Before making any investment decision in relation to the Company, you should carefully consider all of the information set out in this prospectus and, in particular, the following risks and uncertainties. The Company is a company incorporated in the PRC, has a legal and regulatory environment possibly different from present environment of other countries in certain aspects. These risks could have a material adverse effect on the business, financial condition and results of operation of the Company. For details regarding the PRC and other relevant matters, please refer to the sections headed "Summary of relevant PRC and Hong Kong laws and regulations" in Appendix V of this prospectus and "Summary of the Articles of Association" in Appendix VI to this prospectus.

RISKS RELATING TO THE GROUP

Price fluctuations of gold

The Directors consider that the price of gold in the PRC is highly influenced by the price of gold in the international market (which is denominated in US dollars) and the exchange rate of the US dollar to Renminbi. At present, the price of gold in the PRC is generally in line with the price of gold in the international market. There are many factors influencing the price of gold in the international market, including the international economic situation (in particular the economic situation in the US), petroleum prices, fluctuations in the exchange rates of the US dollar, fluctuations in the stock and other financial investment markets and various political, military, social and economic contingencies. These factors are beyond the control of the Group. Changes in the price of gold in the PRC and in the exchange rate of Renminbi as a result of these may adversely affect the operating results of the Group. Under the relevant PRC laws and regulations, hedging activities presently are not permitted in gold trading in the PRC market. The Group has not been involved in hedging transactions or any alternative measures during the Track Record Period to manage the potential price risk.

Uncertainty in the results of exploration for resources

Resources and reserves are non-renewable and the exploration of new and potential resources is crucial to a mining enterprise. Exploration of mineral resources is speculative in nature, so substantial expenses may be incurred from initial drilling to production. There is also no assurance that exploration can lead to the discovery of economically feasible reserves. If the Group fails to replenish its mineral resource levels in existing or new mining areas, the Group may not be able to maintain the current gold production level after the remaining usable life of the existing mining areas.

Both the quantity of ores and metal reserves stated in this prospectus represent estimated figures, and there is no assurance that such estimates can be recovered in full. As a general comment of SRK, these estimates of resources are based on lower than desirable levels of supporting information and often lack tight geological control. The estimated figures may be revised in accordance with actual production or other factors. For example, price fluctuations of the gold market, reduced recovery rates or rise in production costs as a result of inflation or other factors and technical problems arising in the course of excavation (e.g. weather conditions, natural disasters, etc.) may render it economically unfeasible to mine low-grade ores and may adversely affect the operating results of the Group.

Licence period of mining rights

Under the "Mineral Resources Law", all mineral resources of the PRC are owned by the State. The Group may obtain mining rights for conducting mining activities in a specific mining area during the licence period. The Group has, under the relevant laws and regulations, obtained valid mining rights of 11.9 sq. km. with a validity period of 2 to 30 years and may apply to the relevant authorities for extension. There can be no assurance that the Group will be able to exploit the entire mineral resources of any of its mine during the initial licence period. If the Group fails to renew its mining rights upon expiry or it cannot effectively utilize the resources within a licence period specified in the mining right, the operation and performance of the Group may be adversely affected.

Reliance on operating performance of a single gold mine

The principal operating asset of the Group is the Zijinshan Gold Mine. A substantial portion of the turnover of the Group was generated from the Zijinshan Gold Mine during the Track Record Period. There is no assurance that other developing mineral projects of the Group will perform satisfactorily. If other developing mineral projects fail to perform satisfactorily, this may lead to a decrease in the overall profit margins, operating performance and investment return, and may adversely affect the operating results of the Group.

Technological risks

The Company has successfully implemented hydrometallurgical techniques for gold processing at the Zijinshan Gold Mine. However, the implementation of these techniques might not achieve similar results at the Zijinshan Copper Mine and the other mines of the Group as their resources and natural conditions may vary significantly. The Group is currently testing hydrometallurgy using biological leaching at the Zijinshan Copper Mine and pre-oxidation hydrometallurgy for refractory gold mines. However, the implementation of these technologies might not achieve positive results.

Risk of contingent liabilities on guaranteed loans

During the Track Record Period, the Group provided the following guarantees in respect of loans to other parties (including related companies). Such guarantees continue for a term of two years from the expiry of the loans.

	31st December,			30th June,
	2000	**2001**	**2002**	**2003**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
A shareholder	27,400	—	—	—
A minority shareholder	—	—	500	3,000
Third parties	56,045	40,855	11,400	14,000
An associate	—	—	18,500	15,000
	83,445	40,855	30,400	32,000

A provision for loss on loans of third parties guaranteed by the Group is only made when it is incurred and realised. Since the Group will normally consider certain factors (such as the financial conditions of the third parties, their relationships with the Group and their capability of repayment of the loans), the Directors believe that the policy for provision for loss of the Group is appropriate. During the Track Record Period, the Group made a provision for loss of RMB3.3 million in 2000 which represented a general provision in respect of bank guarantees provided for third parties. No specific provision for loss had been made on trade receivables for the gold sales of the Group.

As at 31st October, 2003, being the latest practicable date for the indebtedness statement of the Group, the guarantees provided by the Group amounted to approximately RMB26.6 million. If, for any reason, such third parties were to default in repayment of the loans, the Group would be liable to repay such loans. This may adversely affect the operating results of the Group.

Reliance on stripping contractors

The Group sub-contracts the overburden stripping and transport work at Zijinshan Gold Mine to three contractors selected through a tendering process. To some extent, the operations of the Group are affected by the performance of these contractors. If the Group were to fail to maintain the cooperation of its contractors, or to renew the contracts of these sub-contractors upon their expiry or on similar terms, this may adversely affect the operating results of the Group.

Possible provisions made on loan granted to Hunchun Gold and Copper Mining Company Limited

Hunchun Gold and Copper Mining Company Limited is a promoter of, and holds a 20% equity interest in, Hunchun Zijin, a subsidiary of the Company.

Under an agreement dated 16th December, 2002, the Group undertook to provide a loan facility of up to RMB3.5 million to Hunchun Gold and Copper Mining Company Limited. At the Latest Practicable Date, Hunchun Gold and Copper Mining Company Limited utilized the amount of RMB940,000 under the loan facility. The agreement provides that any dividend payable by Hunchun Zijin to Hunchun Gold and Copper Mining Company Limited will be utilised to repay the loan. In the event of non-payment by Hunchun Gold and Copper Mining Company Limited, the Group may be required to make a provision for such debt which may adversely affect the operating results of the Group.

Amortisation policy on mining rights

The mining rights of the Group are amortised on a straight-line basis over the estimated useful life of five to ten years. The Group will review the remaining useful life of its mining rights in accordance with the production plans of the Group and the reserve level of the respective mine. Accordingly, any material change in the production plan of the Group's mines or modification of reserve levels may alter the Group's amortisation policy of mining rights and impose a negative impact to the Group.

Provision of raw materials

The major raw materials required in the production of the Group mainly include activated carbon and sodium cyanide. Raw materials are purchased from domestic suppliers under short-term contracts. The management regularly monitors the fluctuation in market price of raw materials and assesses its impact on the operations of the Group. If the Group were not satisfied with the prices offered by its contracted suppliers, alternative sources would generally be available at prevailing market prices.

Although the supply of these raw materials has not been interrupted in the past, there can be no assurance that such interruption will not occur in the future.

Supply of electricity

Electricity is one of the main energy sources used for gold production by the Group. The Group operates a hydro-power station linked with the electricity grid of Shanghang county district, which provides electricity to the Zijinshan Gold Mine and the Zijinshan Copper Mine. If the hydro-power station were to fail to meet the electricity requirements of the Zijinshan Gold Mine and the Zijinshan Copper Mine, the shortfall will be supplemented by the regional electricity network at rates prescribed by the local government. The other mines of the Group obtain their power supply from neighbouring transformer stations, which ensure an ample electricity supply. Although the Group has not experienced a material interruption of its operations due to suspension or shortage of electricity, there can be no assurance that such interruption will not occur in the future. In addition, an increase in the price of electricity may have an adverse impact to the operation of the Group.

Business expansion

The Group intends to invest in different regions. The Group also intends to diversify the operating risk in a single business by participating in other related mining operations which may result in increases in labor costs and capital commitments.

Environmental protection

The Zijinshan Gold Mine utilises the open pit mining method and the heap-leaching extraction process. Waste residue such as waste rocks and waste water containing cyanide created during the production process may lead to environmental problems. The Group emphasises environmental protection by its operation and related activities. A significant amount of investment has been committed to the construction of environmental protection facilities and the establishment of a sound environmental protection management and monitoring system. The environmental protection efforts of the Group have presently met the requirements of the environmental regulations of the State. However, extraordinarily heavy rainfalls or other natural disasters could result in the pollution of the local water system or damage to the ecological system by waste residue or waste water. In addition, with the development of the economy of the PRC, improvements in the living standards of the population have created heightened awareness of the need for environmental protection. Higher environmental protection standards imposed by the State could increase the operating costs of the Group, particularly for the Paodaoling Gold Mine where environmental protection has been recommended by SRK to be enhanced.

Production safety

The Group employs the open pit mining method for the Zijinshan Gold Mine operation. Due to the geographic setting and relatively high elevation difference, there is a possibility of localised mud-rock flow during the rainy season, and a risk of instability of the slopes and subsidence of the working areas. As the mining process requires the use of explosives and sodium cyanide, any improper storage or use of these materials could lead to injury or death.

Handling of dangerous articles

In the process of the mining and leaching of gold ores, the Group is required to use dangerous articles such as explosive articles and sodium cyanide. Although the Company has a set stringent rules in relation to the handling of such dangerous articles, there is no guarantee that no accident will occur. Should the Company be liable for such accidents, if any, it may result in penalty for the Group and criminal liabilities for employees of the Group.

Exploitation for additional copper resources

In order to utilise its existing resources, the Group applies hydrometallurgy and biological extraction of copper at the Zijinshan Copper Mine. Given the relatively low grade of the ore, the Group could experience a certain degree of risk in investing in the mine.

Capital requirements and funding sources

The mining and exploration of mineral resources require substantial capital investments. The ability of the Group to obtain future external financing involve a number of uncertainties including its future operational results, financial condition, cash flow and the liquidity of the capital markets in the PRC and Hong Kong. If the Group fails to obtain adequate funds to satisfy its operations or development plans, this may affect the business of the Group and the efficiency of its operations and may adversely affect the operating results of the Group.

RISKS RELATING TO THE INDUSTRY

Government regulations on the gold mining industry

The mining production of the Group is subject to various government policies and regulations relating to exploration, development, production, taxation, labour standards, vocational health and safety, waste treatment, environmental monitoring, protection and control, operation management and other problems. Any changes to these policies and regulations may increase the operating costs of the Group and may adversely affect the operating results of the Group.

Competition for resources

As a resource dependent enterprise, the current and future competition of the Group arise mainly from competition to occupy resources. At present, high grade gold resources that are available for exploration are relatively scarce in the PRC. As a result of the accession by the PRC to the WTO, exploration and refining of low grade and refractory gold deposits have been included within the category of industries that encourage foreign investment, especially in the western regions where foreign investors are permitted to conduct wholly-owned exploration, development and exploitation of low grade and refractory gold deposits.

Taxation

Pursuant to "the notice of exemption of VAT on gold production" 《關於黃金生產環節免徵增值稅問題的通知》 and "Tax policy on gold transactions" 《關於黃金稅收政策問題的通知》 respectively promulgated by Ministry of Finance and the State Tax Bureau in 1994 and 2002 and other relevant laws, the sale of gold products by the Group are not subject to VAT. However, there can be no assurance that there will not be any modification of the preferential tax treatment policy. Abolishment of such preferential tax treatment policy may adversely affect the operating results of the Group.

RISKS RELATING TO THE PRC

Political and economic considerations

Since 1977, the PRC government has been making efforts to promote reforms of the economic system. These reforms have brought about marked economic growth and social progress, and the economy of China has shifted gradually from a planned economy to a socialist market economy. The Group has also benefited from the economic reforms implemented by the PRC government and the economic policies and measures. However, revisions or amendments may be made to these policies and measures from time to time, and the Group is not in a position to predict whether any change in the political, economic or social conditions may adversely affect the operating results of the Group.

Legal considerations

The PRC legal system is a statutory law system. Unlike the common law system, decided legal cases have little significance for guidance, and rulings by the court can only be used as reference with little value as precedents. Since 1979, the PRC government has established a commercial law system, and significant progress has been made in promulgating laws and regulations relating to economic affairs. Examples are the organisation of companies and their regulation, foreign investment, commerce, taxation and trade. However, these regulations are relatively new and the availability of public cases as well as the judicial interpretation of them are limited in number; moreover, as they are not binding, both the implementation and interpretation of these regulations are uncertain in many areas.

Foreign exchange transactions and exchange rates

Upon completion of the Share Offer, the Group will be required to effect foreign exchange transactions under specific current items (including the distribution of dividends) through the accounts permitted by the State. There can be no assurance that the State will not impose restrictions on foreign exchange transactions under these specific current items.

The value of the Renminbi may change as a result of administrative or legislative interference by the State. Since all the product sales of the Group are denominated in Renminbi and since Renminbi is not a freely convertible currency, any substantial fluctuation in the value of Renminbi may adversely affect the operating results of the Group, which are denominated in Hong Kong dollars.

Different regulatory framework

As substantially all of the business of the Group is conducted in the PRC, the operations of the Group are governed principally by the laws and regulations of the PRC. Being a PRC company offering and listing its Shares outside the PRC, the Company is subject to the Special Regulations and to the Mandatory Provisions. The Mandatory Provisions contain certain provisions that are required to be included in the articles of association of PRC companies to be listed abroad (including Hong Kong) and are intended to regulate the internal affairs of those companies. The Company Law and the Special Regulations, in general, and the provisions for the protection of the rights of shareholders and access to information, in particular, are less developed than those applicable to companies incorporated in Hong Kong, the United Kingdom, the US and other developed countries or regions. The laws and regulations are relatively imperfect compared to provisions of Hong Kong, the United Kingdom, the US and other developed countries or jurisdictions in company registration.

There are differences in some important aspects between the Company Law and the company laws of Hong Kong, the US and other common law countries or regions, particularly in regards to investors' protection, which includes areas such as derivative actions by minority shareholders and other minority protection, restrictions on directors, financial disclosure, variations of class rights, procedures at general meetings and distribution of dividends.

Deficiency in the protection of investors under the Company Law is compensated to a certain extent, by the Mandatory Provisions and certain additional requirements that are imposed by the Listing Rules, which aim to reduce the differences between the Companies Ordinance and the Company Law. The Mandatory Provisions and the additional requirements must be included in the articles of association of all PRC companies which apply for listing in Hong Kong. Nevertheless, the incorporation of these provisions in the Articles of Association does not guarantee that a holder of the H Shares will enjoy the same protection that he may be entitled in other jurisdictions.

Securities laws and regulations

The CSRC is responsible for administering and regulating the national securities markets and drafting relevant regulations for the regulation of the national securities markets. Regulations of the State Council and measures implemented by the CSRC, such as provisions dealing with acquisitions of listed PRC companies and disclosure of information, extend to listed companies in general, and are not confined to companies listed on any particular stock exchange. It is possible that these provisions may apply to a joint stock limited company established in the PRC with shares listed on a stock exchange outside the PRC, such as the Company upon completion of the Share Offer.

On 1st July, 1999, the PRC Securities Law became effective. The Securities Law is a fundamental and comprehensive law which regulates the securities markets and applies to the issuance and trading of shares in the PRC. The Company Law, the recently promulgated rules and regulations and laws relating to PRC companies whose shares are offered overseas (including Hong Kong) provide, to a certain extent, a legal framework governing the corporate conduct of companies (such as the Company) and its directors and shareholders. Investors of the Company should be aware that the regulatory framework for the securities industry in the PRC is in an early stage of development and amendments may be made to it to the detriment of investors.

Enforceability of judgements and arbitration

At present, it is difficult to secure recognition and enforcement in the PRC for court judgements from Hong Kong and other jurisdictions. It should be noted that under the Articles of Association, if a holder of H Shares has a dispute with the Company, a Director, a Supervisor, a manager, an officer, or has a claim arising out of the Articles of Association, or any rights or obligations conferred or imposed by the Company Law and regulations concerning the affairs of the Company, that person could, unless otherwise provided in the Articles of Association, submit the dispute or claim to the Hong Kong International Arbitration Centre or the China International Economic and Trade Arbitration Commission for arbitration. The arbitration award will be final and binding on all parties.

Following the resumption of sovereignty over Hong Kong by the PRC on 1st July, 1997, the New York Convention no longer applies to the enforcement of Hong Kong arbitration awards in other parts of the PRC. A new arrangement concerning mutual enforcement of arbitration awards between the PRC and Hong Kong was approved by the Supreme People's Court of the PRC and the Hong Kong Legislative Council, and became effective on 1st February, 2000.

Further information on arbitration, including details of the Arbitration Law of the PRC which came into effect on 1st September, 1995, is set out in paragraph headed "Arbitration Law" in Appendix V to this prospectus.

RISKS RELATING TO THE SHARE OFFER

Liquidity and share price of the H Shares may fluctuate

Prior to the Share Offer, H Shares of the Company were not offered to the public. The Offer Price for the H Shares will be determined by the Lead Manager (on behalf of the Underwriters) and the Company. The Offer Price may not be indicative of the price at which the H Shares will trade following the completion of the Offer. In addition, there can be no assurance that there will be an active trading market for the H Shares, or if it exists, that it can be sustained following the completion of the Share Offer, or that the price at which the H Shares will trade will not decline below the Offer Price.

Taxes to be imposed on overseas shareholders

Pursuant to the present taxation regulations, the dividends paid to overseas investors by the Company are not subject to income tax in China. Moreover, any gains realised from the sale or disposal of H Shares are not subject to income tax in China. However, there can be no assurance that withholding tax or capital gains tax will not be applicable to these dividends or gains. Should this occur, foreign shareholders of H Shares will be required to pay income tax for dividends, at the rate, at present of 20% (save for foreign shareholders whose countries have entered into double taxation treaties with China, in which event, the rates stated in the treaties will prevail). There can be no assurance that changes in taxation regimes applicable to the Company will not have an adverse impact on the Shareholders, including its foreign Shareholders.