion and Analysis

The Group's daily capital requirements and capital expenditures were expected to be financed from its internal cashflow. The Group also possessed substantial amount of uncommitted 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 2005 were approximately RMB703.64 million, representing an increase of 68.49% over approximately RMB417.62 million in 2004.

For the year ended 31 December 2005, the Group's earnings per Share (basic) was RMB0.13, representing an increase of 68.49% over the previous year. (The calculation of earnings per Share was based on the Group's profit attributable to shareholders of RMB703.64 million (2004: RMB417.62 million) and the weighted average number of 5,256,523,640 Ordinary Shares (2004: 5,256,523,640 Shares (Restated)) in issue during the year.)

## TAXATION

Income taxes of the Group for 2005 and 2004 were set out in the table below:

The Group	2005 RMB'000	2004 RMB'000 (Restated)
PRC Corporate Income Tax	277,867	191,460
Over-provision in previous year	(14,038)	(12,644)
	263,829	178,816

No provision for Hong Kong profit tax was made, as the Group did not derive any taxable profits in Hong Kong for the year. The Group's PRC Corporate Income Tax was provided at a rate of 33% on taxable profit, except for some of the Group's subsidiaries which were subject to preferential tax rates in accordance with the local tax policies in their places of domicile.