

Notes to the Financial Accounts

31 December 2003

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 mining business and geological studies.

On 23 December 2003, 348,300,000 new H shares in the Company were listed on The Stock Exchange of Hong Kong Limited. On 29 December 2003, additional 52,244,000 new H shares in the Company, representing the over-allotment shares, were listed on The Stock Exchange of Hong Kong Limited.

The registered office and principal place of business of the Company is located at 277 Beihuan Road, Shanghang County, Fujian Province, the PRC.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements of the Company 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 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.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries drawn up to 31 December each year after the elimination of all material intercompany transactions. Subsidiaries are consolidated from the date which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

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)*

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.

Associates

An associate is a company, not being a subsidiary, 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 Group's and Company's share of the post-acquisition results and reserves of associates are included in the results and reserves, respectively. The interests in associates are stated in the balance sheets at the Company's share of net assets under the equity method of accounting, less any impairment losses. The Group's interest in associates include negative goodwill (net of accumulated amortisation) on acquisition, which are treated in accordance with the accounting policy for negative goodwill stated below.

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of identifiable net assets of subsidiaries or associates at the date of acquisition. 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. Goodwill is stated at cost less accumulated amortisation and any impairment losses.

On disposal of subsidiaries or associates, 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.

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

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries and associates 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 can be associated with expectations of future losses or expenses identified in the acquirer's 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.

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, 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 or associates, 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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***Fixed assets** *(continued)*

Depreciation is provided using 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 openpit platform, leaching piles and mine shafts using the units of production method based on the estimated proved and probable mineral reserves. The buildings located at the mining sites are depreciated on the straight-line basis between 7 to 10 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.

Construction in progress

Construction in progress represents buildings, mining structures, various plant and equipment 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.

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

Long term deferred assets

Long term deferred assets are recorded 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 10 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

Research costs are expensed 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.

Other investment

Other investment represents investment in an unlisted company held on a long term basis and is stated at cost less any impairment losses.

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.

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

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 are 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.

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.

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and 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 an interest expense.

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.

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.

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

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 income statement 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 interests in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference 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 the 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 difference 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 interests in subsidiaries and associates, 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 difference 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.

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 and subsidies

Grants and subsidies from the government are recognised at their fair value where there is reasonable assurance that the grant or subsidy will be received and all attaching conditions will be complied with. When the grant or subsidy relates to an expense item, it is recognised as income over the periods necessary to match them on a systematic basis to the costs which it is intended to compensate. Where the grant or subsidy 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 installments.

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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 currency transactions

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.

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:

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Turnover:		
Sale of gold bullions	1,009,979	584,232
Sale of gold concentrates	11,972	—
Sale of iron concentrates	14,360	4,138
Sale of copper concentrates	5,820	—
Sale of copper cathodes	14,896	8,929
Others	524	—
Less: Sales taxes and levies (Note)	(7,022)	(4,645)
	1,050,529	592,654
Other revenue:		
Interest income	710	370
Rental income	338	142
Processing income	—	742
Dividend income from other investment	—	8
Others	2,294	692
	3,342	1,954
Gains:		
Exchange gains	445	—
Gain on deemed disposal of 8.325% equity interest in a subsidiary	148	—
Amortisation of negative goodwill (note 18)	40	40
	633	40
	3,975	1,994

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 gold mining and geological studies 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.

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4. PROFIT FROM OPERATING ACTIVITIES

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

	Notes	2003 RMB'000	2002 RMB'000
Cost of inventories sold		468,439	301,278
Provision for restoration, rehabilitation and environmental costs		14,414	—
		482,853	301,278
Depreciation (note (i))	12	89,313	64,627
Amortisation of land use rights *	13	305	147
Amortisation of long term deferred assets *	14	3,500	2,641
Amortisation of intangible assets *	15	3,112	2,761
Research and development expenditures		9,309	5,044
Minimum lease payments under operating leases on land and buildings		362	355
Auditors' remuneration		856	400
Staff costs (including directors', supervisors' and senior executives' emoluments as set out in notes 6 and 7)			
Salaries and other staff costs (note (ii))		53,818	26,169
Retirement benefits - defined contribution fund (note (iii))		3,742	3,608
		57,560	29,777
Provision for/(write-back of) inventory obsolescence		(143)	59
Provision for bad and doubtful trade receivables **		179	8
Provision for/(write-back of) bad and doubtful other receivables **		1,095	(1,512)
Write back of loss on guaranteed bank loans **		—	(14)
Loss on disposal of fixed assets **		2,613	4,105
Donations **		5,885	4,609
Amortisation of goodwill **	16	1,613	—
Loss on disposal of 2% equity interest in a subsidiary **	33(b)	164	—
Write-back of impairment of fixed assets **	12	(149)	—

* Items classified under "Administrative expenses" in the consolidated income statement.

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

4. PROFIT FROM OPERATING ACTIVITIES *(continued)*

Notes:

- (i) Depreciation cost of approximately RMB80,080,000 was included in the cost of sales for the year ended 31 December 2003 (2002: RMB60,230,000).
- (ii) Staff costs of approximately RMB25,626,000 were included in the cost of sales for the year ended 31 December 2003 (2002: RMB13,904,000).
- (iii) According to 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 18% 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	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Interest paid on bank loans repayable within five years	22,677	21,400
Less: Amount capitalised as construction in progress	(5,548)	(5,595)
	17,129	15,805

The interest capitalisation rate represents the cost of capital from raising the related borrowings and ranges from 2.88% to 7.84% per annum (2002: 5.18% to 10.53% per annum).

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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	
	2003 RMB'000	2002 RMB'000
Fees	—	—
Other emoluments:		
Salaries, allowances and benefits in kind	692	829
Discretionary bonuses	2,789	859
Retirement benefits scheme contributions	12	7
	3,493	1,695

The emolument payable to the independent non-executive directors during the year is RMB128,000 (2002: RMB41,000).

The remuneration of each director during the years ended 31 December 2003 and 2002 fell within the band of nil to HK\$1,000,000 (equivalent to approximately RMB1,066,000). There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2002: 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 (2002: Nil).

7. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees in the Group during the year included three (2002: four) directors for the year ended 31 December 2003. Details of whose remuneration are set out in note 6 above. The details of the remuneration of the remaining two (2002: one) non-director, highest paid employees for the year are as follows:

	Group	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Salaries, allowances and benefits in kind	336	143
Discretionary bonuses	834	106
Retirement benefits scheme contributions	11	2
	1,181	251

All of the non-director, highest paid employees during the years ended 31 December 2003 and 2002 fell within the band of nil to HK\$1,000,000 (equivalent to approximately RMB1,066,000). There was no arrangement under which the non-director, highest paid employees waived or agreed to waive any remuneration during the year (2002: Nil).

There was no emolument paid by the Group to the non-director, highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2002: Nil).

8. TAX

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
	Group:	
Current - Hong Kong	—	—
- Mainland China	137,025	67,398
Overprovision in prior years (note (ii))	(42,077)	—
	94,948	67,398
Share of tax attributable to:		
An associate	729	452
	95,677	67,850

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8. TAX (continued)

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 No. 47" issued by the State Council of the PRC, two subsidiaries of the Group located in the western region of China (namely Guizhou Zijin and Hunchun Zijin) were 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 two subsidiaries continue to engage in qualified operations in their respective regions. As Guizhou Zijin and Hunchun Zijin commenced operation in 2003, there was no tax payable for the year ended 31 December 2002.

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 an approval document issued by the local tax authority of Shanghang County in 2003, the Company is taxed at a preferential rate of 15% with retroactive effect from 1 January 2000 to 31 December 2001 as the Company is classified as a "high-tech" enterprise in its province for tax purposes. As confirmed by the local tax authority of Shanghang County on 10 February 2004, the excessive tax paid in relation to the two years ended 31 December 2001 would offset against the tax liabilities of the Company for the year ended 31 December 2003. Accordingly, tax expense for the year was reduced by RMB34,133,000.

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 2002 or before and an approval from the local tax bureau to reduce income tax liabilities was obtained in 2003. An overprovision of tax payable in relation to such deduction amounting to 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 and its subsidiaries 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:

	2003		2002	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Profit before tax	418,551		206,031	
At PRC statutory tax rate	138,122	33.0	67,990	33.0
Expenses not deductible for tax	4,304	1.03	421	0.20
Income not subject to tax	(130)	(0.03)	(517)	(0.25)
Differential tax rate on the profit of certain subsidiaries	(4,542)	(1.09)	(44)	(0.02)
Overprovision in prior years	(42,077)	(10.05)	—	—
Tax charge at the Group's effective rate	95,677	22.86	67,850	32.93

At 31 December 2003, there is no significant unrecognised deferred tax liability (2002: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and an associate as the Group has 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.

9. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company was RMB306,031,000 (2002: RMB137,877,000) (note 32).

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10. PROPOSED FINAL DIVIDEND

	2003 RMB'000	2002 RMB'000
Proposed final - RMB0.15 (2002: RMB1) per ordinary share	197,120	95,000

Note:

At the shareholder meetings on 18 May 2003 and 1 November 2003, the directors declared an aggregate dividend of RMB95,000,000 (based on total Domestic Shares of 95,000,000 before its subdivision of shares as noted in note 31(a) below) in respect of the year ended 31 December 2002.

The proposed final dividend for the year ended 31 December 2003 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

The calculation of earnings per share is based on the Group's net profit attributable to shareholders of RMB313,906,000 (2002: RMB138,283,000) and the weighted average number of 958,197,838 ordinary shares (2002: 950,000,000 ordinary shares) in issue during the year, as if the subdivision of the Company's shares from one Domestic Share of nominal value of RMB1.00 each to 10 Domestic Shares of RMB0.1 each, as described in note 31(a) below, had taken place on 1 January 2002.

Diluted earnings per share amounts for the years ended 31 December 2003 and 2002 have not been disclosed as there were no potential dilutive ordinary shares outstanding during these years.

12. FIXED ASSETS

Group

	Buildings	Electricity generation plant	Mining assets	Leasehold improvements	Plant, machinery and equipment	Furniture and fixtures	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(Note 1)						
Cost:									
At 1 January 2003	39,319	26,929	353,395	8,100	111,637	5,950	7,843	180,848	734,021
Additions	642	1,114	32,032	—	37,380	3,588	7,833	340,024	422,613
Transfer from/(to)	24,240	152	72,611	163	24,738	—	—	(121,904)	—
Reclassifications	11,584	—	(11,584)	—	—	—	—	—	—
Disposals	(230)	(3)	(4,687)	—	(1,501)	(314)	(115)	—	(6,850)
At 31 December 2003	75,555	28,192	441,767	8,263	172,254	9,224	15,561	398,968	1,149,784
Accumulated depreciation and impairment:									
At 1 January 2003	4,335	3,980	135,094	405	39,097	1,583	3,733	—	188,227
Charge for the year	6,445	1,415	61,740	1,653	14,896	1,563	1,601	—	89,313
Reclassifications	4,509	—	(4,509)	—	—	—	—	—	—
Reversal of impairment on disposal during the year recognised in the income statement	—	—	—	—	(149)	—	—	—	(149)
Disposals	(117)	(1)	(2,831)	—	(530)	(275)	(102)	—	(3,856)
At 31 December 2003	15,172	5,394	189,494	2,058	53,314	2,871	5,232	—	273,535
Net book value:									
At 31 December 2003	60,383	22,798	252,273	6,205	118,940	6,353	10,329	398,968	876,249
At 31 December 2002	34,984	22,949	218,301	7,695	72,540	4,367	4,110	180,848	545,794

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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 2003	39,319	26,929	351,248	8,100	107,356	5,392	6,013	78,013	622,370
Additions	642	—	24,380	—	23,264	1,677	3,361	74,071	127,395
Transfer from/(to)	748	—	52,713	163	5,189	—	—	(58,813)	—
Reclassifications	11,584	—	(11,584)	—	—	—	—	—	—
Transfer to a subsidiary	—	—	—	—	(3,346)	(6)	—	—	(3,352)
Disposals	(230)	(3)	(4,648)	—	(1,501)	(312)	(100)	—	(6,794)
At 31 December 2003	52,063	26,926	412,109	8,263	130,962	6,751	9,274	93,271	739,619
Accumulated depreciation and impairment:									
At 1 January 2003	4,335	3,980	134,872	405	38,735	1,487	3,403	—	187,217
Charge for the year	6,282	1,403	58,132	1,653	12,494	1,334	1,014	—	82,312
Reclassifications	4,509	—	(4,509)	—	—	—	—	—	—
Transfer to a subsidiary	—	—	—	—	(2,847)	(2)	—	—	(2,849)
Reversal of impairment on disposal during the year recognised in the income statement	—	—	—	—	(149)	—	—	—	(149)
Disposals	(117)	(1)	(2,810)	—	(530)	(275)	(95)	—	(3,828)
At 31 December 2003	15,009	5,382	185,685	2,058	47,703	2,544	4,322	—	262,703
Net book value:									
At 31 December 2003	37,054	21,544	226,424	6,205	83,259	4,207	4,952	93,271	476,916
At 31 December 2002	34,984	22,949	216,376	7,695	68,621	3,905	2,610	78,013	435,153

Note 1: Included in the balances of the Group are building structures located in the gold mines with net book value of RMB26,057,000 (2002: RMB24,938,000) in respect of which the Group has not obtained the relevant land use rights as at 31 December 2003. During the year, the Company obtained certain land use rights in the gold mine on which the building structures are located. Accordingly, building structures located in the gold mines with net book value of RMB7,075,000 (2002: Nil) is reclassified from mining assets to buildings.

Note 2: Included in the balances of the Company are building structures located in the gold mines with net book value of RMB22,056,000 (2002: RMB23,277,000) in respect of which the Company has not obtained the relevant land use rights as at 31 December 2003. During the year, the Company obtained certain land use rights in the gold mine on which the building structures are located. Accordingly, building structures located in the gold mines with net book value of RMB7,075,000 (2002: Nil) is reclassified from mining assets to buildings.

13. LAND USE RIGHTS

	Group <i>RMB'000</i>	Company <i>RMB'000</i>
Cost:		
At beginning of year	15,289	9,986
Additions	3,535	2,337
At 31 December 2003	18,824	12,323
Accumulated amortisation and impairment:		
At beginning of year	3,283	3,283
Provided during the year	305	269
At 31 December 2003	3,588	3,552
Net book value:		
At 31 December 2003	15,236	8,771
At 31 December 2002	12,006	6,703

Notes to the 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>	Other assets <i>RMB'000</i> <i>(Note)</i>	Total <i>RMB'000</i>
Cost:				
At beginning of year	8,387	18,898	23,371	50,656
Additions	1,851	4,091	15,558	21,500
At 31 December 2003	10,238	22,989	38,929	72,156
Accumulated amortisation:				
At beginning of year	1,084	4,073	—	5,157
Provided during the year	1,220	2,280	—	3,500
At 31 December 2003	2,304	6,353	—	8,657
Net book value:				
At 31 December 2003	7,934	16,636	38,929	63,499
At 31 December 2002	7,303	14,825	23,371	45,499

14. LONG TERM DEFERRED ASSETS

Company

	Land compensation costs <i>RMB'000</i>	Other assets <i>RMB'000</i> <i>(Note)</i>	Total <i>RMB'000</i>
Cost:			
At beginning of year	18,898	23,371	42,269
Additions	3,245	15,558	18,803
At 31 December 2003	22,143	38,929	61,072
Accumulated amortisation:			
At beginning of year	4,073	—	4,073
Provided during the year	2,217	—	2,217
At 31 December 2003	6,290	—	6,290
Net book value:			
At 31 December 2003	15,853	38,929	54,782
At 31 December 2002	14,825	23,371	38,196

Note: Other assets mainly represented compensation paid to inhabitants to relocate them from the land above the copper mining sites of the Company prior to the commencement of copper mining activities. Pursuant to an agreement entered into between the Company and Fujian Geology & Mineral Exploration & Development Bureau (福建省地質礦產勘查開發局) on 23 October 2001, the Company and Fujian Geology & Mineral Exploration & Development Bureau were to establish a company to engage in copper mining businesses in Zijinshan. The new company had not been established as at 31 December 2003.

Notes to the Financial Accounts

31 December 2003

15. INTANGIBLE ASSETS

Group

	Mining rights <i>RMB'000</i>	Trading rights in Shanghai Gold Exchange <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:			
At beginning of year	86,077	500	86,577
Additions	41,818	—	41,818
At 31 December 2003	127,895	500	128,395
Accumulated amortisation and impairment:			
At beginning of the year	8,070	—	8,070
Charge for the year	3,062	50	3,112
At 31 December 2003	11,132	50	11,182
Net book value:			
31 December 2003	116,763	450	117,213
31 December 2002	78,007	500	78,507

15. INTANGIBLE ASSETS *(continued)*

Company

	Mining rights <i>RMB'000</i>	Trading rights in Shanghai Gold Exchange <i>RMB'000</i>	Total <i>RMB'000</i>
Cost:			
At beginning of year	17,660	500	18,160
Additions	19,060	—	19,060
At 31 December 2003	36,720	500	37,220
Accumulated amortisation and impairment:			
At beginning of the year	6,720	—	6,720
Provided during the year	1,680	50	1,730
At 31 December 2003	8,400	50	8,450
Net book value:			
31 December 2003	28,320	450	28,770
31 December 2002	10,940	500	11,440

Notes to the Financial Accounts

31 December 2003

16. GOODWILL

Group

	<i>RMB'000</i>
Cost:	
At beginning of year	16,766
Disposal of 2% equity interest in a subsidiary (note 33(b))	(633)
At 31 December 2003	16,133
Accumulated amortisation:	
At beginning of year	—
Amortisation provided during the year	1,613
At 31 December 2003	1,613
Net book value:	
At 31 December 2003	14,520
At 31 December 2002	16,766

17. INTERESTS IN SUBSIDIARIES

	Company	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Unlisted shares, at cost	281,291	169,275
Due from subsidiaries	30,937	15,634
Loans to subsidiaries	50,000	—
	362,228	184,909

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

The loans to subsidiaries are unsecured, bearing interest at 5.5755% per annum and repayable according to the repayment schedules stipulated in the loan agreements.

17. INTERESTS IN SUBSIDIARIES *(continued)*

As at 31 December 2003, particulars of the Company's subsidiaries are as follows:

Company name	Place and date of incorporation 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 30 December 2001	Limited liability company	8,000	75%	—	Gold mining and geological studies
Guizhou Zijin Mining Company Limited ("Guizhou Zijin")	PRC 17 December 2001	Joint stock company	30,000	51%	4.3%	Gold mining, and geological studies
Xiamen Zijin Science and Technology Company Limited ("Xiamen Zijin")	PRC 9 March 2001	Joint stock company	15,000	86.5%	—	Geological studies, and provision of mining technique consultancy
Xinjiang Ashele Copper Company Limited ("Xinjiang Ashele")	PRC 13 August 1999	Joint stock company	250,000	51%	—	Copper mining and geological studies
Hunchun Zijin Mining Company Limited ("Hunchun Zijin")	PRC 10 January 2003	Limited liability company	50,000	67%	5.2%	Gold mining and geological studies
Tongling Zijin Mining Company Limited ("Tongling Zijin")	PRC 9 June 2003	Limited liability company	34,280	51%	—	Gold mining and geological studies
Fujian Shanghang Zijin Shuidian Company Limited ("Zijin Shuidian")	PRC 13 June 2003	Limited liability company	20,000	51%	—	Dormant

Notes to the Financial Accounts

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17. INTERESTS IN SUBSIDIARIES *(continued)*

Company name	Place and date of incorporation 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	
Fujian Shanghang Jinshan Construction Engineering Company Limited ("Jinshan Construction")	PRC 5 March 2003	Limited liability company	9,000	80%	—	Provision of construction works
Tibet Jindi Mining Company Limited ("Tibet Jindi")	PRC 16 July 2003	Limited liability company	30,000	51%	0.9%	Gold mining and geological studies
Sichuan Shimian Zijin Platinum Company Limited ("Shimian Zijin")	PRC 25 July 2003	Limited liability company	10,000	—	44.1%	Platinum mining and geological studies
Sichuan Jiuzhaigou Zijin Mining Company Limited ("Jiuzhaigou Zijin")	PRC 28 July 2003	Limited liability company	40,000	60%	—	Gold mining and geological studies
Zhenfeng Zijin Mining Company Limited ("Zhenfeng Zijin")	PRC 14 August 2003	Limited liability company	1,000	—	46.5%	Dormant

The statutory audited financial statements of the above subsidiaries are not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

18. INTEREST IN AN ASSOCIATE

	Group and Company	
	2003 RMB'000	2002 RMB'000
Share of net assets of an associate	11,307	9,820
Negative goodwill arising on acquisition of an associate, less amortisation	(317)	(357)
	10,990	9,463

The balance with an associate was unsecured, interest-free and fully settled during the year.

The particulars of the associate are as follows:

Name of company	Business structure	Place of incorporation and operations	Percentage of ownership interest attributable to the Group	Principal activity
Fujian Longyan Makeng Mining Company Limited* (福建龍岩馬坑礦業有限公司)	Corporate	PRC	31.5%	Iron ore mining

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

19. INVENTORIES

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Raw materials and consumable supplies	24,824	12,355	13,812	12,176
Work in progress	77,369	80,806	73,522	80,339
Finished goods	19,431	3,081	17,825	3,081
	121,624	96,242	105,159	95,596

The carrying amount of inventories of the Group and the Company carried at net realisable value included in the above balance was approximately RMB1,688,000 (2002: Nil).

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20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

GROUP AND COMPANY

Included in the balance of the Group are prepayment for land use rights of RMB4,276,000 (2002: RMB5,223,000), exploration rights of RMB46,060,000 (2002: RMB1,000,000) and 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 (2002: Nil).

Included in the balance of the Company are prepayment for land use rights of RMB2,297,000 (2002:RMB2,684,000), exploration rights of RMB7,850,000 (2002: RMB1,000,000) and 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 (2002:Nil).

21. TRADE RECEIVABLES

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

	Group		Company	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Within 4 months	2,373	1,644	437	99
Over 4 months but within 12 months	—	2	—	2
Over 1 year but within 2 years	—	12	—	12
Over 2 years	—	1	—	1
	2,373	1,659	437	114

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

22. BALANCES WITH RELATED PARTIES

Notes	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Due from minority shareholders:				
Zhenfeng Industrial Investment Limited (貞豐縣工業投資有限公司) (i)	800	—	800	—
Hunchun Gold and Copper Mining Company Limited (琿春金銅礦業有限責任公司) (ii)	2,905	—	—	—
	3,705	—	800	—
Due from companies controlled by Xinjiang Ashele's shareholders:				
Xinjiang Non-ferrous Gold Construction Company (新疆有色黃金建設公司) (iii)	436	892	—	—
	4,141	892	800	—

	Group	
	2003 RMB'000	2002 RMB'000
Due to minority shareholders:		
Zhenfeng Industrial Investment Limited (貞豐縣工業投資有限責任公司) (iv)	—	1,000
Guizhou Land & Mineral Resources Development Company (貴州省地質礦產資源開發局) (iv)	—	2,000
Guizhou Bureau of Geology & Mineral Resources 105 (貴州省地質礦產勘查開發局 105 地質大隊) (iv)	—	1,000
Xiamen Hengxing Mining Company Limited (廈門恒興礦業有限公司) (iv)	—	1,000
	—	5,000

Notes to the Financial Accounts

31 December 2003

22. BALANCES WITH RELATED PARTIES *(continued)*

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) Except for the loan of RMB600,000 advanced to Xinjiang Non-ferrous Gold Construction Company in the prior year which bears interest at 6.372% per annum and is repayable within one year, the remaining balance represents advance of construction fee which is unsecured, interest-free and repayable by offsetting the future construction fee. The loan of RMB600,000 was fully repaid during the year.
- (iv) The balances represent fund received for capital injection into a subsidiary, Guizhou Zijin. The balances are unsecured, bears interest ranging from 4.425% to 5.58% per annum and are injected into Guizhou Zijin during the year ended 31 December 2003.

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Cash and bank balances	1,046,466	28,539	964,275	10,376
Time deposits	82,475	126,800	12,475	—
	1,128,941	155,339	976,750	10,376
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 mine (Note)	(12,475)	—	(12,475)	—
	(14,475)	(2,000)	(14,475)	(2,000)
	1,114,466	153,339	962,275	8,376

Note: Pursuant to a directive issued by the Longyan municipal government, the Company is required to pledged certain deposits to a bank which is restricted for land restoration and environmental costs upon the closure of the mine. As at 31 December 2003, the Company has pledged bank deposits of RMB12,475,000 (2002: Nil). The use of these bank deposits is subject to approval by the Longyan municipal government. During the year ended 31 December 2003, the Company made a provision for land restoration and environmental costs amounting to RMB14,414,000 (2002: Nil) (note 29).

24. 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 31(b)) (2002: Nil) and accrued share issue expenses of RMB61,574,000 (2002: Nil).

25. TRADE PAYABLES

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

	Group		Company	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Within one year	102,890	76,327	93,929	74,215
Over 1 year but within 2 years	66	104	66	104
Over 2 years but within 3 years	40	20	40	20
Over 3 years	226	229	226	229
	103,222	76,680	94,261	74,568

Trade payables of the Group include trading balances due to shareholders of RMB32,225,000 as at 31 December 2003 (2002: RMB24,077,000). Trade payables also include trading balances due to minority shareholders of RMB29,647,000 as at 31 December 2003 (2002: RMB21,151,000). The balances due to shareholders and minority shareholders are unsecured, interest-free and repayable in accordance with normal commercial terms.

Trade payables of the Company include trading balances due to shareholders of RMB31,673,000 as at 31 December 2003 (2002: RMB24,077,000). Trade payables also include trading balance due to a minority shareholder of RMB27,563,000 as at 31 December 2003 (2002: RMB21,151,000). The balances due to shareholders and a minority shareholder are unsecured, interest-free and repayable in accordance with normal commercial terms.

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26. INTEREST-BEARING BANK LOANS

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Total bank loans	199,400	363,050	149,400	353,050
Less: Amounts due within one year included under current liabilities	—	(12,000)	—	(12,000)
Amounts due after one year	199,400	351,050	149,400	341,050
Bank loans:				
Unsecured	149,400	203,800	149,400	203,800
Secured	50,000	159,250	—	149,250
	199,400	363,050	149,400	353,050
Bank loans repayable:				
Within one year	—	12,000	—	12,000
Between one and two years	55,000	191,250	40,000	191,250
Between two and five years	119,600	159,800	84,600	149,800
More than five years	24,800	—	24,800	—
	199,400	363,050	149,400	353,050

The bank loans carry interest at rates ranging from 2.88% to 6.70% per annum (2002: 2.88% to 8.07% per annum).

The bank loans are secured by guarantees from third parties, certain shareholders and a minority shareholder of a subsidiary (note 34). Bank loans of certain subsidiaries are also secured by guarantees from the Company.

27. SHORT TERM BANK LOANS

	Group		Company	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Unsecured	44,500	36,000	44,000	36,000
Secured	12,000	2,200	—	2,200
	56,500	38,200	44,000	38,200

The short term bank loans are secured by guarantees from third parties and certain shareholders of the Company (note 34).

28. OTHER LONG TERM LOANS

	Notes	Group and Company	
		2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
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工室)	(i)	200	200
Shanghang County Technology Bureau (上杭縣科技局)	(ii)	30	30
Shanghang County Social Labour Insurance Company (上杭縣社會勞動保險公司)	(iii)	1,000	—
		1,230	230
Portion classified under current liabilities		(230)	(30)
		1,000	200
Other long term loans are repayable as follows:			
Within one year		230	30
Between one and two years		1,000	200
		1,230	230

Notes:

- (i) The balance is unsecured, bears interest at 20% per annum and is repaid in February 2004.
- (ii) The balance is unsecured, interest-free and repayable on demand.
- (iii) The balance is secured by a retirement fund of the Company managed by the Shanghang municipal government which bears interest at 5.49% per annum and is repayable by 28 February 2005.

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29. PROVISION FOR LAND RESTORATION AND ENVIRONMENTAL COSTS

	Group <i>RMB'000</i>	Company <i>RMB'000</i>
At beginning of year	—	—
Additional provision for the year	14,414	13,377
	14,414	13,377

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

30. LONG TERM OTHER PAYABLES

	Group	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Xinjiang Geological, Mining and Prospecting Development Bureau (新疆地質礦產勘察開發局)	32,420	32,420
Xinjiang Non-ferrous Metal Industry Company (新疆有色金屬工業公司)	9,721	9,721
	42,141	42,141

Note: The balances represent amounts payable to the promoters of Xinjiang Ashele upon injection of assets on establishment of Xinjiang Ashele on 13 August 1999.

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

	Group	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Between two and five years	21,031	16,809
More than five years	21,110	25,332
	42,141	42,141

31. SHARE CAPITAL

	2003 Number of shares '000	2003 Nominal value RMB'000	2002 Number of shares '000	2002 Nominal value RMB'000
Registered	1,314,131	131,413	95,000	95,000
Issued and fully paid:				
- Domestic Shares of RMB0.10 each (2002: RMB1.00 each)	913,587	91,359	95,000	95,000
- H shares of RMB0.10 each	400,544	40,054	—	—
	1,314,131	131,413	95,000	95,000

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

	2003 Number of shares '000	2003 Nominal value RMB'000	2002 Number of shares '000	2002 Nominal value RMB'000
At beginning of the year	95,000	95,000	95,000	95,000
Share subdivision (note (a))	950,000	95,000	—	—
Domestic Shares converted into Sale H Shares (note (b))	(36,413)	(3,641)	—	—
Share placement and public offer (note (c))	400,544	40,054	—	—
At end of year	1,314,131	131,413	95,000	95,000

Notes to the Financial Accounts

31 December 2003

31. 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 24).
- (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.

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

32. 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 44 of the financial statements.

Company

	Notes	Share premium account RMB'000	surplus reserve RMB'000 Note (a)	Statutory welfare fund RMB'000 Note (b)	Public Capital reserve RMB'000	Retained profits/ losses (accumulated) RMB'000 Note (c)	Proposed final dividend RMB'000	Total RMB'000
At 1 January 2002		45,043	8,511	4,256	—	(9,986)	47,500	95,324
Dividend paid		—	—	—	—	—	(47,500)	(47,500)
Net profit for the year		—	—	—	—	137,877	—	137,877
Transfer to reserves		—	13,746	6,873	—	(20,619)	—	—
Share of capital reserve of an associate		—	—	—	897	—	—	897
Proposed final dividend	10	—	—	—	—	(95,000)	95,000	—
As at 31 December 2002 and 1 January 2003		45,043	22,257	11,129	897	12,272	95,000	186,598
Dividend paid		—	—	—	—	—	(95,000)	(95,000)
Net profit for the year		—	—	—	—	306,031	—	306,031
Transfer to reserves		—	31,666	15,833	—	(47,499)	—	—
Share of capital reserve of an associate		—	—	—	356	—	—	356
New shares issued	31(c)	1,243,926	—	—	—	—	—	1,243,926
Share issue expenses	31(c)	(74,591)	—	—	—	—	—	(74,591)
Proposed final dividend	10	—	—	—	—	(197,120)	197,120	—
At 31 December 2003		1,214,378	53,923	26,962	1,253	73,684	197,120	1,567,320

Notes to the Financial Accounts

31 December 2003

32. RESERVES *(continued)*

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, 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 share 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, 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.

(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 IFRS.

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 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).

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**(a) Acquisition of a subsidiary**

On 20 December 2002, the Company entered into agreements with Zhongbao Technology Investment Company Limited (中寶科技投資股份有限公司) and Zhongguo Geology & Mining Company (中國地質礦業總公司), respectively, independent third parties, to acquire 53% equity interests in Xinjiang Ashele. The aggregate acquisition consideration was RMB144,800,000.

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

	<i>RMB'000</i>
Fixed assets	81,486
Intangible assets	60,000
Cash and bank balances	133,146
Prepayments and other receivables	19,567
Due from related parties	892
	<hr/> 295,091
Accrued liabilities and other payables	(11,376)
Tax payable	(1)
Long term other payables	(42,141)
Minority interests	(113,539)
	<hr/> (167,057)
Fair value of net assets	128,034
Goodwill arising on acquisition	16,766
	<hr/> 144,800
Consideration:	
Cash paid	144,800
	<hr/> <i>RMB'000</i>
Cash outflow on acquisition is as follows:	
Amount of cash paid	(144,800)
Net cash acquired	133,146
	<hr/> (11,654)

Since its acquisition, Xinjiang Ashele had no significant impact on the turnover or the consolidated profit after tax and before minority interests for that year.

Notes to the Financial Accounts

31 December 2003

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

(b) Disposal of 2% equity interest in a subsidiary

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 and a release of unamortised goodwill of RMB633,000 for the year ended 31 December 2003 (notes 4 and 16, respectively).

(c) Major non-cash transactions

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.

During the year, the Group capitalised interest expenses of RMB5,548,000 (2002: RMB5,595,000) in fixed assets (note 5).

34. RELATED PARTY TRANSACTIONS

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

Name of related parties	Relationship with the Company	Nature of transactions	Notes	2003 RMB'000	2002 RMB'000
Shanghang County Jinshan Trading Company Limited ("Jinshan Trading") (上杭縣金山貿易有限公司)	A shareholder	Purchase of construction materials	(a)	915	3,737
Fujian Xinhua Engineering Company Limited ("Xinhua Engineering") (福建省新華都工程有限責任公司)	A shareholder	Construction service fees	(a)	97,093	102,276

34. RELATED PARTY TRANSACTIONS (continued)

(i) (continued)

Name of related parties	Relationship with the Company	Nature of transactions	Notes	2003 RMB'000	2002 RMB'000
Fujian Minxi Geologist Team (福建省閩西地質大隊)	A shareholder	Payment for the purchase of exploration and mining rights	(b)	10,736	—
Minxi Xinghang State-owned Assets Investment Company Limited ("Minxi Xinghang") (閩西興杭國有資產投資經營有限公司)	A shareholder	Guarantee handling fee	(c)	—	210
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 Interest expenses	(a) (d)	72,290 11	— —
Xiamen Hengxing Construction & Decoration Materials Company Limited ("Xiamen Hengxing") (廈門恒興建築裝飾材料有限公司)	A shareholder	Rental expenses	(e)	7	7
		Rental income	(e)	20	—
Fujian Longyan Makeng Mining Company Limited (福建龍岩馬坑礦業有限公司)	An associate	Purchase of iron ores	(a)	—	108
Guizhou Bureau of Geology & Mineral Resources 105 (貴州省地質礦產勘查開發局 105 地質大隊)	A shareholder of Guizhou Zijin	Fund received for additional capital injection in a subsidiary	(d)	—	1,700
		Gold mine exploration fees	(f)	80	—
		Interest expenses	(d)	39	9

Notes to the Financial Accounts

31 December 2003

34. RELATED PARTY TRANSACTIONS (continued)

(i) (continued)

Name of related parties	Relationship with the Company	Nature of transactions	Notes	2003 RMB'000	2002 RMB'000
Xiamen Hengxing Mining Company Limited (廈門恒興礦業有限公司)	A shareholder of Guizhou Zijin	Fund received for additional capital injection in a subsidiary	(d)	—	1,000
		Interest expenses	(d)	27	5
Zhenfeng Industrial Investment Limited (貞豐縣工業投資有限公司)	A shareholder of Guizhou Zijin	Fund received for additional capital injection in a subsidiary	(d)	—	3,000
		Interest expenses	(d)	62	—
		Loan	(i)	800	—
Guizhou Land & Mineral Resources Development Company (貴州省地質礦產資源開發局)	A shareholder of Guizhou Zijin	Fund received for additional capital injection in a subsidiary	(d)	—	3,400
		Interest expenses	(d)	80	19
Anhui Geological and Mining Bureau, Geological Team 321 (安徽省地質礦產局 321 地質隊)	A shareholder of Tongling Zijin	Construction service fees	(g)	368	—
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	(i)	2,905	—
		Sales of construction materials	(j)	275	—
Anhui 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 of Jiaochong Gold-Base-Metals Mine, Hamaling Gold Mine and Qingyang County Yinjiaza Gold Mine	(b)	16,800	—

34. RELATED PARTY TRANSACTIONS (continued)

(i) (continued)

Name of related parties	Relationship with the Company	Nature of transactions	Notes	2003 RMB'000	2002 RMB'000
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)	500	—
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	—
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	—
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	(k)	5,000	—
Xinjiang Baodi Mining Company Limited (新疆寶地礦業有限責任公司)	A shareholder of Xinjiang Ashele	Advance of construction fees	(l)	264	—
		Infrastructure construction fees	(m)	1,300	—
Xinjiang Land & Mineral Bureau Geologic Team No. 4 (新疆地礦局第四地質大隊)	A company controlled by Xinjiang Ashele's shareholder	Infrastructure construction fees	(n)	355	—
Xinjiang Non-ferrous Metals Industry Engineering Quality Control Team (新疆有色金屬工業工程質量監督站)	A company controlled by Xinjiang Ashele's shareholder	Infrastructure construction fees	(o)	114	—

Notes to the Financial Accounts

31 December 2003

34. RELATED PARTY TRANSACTIONS (continued)

(i) (continued)

Name of related parties	Relationship with the Company	Nature of transactions	Notes	2003 RMB'000	2002 RMB'000
Xinjiang Non-ferrous Gold Construction Company (新疆有色黃金建設公司)	A company controlled by Xinjiang Ashele's shareholder	Loan	(p)	240	600
		Advance of construction fees	(l)	1,282	292
		Infrastructure construction fees	(q)	3,768	—
Xinjiang Aletai Zhenan Blast Limited (新疆阿勒泰震安爆破有限公司)	A company controlled by Xinjiang Ashele's shareholder	Infrastructure construction fees	(r)	845	—
Aletai Kaiyuan Mining Limited (阿勒泰開源礦業有限公司)	A company controlled by Xinjiang Ashele's shareholder	Infrastructure construction fees	(s)	6	—
Tibet Geologic Exploration & Development Bureau Geothermal 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	Prepayment for the purchase of exploration and mining rights	(t)	13,200	—

Notes:

- (a) These transactions were made according to the published prices and conditions similar to those offered to independent third parties.

Fujian Shanghang Hongyang Mine Engineering Company Limited ("Shanghang Hongyang") provided construction service fees during the year. As Shanghang Hongyang became a related party of the Group after becoming the minority shareholder of Hunchun Zijin and Guizhou Zijin on 10 January 2003 and 24 March 2003, respectively, the construction service fees paid to Shanghang Hongyang were disclosed as related party transactions for the year ended 31 December 2003.

34. RELATED PARTY TRANSACTIONS *(continued)*(i) *(continued)**Notes: (continued)*

(b) In accordance with an agreement entered into between the Company and Fujian Minxi Geologist Team on 28 June, 2003, the Company purchased exploration and mining rights of gold and copper mine at the southern end of Shanghang Zijinshan Gold and Copper Mine (上杭縣紫金山銅金礦東南礦段金銅礦) from Fujian Minxi Geologist Team at a consideration of RMB10,736,000.

In accordance with an agreement entered into between Tongling Zijin and Anhui Tongling Jin Chan Mining Company Limited on 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 Yinjiazha 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.

(c) The guarantee handling fee was paid to Minxi Xinghang for the provision of guarantee on bank loans borrowed by the Company. The guarantee handling fee was calculated on terms mutually agreed between the parties. On 10 August, 2002, Minxi Xinghang entered into an agreement with the Company which confirmed that the Company was not required to pay any further guarantee handling fee to Minxi Xinghang since the date of the agreement.

(d) Interest expenses were paid to the shareholders of Guizhou Zijin for the advance of funds to Guizhou Zijin for the increase in share capital from RMB10,000,000 to RMB30,000,000. Interest expenses were charged for the period when the funds were received from shareholders until the completion of additional capital injection. The interest expenses were charged at short term bank loan rates ranging from 4.425% to 5.580% per annum.

(e) On 1 October, 2002, Xiamen Zijin entered into a tenancy agreement with Xiamen Hengxing as the landlord at a monthly rental rate of RMB1,200. The rental expense was made at prices and terms mutually agreed between the parties. The lease was terminated in June 2003.

On 1 December 2003, Xiamen Zijin entered into a tenancy agreement with Xiamen Hengxing as the tenant at a monthly rental of RMB19,960. The rental income charged by Xiamen Zijin was made at prices and terms mutually agreed between the parties.

(f) The payment was made for gold mine exploration services provided by a minority shareholder of a subsidiary. This transaction was conducted on prices by reference to the standard fee scale issued by the PRC government.

(g) In accordance with an agreement entered into between Anhui Zijin and Anhui Geological and Mining Bureau, Geological Team 321 on 13 December 2002, Anhui Geological and Mining Bureau, Geological Team 321 performed drilling work in the gold mine of Anhui Zijin. The drilling work was charged to Anhui Zijin according to prices by reference to the standard fee scale issued by the PRC government.

(h) The loans were unsecured, interest-free and fully repaid on 19 August 2003.

(i) The loans were unsecured, interest-free and had no fixed terms of repayment.

(j) These transactions were conducted on terms mutually agreed between the parties.

Notes to the Financial Accounts

31 December 2003

34. RELATED PARTY TRANSACTIONS *(continued)*

(i) *(continued)*

Notes: (continued)

- (k) In accordance with an agreement entered into between the Company and Xinjiang Uygur Autonomous Region Geologic Minerals Exploration & Development Bureau on 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.
- (l) The balances represented loans to Xinjiang Ashele's shareholders and its controlled company during the year which were engaged in the infrastructure construction works of Xinjiang Ashele. The loans were unsecured, interest-free and were repayable by offsetting future construction fees.
- (m) In accordance with agreements entered into between Xinjiang Ashele and Xinjiang Baodi Mining Company Limited ("Xinjiang Baodi") on 10 October 2002, Xinjiang Baodi 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.
- (n) In accordance with agreements entered into between Xinjiang Ashele and Xinjiang Land & Mineral Bureau Geologic Team No. 4 on 29 April 2002 and 26 March 2003, Xinjiang Land & Mineral Bureau Geologic Team No. 4 performed geological studies on the construction site of Xinjiang Ashele at a contract sum of RMB340,000. In accordance with another agreement dated 22 August 2001, Xinjiang Land & Mineral Bureau Geologic Team No. 4 performed site reclamation works for temporary electricity supply facility for Xinjiang Ashele at a contract sum of RMB15,000. These transactions were conducted on price by reference to the standard fee scale issued by the PRC government.
- (o) In accordance with an agreement entered into between Xinjiang Ashele and Xinjiang Non-ferrous Metals Industry Engineering Quality Control Team on 27 October 2002, Xinjiang Non-ferrous Metals Industry Engineering Quality Control Team monitored the quality of initial construction works of Xinjiang Ashele at a contract sum of RMB250,000. This transaction was conducted on price by reference to the standard fee scale issued by the PRC government.
- (p) The loan was unsecured, bore interest at 6.372% per annum and was repaid in October 2003. The interest rate was mutually agreed between the parties.
- (q) In accordance with agreements entered into between Xinjiang Ashele and Xinjiang Non-ferrous Gold Construction Limited on 3 May 2002 and 1 July 2002, Xinjiang Non-ferrous Gold Construction Limited was engaged in mining tunnel and water pipe construction works of Xinjiang Ashele. The contract sum for mining tunnel construction works was RMB7,433,000 and 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 water pipe construction works was completed in September 2003 while the mining tunnel construction works are still under construction as at 31 December 2003.

34. RELATED PARTY TRANSACTIONS *(continued)*

(i) *(continued)*

Notes: (continued)

- (r) In accordance with an agreement entered into between Xinjiang Ashele and Xinjiang Aletai Zhenan Blast Limited on 1 July 2002, Xinjiang Aletai Zhenan Blast Limited was engaged in the water pipe construction works of Xinjiang Ashele. 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.
- (s) In accordance with an agreement entered into between Xinjiang Ashele and Aletai Kaiyuan Mining Limited, Aletai Kaiyuan Mining Limited was engaged in land survey works of copper mine of Xinjiang Ashele at a contract sum of RMB6,000. This transaction was conducted on prices by reference to the standard fee scale issued by the PRC government.
- (t) In accordance with an agreement entered into between the Company on behalf of its subsidiary, Tibet Zijin, and Tibet Geological Exploration Development Bureau, Geothermal Geological Team (西藏自治區地質礦業勘查開發局地熱地質大隊) 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 Geological Exploration Development Bureau, Geothermal Geological Team (西藏自治區地質礦業勘查開發局地熱地質大隊) at a consideration of RMB13,200,000. Prepayment of RMB13,200,000 has been paid as at 31 December 2003.

In addition to the above, 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. During the year, an aggregate design fee of RMB2,050,000 was paid to Research Institutes.

Notes to the Financial Accounts

31 December 2003

34. RELATED PARTY TRANSACTIONS (continued)

(ii) (a) Guarantees in respect of bank loans provided by the shareholders to the Company

Name of shareholder	Nature of guarantee	2003 RMB'000 Note	2002 RMB'000
Minxi Xinghang	Corporate guarantee	—	60,200
Xinhuadu Engineering	Corporate guarantee	—	20,000
Jinshan Trading	Corporate guarantee	—	32,000

Note: The guarantees in respect of bank loans provided by Minxi Xinghang and Xinhuadu Engineering have been released as the bank loans were fully repaid on 20 February 2003, 4 March 2003, 21 October 2003 and 23 October 2003, respectively. The guarantee in respect of a bank loan provided by Jishan Trading has been released as the bank loan has been changed to an unsecured loan on 10 November 2003.

(b) 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) 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) Limited would provide 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 2003, a long term bank loan of Xinjiang Ashele amounting to RMB10,000,000 was secured by guarantees provided by the Company and Xinjiang Non-ferrous Metal Industry (Group) Limited.

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

Name of an associate	Nature of guarantee	2003 RMB'000	2002 RMB'000
Fujian Longyan Makeng Mining Company Limited	Corporate guarantee		
Maximum guarantees		15,000	18,500
Guarantees utilised		15,000	5,000

34. RELATED PARTY TRANSACTIONS *(continued)*(ii) *(continued)*

(d) Guarantees in respect of bank loans granted by the Company to a minority shareholder

Name of a minority shareholder	Nature of guarantee	2003 RMB'000	2002 RMB'000
Fujian Shanghang Hongyang Mine Engineering Company Limited	Corporate guarantee		
Maximum guarantees		—	500
Guarantees utilised		—	500

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

Name of subsidiary	Nature of guarantee	2003 RMB'000	2002 RMB'000
Xiamen Zijin Maximum guarantees	Corporate guarantee	25,000	10,000
Guarantees utilised		25,000	10,000
Guizhou Zijin Maximum guarantees	Corporate guarantee	27,000	—
Guarantees utilised		27,000	—
Xinjiang Ashele Maximum guarantees	Corporate guarantee	173,400	180,200
Guarantees utilised		10,000	—

As at 31 December 2003, a long term bank loan of Xinjiang Ashele amounting to RMB10,000,000 was secured by guarantees provided by the Company and Xinjiang Non-ferrous Metal Industry (Group) Limited (note 34(ii)(b) above).

Notes to the Financial Accounts

31 December 2003

35. CONTINGENT LIABILITIES

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

	Group		Company	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Corporate guarantees in respect of bank loans granted to:				
A minority shareholder	—	500	—	500
Third parties	7,600	11,400	7,600	11,400
Subsidiaries	—	—	227,400	190,200
An associate	15,000	18,500	15,000	18,500
Bill discounted with recourse	8,300	—	—	—
	30,900	30,400	250,000	220,600

As at 31 December 2003, 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 RMB62,000,000 (2002: RMB10,000,000) and RMB15,000,000 (2002: RMB5,000,000), respectively.

36. 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 2003, the Group and the Company had total future minimum lease receivables under non-cancellable operating leases falling due as follows:

	Group		Company	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Within one year	510	62	273	62
In the second to fifth years, inclusive	1,064	7	135	7
	1,574	69	408	69

36. 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 two to seven years.

At 31 December 2003, the Group and Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Within one year	1,163	266	1,146	263
In the second to fifth years, inclusive	4,540	921	4,540	921
After five years	2,270	6,842	2,270	6,842
	7,973	8,029	7,956	8,026

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36 above, the Group and the Company had the following commitments at the balance sheet date:

	Group		Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Contracted, but not provided:				
- acquisition of plants, machinery and mining assets	136,166	67,267	20,335	48,837
- acquisition of exploration and mining rights	51,850	—	51,850	—
- additional capital injection in subsidiaries	—	—	82,867	—
	188,016	67,267	155,052	48,837
Authorised, but not contracted for:				
- overall utilisation of solid waste & environmental engineering (固體廢物綜合利用及環境治理工程)	81,549	112,510	81,549	112,510
	269,565	179,777	236,601	161,347

Notes to the Financial Accounts

31 December 2003

38. FINANCIAL INSTRUMENTS

(i) Fair values

As at 31 December 2003, the carrying amounts of the Group's cash and bank balances, trade receivables, other receivables, trade payables, other payables and short term borrowings approximate their fair values because of the short maturity of these instruments. The Group did not enter into any foreign exchange forward contracts to hedge against fluctuations.

As at 31 December 2003, the carrying amounts of the Group's long term borrowings approximate their fair values based on the prevailing borrowing rates available for loans with similar terms and maturities.

(ii) Credit risks

The Group's credit risk is primarily attributable to its trade and other receivables. The amounts presented are net of allowances for doubtful receivables, estimated by the Group's management based on past experience and the current economic environment.

The Group has no significant concentration of credit risk, with exposure spread over a number of counter parties.

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the ability to apply for bank loan facilities if necessary.

39. EVENTS AFTER THE BALANCE SHEET DATE

- (a) On 3 April 2004, the Board of Directors proposed a final dividend of RMB0.15 per ordinary share, totaling approximately RMB197,120,000. The proposed final dividend is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.
- (b) On 3 April 2004, the Board of Directors 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.
- (c) On 3 April, 2004, the Board of Directors have proposed to change the name of the Company to Zijin Mining Group Co., Ltd. (紫金礦業集團股份有限公司), subject to the approval of the shareholders at the forthcoming annual general meeting.
- (d) On 18 February 2004, the Company and Sichuan Geological and Mining Exploration Bureau Exploration Team (四川省地質礦產勘查開發局物探隊) established a new Company, Sichuan Ganzizhou Zijin Mining Company Limited ("Ganzizhou Zijin") (四川省甘孜州紫金礦業有限公司) which is engaged in gold and copper mining and geological studies. The registered share capital of Ganzizhou Zijin is RMB12,000,000. The Company contributed RMB7,200,000 as paid-up capital in Ganzizhou Zijin, representing 60% equity interests in Ganzizhou Zijin.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 3 April 2004.