
FUTURE PLANS AND USE OF PROCEEDS

BUSINESS OBJECTIVES AND STRATEGIES

The overall business objective of the Group is to develop itself into a highly efficient and technologically advanced enterprise principally engaged in the development and exploration of mining resources, particularly gold mines. The Group has developed a three-stage strategy in order to achieve its mission, being “Leading the gold industry, penetrating the domestic mining industry, and meeting the high standards of the international mining industry”. This strategy capitalises on the competitive advantages of the Group to further develop and expand its gold production and refining capacity, (in order to capture the opportunities arising from the increasing demands for gold and non-ferrous metals in the PRC), and, if opportunities arise, to participate in the operation of other mineral resources.

The Group has strengthened its research and development capability. The Group has also been involved in the development of mineral resources in the central and western parts of the PRC. The Group has taken these steps to take advantage of the growth opportunities emerging from the expanding gold and mining markets in the PRC.

Having considered the above business objectives and the competitive advantages of the Group, the Directors have formulated the following business strategies.

Expand gold production capacity

The Group intends to enhance the level of resources utilisation, and to increase the quantity of recoverable gold resources through a comprehensive utilisation of gold-containing waste at the Zijinshan Gold Mine, so as to maintain its gold throughput at approximately 9 tpa of metal.

The Group intends to increase the gold production volume by 2,500 kg of metal in the next two years in the Shuiyindong Gold Mine, the Hunchun Gold-Copper Mine and the Paodaoling Gold Mine. The Group also intends to increase its number of gold development projects in the next five years, with the aim that in 2008, the annual gold production volume of the Group will be 15,000 kg of metal.

Gradual increase of the development of copper and non-ferrous metal resources

Apart from the gold resources of the Group, it has, as at the Latest Practicable Date, over 2.46 million tonnes of copper resources. The Group owns the Zijinshan Copper Mine and has a controlling interest in the Ashele Copper-Zinc Mine. Bio-leaching-extraction-electrowinning experiments undertaken by the Group on the copper resources of the Zijinshan Copper Mine have been positive. In order to expedite the implementation of the State Tenth-Five Year Plan for Key Projects (國家“十五”重點攻關項目) “Biological Metallurgy and Engineering for Zijinshan”, the Group intends to complete the construction of a copper ore processing system in Zijinshan Copper Mine with a production capacity of approximately 13,000 tpa of cathode copper by the end of 2004. Construction of the Ashele Copper-Zinc Mine, which will have an expected processing capacity of approximately 4,000 tonnes of ore per day, is under way, and production is scheduled to commence in the fourth quarter of 2004. Upon full operation of the Ashele Copper-Zinc Mine, its annual production capacity

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is expected to be approximately 30,000 tonnes of copper concentrate per annum, approximately 15,000 tonnes of zinc concentrate, approximately 194 kg of gold associated with copper concentrate and approximately 18,553 kg of silver associated ore. The Group intends to pursue other suitable mineral projects in the PRC.

Actively participate in the exploration and development of gold and non-ferrous metal resources in the central and western parts of the PRC

The Directors believe that discovery and control of mineral resources is the key to the viability of mining enterprises.

Accordingly, the Directors intend to enlarge the mineral resources of the Group through exploration as well as mergers and acquisitions. The Directors believe that there are opportunities in the central and western parts of the PRC. By capitalising on the expertise and technological advantages (in particular, the hydrometallurgical techniques) of the Group, the Directors believe that the Group will be able to focus on the development of low-grade, refractory gold deposits and base metal in the central and western parts of the PRC.

Promote technological innovations

The Group adopts advanced technology in order to improve its rate of utilisation of resources and reduce its overall costs of processing and refining of ore. The Group adopts a sustainable development strategy in a cost-effective manner.

The Directors intend to optimise the mining techniques of the Group, to enhance its utilisation of resources and to further control ore depletion rate and mining costs. The Directors intend to adopt the proprietary process of ore processing of the Group to fully utilise low-grade ores and gold-containing tailings and also to further increase recoverability of heap leaching and reduce gold losses to tailings.

The Group has adopted a refining process using electrowinning to reduce its overall costs and time required so as to quickly and effectively respond to market changes.

The Group will enhance its strength in the research and development of the new techniques on chemical pre-oxidation, pressurised pre-oxidation (leaching) and biological pre-oxidation methods, and apply them in the treatment of refractory gold and complicated non-ferrous metal mine resources in the central and western parts of the PRC.

REASONS FOR THE SHARE OFFER AND USE OF PROCEEDS

The Directors believe that the net proceeds from the New Issue are essential to finance the implementation of the business strategies of the Group, which will enable the Group to consolidate its position as a leading mining enterprise with advanced technology and high cost-efficiency.

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Assuming an Offer Price of HK\$3.10 (being the mid-point of the stated range of the Offer Price of HK\$2.90 and HK\$3.30 per H Share), the net proceeds from the New Issue, after deducting related expenses but without taking into account the proceeds from the additional new H Shares to be issued upon the exercise of the Over-allotment Option, are estimated to amount to approximately HK\$934,000,000.

The Directors intend to apply the above proceeds for the following purposes:

- approximately RMB168,800,000 (equivalent to approximately HK\$160,762,000) will be used for the combined utilisation of the gold-containing solid waste and environmental management of the Zijinshan Gold Mine, of which RMB97,825,000 has been committed by the Group;
- approximately RMB150,000,000 (equivalent to approximately HK\$142,857,000) will be used for acquiring additional gold resources in the central and western parts of the PRC and prospecting for gold resources;
- approximately RMB100,000,000 (equivalent to approximately HK\$95,238,000) will be used for the capital contribution to the Company's subsidiaries including Hunchun Zijin as to RMB25,000,000, Tongling Zijin as to RMB25,000,000 and Xiamen Zijin as to RMB50,000,000, of which RMB 14,600,000 has been committed by the Group;
- approximately RMB85,000,000 (equivalent to approximately HK\$80,952,000) will be used for the development of the Zijinshan Copper Mine;
- approximately RMB80,000,000 (equivalent to approximately HK\$76,190,000) will be used for the acquisition of the mining and exploration rights of mines in the peripheral zones of Zijinshan Gold Mine, of which RMB10,436,000 has been committed by the Group; and
- the balance will be used for general working capital.

In the event that the Over-allotment Option is exercised in full, the additional net proceeds of about HK\$141.9 million (assuming the Offer Price is determined at the mid-point of the stated range) will be used for acquisition of additional gold resources in the central and western parts of the PRC.

In the event that any part of the business strategies cannot be implemented or proceed as planned, or the net proceeds from the New Issue are not immediately required for the purposes stated above, the Directors, after evaluation, and may reallocate the intended funds to other business plans and/or new projects of the Group and/or place them on short-term interest bearing deposits with banks or financial institutions. If these occurs, the Company will make an announcement pursuant to the Listing Rules.

Taking into account the internal resources of the Group and the banking facilities available, the Directors believe that the net proceeds from the New Issue will be sufficient to finance the business plan of the Company as described in this section of this prospectus.