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## INDUSTRY OVERVIEW

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*Certain information and statistics contained in this section are related to the gold industry that we operate in. No independent verification has been carried out in respect of information and statistics which are derived from various official government publications. While we, the Sole Global Coordinator, the Underwriters and other parties involved in the Global Offering or their respective directors and advisers have exercised reasonable care in compiling and reproducing such information and statistics, we cannot ensure the accuracy of such information and statistics and such information and statistics may not be consistent with other information prepared inside or outside China. In addition, we cannot ensure that more updated information or statistics have not been prepared or released by the relevant authorities. You should not place undue reliance on any of such information and statistics contained in this section.*

### RESEARCH SOURCES

This prospectus has cited materials prepared by GFMS, AME, CEIC and other research sources. None of our Company, our Directors, or the Sole Global Coordinator have commissioned any of the materials prepared by these research sources for use as citations in this prospectus. The materials we have used are widely available periodic publications and/or data compilations by the respective research sources. We have paid for the reports at their published prices. The parameters and assumptions used by researchers in compiling the reports are based on their own in-house standards.

### INTRODUCTION

Our existing mining assets are high-grade poly-metallic mineral reserves containing gold, silver, copper, zinc and lead. Gold is our core commodity because the value of gold contained in the concentrates we produce and sell exceeds the combined value of all the other metals contained in our concentrates. Our strategy is to continue to focus on gold assets.

### GOLD — OUR CORE COMMODITY

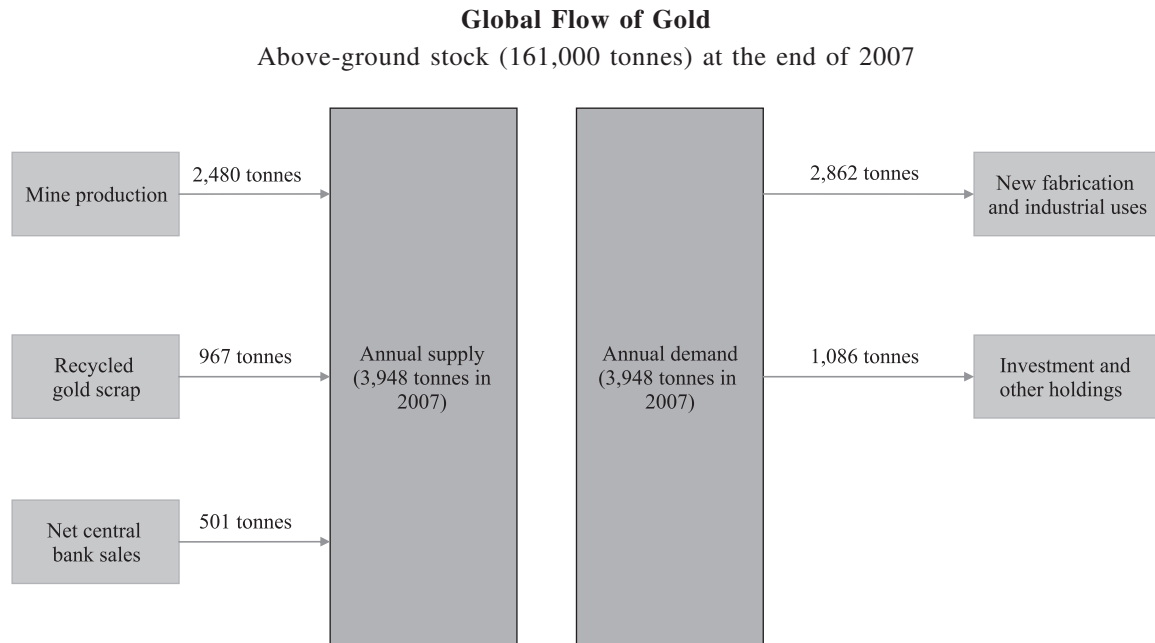
Throughout history, gold has served as both a commodity and a monetary asset and is often regarded as the world's oldest currency. Gold's most significant purpose as a commodity is its use in the fabrication of jewelry, which accounted for 60.8% of total global demand for gold in 2007. Due to its high malleability and ductility, gold has further applications, including uses in the production of electronics, dental products, and other industrial and decorative uses.

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According to GFMS, at the end of 2007, the global above-ground stock of gold was approximately 161,000 tonnes. The majority of annual gold demand is met by mine production and the recycling of above-ground gold mined from previous years.



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*Note:* The amount for investment and other holdings is the balance of total global demand for gold less new fabrication and industrial uses. Figures have been rounded to nearest tonne.

*Source:* GFMS

Market forces, based on over-the-counter transactions and global trading on a number of exchanges, determine the price of gold. Major exchanges include COMEX (USA), the London Bullion Market (UK), TOCOM (Japan) and the SGE (PRC). Gold prices are typically quoted in U.S. dollars per ounce.

### GLOBAL GOLD INDUSTRY

#### *Overview*

Gold is primarily used in the fabrication of jewelry, coinage and as a means for monetary exchange. Due to its superior electrical conductivity, resistance to corrosion, malleability and ductility, it is also an essential raw material in the production of electronics, such as computers and communications equipment. Additionally, gold has important uses in the production of dental products, as well as many other industrial and decorative applications.

Historically, monetary systems known as “gold standards” prevailed in many developing economies. Under a gold standards system, paper currencies were guaranteed by the issuer. The issuer agreed to redeem the paper notes for a fixed amount of gold and held physical gold to support this. This provided a system by which the issuers could stabilize the value of their own currencies and using such currencies to trade for other currencies. From the 1870s, several industrialized countries implemented gold standards systems, the most recent one being the Bretton Woods system, which was in place

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between 1946 and 1971. In contrast to fiat currencies, the value of gold is not based on the liability of the currency issuer and, therefore, is not exposed to the associated risk of the issuers' default. Today, though gold is no longer used to back national currencies, it is perceived to maintain its value as an international currency. Gold has been particularly desirable to investors during periods of weak economic confidence and high inflation.

### Global Gold Supply and Demand

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>% change 2007 vs. 2006</u>
	(tonnes)			
<b>Supply</b>				
Supply mine production . . . . .	2,548	2,486	2,480	(0.2)
Official sector sales . . . . .	663	370	501	35.4
Old gold scrap . . . . .	897	1,126	967	(14.1)
Net producer hedging . . . . .	—	—	—	—
Implied net disinvestment . . . . .	—	—	—	—
<b>Total Supply</b> . . . . .	<u>4,108</u>	<u>3,982</u>	<u>3,948</u>	<u>(0.9)</u>
<b>Demand</b>				
Fabrication				
Jewelry . . . . .	2,708	2,284	2,401	5.1
Other <sup>(1)</sup> . . . . .	579	648	671	3.5
Total fabrication . . . . .	3,287	2,932	3,072	4.8
Bar hoarding . . . . .	264	235	236	0.4
Net producer de-hedging . . . . .	92	410	447	9.0
Implied net investment <sup>(2)</sup> . . . . .	465	404	193	(52.2)
<b>Total Demand</b> . . . . .	<u>4,108</u>	<u>3,982</u>	<u>3,948</u>	<u>(0.9)</u>

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*Notes:*

(1) Includes coinage.

(2) Implied net investment is the residual from combining all other GFMS data on gold supply/demand.

*Source:* GFMS

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### *Global demand for gold*

Gold demand can be divided into two categories — fabrication and investment:

#### **Fabrication demand**

Fabrication demand comprises demand from jewelry, production of electronics, dental products, and gold used for other industrial and decorative applications. Approximately 77.8% of the global demand for gold in 2007 was fabrication demand, according to GFMS. Most of this demand was for jewelry, which contributed 78.2% of the total fabrication demand. The primary driver for jewelry demand is growth in real income, in particular, disposable income.

Gold's unique properties, such as its ductility and conductivity, drive its use in the production of components for electronics, dental products, and other industrial and decorative applications. Demand for such products drives industrial demand for gold.

#### **Investment demand**

Investment demand comprises demand for coins and bullion. Demand for physical gold has largely been driven by net incremental gold stocks held in support of derivative transactions and exchange-traded funds (“ETFs”). Investment demand is a function of the current and anticipated value of gold relative to other investments, such as cash, fixed interest securities, equities and properties, resulting largely from monetary policy considerations and expectations regarding future gold prices.

According to GFMS:

- Demand for gold in 2007 (totalling 3,948 tonnes) was 0.9% lower in tonnage terms than in 2006.
- Total fabrication demand<sup>(1)</sup> in 2007 (totalling 2,862 tonnes) was 4.3% higher in tonnage terms than in 2006. The increase in fabrication demand was supported by increases in demand from both jewelry and other fabrication (including dental products and gold used for other industrial and decorative purposes).
  - Jewelry demand for gold in 2007 (totalling 2,401 tonnes) was 5.1% higher in tonnage terms than in 2006.
  - Other fabrication demand<sup>(1)</sup> for gold in 2007 (totalling 461 tonnes) was 0.4% higher in tonnage terms than in 2006. Increased demand from electronic products and other industrial applications of gold was largely offset by a decline in demand for gold from dental products. Demand for gold from electronic products and other industrial applications in 2007 (totalling 403 tonnes) was 1.0% higher in tonnage terms than in 2006. Demand from dental products in 2007 (totalling 58 tonnes) was 4.9% lower in tonnage terms than in 2006.

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*Note:*

(1) Excludes coinage.

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- Identifiable investment demand for gold in 2007 (totalling 654 tonnes) was 1.2% lower in tonnage terms than in 2006. Total physical holdings in gold for ETFs and similar products grew by 251 tonnes in 2007 (net addition in holdings in 2007 declined by 3.5% in tonnage terms compared to net addition in holdings in 2006).

### *Global gold supply*

The annual supply of gold comes from mine production, recycled gold scraps and net sales of gold by central banks. Approximately 62.8% of annual supply in 2007 (2,480 tonnes) came from mine production, according to GFMS. Recycled gold and net sales of gold bullion by central banks made up the balance and represented 24.5% and 12.7% of annual supply in 2007, respectively.

### **Mine production**

Total global mine production of gold declined by 0.2%, from 2,486 tonnes in 2006 to 2,480 tonnes in 2007. According to GFMS, Asia was the only region that reported higher mine production, with a year-on-year gain of 67 tonnes. All other regions reported declines. The decrease in overall mine production of gold can be primarily attributed to the lack of industry investment in exploration for the replacement of reserves during the extended period of low gold prices earlier this decade and increasing difficulty in identifying large-scale economic gold deposits.

The ten largest gold producing countries in 2006 and 2007 are described in the following table:

#### **Largest Gold Producing Countries**

	<b>Rank</b>		<b>Mine production (tonnes)</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
PRC . . . . .	1	3	280	247
South Africa . . . . .	2	1	270	296
Australia . . . . .	3	4	245	247
United States . . . . .	4	2	244	252
Peru . . . . .	5	5	170	202
Russia . . . . .	6	6	169	173
Indonesia . . . . .	7	7	147	116
Canada . . . . .	8	8	101	104
Uzbekistan . . . . .	9	9	75	74
Ghana . . . . .	10	10	75	70

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*Source:* GFMS

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Global mine production costs have been on the rise in recent years. Every major gold producing region has experienced increasing costs in U.S. dollar terms since 2002. According to GFMS, global average cash costs of gold mining increased significantly in 2007, by US\$78 per ounce, or a 25% year-on-year increase over 2006 levels, to US\$395 per ounce. The global average total production cost in 2007 was US\$496 per ounce, representing a US\$99 year-on-year increase over 2006 levels.

According to GFMS, cash cost includes direct mining expenses, stripping costs, refining charges, royalties and production taxes, and is net of by-product credits.

### **Gold scrap recycling**

Gold scrap recycling in 2007 declined by 159 tonnes to 967 tonnes from 1,126 tonnes in 2006, representing a 14.1% year-on-year decrease. Gold scrap recycling in most parts of the world was largely stable. The top five countries with the biggest decline were Saudi Arabia, Egypt, South Korea, Turkey and India; these countries contributed to a combined 134.3 tonnes in net decline in gold scrap recycling in 2007. The reasons for the unintuitive decline in gold scrap recycling, on the back of a rising gold price, were: (i) a rising gold price in U.S. dollar terms may not represent the same magnitude in increase in some currencies; (ii) consumers becoming accustomed to the elevated gold price and cutting back on recycling compared to 2006 levels (gold scrap recycling in 2006 increased by 229 tonnes from 897 tonnes in 2005); and (iii) higher future price expectations for gold.

### **Central bank sales of gold**

According to GFMS, central banks held an estimated amount of 28,500 tonnes in gold stock at the end of 2007, representing 17.7% of the world's total above-ground stock. With their substantial holdings in gold, central banks' actual and potential sales have the effect of keeping gold prices low. In order to stabilize the gold market, 15 central banks entered into the CBGA on 26 September 1999, to limit their collective gold sales and lending and the use of derivatives for the next five years. The announcement prompted an immediate spike in gold prices, as the uncertainty of central banks sales was removed.

A second CBGA was signed on 8 March 2004, covering the next five-year period. The substantive change in the second agreement is that signatories agreed not to sell more than 2,500 tonnes over the next five years (maximum 500 tonnes per year), compared to 2,000 tonnes agreed in the first CBGA.

In April 2008, the board of the International Monetary Fund ("IMF") approved the sale of 403.3 tonnes of gold from its reserves. According to GFMS, the IMF held 3,217 tonnes of gold at the end of 2007.

### **Producer de-hedging**

Hedging, where the future price of gold is contractually locked in, has in the past been a common practice among gold producers to reduce their price risk. Since 2000, gold producers have started to unwind their collective hedge book. Gold producers' net de-hedging reached record levels in 2007 by contributing 447 tonnes in physical demand, according to GFMS. Producer de-hedging is important as it creates effective demand when physical gold is allocated to close out hedged positions.

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### *Gold price trends*

The closing gold price in U.S. dollars between 1 January 1980 and 30 January 2009 is shown in the graph below:

**Spot Gold Price — 1 January 1980 to 30 January 2009**



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*Note:* Daily New York composite spot gold price quoted in U.S. dollar per ounce at 17:00 New York time.

*Source:* Bloomberg

The spot price of gold between 1 January 2005 and 30 January 2009 is shown in the graph below:

**Spot Gold Price — 1 January 2005 to 30 January 2009**

(Low US\$412.7 per ounce on 8 February 2005; high US\$1,003.0 per ounce on 14 March 2008)



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*Note:* Daily New York composite spot gold price quoted in U.S. dollar per ounce at 17:00 New York time.

*Source:* Bloomberg

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The price of gold reached a 25-year high of US\$1,003.0 per ounce on 14 March 2008 following continued strength in 2007. The average gold price for 2007 was a record US\$697.7 per ounce, representing a 15.3% increase over 2006. The average gold price for 2008 was US\$872.2 per ounce, representing a 25.0% increase over 2007.

### PRC GOLD INDUSTRY

#### *Overview*

Prior to 2002, the PRC gold market was closely managed by the PRC government's centralized purchase and allocation system. All gold reserves, as well as the sale, purchase and price of gold, was controlled by the PBOC. Jewelry manufacturing and sales were restricted to State-owned enterprises and foreign companies were prevented from participating in the local gold market. These restrictive practices resulted in limited production and consumption of gold within the PRC.

The PRC gold market has undergone significant reform over the last few years. Following its accession into the WTO in December 2001, the PRC government began deregulating the PRC gold market. Key features of deregulation included: (i) the establishment of the SGE to replace the PBOC's restrictive purchase and allocation system; and (ii) the grant of permission to private domestic and foreign companies to enter the gold jewelry business.

Prior to the establishment of the SGE, trading in gold was regulated by the PBOC. In October 2002, the SGE officially commenced trading. It has the principal responsibility of supervising and coordinating the trade of all gold and other precious metals within the PRC. Prior to the commencement of trade on the SGE, the gold price in the PRC was above historical international levels. However, with the introduction of the SGE and deregulation, supply and demand factors have become increasingly aligned with international markets and the PRC gold price now converges with the global price of gold.

From February 2003, domestic and foreign companies were permitted to participate in the gold jewelry business. Gold jewelry manufacturers, wholesalers and retailers no longer require approvals to enter into the gold jewelry business, as long as the gold they use is not imported. Furthermore, gold can now be in jewelry form or held as an investment by retail investors, being available in passbook accounts (via authorized banks) as bullion and coins. In February 2004, the Commercial Banking Law of China was amended to allow all banks to participate in gold trading.

#### *Gold trading on the SGE*

The SGE is a platform for trading gold bullion and gold coins. The price of gold traded on the SGE largely converges to the price of gold in international markets. The SGE is the only legal source of VAT-free gold. Gold trading on the SGE is at the standard purities of Au9999 and Au9995. The standard weights for gold bullion bars (and coins where relevant) are 50 grams, 100 grams, 1 kilogram, 3 kilograms and 12.5 kilograms, and the unit of quotation is RMB per gram.

Gold trading on the SGE is settled through designated settlement banks in the PRC. The current 162 members of the SGE include qualified financial institutions and corporations that produce, smelt, process, wholesale, import and export precious metals and associated products. Some of these entities are certified as standard gold bullion production enterprises.



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According to GFMS, the total volume for spot gold on the SGE in 2007 (totalling 919 tonnes) was 37% higher in tonnage terms than in 2006. The spot gold price on the SGE between 1 January 2005 and 30 January 2009 is shown in the graph below:

**SGE Gold Price — 1 January 2005 to 30 January 2009**



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*Notes:*

- (1) SGE Au9999 Gold Price quoted in RMB per gram at 17:30 Beijing time. The SGE gold price has been converted to U.S. dollars per ounce using:
  - the RMB/US\$ spot rate; and
  - a conversion factor of 31.1034768 grams per ounce.
- (2) Daily New York composite spot gold price quoted in U.S. dollar per ounce at 17:00 New York time.

*Source:* Bloomberg

In 2005, 2006, 2007 and 2008, the average SGE gold price was RMB117.4 per gram, RMB155.1 per gram, RMB170.4 per gram and RMB195.7 per gram, respectively.

## INDUSTRY OVERVIEW

### *Demand for Gold in the PRC*

According to GFMS, while global consumer demand in 2007 was 5.2% higher in tonnage terms than in 2006, the PRC's consumer demand for gold experienced growth of 25.6% in 2007. The consumer demand for gold in the PRC in 2007 consisted of jewelry and retail investments demand. The significant gain in the PRC's consumer demand for gold allowed the PRC to overtake the United States to become the world's second largest gold consumer. Annual gold consumer demand in the PRC in 2007 was 326.1 tonnes, accounting for 11.6% of total global consumer demand for gold.

### Consumer Demand in Different Countries (tonnes) <sup>(1)</sup>

	2006			2007			% change 2007 vs. 2006		
	Jewelry	Investments	Total	Jewelry	Investments	Total	Jewelry	Investments	Total
India . . . . .	514.2	194.0	708.2	555.1	215.4	770.5	8.0	11.0	8.8
PRC . . . . .	244.7	14.9	259.6	302.2	23.9	326.1	23.5	60.4	25.6
United States . .	306.1	35.0	341.1	260.9	15.2	276.1	(14.8)	(56.6)	(19.1)
Turkey . . . . .	165.3	59.9	225.2	188.1	61.2	249.3	13.8	2.2	10.7
Saudi Arabia . . .	104.3	8.0	112.3	117.9	9.2	127.1	13.0	15.0	13.2
Others . . . . .	949.4	72.2	1,021.6	976.8	80.4	1,057.2	2.9	11.4	3.5
<b>Total . . . . .</b>	<b>2,284.0</b>	<b>384.0</b>	<b>2,668.0</b>	<b>2,401.0</b>	<b>405.3</b>	<b>2,806.3</b>	<b>5.1</b>	<b>5.5</b>	<b>5.2</b>

*Note:*

(1) Consumer demand comprises gold purchased by individuals (jewelry and retail investments).

*Source:* GFMS

Jewelry demand represented approximately 92.7% of the total consumer demand for gold in the PRC in 2007. The increase in disposable income, resulting from rapid growth of the PRC economy, and the success of the World Gold Council's promotion campaigns, have driven up jewelry demand for gold in the domestic market, which increased 23.5% in tonnage terms from 2006 to 2007.

Retail investment demand for gold in the PRC increased 60.4% in tonnage terms from 2006 to 2007 (totalling 23.9 tonnes, which represented 7.3% of total consumer demand for gold in the PRC). Investment demand was mainly driven by ongoing government liberalization to allow gold bullion and coins to be widely held.

According to GFMS, the PBOC has maintained a gold holding of 600 tonnes since 2002, representing 1% of its foreign reserves of US\$1,546.4 billion by the end of 2007. This suggests the potential for the PBOC to alter reserve holdings. Any small shift of its gold reserve strategy could affect the demand for gold in the PRC and consequently the global demand.

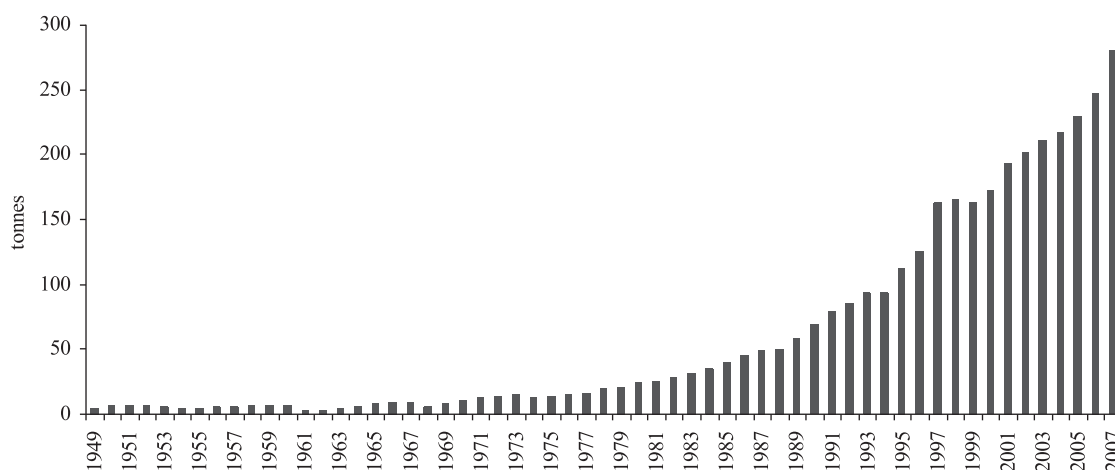
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### *Supply of Gold in the PRC*

#### **PRC Gold Output**

The PRC overtook South Africa to become the world's largest producer of gold in 2007, according to GFMS. The PRC's gold production in 2007 increased by 33 tonnes to 280 tonnes, representing a 13.4% year-on-year growth from 247 tonnes in 2006 and 11.3% of global gold output. The PRC's gold output has been increasing significantly in both absolute and relative terms compared to the global gold output.

**PRC Gold Mine Production 1949-2007 (tonnes)**



*Sources:* GFMS and CEIC

According to CEIC, the top five gold producing provinces in the PRC in the first ten months of 2008 were Shandong, Henan, Anhui, Shaanxi, and Jiangxi, which together accounted for 83.3% of the PRC's gold production in the same year.

<b>Output Province</b>	<b>%</b>
1. Shandong . . . . .	37.3
2. Henan . . . . .	27.5
3. Anhui . . . . .	6.9
4. Shaanxi . . . . .	6.6
5. Jiangxi . . . . .	5.0
6. Hubei . . . . .	4.6
7. Jilin . . . . .	3.8
8. Liaoning . . . . .	2.5
9. Hebei . . . . .	0.6
10. Xinjiang . . . . .	0.4
Others . . . . .	4.8
	100.0

*Source:* CEIC

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### PRC Gold Reserve

The PBOC holds 600 tonnes of gold reserves and ranked eighth among central banks globally, according to GFMS.

### COMPETITION

Our operations have significant levels of remaining gold reserves. As described in the following table and in terms of the resources and reserves at our Gold Mines as at 30 November 2008, we believe we rank fifth among comparable PRC gold producers which operate substantially in the PRC and are listed on the Stock Exchange. The following table has been compiled using publicly available data released by the gold producers, which has not been independently verified by us or any of our advisers. The following resources and reserves figures reflect estimates at different dates, which may have materially changed thereafter. Furthermore, some of the gold producers described in the following table have used a technical standard or classification system that is different from the JORC Code in calculating their resources and reserves. Therefore, their reported resources and reserves may not be directly comparable with the resources and reserves at our Gold Mines, which are reported under the JORC Code. The available sources do not always describe whether and how resources and reserves estimates of non-wholly-owned subsidiaries are included in the total resources and reserves of the relevant companies. Moreover, there are also many gold producers in the PRC that are unlisted and are not reflected in the following table. As a result, caution should be applied when referring to the figures in the table below.

#### Latest Reported Resources and Reserves Estimates of our Company and PRC Gold Producers Listed on the Stock Exchange

<u>Gold producer</u>	<u>Reported resources or reserves (containing gold) (tonnes)</u>
Zijin Mining Group Co., Ltd. (紫金礦業集團股份有限公司) <sup>(1)</sup> (“Zijin”), as at 30 June 2008 . . . . .	663.3 <sup>(2)</sup>
Zhaojin Mining Industry Company Limited (招金礦業股份有限公司) <sup>(3)</sup> (“Zhaojin”), as at the end of 2007 . . . . .	150.0 <sup>(4)</sup>
Sino Gold Mining Limited (澳華黃金有限公司) <sup>(5)</sup> (“Sino Gold”), as of 30 June 2008 . . . . .	149.3 <sup>(6)</sup>
Lingbao Gold Company Ltd. (靈寶黃金股份有限公司) <sup>(7)</sup> (“Lingbao”), as at 30 June 2008 . . . . .	124.0 <sup>(8)</sup>
Our Company, as at 30 November 2008 . . . . .	90.2 <sup>(9)</sup>

*Notes:*

- (1) Zijin has been listed on the Stock Exchange since 23 December 2003 and on the Shanghai Stock Exchange since 25 April 2008.
- (2) Estimated gold resource/reserves as at 30 June 2008 as stated in the interim report of Zijin for the six months ended 30 June 2008. It is not specified whether the resources or reserves of non-wholly-owned subsidiaries are included entirely or only on a proportionate basis, or under what resource and reserve classification system this estimate is made.

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- (3) Zhaojin has been listed on the Stock Exchange since 8 December 2006.
- (4) Estimated gold reserves in accordance with the JORC Code as at the end of 2007 as stated in the annual report of Zhaojin for the year ended 31 December 2007. It is not specified whether the resources or reserves of non-wholly-owned subsidiaries are included entirely or only on a proportionate basis.
- (5) Sino Gold has been listed on the Australian Securities Exchange since 3 December 2003 and on the Stock Exchange since 16 March 2007.
- (6) Estimated gold reserves of 4,800 kozs as at 30 June 2008 estimated in accordance with the JORC Code as disclosed in the interim report of Sino Gold for the six months ended 30 June 2008 and converted at a conversion factor of 31.10348 grams per ounce. It is not specified whether the resources or reserves of non-wholly-owned subsidiaries are included entirely or only on a proportionate basis.
- (7) Lingbao has been listed on the Stock Exchange since 12 January 2006.
- (8) Estimated gold reserves and resources as at 30 June 2008 as stated in the interim report of Lingbao for the six months ended 30 June 2008. It is not specified under what resource and reserve classification system this estimate is made, or whether the resources or reserves of non-wholly-owned subsidiaries are included entirely or only on a proportionate basis.
- (9) Estimated gold reserves as at 30 November 2008 estimated in accordance with the JORC Code as disclosed in the Independent Technical Expert's Report. Our Company's share of the mineral reserves in the table is 97.14%.

With WTO accession and the continued liberalization of the PRC gold sector, investment interest from foreign gold producers has increased. Foreign gold producers are actively seeking entry into the PRC market. As a result, the local market is likely to experience increased competition. Sophisticated international producers commonly have an advantage over PRC gold producers in terms of capital, equipment, expertise, operating efficiencies and corporate management. However, many PRC gold producers have the advantage of being able to sustain lower costs of labor and establish greater control of local gold reserves within the PRC, when compared to their foreign competitors. The increased capitalization from foreign investment and the implementation of the latest gold mining and processing technologies is expected to make PRC gold producers increasingly competitive.

### PRINCIPAL PRODUCT — GOLD CONCENTRATE

Our principal product is gold concentrate. Gold concentrate is the principal raw material used in gold smelting operations to produce standard and non-standard gold. The mined ore is processed in processing facilities to produce gold concentrates. Our concentrates contain gold and other valuable minerals such as silver, copper, lead and zinc.

#### *Gold concentrate pricing*

The principal purchasers of gold concentrate in the PRC are gold smelting operators. The price of gold concentrate is affected by the following factors:

- **market price of gold:** there is a strong positive correlation between the market price of gold and gold concentrate prices. As gold market prices increase, gold concentrate prices increase;
- **supply and demand dynamics:** the availability of production capacity of gold smelting operators in the PRC;

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- **content and grade of gold:** gold smelting operators pay the gold concentrate producer according to the content and grade of gold contained in the concentrate. The higher the content and grade of the gold, the higher the price; and
- **the level of impurities contained in the gold concentrate:** if the impurities contained in a gold concentrate comprise valuable minerals which can be profitably extracted by the gold smelting operator (for example, silver, copper, lead and zinc), the gold concentrate producer may be able to obtain a higher price for the concentrate. However, if the impurities contained in the gold concentrate hold little or no value, or make extraction of gold from the concentrate more expensive, the gold concentrate producer may receive a lower price for the concentrate.

### OUR BY-PRODUCT COMMODITIES

#### *Silver*

Silver is a by-product metal in the concentrates that we produce. Throughout history, silver, as a precious metal, has served as both a commodity and a monetary asset. Due to unique properties such as its strength, malleability, ductility, and electrical and thermal conductivity (the highest of all metals), silver today is used in three main areas: industrial uses, photography, and jewelry and silverware — together these three categories are estimated to account for over 90% of total global demand for silver in 2007. According to GFMS, global demand in 2006 for silver was 913.7 million ounces. 2007 global demand for silver was almost the same as in 2006 at 894.5 million ounces, as a significant increase in industrial uses is offset by a large drop in photography and smaller drops in jewelry and silverware. Global silver supply in 2007 was driven by strong growth in mine production, offset by a decrease in supplies in scrap silver and net government sales. The average price of silver in 2007 was US\$13.4 per ounce, representing a 15.5% increase over an average price of US\$11.6 per ounce in 2006. The average price of silver in 2008 was US\$15.0 per ounce, representing an 11.8% increase over an average price of US\$13.4 per ounce in 2007.

#### *Copper*

Copper is a by-product metal in the concentrates that we produce. Copper is a non-precious metal mainly used in construction, electrical and electronics products, transportation equipment, industrial machineries and consumer and general products. According to AME, 2007 global demand for copper was 17.978 million tonnes. The PRC's demand for copper in 2007 grew 18.0% from 2006 to reach 4.627 million tonnes, representing 25.7% of the global demand. Global supply of copper is mainly sourced from mine production and recycled scrap. Chile was the largest producer of mined copper, representing 35.3% (5.579 million tonnes) of global mine production in 2007. The average price of copper in 2007 was US\$7,143.7 per tonne, representing a 6.1% increase over an average price of US\$6,730.7 per tonne in 2006. The average price of copper in 2008 was US\$6,951.9 per tonne, representing a 2.7% decrease over an average price of US\$7,143.7 per tonne in 2007.

#### *Zinc*

Zinc is a by-product metal in the concentrates that we produce. Zinc is a non-precious metal and has many applications, such as for galvanizing steel to prevent corrosion, production of batteries and production of alloys such as brass. According to AME, 2007 global demand for zinc was 11.441 million tonnes. The PRC's demand for zinc in 2007 grew 14.5% from 2006 to reach 3.660 million tonnes,

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## INDUSTRY OVERVIEW

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representing 32.0% of the global demand. Global supply of zinc is mainly sourced from mine production. Global mine production of zinc in 2007 was 11.568 million tonnes. The PRC and Peru were the two largest producers of mined zinc, representing 30.3% and 12.5% of global mine production in 2007, respectively. The average price of zinc in 2007 was US\$3,255.5 per tonne, representing a 0.3% decrease over an average price of US\$3,266.9 per tonne in 2006. The average price of zinc in 2008 was US\$1,881.6 per tonne, representing a 42.2% decrease over an average price of US\$3,255.5 per tonne in 2007.

### *Lead*

Lead is a by-product metal in the concentrates that we produce. Lead is a non-precious metal mainly used in production of batteries and non-battery products. According to AME, 2007 global demand for lead was 8.326 million tonnes. The PRC's demand for lead in 2007 grew 17.6% from 2006 to reach 2.627 million tonnes, representing 31.6% of the global demand. Global supply of lead is sourced from mine production and recycled scrap, with each representing about half of total supply. Global mine production of lead in 2007 was 3.658 million tonnes. The PRC and the United States were the two largest producers of mined lead, representing 39.4% and 11.8% of global mine production in 2007, respectively. The average price of lead in 2007 was US\$2,591.1 per tonne, representing a 101.4% increase over an average price of US\$1,286.3 per tonne in 2006. The average price of lead in 2008 was US\$2,084.2 per tonne, representing a 19.6% decrease over an average price of US\$2,591.1 per tonne in 2007.