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Zijin Mining Group Co., Ltd.*

紫金礦業集團股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock code: 2899)

Announcement in relation to a change of use of part of proceeds in other investment project

1. The Background of Change of Use of Proceeds in other Investment Project

With the approval of the China Securities Regulatory Commission (Zhengjianxuke [2008] no. 417), the Company made a public offer of 1,400,000,000 ordinary shares of the Company to the public at an issue price of RMB7.13 per share on 16 April 2008 and raised a total of RMB9,982,000,000. The net proceeds after deducting the administrative expenses of RMB175,039,800 in relation to the public offering was in the amount of RMB9,806,960,200.

The prospectus for the initial public offering of A shares of the Company sets out that the raised proceeds will be applied and invested in 8 projects including the Zijinshan Gold and Copper Joint Exploitation Project and the Enhancement and Development Works for the Hunchun Zijin Shuguang Gold and Copper Mine and be applied towards strengthening the cash flow position of the Company.

As at 30 June 2010, the positions in relation to the planned and actual use of proceeds are as follows :

RMB'000

No.	Project Name	Proposed investment	Actual investment	Progress
1	Zijinshan Gold and Copper Mine joint open pit mining project	1,521,040.80	1,373,657.10	constuction basically completed and commenced production
2	Hunchun Zijin Shuguang Gold and Copper Mine technological innovation and expansion project	461,500.00	405,576.20	constuction basically completed and commenced production
3	200 tonnes daily refractory gold processing and refining project	198,380.00	198,094.00	constuction completed and commenced production
4	Mineral resources exploration project	357,000.00	17,067.60	Propose to change
5	Acquisition of the exploration right in Zhongliao Copper Mine Wuziqilong Jintonghu section exploration project	198,000.00	196,800.00	Acquisition completed
6	Increase capital injection in Zijin Tongguan for the acquisition of equity interest in Monterrico Metals PLC project	603,000.00	603,000.00	Acquisition completed
7	Acquisition and development of the ZGC Gold Mine in Tajikistan	1,305,345.00	418,472.60	Completed acquisition, being initial construction
8	Acquisition of 70% interest in Zijin Longxing which owns the mining right in the Tuva Lead Zinc Mine - the Repulic of Tuva	271,600.00	271,600.00	Acquisition completed
9	Supplemental working capital	4,891,094.40	4,768,000.00	
	Total	9,806,960.20	8,252,267.50	

Among the above projects, the mineral resources exploration project will be funded by internal funding resources because of certain internal constrains. As a result of which, the proposed investment sum of RMB342,105,100 (including interest) not yet applied towards the mineral resources exploration project will be re-directed and invested in the Comprehensive Utilization of Circular Economy for the Qinghai Deerni Tailings Project.

The proposed change of use of proceeds will not constitute a connected transaction.

The proposed change of use of part of proceeds has been reviewed and approved by the eighth meeting of the fourth term of board of directors, but is still subject to the approval of the first extraordinary general meeting of shareholders of the Company in 2010 before it takes effect.

2. The Reasons for the Proposed Change of Use of Proceeds

The total investment for the mineral resources exploration project was RMB357,000,000, consisting mainly the exploration in Zijinshan Gold and Copper Mine and its peripheral areas as well as 6 other exploration projects. As at the end of June 2010, the actual investment made towards the mineral resources exploration project was RMB17,067,600 with details as follows:-

Unit: RMB'000

No.	Project	Actual invested
1	Exploration in Zijinshan Gold and Copper Mine and its surrounding area	7,241.9
2	Exploration in Shuguang Gold and Copper Mine	4,547
3	Exploration in Yixingzhai Gold Mine	1,187.6
4	Exploration and survey in Fuxing Copper Mine and Mengku Wutubulake Iron Mine	2,828.8
5	Comprehensive study of Dongkeng Gold Mine and exploration in Yinyan Tin Mine	996.3
6	Exploration in Mashi Copper Mine	266
	Total	17,067.6

In relation to the above 6 projects, for the Xinjiang Mengku Wutubulake Iron Mine, no further investment will be made because of resources structuring of the local government; for the Xinjiang Fuxing Copper Mine and the Anhui Mashi Copper Mine, no further investment will be made because of low economic return as a result of the resources there being confirmed to be limited in amount and of low quality; for the Dongkeng Gold Mine and the Yinyan Tin Mine, both have reached the production target but for the fact that the next step will be the arrangement of a combination of exploration and mining, and that it is difficult to distinguish the investments in relation to the mining exploration and the investments in relation to production input, it is proposed not to use any fund raised; for the Zijinshan Gold and Copper Mine and its peripheral area, the Shuguang Gold and Copper Mine and the Yixingzhai Gold Mine, all of which still require further investment, but for the fact that the investment period and cycle for the exploration is long, that the risk associated with the investment in exploration is high, and that it is difficult to estimate with any accuracy the investment returns, it is proposed not to use any fund raised. Therefore, it is proposed to effect a change of use of the investment fund not yet applied towards the mineral resources exploration project.

The change of use of part of the proceeds raised not only promotes a more efficient usage of the fund raised, but also reduces the financial cost, lessens the financial burden of the Company, enhances the profitability of the Company and creates better returns to the investors.

3. The Status of the New Project

I) The Need to Implement the Project

Qinghai West Copper Co., Ltd. is a wholly-owned subsidiary of the Company focusing on the development and utilization of the resources of Qinghai Deerni Copper Mine. Deerni Copper Mine is a large scale copper and cobalt mine with the resources reserve confirmed to be consisting of 540,000 tonnes copper, 29,000 tonnes cobalt and 14,617,000 tonnes sulphur, etc. An integrated system has been built at the Deerni Copper Mine to process 8,000 tonnes crude ore on a daily basis and 2,400,000 tonnes ore on an annual basis. On the assumption that the term of operation of the mine is 20 years, it is estimated that over a million tonnes of tailings will deposit into the tailings depot each year. The average composition of the tailings in Deerni Copper Mine is about: 40.7% iron, 38.5% sulphur, 0.35% copper, 0.81% zinc, 0.44g gold per tonne, 7.6g silver per tonne, and 11.3g cobalt per tonne. The tailings contains high quantity of iron, sulphur and other valuable metals and the value of the tailings in terms of development and utilization is therefore good.

In order to make full use of the advantages of Qinghai Deerni Copper Mine in terms of resources, technology and reserve amount, to effect changes in relation to the industrial advantageous position and the economic advantageous position, to further enhance the overall corporate economic return, and to explore new points for the growth of the Company, the Company set up a wholly-owned subsidiary Zijin Mining Group Qinghai Co., Ltd. in Xining in November 2008 for the purpose of investing in the Comprehensive Utilization of Circular Economy for the Qinghai Deerni Tailings Project with supporting facilities such as waste heat power generators. The project will be planned as a whole and developed in different phases. The first phase will be the construction of an acid production plant together with supporting facilities to handle iron- sulphur ore with a capacity of 300,000 tonnes per annum which will be a part of the facilities for the acid production with a capacity of 400,000 tonnes/year.

II) Estimate of the Investment and Use of Proceeds

The Company will invest RMB587,929,500 in the first phase of the Comprehensive Utilization of Circular Economy for the Qinghai Deerni Tailings Project including investment of fixed asset in the amount of RMB584,140,000 and working capital in the amount of RMB3,789,500. Apart from the amount of RMB342,105,100 which is the subject matter of the change of use of proceeds, the Company will finance the balance of investment from its own sources.

III) Raw Materials and Fuel

The raw materials for this project is sulphur concentrates collected from the tailings pool of Deerni Copper Mine and the consumption rate is 282,800 tonnes per year (net weight). The raw materials will be transported by vehicles to the raw materials warehouse.

Natural gas will be the fuel for the production.

IV) Technology

(1) Production Volume

Sulphuric acid (100% content): 400,000 tonnes per year

Power generation capacity : 6,770 k-kWh/year (self-consumption is deducted)

Cinder : 198,400 tonnes per year (contains $Fe \geq 62\%$ and $S \leq 0.3\%$)

(2) Production Flow

Production Flow: sulphur concentrates → fluidized roasting → waste heat recovery → cyclone purification → electrostatic precipitator → fuel gas scrubbing purification → fuel gas drying and absorption → conversion of SO_2 ;

Sulphuric acid products from dry absorption → Sulphuric acid storage for external sales;

Cinder → residue warehouse → external sales;

The diluted acid produced from the fuel gas scrubbing purification process will be transferred to waste water treatment point for gypsum production.

(3) Major Facilities

The production flow to be applied in this project should be advanced, stable and reliable. The equipment chosen should be advanced, mature, reliable and energy saving. In order to ensure the stability of the acid production plant, it is proposed to introduce the imported SO_2 main blower, waste heat boiler circulating pumps, acid purification process plate heat exchangers, acid products plate heat exchangers and centrifugal separator, etc.

V) Environmental Protection and Comprehensive Utilization

(1) Waste Gas Treatment

a. Waste gas produced from acid production: advanced absorption technology of double conversion and double absorption has been applied to the acid production system. The system also introduces foreign catalysts to improve the conversion rate of SO_2 and uses imported fiber mist eliminator in the double absorption tower. When the concentration of the acidic gas and mist reach the national standards, it will be discharged from a chimney of 90m in height.

b. Blow-in gas from fluidized roaster: such gas will be discharged through 30mg blow-in chimney after cooling process by waste heat roaster and purification by cyclone dust collection.

(2) Wastewater Treatment

The wastewater treatment point adopts neutralization measures and the neutralized wastewater will be able to satisfy the first class requirements of the “Standards for the Comprehensive Discharge of Wastewater” (GB8978-1996). The wastewater after treatment will be discharged into the pipe network system of the plant.

(3) Solid Waste Disposal

Solid waste mainly comprises of roaster residue, and gypsum can be produced in waste water treatment.

As the roaster residue contains high concentration of iron, it can be sold as a prime raw material for steel and iron plant; gypsum can be used as cement admixture and raw materials for construction; neutralized residue from waste water treatment will be sent to leakage prevention residue site for stockpiling, waste catalyst generated from production will be collected for the recycle by catalyst manufacturers.

(4) Noise Treatment

Noise mainly comes from SO₂ main blower, gas turbine generator and waste heat roaster safety valve (during discharge).

The measures will be applied including: sound-proof gate will be installed and vibration reduction arrangement will be made to the foundation; sound arrester will be installed in the control room and double-glazing window and vibration reducing system will also be installed; acoustic enclosures and silencers will be installed to reduce noise generated from the fan; the level of noise should comply with requirement of “Noise Emission Standards for Industry and Corporate Enterprises”.

The environmental protection investments to be made for the project includes wastewater treatment, waste gas treatment, noise control and solid waste disposal. Environmental protection investment of this project is about RMB57,300,500, accounting for 13.2% cost of the project.

VI) Location

Comprehensive Utilization of Circular Economy for the Qinghai Deerni Tailings Project will be located at Ganhe Industrial Park, Xining, Qinghai.

VII) The Arrangement and Implementation Progress of the Project

Qinghai West Copper Co., Ltd. has appointed China Ruilin Engineering and Technology Co., Ltd. to conduct a feasibility study for this project and the feasibility report has been prepared and completed by China Ruilin Engineering and Technology Co., Ltd. (CN0108, Gongcheng). Zijin Mining Group Qinghai Co., Ltd. is responsible for the operation of the project and has applied internal funding to prepare and effect early phase works including land acquisition and the project is currently under construction.

VIII) Project Efficiency Analysis

Construction of the project will take 1.5 years and the preparation of the production will also take 1 year. It is estimated that the project will be completed and in operation by the end of 2011. The internal financial return before tax is estimated to be 18.75% and that of after tax is estimated to be 14.89%; the pay-back period before tax is estimated to be 5.98 years (including construction period) and that of after tax is estimated to be 6.78 years (including construction period); the return on total investment is estimated to be 15.28% and the return on equity is estimated to be 22.13%.

IX) Project Approval

Comprehensive Utilization of Circular Economy for the Qinghai Deerni Tailings Project has been approved by the Development and Reform Commission of Qinghai (reference registration number: Qingfagaigongyebeizi [2008] no.50) and the case filing has been submitted with the Economic Commission of Qinghai (filing registration no.: Qingjingtoubelian [2008] no.24). In relation to the written replies issued respectively by the Development and Reform Commission of Qinghai in March 2010 (Qingfagaihan [2010] no.396) and the Economic Commission of Qinghai in April 2010 (Qingjingtoubelianbiangen [2010] no.2) with respect to the postponement of the case filing of the project (the first phase), the Supervisory and Management Bureau for Safety Production in Qinghai has completed expert review and granted safety approval for the project. The project has obtained environmental protection approval from the Qinghai Environmental Protection Office (Qinghuanfa [2010] no.569) in August 2010, obtained land-use approval from the Qinghai People's Government in September 2009 (Qingzhengtuhan [2009] no. 56) and a land use agreement has been entered into with the administration committee of Ganhe Industrial Park, Xining Economic and Technology Development District.

4. Prospect of the Project and Risks Analysis

1. Market Prospect and Analysis

This project uses the tailings in Qinghai Deerni Copper Mine as raw materials, adopts the method of fluidizing roasting, double conversion and double absorption to produce sulphuric acid with a concentration of 98%. The cinder is a high quality iron burning sand, and the waste heat will be used for power generation. This project therefore completely fulfils the requirements of the national plan of “The acid production in China will see an active development in the use of pyrite, will promote acid production through refinery and will see the development of acid production from sulphur in a proper pace”, fulfils the core value of high efficiency in the utilization and recycling of resources, fulfils the Circular Economic policy of “Quantity Reduction”, “Re-utilization” and “Resourceful” and fulfils the national industrial policy and entrance requirements. In terms of regional sales and production technology, the project enjoys the following advantages:-

- (1) The iron concentration in the cinder produced from the acid production process is over 65%. The burned waste is therefore a prime raw material for the steel industry. As a base industrial raw material, it is expected that there will be a great market demand for the cinder at present and in future. Moreover, certain steel plants are located adjacent to the project and as a result of which the short sale distance and lower transportation cost could afford certain comparative advantages to the project.
- (2) Yunnan Yuntianhua’s International Fertilizer Corporation is located in the same industrial zone of the project and the annual consumption of sulphuric acid by the corporation is about 330,000 tonnes. A sale and supply framework agreement has been signed with the corporation and majority of the acid products produced from phase one of the project will be delivered through pipelines to the corporation and the rest will be sold in other local regions.
- (3) The project and its production facilities are the largest production plants in the PRC and overseas for acid production through the use of pyrite. The project adopts advanced technology and the waste emission in relation to “Three kind of Wastes” is kept to the minimum and within the emission limits. As a result of the low cost of raw materials, ease of sourcing, comprehensive recycling and utilization of waste heat, low consumption of energy and a comparatively lower production cost than other competitors, the project is able to maintain a strong competitive edge. The project is also financially viable for it enjoys a high financial efficiency and return, and the capability in terms of risk resistance and the ability to effect loan repayment of the project is good.

2. Major Risks Analysis

The viability and efficiency of return of the project depends on the price of sulphuric acid and iron burning sand and the results of the recycling and utilization of waste heat. Set out below are 3 major contingent factors which may cause certain risks to the project:-

- (1) the global demand and supply of sulphur and the rise and fall of the price of sulphur which may have certain effect on the price of sulphuric acid;
- (2) the fluctuation in the production and sale of domestic chemical fertilizer which may have certain effect on

- the price of sulphuric acid; and
- (3) any changes in the relevant industrial policies by the PRC Government.

5. The Opinion of the Independent Non-executive Directors in relation to the proposed Change of Use of Part of the Proceeds

The Independent Non-executive Directors, namely Mr. Lin Yongjing, Mr. Su Congfu, Mr. Chen Yuchuan and Mr. Wang Xiaojun, formed the following opinion in relation to the proposed change of use of part of the proceeds: the change of use of part of the proceeds was proposed by the Board of Directors after taking into account the relevant objective factors and circumstances and the investment project in which the proceeds will be applied has a better prospect and economic return, is capable of raising the efficiency in relation to utilisation of the fund raised and to effect an effective allocation of resources, is to the benefit of the Company and the shareholders as a whole and is of no adverse effect to the benefits of the shareholders, in particular minority shareholders, of the Company. The contents and the procedures in relation to the proposed change of use of part of the proceeds are in compliance with the law and regulations in relation to the use of proceeds by listing companies and the provisions and requirements of the Proceeds Management Policy of the Company. The Independent Non-executive Directors agreed to the proposed investment sum of RMB342,105,100 (including interest) not yet applied towards the mineral resources exploration project to be re-directed and invested in the Comprehensive Utilization of Circular Economy for the Qinghai Deerni Tailings Project and would like to submit the proposal for the consideration and approval by the first extraordinary general meeting of the shareholders of the Company in 2010.

6. The Decision Making Procedures and Opinion of the Supervisory Committee

The Company's Supervisory Committee after review and consideration formed the following opinion in relation to the proposed change of use of part of the proceeds: the change of use of part of the proceeds was proposed by the Board of Directors after taking into account the relevant objective factors and circumstances, the investment project in which the proceeds will be applied is capable of raising the efficiency in relation to utilisation of the fund raised, is not considered to constitute any change of usage of the fund raised, is of no adverse effect to the benefits of the shareholders of the Company. The procedures in relation to the proposed change of use of part of the proceeds are in compliance with the applicable law and regulations. The Supervisory Committee agreed to the proposed investment sum of RMB342,105,100 (including interest) not yet applied towards the mineral resources exploration project to be re-directed and invested in the Comprehensive Utilization of Circular Economy for the Qinghai Deerni Tailings Project and would like to submit the proposal for the consideration and approval by the first extraordinary general meeting of the shareholders of the Company in 2010.

7. Sponsor's Opinion

The sponsor of the Company, Essence Securities Co., Ltd., after verification considered that: The change of use of part of the proceeds was considered and approved by the Board of Directors and was further agreed by the Independent Non-executive Directors. The procedures in relation to the proposed change of use of part of the

proceeds have complied with the necessary legal procedures and requirements and the relevant provisions and requirements of “Shanghai Stock Exchange’s Requirements with respect to Proceeds Management”. Therefore, the sponsor of the Company agreed the Company to submit the proposal for the consideration and approval by the first extraordinary general meeting of the shareholders of the Company in 2010, and to act in accordance with the applicable legal procedures and make necessary disclosures before implementation of the proposal.

This announcement is made by the Company on a voluntary basis.

As at the date of this announcement, the Board of Directors of the Company comprises Messrs. Chen Jinghe (Chairman), Luo Yingnan, Liu Xiaochu, Lan Fusheng, Huang Xiaodong, and Zou Laichang as executive directors, Mister. Peng Jiaqing as non-executive director, and Messrs. Su Congfu, Chen Yuchuan, Lin Yongjing, and Wang Xiaojun as independent non-executive directors.

By Order of the Board of Directors
Zijin Mining Group Co., Ltd.*
Chen Jinghe
Chairman

Fujian, the PRC, 27 October 2010

**The English name of the Company is for identification purpose only*