



HUNAN

GUIZHOU

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Annual Report and Accounts 2003

Lizhou

Wuzhou

GUANGXI

Dizhou

Nanning

Guicheng

Jinjiang

Yulin

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Zhulang



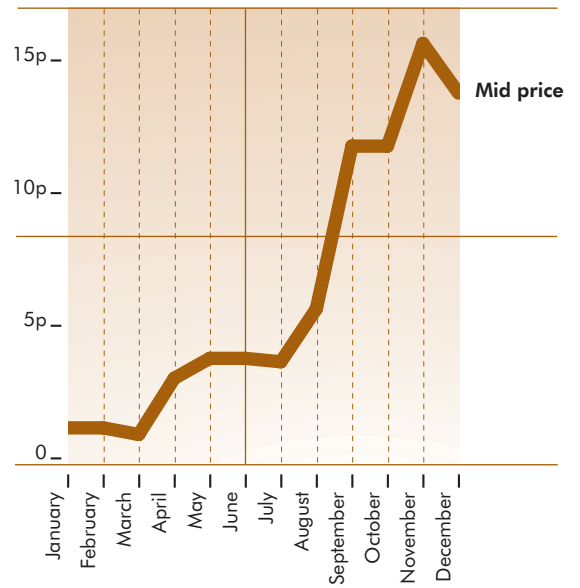
Above: View of Shanklin, looking North East.

## New Territory

Caledon is pleased to announce the founding of a highly skilled exploration team and operating base situated in Nanning, the capital of Guangxi Province.







## Financial Highlights








Caledon Resources Plc share price 2003 (pence)

Caledon Resources Plc is a China-focused gold explorer, possessing an attractive portfolio of advanced stage exploration projects in Southern China. Our objective is to create shareholder value through the acquisition, discovery and development of world-class precious metal ore bodies leveraged by our company's corporate management and technical skills.

## 2003 Achievements

-  April: Floated Caledon on the Alternative Investment Market of the London Stock Exchange.
-  May: Established China base, obtained Chinese business license.
-  May–September: Secured the rights to four advanced stage gold assets in Southern China.
-  March–September: Successfully promoted the company in Europe and North America, completed several financings – built an attractive European and North American share holder base.

## 2004 Objectives

-  Complete first-pass field exploration and drill target definition work on the Hengxian, Gaolong, Badu and Longtoushan gold projects.
-  Complete first pass drill program on the Hengxian, Gaolong, Badu and Longtoushan gold projects.
-  Advance one or more successful gold projects to a resource definition stage by the end of 2004.
-  Continue to evaluate opportunistically gold projects in China/Asia.
-  Continue pro-active promotion and marketing in Europe and North America.

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Above: Transport trucks at the Hengxian mine.



Above: Alluvial gold mining operation, Guangxi.

## Chairman's Statement

It is with pleasure that we report to our shareholders in this, Caledon's first annual report. Caledon Resources has established itself as a prominent London AIM listed company, focused on gold exploration in Southern China.

2003 has been a year of growth and success for Caledon. Having reversed the exploration projects into Finelot Plc in April 2003, Caledon's management has proceeded to successfully grow the company on several fronts:

- Establishment of a Chinese operating subsidiary and acquisition of a Chinese business license.
- Founding of a highly skilled exploration team and operating base situated in Nanning, the capital of Guangxi Province.
- Successful acquisition of four advanced stage exploration projects in Southern China, all focused on near-surface disseminated gold potential immediately adjacent to existing small-scale gold production.
- Financed Caledon's growth through a series of equity financings at progressively higher prices.
- Established a European institutional and retail shareholding base.

### **A Year of Growth and Recognition**

2003 was a year of growth. Within mining investment circles Caledon Resources has established a niche as one of the important gold explorers in southern China.

The Caledon exploration story has been well presented to the investment community through a focus on its key projects and has achieved positive research coverage by several firms.



Above: Workers at the Gaolong pit.



Above: View of the Gaolong pit looking North and the Neilin Alluvial operations.



## Acquisition and Exploration:

### Building Blocks of Future Growth

Whereas 2003 was a year of corporate re-structuring of Finelot and exploration portfolio building, we view 2004 as being our year to deliver on the promise of major gold discoveries on our projects in China. As we advance all of our recently acquired gold projects to a drill stage, through further field work and target definition, we are confident that we can deliver on one or more gold discoveries for our shareholders by the end of 2004.

In addition, because of the goodwill that we have built with our mining partners in China, Caledon is continually being exposed to new potential acquisition opportunities. As such, we will continue to pursue our policy of enhancing shareholder value through the opportunistic evaluation and value driven acquisition of additional precious metal projects in 2004.

### A fundamental improvement in gold

With respect to our business in general, our expectation is that the gold price will remain strong, providing shareholders with further opportunities for substantial gain. Gold's performance, in recent years has been fuelled by – amongst other factors – a weakening US dollar, increased investment demand for gold, decreased global production and reduced producer hedging. We believe that these trends are likely to continue in the years ahead and bode well for increased gold prices in the future.

As has historically been the case during all gold upward cyclical periods, maximum leverage in the gold markets will continue to be provided by gold focused exploration stocks.

## Management

None of Caledon's success would have happened without the dedication and effort of the Company's key operating and staff managers. Caledon's Chinese operations are headed by Paul Ingram along with his team members including Bruce Harris, Steve Morgan and others.

On the corporate side, George Salamis, Caledon's Managing Director is an experienced exploration geologist and mining executive who is capable of marketing the Company's Chinese exploration story while having the technical skills to assist with operations.

### Vision of the Future

In short, Caledon is poised to add resource ounces in 2004 through its upcoming drill programmes on its advanced stage exploration properties and possibly through additional acquisitions.

In closing, we would like to thank our shareholders – institutional and retail alike, on both sides of the Atlantic Ocean – for their support provided in 2003. Our mandate in 2004 is clear: to successfully deliver on our promise of gold discoveries in China. Rest assured that we will be working hard to fulfil that mandate.

### Stephen R. Dattels

Executive Chairman  
27 January 2004



“...it is likely that many of the Carlin-type Au ore districts in China, when fully developed, could have resource potential comparable to the multi-1,000-tonne Au resource in northern Nevada...”

Quoted from the United States Geological Survey (USGS Open-File Rep 02-131)



Above: View of the Mojian gold mine.  
Right: The Hengxian pit.



## Review of Operations

### A Year of Gold Project Acquisitions:

#### Maximum leverage, diminished risks

The year 2003 was marked by a period of accelerated growth for the company, underpinned by the acquisition of four advanced stage gold projects in Southern China: Hengxian, Longtoushan, Gaolong and Badu.

At Caledon, we recognise that gold exploration does have its risks – and thus our management’s philosophy is that of a safer strategy focused on diminished risk and maximum leverage for our investor. This philosophy relates to the acquisition of exploration rights that surround or are positioned immediately adjacent to existing mining operations. So goes the adage; “...the best place to find a new mine is in the shadow of an existing one...”

In short, our view is that the near surface gold mineralised zones currently being mined on a small scale by our minority partners in China, have the potential to grow substantially, through the application of modern exploration techniques and philosophies.

#### Technical Report: SRK Engineering

SRK Engineering, one of the world’s leading mining and exploration consulting firms, was engaged in late 2003 by the company to complete a Technical Report describing the Company’s various gold projects in China.

Completion of the Technical Report involved a site visit, due diligence and a thorough analysis of Caledon’s advanced gold projects situated in Guangxi Province, Southern China. Dr. Jean-François Couture, Principal Geologist and author of the report, has highlighted many attributes related to Caledon’s Guangxi gold projects and field crews involved in the exploration.

As a general comment regarding Caledon’s gold projects, Dr. Couture writes:

“On each project, only limited exploration has been carried out since the beginning of mining operations... In particular, (past) exploration work has focused on near-surface oxide ore targets. The depth and lateral extensions of known gold zones remain poorly tested and offer excellent potential for additional discoveries.”

Commenting on the expertise of Caledon’s Guangxi-based exploration team, Dr. Couture adds:

“Caledon, through its subsidiary Blackwatch, has assembled a very strong exploration team in China. Exploration work in China presents logistical, social and cultural challenges that could potentially hamper the success of any exploration program. In the opinion of SRK, the ability to deal with these challenges is as important as the merit of exploration projects themselves. Blackwatch personnel have demonstrated the capacity to deal with such issues. This undoubtedly represents a significant positive asset to Caledon.”



## The Projects

**Hengxian Gold Mine** – The Hengxian project is a classic example of a sediment hosted disseminated gold system (“Carlin-type”), with considerable exploration potential. At Hengxian, gold is being mined in a north-east trending zone measuring up to 3 kilometres long and up to 800 metres wide. Gold occurs in steeply dipping, high grade feeder structures (> 4.5 g/t gold avg.), feeding flat-lying moderate grade (1-4 g/t avg.) stratiform zones. To date, at least four sub parallel feeder structures have been defined. The gold mineralisation occurs on a major regional structure that can be traced for more than ten kilometres away from the existing workings. Access and infrastructure in the area is excellent – Hengxian is a two hours drive from Caledon’s office base situated in the Guangxi Provincial capital, Nanning.

Previous exploration has been almost entirely focused on shallow oxide zones. Gold reserves at Hengxian are reported to be 310,000 ounces (Inferred category) grading approximately 4.6 g/t gold – with those reserves having been defined by only a limited amount of shallow focused drilling, concentrated on the surface oxide zones (0-60 m depth). Exploration to date has only been focused on a small – 2.5 kilometre long – portion of the entire 10 kilometre long structure, initiated on obvious outcropping oxidised sulphides.

Summary results from drilling conducted on Hengxian Hill by Caledon’s minority partners, Taifu Mining, defining the near surface limits of the deposit, include the following:

Section	Hole Number	Depth (m)	Intercept (m)	Grade g/t Au
44	ZK 14	13	50.6	2.02
435	ZK 4351	25	10.1	8.0
	ZK 4351	49	14.5	5.03
43	ZK 432	45	41.4	6.44
	ZK 5	49	31.0	8.8
	ZK 19	102	27.0	4.0
425	ZK 251	50	42.5	3.91
	ZK 4255	103	29.1	6.93
	ZK 4252	72	12.8	6.16
	ZK 4252	90	18.6	4.02
415	ZK 152	42	20.7	3.0
	ZK153	65	13.9	4.68
41	ZK 16	10	11.1	3.79
	ZK 411	33	24.6	4.0

Intervals between known areas of higher grade mineralisation carry significant disseminated gold mineralisation, typical of such gold deposits. For example, drill hole ZK19 reported a 27 metre wide interval grading 4.0 g/t gold, occurring within a much wider down-hole interval reporting a width of 133 metres grading 3.24 g/t Au.

**Longtoushan Gold Mine** – The current operators, the Longtoushan Company, are mining a series of hydrothermal breccia zones extending over a strike length of 1.2 kilometres, underground and limited surface mining, with several zones being mined over widths of up to 30 metres. Mined gold grades in selected areas of the underground workings report grades of up to 20 g/t. Extensive areas of hydrothermal brecciation carrying lower grade gold values, peripheral to the currently mined areas, clearly demonstrates that the mineralised system at Longtoushan has the potential to host additional major gold ore-bodies.

Summary results from underground sampling performed by the Chinese include the following:

Mine Level	Stope #	Continuous Channel Sample: Grade and Width
380 m	CD-10	5.17 g/t over 30 m
380 m	CD-8	3.02 g/t over 40 m
380 m	CD-6-8	3.81 g/t over 19 m, incl. 5.1 g/t over 9 m
540 m	CD-17-1	6.47 g/t over 31 m, incl. 10.51 g/t over 14 m
540 m	CD-0-1	4.04 g/t over 18 m, incl. 6.12 g/t over 8 m
580 m	CD-19-01	3.8 g/t over 32 m, incl. 5.0 g/t over 9 m
580 m	CD-19	4.34 g/t over 23 m, incl. 7.95 g/t over 8 m

Longtoushan is the first project scheduled to be drilled in early 2004. Drill stations have been set-up underground on the mine to act as a platform to probe the strike extensions of zones that are currently being mined by the Chinese.

**Gaolong Gold Mine** – Gold has been actively mined at Gaolong by Caledon’s minority partners, Guangxi Tianlin Gaolong Gold Mine Ltd Co for over 10 years. At Gaolong, surface and limited underground mining can be traced in a semi-continuous manner over a strike length in excess of three kilometres, with mining widths averaging 10 to 30 m, to a maximum of 60 m wide.

The Gaolong mine itself is ranked in the top two gold producers in the province and has been cited by the United States Geological Survey (USGS) as having distinct similarities to the 15+ million ounce Betze ore body situated in Northern Nevada, USA (USGS OP 02-131).

Results from past drilling performed at shallow depths immediately adjacent to zones being mined by the Chinese at Gaolong, are a testament to the bulk minable nature of the Gaolong ore bodies themselves (i.e. Section #30 – 4.1 g/t over 10.8 m, 3.2 g/t over 33.4 m, 4.7 g/t / 31.3 m). The immediate extensions of these open-ended zones will form the focus of gold exploration to be undertaken in 2004.



In the 4th Quarter, 2003, Caledon reported results from a preliminary channel sampling program at Gaolong, as part of the effort to identify drill targets on the project. The following is a summary of results from this initiative:

Channel #	Sampled Width	Gold Grade
Channel 1	44 metres	2.5 g/t
Channel 2	10 metres	3.9 g/t
Channel 3	14 metres	2.4 g/t
Channel 4	28 metres	2.7 g/t
Channel 5	22 metres	2.3 g/t
Channel 6	12 metres	3.3 g/t

**Badu Gold Mine** – Small scale mining is in progress at the Badu Mine, situated 12 kilometres North East of the Gaolong mine. The Badu mining and exploration tenements are included within the Gaolong master agreement. The GTGGML's open-pit mining operations at Badu can be traced in a semi-continuous manner for over four kilometres along strike, with mining widths averaging 20 to 40 m. Gold is recovered in the heap leaching of oxide ores, with average head grades of 1 to 2 g/t gold. Caledon is aware of only 1-2 shallow drill holes having been completed over the entire four kilometre strike length.

**Exploration Tenements: Guangxi:** In addition on existing small scale mine production, Caledon, through its wholly owned subsidiary Blackwatch Resources, has applied for a number of exploration licenses in Guangxi province. The majority of the tenements under application are situated along the Youjiang Rift – the most prolific gold hosting structure in Guangxi province. All tenement applications – Jiaoman, Long An and Shanglin – are host to an abundance of gold showings and past producing small scale gold mines, all of which display classic sediment hosted disseminated gold characteristics.

**Mojiang Gold Mine** – A letter of intent has been signed regarding Mojiang Gold mine. Active mining has been underway at Mojiang since the late 1970s by the Mojiang Mining Limited Company. The mining at Mojiang was based on reserves of 32 tonnes of gold (>900,000 oz) at a grade of 4-6 g/t Au. At present, the majority of the gold mining operation is focused on gold production from open pits and underground mining, with plant head grades consistently reporting above 4 g/t gold. To date, approximately 70% of the initial reserves have been mined.

At Mojiang, individual veins, averaging up to 12 metres wide, have been shown to host grades in excess of 15 g/t. Individual veins sometimes exhibit bonanza grades (in-excess of 30 g/t gold), typical of such systems. The veins are hosted in sediments and acid volcanics, near the contact between thrust Cambrian sediments and metamorphosed ultra-mafic volcanics belonging to a regional scale ophiolite complex, within the Red River Suture Zone.

Examples of diamond drill intercepts at Mojiang highlighted from the earlier Chinese work include:

Section #	Drill Hole	Mineralised Intercept
Section 50	DDHZ50-6	41.62m @ 3.34 g/t
Section 51	DDHZ51-16	28.22m @ 4.89g/t
Section 52	DDHZ52-10	53.98m @ 2.72g/t
Section 40	DDHZ93-1	7.93m @ 13.67g/t
Section 40	DDHZ93-1A	8.39m @ 9.00g/t
Section 40	DDHZ94-3	12.35m @ 15.05g/t

**Financial Review:** During the period, the Company changed its year end from 31 July to 31 December. Accordingly, the attached financial report relates to the 17 month period 1 August 2002 to 31 December 2003. The comparative period reflects the accounts of the Group's previous activities operating a contemporary art gallery and its quarterly magazine "FINE." These operations have now been discontinued and have been treated accordingly.

**Overview:** On 11 April 2003 the Company re-organised its share capital and raised £1M net of costs in a placing and open offer, changed its name to Caledon Resources plc, shifted its business focus and strategy to that of gold exploration in China and acquired Blackwatch Resources (BVI) Ltd. Through this, it has entered into a number of gold exploration agreements with various entities in China.

**Liquidity and Capital Resources:** The Company finished the period on a strong financial footing as a result of four private placements with institutional investors during the period. These financings including the above placing and open offer netted approximately £3.1M to the Company and the working capital position at year end stands at £1.8M. Should the opportunity present itself and optimal conditions be present, the Company will seek additional financings during the 2004 financial year.

**Results of Operations:** The Company incurred a net loss of £1.4M for the 17 month period ended 31 December 2003 compared to a net loss of £0.5M for the year ended 31 July 2002. Of the loss incurred in the current year, £527,000 related to exploration expenditures incurred in China; £816,000 related to general and administrative costs and £60,000 related to discontinued operations. Losses in the comparative period related largely to discontinued operations.

The Company incurred a loss per share of 1.24p for the period ending 31 December 2003 compared to a loss per share of 1.80p for the year ended 31 July 2002.

**George Salamis**  
Managing Director  
27 January 2004



# Directors' Report

The directors present their statement and the audited group financial statements for the 17 month period ended 31 December 2003. The corresponding amounts are for the year ended 31 July 2002. The Company changed its year end to be coterminous with that of its China operations.

## Principal activities

The principal activity of the Group is mining exploration. All previous activities in relation to the operation of the magazine "FINE" and its subsidiary Finelot Trading Company Limited have been discontinued.

On 11 April 2003 the Company:

- changed its name to Caledon Resources PLC;
- restructured its share capital, such that each existing 10p ordinary share was divided into 1 new ordinary share of 0.1p each and 99 deferred shares of 0.1p each. These new ordinary shares carried the same rights as the existing ordinary shares at that time whereas the deferred shares, which are not listed, carry no rights;
- was readmitted to the Alternative Investment Market;
- changed its principal activities to that of a mining investment company;
- raised additional funds of approx £1.0m net of expenses, following a placing and open offer of 124,559,285 new ordinary shares of 0.1p each at a value of 1p per share;
- acquired Blackwatch Resources Limited, a BVI incorporated company, which is involved in the exploration of various mining targets in Southern China.

## Private equity placings

On 16 July 2003 the Company issued 11,428,571 ordinary shares of 0.1p each at 3.5 pence per share with institutional investors.

On 7 August 2003 the Company issued 5,714,286 ordinary shares of 0.1p each at 3.5 pence per share with institutional investors.

On 8 September 2003 the Company issued 4,000,000 ordinary shares of 0.1p each at 5 pence per share with institutional investors.

On 2 October 2003 the Company issued 11,500,000 ordinary shares of 0.1p each at 12 pence per share with institutional investors.

## Business review and future developments

The group's performance during the year and expected future developments are described in the Review of Operations on page 4.

## Results and dividends

The directors do not recommend payment of a dividend for the period. The loss will be transferred to reserves.

## Directors

The directors who held office during the year were as follows:

Director	Note
John Bly	(resigned 17 March 2003)
Stephen R Dattels	
George G Salamis	(appointed 11 April 2003)
Paul A Ingram	(appointed 11 April 2003)
Robert Alford	
Catherine Horton	
Graham Mascal	(appointed 11 April 2003)
John Smiroldo	(resigned 31 January 2003)



## Directors' interests

The directors held the following interests in the ordinary shares in the company:

	Notes	Number of shares held as at 31 December 2003	Number of shares held as at 31 July 2002 or appointment
Stephen R Dattels	1	15,985,310	3,000,000
George G Salamis		4,687,500	-
Paul A Ingram		17,187,500	-
Robert Alford	2	750,000	125,000
Graham Mascall		-	-
Cathy Horton	3	-	125,000

1. Stephen Dattels holds 1,800,000 Ordinary Shares in his own name and 6,200,000 Ordinary Shares held by the Investec Trust Guernsey Limited as trustee for Mr Dattels. Mr Dattels' wife Mrs J Dattels holds 7,985,310 Ordinary Shares in her own name.
2. The interests of Robert Alford are held by Portman Welbeck as trustees for the RJ Alford Guernsey Trust.
3. Cathy Horton had a beneficial interest in 125,000 Ordinary Shares, held by Coolcrypt Limited, a company of which she is a director. Coolcrypt Limited went into creditors voluntary liquidation on 9 September 2002 and Cathy Horton no longer has any beneficial interest in the issued share capital of Caledon.

The directors' interests in share options are as follows:

	Options at 1.8.02	Options granted	Options at 31.12.03	Exercise Price	Date of grant	First date of exercise	Final date of exercise
Stephen R Dattels	-	1,250,000	1,250,000	2p	11.04.03	11.04.04	11.04.13
George G Salamis	-	1,250,000	1,250,000	2p	11.04.03	11.04.04	11.04.13
George G Salamis	-	3,000,000	3,000,000	3p	29.04.03	29.04.04	29.04.13
Paul A Ingram	-	1,250,000	1,250,000	2p	11.04.03	11.04.04	11.04.13
Robert Alford	-	1,250,000	1,250,000	2p	11.04.03	11.04.04	11.04.13
Graham Mascall	-	1,250,000	1,250,000	2p	11.04.03	11.04.04	11.04.13
Cathy Horton	-	1,250,000	1,250,000	2p	11.04.03	11.04.04	11.04.13

The right granted to subscribe for Ordinary Shares is exercisable up to 10 years from the date of grant with the right being exercisable in respect of one third of the Ordinary Shares to which it relates in each of the years 2004, 2005 and 2006.

Ordinary Shares resulting from the exercise of any such rights will rank pari passu in all respects with the Ordinary Shares in issue at the time of such exercise.

## Significant Shareholders

As at 22 January 2004 so far as the Directors are aware, the only persons (other than the interests held by Directors) who are directly or indirectly interested in 3 per cent. or more of the nominal value of the Company's share capital are as follows:

	Number of Ordinary Shares held	Ordinary Shares as % of issued share capital
Willbro Nominees Limited	29,305,466	13.74%
Dragon Equities Limited	14,440,916	6.77%
HSBC Global Custody Nominee (UK) Limited	13,746,031	6.44%
Mellon Nominees (UK) Limited	11,705,074	5.49%
Hing Shun Trading Limited	9,375,000	4.39%
Morstan Nominees Limited	8,063,365	3.78%
Socgen Nominees (UK) Limited	6,931,024	3.25%



### **Payments to suppliers**

The company has no formal code or standard, which deals specifically with the payment of suppliers. However, the company's policy on the payment of all creditors is to ensure that the terms of payment, as specified and agreed with the supplier, are not exceeded. The Company does not trade in its own right and therefore no creditor days analysis has been given.

### **Donations**

The company made no charitable or political donations in the current period or prior year.

### **Auditors**

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors of the company will be proposed at the next Annual General Meeting.

### **Manish Kotecha**

Company Secretary  
27 January 2004



# Corporate Governance

The Company, being listed on the Alternative Investment Market, is not required to comply with the Combined Code. However the Company has given consideration to the code provisions set out in Section 1 of the Combined Code ("the Code") on Corporate Governance annexed to the Financial Services Authority Listing Rules. The directors support the objectives of the Code and intend to comply with those aspects which they consider relevant to the group's size and circumstances. Details of these are set out below.

A statement of the directors' responsibilities in respect of the financial statements is set out on page 12. Below is a brief description of the role of the board and its committees, including a statement regarding the group's system of internal financial control.

## The workings of The Board and its committees

### The Board of Directors

The Board currently comprises three executive and three non-executive directors. The non-executive directors are independent of management and free from any business or other relationship, which could materially interfere with the exercise of their independent judgement.

The board meets on average every two months and is responsible, inter alia for setting and monitoring group strategy, reviewing trading performance, ensuring adequate funding, examining major acquisition opportunities, formulating policy on key issues and reporting to the shareholders.

### The Audit Committee

The Audit Committee comprised the following directors during the year:

Robert Alford  
Graham Mascall  
Cathy Horton

The committee provides a forum for reporting by the group's external auditors. Meetings are held annually and are also attended, by invitation, by the executive directors. The present Committee Chairman is Robert Alford.

The Audit Committee is responsible for reviewing a wide range of financial matters including the annual and half year results, financial statements and accompanying reports before their submission to the board and monitoring the controls which ensure the integrity of the financial information reported to the shareholders.

### The Remuneration Committee

The Remuneration Committee, which is currently chaired by Robert Alford, comprised the following directors during the year:

Robert Alford  
Graham Mascall  
Cathy Horton

The Committee is responsible for recommending to the board the terms and conditions of employment of the executive directors.

### Internal Financial Control

The board is responsible for establishing and maintaining the group's system of internal financial controls. Internal financial control systems are designed to meet the particular needs of the group concerned and the risk to which it is exposed, and by its very nature can provide reasonable, but not absolute, assurance against material misstatement or loss.

The directors are conscious of the need to keep effective internal financial control, particularly in view of the limited cash resources of the group. Due to the relatively small size of the group's operations, the directors are very closely involved in the day-to-day running of the business and as such have less need for a detailed formal system of internal financial control. The directors have reviewed the effectiveness of the procedures presently in place and consider that they are still appropriate to the nature and scale of the operations of the group.

### Going Concern

The financial statements have been prepared on a going concern basis. The group's cash and liquid resources stood at £1.8m at 31 December 2003 and its committed spend for the following 12 months is forecast at £0.5M, all remaining spend will be discretionary. The group will seek to raise additional equity to fund future exploration programmes when required and the group will operate within its cash resources.



## Report of the Remuneration Committee

The Remuneration Committee (the "Committee") was chaired by Robert Alford and comprised, during the period ended 31 December 2003, Robert Alford, Cathy Horton and Graham Mascall who joined the committee in April 2003.

Remuneration packages are determined with reference to market remuneration levels, individual performance and the financial position of the company.

The Board within the limits set by the Company's Articles of Association determines the remuneration of non-executive Directors. They have letters of engagement with the Company and their appointments are terminable on six months written notice on either side.

None of the directors have service contracts which are terminable on greater than one year's notice.

On 21 September 2000 the Company adopted 'The Finelot plc Unapproved 2000 Discretionary Share Option Scheme' in which the directors participate. For further information please refer to page 8 of the directors' report.

	Fees £	Salary £	Bonus £	Consultancy fees £	Total 2003 £	Total 2002 £
Stephen Dattels	58,065	-	-	-	<b>58,065</b>	-
George Salamis	66,977	-	-	-	<b>66,977</b>	-
Paul Ingram	65,731	-	22,676	-	<b>88,407</b>	-
Robert Alford	-	-	-	10,938	<b>10,938</b>	-
Graham Mascall	-	-	-	-	-	-
Catherine Horton	-	-	-	-	-	-
John Bly	-	-	-	-	-	50,000
Michael Wise	-	-	-	-	-	15,000
Kishor Sodha	-	-	-	-	-	9,000
	190,773	-	22,676	10,938	<b>224,387</b>	74,000

Robert Alford, Cathy Horton and Graham Mascall each received 1,250,000 share options as detailed in the Directors' Report.

On behalf of the Remuneration Committee

**Robert Alford**

Committee Chairman

27 January 2004



## Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the group as at the end of the financial period, and of the profit or loss of the group for that period. In preparing those financial statements the directors confirm:

- Suitable accounting policies have been selected and applied them consistently;
- Judgements and estimates made are reasonable and prudent;
- Applicable accounting standards have been followed;
- The financial statements have been prepared on a going concern basis.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and of the group and to enable them to ensure that the financial statements comply with the stated accounting policies. They are also responsible for safeguarding the assets of the company and of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



# Independent Auditors' Report

to the Members of Caledon Resources PLC

We have audited the financial statements which comprise the group profit and loss account, the group and company balance sheets, the group cash flow statement, the principal accounting policies and the related notes.

## Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This opinion has been prepared for and only for the company's members in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Chairman's Report, Review of Operations, the Directors' report, the Corporate Governance report and the Report of the Remuneration Committee.

## Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 2003 and of the loss and cash flows of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

## PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

London

27 January 2004



## Group Profit and Loss Account for the 17 month period ended 31 December 2003

	Note	17 month period to 31/12/2003 £'000	Year ended 31/7/2002 £'000
<b>Turnover</b>			
- Discontinued operations	1	7	175
<b>Cost of goods sold</b>			
- Discontinued operations		(7)	(154)
<b>Gross profit</b>			
- Discontinued operations		-	21
<b>Administrative expenses</b>			
- Continuing operations		(816)	(177)
- Acquisitions		(527)	-
- Total continuing operations		(1,343)	(177)
- Discontinued operations		(60)	(202)
		(1,403)	(379)
<b>Operating loss</b>			
- Continuing operations		(816)	(177)
- Acquisitions		(527)	-
- Total continuing operations		(1,343)	(177)
- Discontinued operations		(60)	(181)
	2	(1,403)	(358)
Loss on termination of operations	2	-	(104)
Interest receivable and similar income	3	15	15
Interest payable and similar charges	3	(7)	(1)
<b>Loss on ordinary activities before taxation</b>			
		(1,395)	(448)
Tax on loss on ordinary activities	4	-	-
<b>Retained loss for the financial period</b>			
	13	(1,395)	(448)
<b>Loss per share – basic and diluted</b>			
	15	(1.24p)	(1.80p)

There were no recognised gains and losses other than those reported in the profit and loss account above and therefore no separate statement of total recognised gains and losses has been presented.



# Group Balance Sheet

 as at 31 December 2003

	Notes	December 2003 £'000	July 2002 £'000
<b>Fixed assets</b>			
Intangible fixed assets	6	266	-
Tangible fixed assets	7	79	10
		<b>345</b>	10
<b>Current assets</b>			
Stock	9	-	18
Debtors: amounts falling due after one year	10	8	-
Debtors: amounts falling due within one year	10	200	171
Cash at bank and in hand		1,806	168
		<b>2,014</b>	357
<b>Creditors: amounts falling due within one year</b>	11	<b>(200)</b>	(199)
<b>Net current assets</b>		<b>1,814</b>	158
<b>Net assets</b>		<b>2,159</b>	168
<b>Capital and reserves</b>			
Called up share capital	12	2,680	2,491
Share Premium	13	5,275	2,078
Other reserves	13	(91)	(91)
Profit and loss account – deficit	13	(5,705)	(4,310)
<b>Total equity shareholders' funds</b>	14	<b>2,159</b>	168

The financial statements on pages 14 to 28 were approved by the Board of Directors on 27 January 2004 and were signed on its behalf by:

**Stephen R Dattels**

Director



# Company Balance Sheet

 as at 31 December 2003

	Notes	December 2003 £'000	July 2002 £'000
<b>Fixed assets</b>			
Tangible fixed assets	7	60	–
Investments	8	313	–
		<b>373</b>	–
<b>Current assets</b>			
Debtors: amounts falling due after one year	10	929	–
Debtors: amounts falling due within one year	10	179	50
Cash at bank and in hand		1,436	120
		<b>2,544</b>	170
<b>Creditors: amounts falling due within one year</b>	11	<b>(185)</b>	(68)
<b>Net current assets</b>		<b>2,359</b>	102
<b>Net assets</b>		<b>2,732</b>	102
<b>Capital and reserves</b>			
Called up share capital	12	2,680	2,491
Share Premium	13	5,275	2,078
Profit and loss account – deficit	13	(5,223)	(4,467)
<b>Total equity shareholders' funds</b>		<b>2,732</b>	102

The financial statements on pages 14 to 28 were approved by the Board of Directors on 27 January 2004 and were signed on its behalf by:

**Stephen R Dattels**

Director



# Group Cash Flow Statement

	Note	17 month period to 31/12/2003 £'000	Year ended 31/7/2002 £'000
<b>Net cash outflow from operating activities</b>	(a)	<b>(1,344)</b>	(877)
<b>Returns on investments and servicing of finance</b>			
Interest received		15	15
Interest paid		(7)	(1)
Net cash inflow from returns on investments and servicing of finance		8	14
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(86)	(1)
Net cash outflow for capital expenditure and financial investment		(86)	(1)
<b>Cash outflow before management of liquid resources &amp; financing</b>		<b>(1,422)</b>	(864)
<b>Management of liquid resources</b>			
Movement on deposits		(1,057)	-
Cash outflow from liquid resources		(1,057)	-
<b>Financing</b>			
Issue of ordinary shares		3,426	-
Cost of issue of shares		(354)	-
Cash inflow from financing		3,072	-
<b>Increase/(decrease) in net cash in the period</b>	(c)	<b>593</b>	(864)



## Notes to the Group Cash Flow Statement

### (a) Reconciliation of operating profit to net cash outflow from operating activities

	17 month period to 31/12/2003 £'000	Year ended 31/7/2002 £'000
Operating loss	(1,403)	(358)
Depreciation of tangible fixed assets	16	25
Amortisation of intangible fixed assets	47	-
Loss on sale of assets	1	-
Decrease/(increase) in stocks	18	(9)
Increase in debtors	(22)	(56)
Decrease in creditors	(1)	(479)
<b>Net cash outflow from operating activities</b>	<b>(1,344)</b>	<b>(877)</b>

### (b) Reconciliation of net cash flow to movement in the net cash

	17 month period to 31/12/2003 £'000	Year ended 31/7/2002 £'000
Increase/(decrease) in net cash in the period	593	(864)
Liquid resources	1,057	-
Movement in net cash arising from cashflows	1,650	(864)
Foreign Exchange	(30)	-
Net cash at start of period	161	1,025
<b>Net cash at end of the period</b>	<b>1,781</b>	<b>161</b>

### (c) Analysis of net cash

	At 1 Aug 2002 £'000	Cash flow £'000	Foreign Exchange £'000	At 31 December 2003 £'000
Cash	168	611	(30)	749
Bank overdraft	(7)	(18)	-	(25)
	161	593	(30)	724
Increase in liquid resources	-	1,057	-	1,057
<b>Net cash</b>	<b>161</b>	<b>1,650</b>	<b>(30)</b>	<b>1,781</b>



# Principal Accounting Policies

A summary of the more important accounting policies, which have been applied consistently for all periods covered by this report, is set out below.

## **Basis of preparation**

The financial statements have been prepared in accordance with currently applicable Accounting Standards in the United Kingdom, which have been applied consistently, and under the historical cost convention.

## **Basis of consolidation**

On 27 July 2000, the Company merged with Finelot Trading Company Limited. The merger was effected by way of a share exchange for the whole of the issued share capital of Finelot Trading Company Limited. The financial statements have been prepared under merger accounting principles, as set out in Financial Reporting Standard No 6 (Acquisitions and Mergers), in relation to the merger. Under merger accounting principles the results and cash flows of the Company and Finelot Trading Company Limited have been combined from the beginning of the period in which the merger occurred.

Subsequent acquisitions have been included in full under acquisition accounting (see note 8).

No profit and loss account has been presented for the Company as permitted by section 230 of the Companies Act 1985.

## **Turnover**

Turnover represents the sale of works of art, merchandise and commission receivable on the sale of goods and services, net of VAT.

## **Investments**

Investments held as fixed assets are stated at cost less provision for any impairment to their carrying value.

## **Tangible fixed assets**

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less the estimated residual value of each asset over its expected useful economic life, as follows:

Office, computer equipment, furniture and motor vehicles: 3-5 years on a straight-line basis

## **Goodwill and intangible assets**

Goodwill represents the difference between the cost of acquisition and the fair value of the identifiable net assets acquired.

Goodwill arising on acquisitions is capitalised in accordance with FRS 10 and amortised on a straight line basis over their useful economic lives which for Blackwatch Resources (BVI) Ltd is 5 years.

## **Exploration and evaluation**

During the initial stage of a project, costs are charged to the profit and loss account in the year the costs are incurred. Expenditure on a project after it has reached a stage at which there is a high degree of confidence in its viability is carried forward and transferred to tangible fixed assets if the project proceeds. If a project does not prove viable, all irrecoverable costs associated with the project are written off. If an undeveloped project is sold, any gain or loss is included in operating profit, such transactions being a normal part of the Group's activities. Where expenditure is carried forward in respect of a project which may not proceed to commercial development for some time, provision is made against the possibility of non development by charge against profits over a period of up to seven years. When it is decided to proceed with development, any provisions made in previous years are reversed to the extent that the relevant costs are recoverable. At 31 December 2003, all projects were at an early stage of exploration and hence all exploration costs have been expensed.

## **Environmental provisions**

As at 31 December 2003 no environmental damage had occurred and hence no provisions exist.

## **Stock**

Stock is shown at the lower of cost and net realisable value.

## **Operating leases**

Amounts payable under operating leases are charged against income on a straight-line basis over the lease term.

## **Foreign currency transactions**

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken to the profit and loss account as they arise. Results of overseas subsidiaries are translated at average rate and balance sheets at the year end rate.

## **Deferred Taxation**

FRS 19 'Deferred tax' requires deferred taxation to be recognised in full in respect of transactions or events that have taken place by the balance sheet date and which could give rise to an obligation to pay more or less taxation in the future. Deferred tax assets are only recognised to the extent they are deemed recoverable. The Group has chosen not to discount deferred tax balances, as permitted by FRS 19.



# Notes to the Accounts

## 1. Segmental analysis

	Turnover by origin and destination		Loss before tax		Net assets	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000	2003 £'000	2002 £'000
UK	7	70	(868)	(448)	1,765	168
China	-	-	(283)	-	301	-
Other	-	105	(244)	-	93	-
	7	175	(1,395)	(448)	2,159	168

## 2. Operating loss

	2003 £'000	2002 £'000
Amortisation of intangible fixed assets	47	-
Depreciation of tangible fixed assets	16	25
Operating lease rentals – property	52	34
Auditors' remuneration – audit (Company £30,000; 2002: £5,000)	38	25

Fees paid to auditors in respect of other services were: £85,000 in relation to the April 2003 fund raising which has been charged against Share Premium and £8,000 (2002: £6,000) in respect of tax compliance services.

### Exceptional item

In the prior year following the termination of the gallery an exceptional loss of £104,000 was incurred on the disposal of the gallery's fixed assets.

## 3. Net Interest Receivable

	2003 £'000	2002 £'000
Interest on bank overdrafts and loans	(7)	(1)
Bank interest receivable	15	15
	8	14

## 4. Taxation

No current or deferred tax charge has arisen in the current period or prior year.

	2003 £'000	2002 £'000
Loss on ordinary activities before taxation	(1,395)	(448)
Tax credit using the standard rate of UK Corporation Tax at 30%	(419)	(134)
Expenses not deductible for tax purposes	10	46
Unutilised losses	409	88
Current tax charge	-	-

Future tax charges will continue to be affected by the available loss relief. The group has a deferred tax asset/(liability) position as follows:

	2003		2002	
	Recognised £'000	Unrecognised £'000	Recognised £'000	Unrecognised £'000
Accelerated capital allowances	(3)	-	-	12
Unutilised losses	3	349	-	928
Other timing differences	-	-	-	-
	-	349	-	940

Due to the change of operations, the prior year's unutilised losses have been lost and therefore not reflected in the 2003 balances.



## Notes to the Accounts

### 5. Directors and staff

	2003 £'000	2002 £'000
Emoluments	224	9

The highest paid director had emoluments totalling £88,407.

During the period £58,065 (2002: nil) was paid to Regent Mercantile Bancorp in respect of Stephen Dattel's directors fees; £66,977 was paid to Sierra Consulting in respect of George Salmis' directors fees. £40,320 was paid to Siam Resources Ltd, and £48,087 was paid directly to Paul Ingram in respect of his directors' fees and bonus.

During the year 2002, two directors waived their entitlement to fees totalling £30,000, and consultancy fees of £65,000 were paid to two other directors.

No retirement benefits are accruing to directors (2002: nil) under pension schemes.

Staff cost:	2003 £'000	2002 £'000
Directors' fees and emoluments	224	9
Wages and salaries	277	109
Social security costs	14	12
	515	130

The average monthly number of persons (including executive directors) employed by the Group during the period was:

	2003 Number	2002 Number
Technical support	3	1
Customer support	-	2
Administration	7	4
	10	7

### 6. Intangible assets – goodwill

	£'000
<b>Cost</b>	
At 1 August 2002	-
Arising on the acquisition of Blackwatch Resources (BVI) Ltd	313
At 31 December 2003	313
<b>Amortisation</b>	
At 1 August 2002	-
Charge for the period	47
At 31 December 2003	47
<b>Net Book Value</b>	
At 31 December 2003	266
At 31 July 2002	-

Blackwatch Resources (BVI) Limited had no net assets on acquisition, resulting in goodwill arising of £312,500 being the fair value of the shares issued. It had not traded prior to acquisition.



# Notes to the Accounts

## 7. Tangible fixed assets

Tangible fixed assets Group	Office and computer equipment £'000	Furniture and fixtures £'000	Motor Vehicles £'000	Total £'000
<b>Cost</b>				
At 1 August 2002	25	1	–	26
Additions	41	34	11	86
Disposals	(25)	(1)	–	(26)
At 31 December 2003	<b>41</b>	<b>34</b>	<b>11</b>	<b>86</b>
<b>Depreciation</b>				
At 1 August 2002	16	–	–	16
Charge for the period	12	3	1	16
Disposals	(25)	–	–	(25)
At 31 December 2003	<b>3</b>	<b>3</b>	<b>1</b>	<b>7</b>
<b>Net Book Value</b>				
At 31 December 2003	38	31	10	79
At 31 July 2002	9	1	–	10

Tangible fixed assets Company	Office and computer equipment £'000	Furniture and fixtures £'000	Total £'000
<b>Cost</b>			
At 1 August 2002	–	–	–
Additions	32	34	66
Disposals	–	–	–
At 31 December 2003	<b>32</b>	<b>34</b>	<b>66</b>
<b>Depreciation</b>			
At 1 August 2002	–	–	–
Charge for the period	3	3	6
Disposals	–	–	–
At 31 December 2003	<b>3</b>	<b>3</b>	<b>6</b>
<b>Net Book Value</b>			
At 31 December 2003	29	31	60
At 31 July 2002	–	–	–



## Notes to the Accounts

### 8. Investments

	2003 £'000	2002 £'000
Acquisition at cost	313	-

The group has the following subsidiary undertakings:

	% interest	Country of incorporation	Activity
Blackwatch Resources (BVI) Limited	100	British Virgin Islands	Mining Exploration
Blackwatch Resources China Limited	85	P.R. of China	Mining Exploration
Finelot Trading Company Limited	100	England	Non-trading

In addition the group has entered into the following agreements, relating to unincorporated entities operating gold mining exploration in China:

	% interest
Hengxian Gold Mine	70
Longtaushan Gold Mine	85
Gaolong-Badu Gold Mine	85

During the exploration phase, the Group effectively controls all the above operations and bears 100% of all costs. As a result all the above have been included in full in these consolidated accounts under acquisition accounting, with no minority interests yet existing.

### 9. Stock

	2003 £'000	Group 2002 £'000	2003 £'000	Company 2002 £'000
Works of art	-	7	-	-
Work in progress	-	11	-	-
	-	18	-	-

### 10. Debtors

	2003 £'000	Group 2002 £'000	2003 £'000	Company 2002 £'000
Amounts falling due within one year:				
Trade debtors	-	55	-	-
Other debtors	185	112	165	50
Prepayments	15	4	14	-
	200	171	179	50
Amounts falling due after more than one year:				
Amounts owed by subsidiary undertakings	-	-	921	-
Other debtors	8	-	8	-
	8	-	929	-
Total debtors	208	171	1,108	50



## Notes to the Accounts

### 11. Creditors: amounts falling due within one year

	2003 £'000	Group	2002 £'000	2003 £'000	Company	2002 £'000
Unsecured bank overdrafts	25		7	25		-
Trade creditors	-		125	-		38
Other creditors	61		-	56		-
Other taxation and social security	28		2	24		-
Accruals and deferred income	86		65	80		30
	<b>200</b>		199	<b>185</b>		68

### 12. Share capital

	2003 No.	2003 £'000	2002 No.	2002 £'000
<b>Authorised:</b>				
Ordinary Shares of 0.1p each (2002: 10p each)	1,533,726,157	1,534	40,000,000	4,000
Deferred Shares of 0.1p each	2,466,273,843	2,466	-	-
<b>Issued and fully paid:</b>				
Ordinary Shares of 0.1p each (2002: 10p each)	213,363,999	214	24,911,857	2,491
Deferred Shares of 0.1p each	2,466,273,843	2,466	-	-
	<b>2,679,637,842</b>	2,680	<b>24,911,857</b>	2,491

#### Capital reorganisation

On 11 April 2003 the Company re-organised its share capital as follows:

- (a) Each issued Ordinary Share of 10p was sub-divided and converted into:
- 1 New Ordinary Share of 0.1p each; and
  - 99 Deferred Shares of 0.1p each.

The New Ordinary Shares, subject to their having a par value of 0.1p, carry identical rights, on a share for share basis, to the Ordinary Shares that they replaced, i.e. each New Ordinary Share of 0.1p carries the same rights as one existing Ordinary Share of 10p, save to the extent that they have a par value of 0.1p.

The restrictions attaching to the Deferred Shares, which were not listed, render them effectively valueless. The Deferred Shares carry no rights to receive notice of, attend, speak or vote at any general meeting of the Company, nor to receive dividends or capital distributions, save that on a return of assets on a winding up, the Deferred Shares entitle the holder to the amounts paid up on such shares after the repayment of £10,000,000 per New Ordinary Share. No certificates were issued to Shareholders in respect of Deferred Shares and the Deferred Shares are not quoted on any recognised investment exchange.

- (b) Each unissued Ordinary Share of 10p was divided into 100 New Ordinary Shares of 0.1p each. Again, the New Ordinary Shares carry identical rights to the Ordinary Shares they are replaced, save to the extent that they have a par value of 0.1p.

#### Placing and Open Offer

On 11 April 2003 the Company issued 124,559,285 Ordinary Shares of 0.1 pence each at 1 pence per share on the basis of 5 New Ordinary Shares for every 1 Ordinary Share held.

#### Acquisition of Blackwatch Resources (BVI) Limited ("Blackwatch")

On 11 April 2003 the Company issued 31,250,000 ordinary shares of 0.1 pence each at 1 pence per share in consideration for the entire issued share capital of Blackwatch a company incorporated in the British Virgin Islands.



## Notes to the Accounts

### Private Placements

On 16 July 2003 the Company issued 11,428,571 ordinary shares of 0.1p each at 3.5 pence per share with institutional investors.  
 On 7 August 2003 the Company issued 5,714,286 ordinary shares of 0.1p each at 3.5 pence per share with institutional investors.  
 On 8 September 2003 the Company issued 4,000,000 ordinary shares of 0.1p each at 5 pence per share with institutional investors.  
 On 2 October 2003 the Company issued 11,500,000 ordinary shares of 0.1p each at 12 pence per share with institutional investors.

### Share warrants

The following warrants are outstanding for Ordinary shares:

	Warrants at 1.8.02	Warrants issued/ (lapsed)	Warrants at 31.12.03	Exercise Price	Date of grant	First date of exercise	Final date of exercise
	428,571	(428,571)	–	35p	06.12.00	30.09.01	30.09.08
	–	2,500,000	2,500,000	2p	11.04.03	11.04.04	01.03.08

On 21 September 2000 the Company adopted a share warrant instrument the principal terms of which were set out in the 2000 Admission Document. All warrants granted under that share warrant instrument have now lapsed or been cancelled.

On 17 March 2003 the Company executed a further share warrant instrument the principal terms of which are as follows:

- the Board may issue warrants to such persons as it determines giving any such persons the right to subscribe for ordinary shares in the Company at a subscription price of 2 pence per share;
- the right granted to any person to subscribe for ordinary shares is exercisable up to a period ending on 1 March 2008 with the rights being exercisable in respect of one third of the ordinary shares to which it relates in each of the years 2004, 2005 and 2006;
- ordinary shares resulting from the exercise of any such rights will rank *pari passu* in all respects with the ordinary shares in issue at the time of such exercise;
- in the event of any capitalisation of reserves or profits or subdivision or consolidation of the ordinary shares then the number of ordinary shares the subject of warrants and the subscription price payable may be adjusted in such manner as the auditors confirm to be fair and reasonable;
- the warrants are transferable; and
- no application has been or is intended to be made to the London Stock Exchange or any other recognised investment exchange, for any of the warrants to be listed or otherwise traded.

On 11 April 2003 the Company granted to Williams de Broë and Bert Kennedy warrants to subscribe for 2,500,000 and 1,250,000 New Ordinary Shares, respectively. On 30 June 2003 the warrants granted to Bert Kennedy lapsed.

### Share options

The following options are outstanding for Ordinary shares

	Options at 1.8.02	Options issued/ (lapsed)	Options at 31.12.03	Exercise Price	Date of grant	First date of exercise	Final date of exercise
Directors	200,000	(200,000)	–	35p	04.12.00	01.08.01	05.12.10
Directors	–	7,500,000	7,500,000	2p	11.04.03	11.04.04	11.04.13
Directors	–	3,000,000	3,000,000	3p	29.04.03	29.04.04	29.04.13
Staff	150,000	(150,000)	–	35p	04.12.00	01.08.01	05.12.10
Staff	–	1,250,000	1,250,000	2p	11.04.03	11.04.04	11.04.13
Staff	–	1,250,000	1,250,000	3p	29.04.03	29.04.04	29.04.13
Staff	–	1,750,000	1,750,000	4p	13.06.03	13.06.04	13.04.13
Staff	–	1,400,000	1,400,000	12.75p	22.09.03	22.09.04	22.09.13

The Share Option Scheme was adopted on 21 September 2000 and is not approved by the Inland Revenue under Schedule 9 of the Income and Corporation Taxes Act 1988. The Scheme is governed by Rules and is administered by the Directors of the Company, or a duly authorised committee thereof. The principal terms of the Share Option Scheme were amended pursuant to a resolution of the Directors dated 17 March 2003. The amendments made to the scheme were (1) amending the definition of "Employee" so that it includes directors and non-executive directors and (2) amending rule 2.2 of the scheme so that in relation to the grant of options over a total of 8,750,000 shares to Stephen Dattels, Robert Alford, Cathy Horton, Paul Ingram, George Salamis, Graham Mascal and Manish Kotecha the price at which such option could be exercised should be determined by the Directors rather than being fixed by the rules of the Share Option Scheme.



## Notes to the Accounts

### 13. Reserves

Group	Share premium £'000	Other reserves £'000	Profit and loss account £'000
At 1 August 2002	2,078	(91)	(4,310)
Loss for the period	-	-	(1,395)
Issue of shares	3,551	-	-
Share issue expenses	(354)	-	-
At 31 December 2002	5,275	(91)	(5,705)

Company	Share premium £'000	Profit and loss account £'000
At 1 August 2002	2,078	(4,467)
Loss for the period	-	(756)
Issue of shares	3,551	-
Share issue expenses	(354)	-
At 31 December 2003	5,275	(5,223)

### 14. Reconciliation of movement in equity shareholders' funds

	2003 £'000	2002 £'000
Loss for the period	<b>(1,395)</b>	(448)
Issue of ordinary shares (net of expenses)	<b>3,386</b>	-
Opening equity shareholders' funds	<b>168</b>	616
<b>Closing equity shareholders' funds</b>	<b>2,159</b>	168

Although the deferred shares are non-equity under FRS 4, due to the restrictions on them, they are effectively valueless and therefore all shareholders' funds have been attributed to equity.

### 15. Loss per ordinary share

The loss per share of 1.24 pence (2002: loss 1.80 pence) has been calculated on the basis of the loss of £1,395,000 (2002: loss £448,000) and on 112,879,790 (2002: 24,911,857) ordinary shares, being the weighted average number of ordinary shares in issue during the 17 month period ended 31 December 2003. Due to a loss being made all share options and warrants are antidilutive.

### 16. Financial commitments

The Group had annual commitments under non-cancellable operating leases as follows:

	2003 £'000	2002 £'000
<b>Land &amp; buildings</b>		
Expiring within two and five years	57	-
	57	-

The group has a commitment to invest USD1,500,000 into its subsidiary Blackwatch Resources China Limited ("BRCL") within 2 years from 23 May 2003. As at 31 December 2003 the group had invested £511,674 (USD913,737) into BRCL.



## Notes to the Accounts

### 17. Related party transactions

Financial Reporting Standard 8, 'Related Party Transactions,' requires the disclosure of the details of material transactions between the reporting entity and related parties. The Company has taken advantage of exemptions under Financial Reporting Standard 8 not to disclose transactions between more than 90% owned group companies. Details of other related party transactions are:

- (a) On 11 April 2003 the Company issued a total of 31,250,000 ordinary shares of 0.1 pence at 1 pence per share to the vendors of Blackwatch Resources Limited ("Blackwatch"), Paul Ingram, George Salamis and Bruce Harris, in consideration for the entire issued share capital of Blackwatch a company incorporated in the British Virgin Islands.
- (b) Blackwatch Resources Limited (Blackwatch) and the China National Gold Guangxi Corporation (CNGGC) agreed to jointly establish and invest in a subsidiary called Blackwatch Resources China Limited ("BRCL") in Nanning, Guangxi Province, China, and hereby entered into a Contract (the "Contract"). The contract requires Blackwatch to invest a total of USD1,500,000 within 2 years from 23 May 2003. As at 31 December 2003, £511,674 had been invested into BRCL.
- (c) "FINE", the group's lifestyle magazine, was sold to Pure Imaging on 31 January 2003 for a deferred consideration of US\$58,000. The cash consideration is to be paid in 12 instalments commencing January 2003. To date no instalments have been received. Full provision against non-payment of the sale proceeds has been made in the profit and loss account.
- (d) An interest free loan of £5,000 has been given to the Company Secretary.
- (e) Caledon has paid £105,000 in respect of expenses incurred by Oriel Resources plc, a company with certain common directors and shareholders. This balance was repaid in January 2004.

### 18. Financial Instruments

The Company's financial instruments comprise of, cash and liquid resources, and various items, such as accounts receivable and accounts payable that arise directly from its operations.

The main risks arising from the Company's financial instruments are interest rate risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

#### Short-term debtors and creditors

Short-term debtors and creditors have been excluded from all the following disclosures, other than the currency risk disclosures.

#### Interest rate risk profile and maturity analysis of financial liabilities

The following table provides an analysis of the Group's interest rate risk in relation to its floating rate interest financial liabilities as at 31 December 2003 all of which fall due within one year. At 31 December 2003 there were no liabilities at fixed interest rates or liabilities without interest rates.

#### Floating rate financial liabilities

	December 2003 £'000	July 2002 £'000
<b>Currency</b>		
Sterling	25	7

In respect of the floating rate liabilities, the interest rate is based on the bank base rates of LIBOR.

#### Interest rate risk profile of financial liabilities

#### Floating rate financial assets

	December 2003 £'000	July 2002 £'000
<b>Currency</b>		
Sterling	571	165
US Dollars	215	3
Canadian Dollars	2	-
Chinese RMB	18	-
	<b>806</b>	<b>168</b>

In respect of the floating rate assets, the interest rate is based on the bank base rates of LIBOR.



## Notes to the Accounts

### Fixed rate financial assets

	December 2003 £'000	July 2002 £'000
<b>Currency</b>		
Sterling	1,000	-

The weighted average interest rate for the period was 3.09%, with a weighted average maturity of 1 week.

### Borrowing facilities

The Group had no undrawn committed borrowing facilities available at 31 December 2003.

### Currency exposures

In so far as is possible the group manages its foreign currency exposures by minimising cross currencies and retaining cash balances in strong, stable currencies.

	2003 £000's Assets/(liabilities) held			2002 £000's Assets/(liabilities) held		
	GBP	USD	CAD	GBP	USD	CAD
<b>Functional currency</b>						
UK Sterling	-	192	10	-	27	(2)
China Yuan Renminbi	194	-	-	-	-	-
	194	192	10	-	27	(2)

### Fair value

Given the short term nature of the financial assets and liabilities there is no material difference between their book values and their fair values.



## Directors and Advisers

<b>Directors</b>	Stephen Roland Dattels ( <i>Executive Chairman</i> ) George Gregory Salamis ( <i>Managing Director</i> ) Paul Anthony Ingram ( <i>Executive Director</i> ) Robert John Alford ( <i>Non-executive Director</i> ) Graham Mascall ( <i>Non-executive Director</i> ) Cathy Bosworth Horton ( <i>Non-executive Director</i> )
<b>Company Secretary</b>	Manish Kotecha
<b>Registered Office</b>	18 Upper Brook Street London W1K 7PU
<b>Nominated Adviser and Nominated Broker</b>	Williams de Broë Plc 6 Broadgate London EC2M 2RP
<b>Registered Auditors and Reporting Accountants</b>	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH
<b>Solicitors to the Company</b>	Nicholson Graham & Jones 110 Cannon Street London EC4N 6AR
<b>Registrars</b>	Computershare Services PLC PO Box 82 The Pavilions Bridgwater Road Bristol BS99 7NH



# Notice of Annual General Meeting

NOTICE is hereby given that the ANNUAL GENERAL MEETING of the Company will be held at the Millennium Hotel London Mayfair, 44 Grosvenor Square, London, W1K 2HP on 24 February 2004 at 4:30 p.m, for the purpose of considering the following:

## Ordinary business

1. To receive the directors' report and accounts for the period ended 31 December 2003 and the auditors' report on the accounts.
2. To approve the directors' remuneration report (as that term is used in section 241A of the Companies Act 1985) for the period ended 31 December 2003.
3. To re-appoint PricewaterhouseCoopers LLP as auditors of the company and to authorise the directors to agree their remuneration.
4. To re-appoint Robert John Alford as a director of the Company who retires by rotation (member of the Audit and Remuneration Committees)
5. To re-appoint Cathy Bosworth Horton as a director of the Company who retires by rotation (member of the Audit and Remuneration Committees)

## Special business

As special business to consider and, if thought fit, to pass the following resolutions of which Resolution 6 will be proposed as an ordinary resolution and Resolutions 7 and 8 will be proposed as special resolutions.

### Ordinary Resolution

6. THAT the directors be and they are generally and unconditionally authorised, in substitution for any existing authority conferred on the directors, to exercise all or any of the powers of the Company to allot relevant securities (within the meaning of Section 80 of the Companies Act 1985 ("the Act") up to an aggregate nominal amount of £213,000 for the period expiring 15 months after the date of passing this resolution or at the conclusion of the Annual General Meeting of the Company to be held in 2005 which ever first occurs (unless previously renewed, varied or revoked by the Company in General Meeting) save that the Company may prior to such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities pursuant to any such offer as if the authority conferred hereby had not expired.

### Special Resolutions

7. THAT, subject to and conditional upon the passing of Resolution 6 above, the directors be and they are hereby authorised and empowered to allot equity securities (within the meaning of Section 94(2) of the Act) of the Company pursuant to the authority conferred by Resolution 6 above as if Section 89(1) of the Act did not apply to such allotment, provided that this power shall expire 15 months after the date of passing this resolution or at the conclusion of the Annual General Meeting of the Company to be held in 2005 which ever first occurs and shall be limited to the allotment of equity securities in connection with rights issues or similar issues in favour of holders of ordinary shares where the equity securities respectively attributable to the interests of the holders of ordinary shares are proportionate (as nearly as may be) to the respective number of ordinary shares held by them subject to such exclusions and other arrangements as the directors may deem necessary or expedient in relation to the fractional entitlements or legal or practical problems arising under the laws of, or the requirements of any regulatory body or stock exchange in, any overseas territory or otherwise howsoever; and provided further that all previous such powers conferred upon the directors shall henceforth cease to have any effect.
8. THAT, subject to and conditional upon the passing of Resolution 6 above and otherwise than pursuant to Resolution 7 above, the directors be and they are empowered to allot equity securities (within the meaning of Section 94(2) of the Act) of the Company pursuant to the authority conferred by Resolution 6 above as if Section 89(1) of the Act did not apply to such allotment, provided that this power shall expire 15 months after the date of passing this resolution or at the conclusion of the Annual General Meeting of the Company to be held in 2005, which ever first occurs (save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred hereby has expired) and shall be limited to allotments of equity securities for cash up to an aggregate nominal amount of £117,000.

## Registered Office

18 Upper Brook Street  
London  
W1K 7PU  
27 January 2004

## Explanation of Resolutions 6, 7 and 8

In addition to the ordinary business of the 2004 Annual General Meeting, resolutions will be proposed as follows:

- to grant to the directors the general authority to allot up to 213 million shares (resolution 6); and
- to disapply the statutory pre-emption rights in new issues of shares for cash in respect of
  - pre-emptive issues generally (Resolution 7)
  - other non-pre-emptive issues for cash of up to 117 million shares (which is approximately equal to the disapplication granted in 2003, less shares issued pursuant to that disapplication) (Resolution 8).

The directors' foresee continued opportunities for further growth of the Company, and believe that the passing of these resolutions will give them flexibility to take advantage of these opportunities as they arise. However, at the time of this report the directors have no such issues in contemplation. They therefore, unanimously recommend that the shareholders vote in favour of these resolutions, as they themselves intend to do in respect of their own shareholdings as set out on page 8 of the Annual Report and Accounts.

## Notes:

1. A member of the Company entitled to attend and vote at the above meeting may appoint a proxy to attend and (on a poll) vote instead of him. A proxy need not be a member of the Company.
2. Completion and return of a form of proxy does not preclude a member from attending and voting at the meeting in person should he so wish.
3. A form of proxy is provided and to be valid must be completed and returned so as to reach the Company's registrars, Computershare Investor Services PLC of PO Box 1075, The Pavilions, Bridgwater Road, Bristol BS99 3FA (together with a letter or power of attorney or other written authority, if any, under which it is signed or a notarially certified or office copy of such power or written authority) not later than 48 hours before the time allotted for holding the meeting or any adjournment thereof.



# Form of Proxy for Annual General Meeting

I/We \_\_\_\_\_ (BLOCK CAPITALS please)

being holders of ordinary shares in Caledon Resources PLC and entitled to attend and vote at the above Annual General Meeting.

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at Millennium Hotel London Mayfair, 44 Grosvenor Square, London, W1K 2HP and at any adjournment thereof in respect of the resolutions set out in the Notice of Meeting.

Please indicate with an "X" in the appropriate box below how you wish your vote to be cast. If both spaces are left blank, the proxy will exercise his/her discretion as to whether, and if so, how he/she votes.

## ORDINARY RESOLUTIONS

		FOR	AGAINST
Resolution 1	To receive and adopt the financial statements for the period ended 31 December 2003	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2	To receive and approve the director's remuneration report	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3	To re-appoint the auditors	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4	To re-appoint Robert J Alford as a Director	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5	To re-appoint Cathy B Horton as a Director	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6			

## SPECIAL RESOLUTIONS

Resolution 7	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 8	<input type="checkbox"/>	<input type="checkbox"/>

Dated \_\_\_\_\_ Signed \_\_\_\_\_

### Notes:

- To be effective, this form of proxy and any power of attorney or other authority under which it is signed or a notarially certified copy of such power of authority must be completed and deposited at the office of the Company's Registrars, Computershare Services PLC, PO Box 1075, The Pavilions, Bridgwater Road, Bristol, BS99 3FA, not less than 48 hours prior to the time fixed for the holding of the Meeting or any adjournment of said Meeting.
- The completion and return of this form of proxy will not preclude you from attending and voting at the meeting should you subsequently decide to do so.

FOLD 3

BUSINESS REPLY SERVICE  
Licence No. SWB 1002

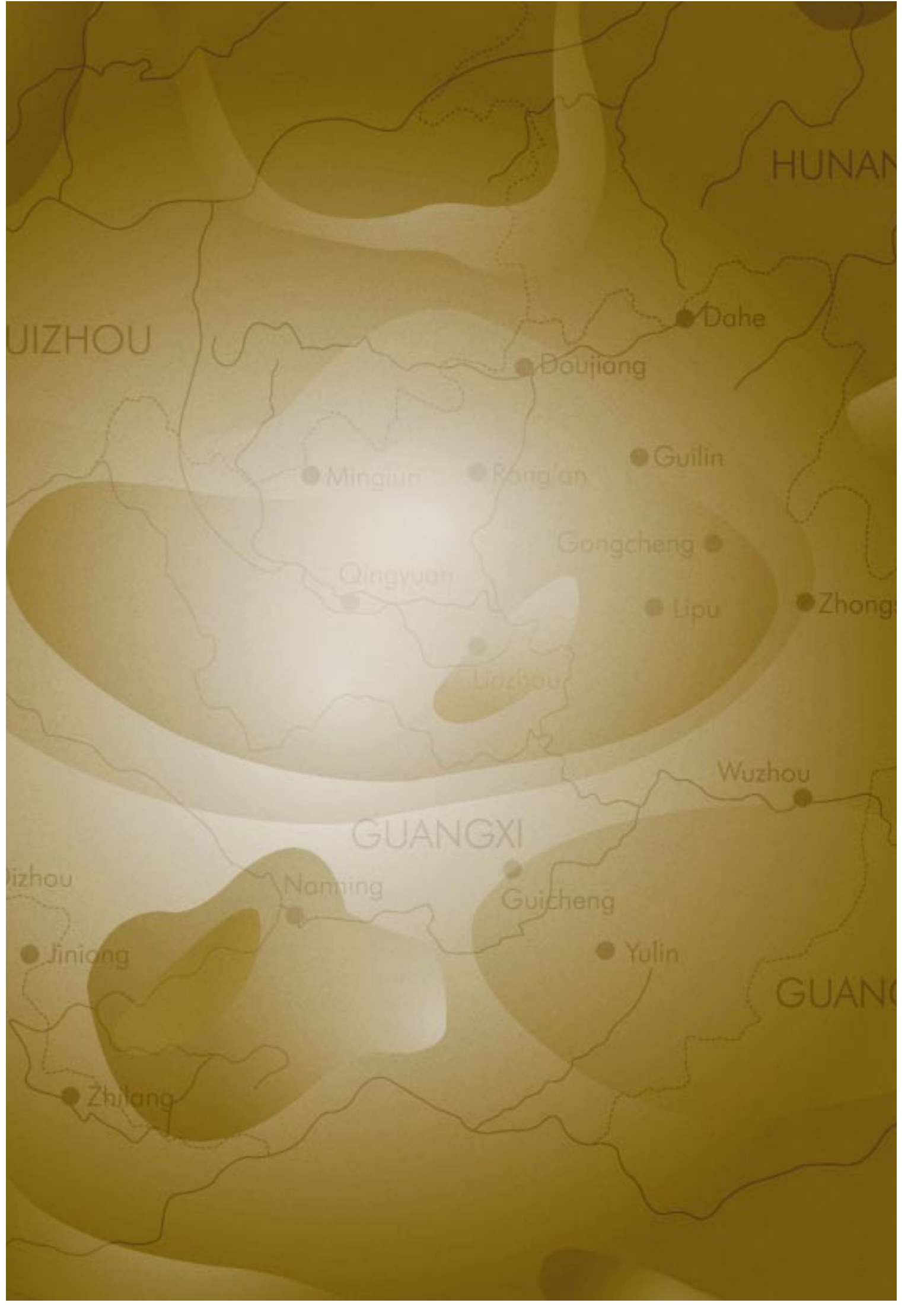


**Computershare Services PLC**  
**PO Box 1075**  
**The Pavilions**  
**Bridgwater Road**  
**Bristol**  
**BS99 3FA**

FOLD 1

FOLD 2

FOLD 4



HUNAN

GUIZHOU

Dahe

Doujiang

Mingjun

Pang'an

Guilin

Gongcheng

Qingyuan

Lipu

Zhong

Lüzhou

Wuzhou

GUANGXI

Nanning

Guicheng

Yulin

GUANG

Jiniang

Zhilang

Wuzhou