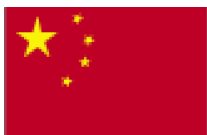


Goldletter INTERNATIONAL

the international independent information and advice bulletin for gold and related investments

November 2008 Update

China has emerged to the world's new leader in gold production



China has been a producer of gold for centuries and also has a history of usage that stretches back to antiquity. The gold industry has depended entirely on State investment since 1949, when the People's Republic of China was founded. Domestic private and foreign investors were excluded from the industry.

Driven by domestic demand the government invested heavily in the mining industry in the 1990s and as a result output doubled in six years. China's gold production for the first time reached 100 tonnes in 1995. Having passed Australia as the world's third largest gold producer in 2006, China passed the United States and South Africa as the second largest and largest gold producer, respectively.

South Africa dominated the gold mining industry more than a century since the discovery of the Witwaters reef in 1886, considered the "greatest goldfield in the world" on the edge of what is now Johannesburg. The country became the biggest gold producer since 1905, passing the United States.

According to China Gold Association, China produced 270.29 tons of gold in 2007, up 12.67% from 2006. Published statistics from the Chamber of Mines of South Africa point to a 2007 gold production of 254 tonnes, a 7.4% decline year-on-year.

According to the China Geology Survey Bureau (CGS), 5 major gold mines were discovered in 2007, with a combined gold reserve of some 600 tons. These include the Ghandu Gold Mine in Tibet (reserves 120 tons), the Dachang Gold Mine in Quinghai Province (reserves 115 tons), the Yuangshan Gold Mine in southern Gansu Province (reserves 258 tons), the Sizhuang Gold Mine in Shandong province (reserves 52 tons) and the Baolun Gold Mine in Hainan Province (reserves 55 tons).

According to the National Development and Reform Commission, from 2006 to 2010, China's gold production target is 1,300 tonnes. During that period, China also aims to increase its gold base reserve by 3,000 to 3,500 tonnes

Statistics by the World Gold Council (WGC) show that China's 2007 gold demand climbed to 326 tonnes, up 20%, supplanting the United States as the world's second-largest gold consumer and exceeded only by India. Sales of gold jewellery in China reached a record high of 302 tons, up 20% and second only to India (773 tonnes), but having overtaken the United States (278 tonnes), which saw a 14% year-on-year drop in gold demand.

It is expected that future gold consumption in China will increase at annual rates of at least 20%.

CGS notes that the Jiadong District is one of the major production bases in China. The accumulated gold reserves have exceeded 1,000 tons.

Early 2008, it was reported that a new gold deposit with an estimate reserve of 24 tons has been found in Xinjiang Uygur Autonomous region.

Most recently, geologists of the Shangdong Provincial Bureau of Geology and Gold Resources claim to have found a gold deposit with a reserve of 103 tons, valued at 20 billion yuan (US\$ 2.9 billion). It is the second gold mine found just south of the famous Jiaojia Gold Mine strip of Laizhou near Sizhuang, where provincial geologists found another gold mine last year with a deposit of 51.83 tons.

Official state news agency Xinhua says more than 100 tonnes of gold ores have been discovered from this belt.

According to the **China Gold Association**, China produced 199.25 tons of gold in the first 9 months of 2008, an increase of 4.07% year-on-year.

China's gold mining enterprises produced a total of 164.82 tons of gold (gold bullion and compound gold) in the first 9 months, up 4.69% on an annual basis, while gold bullion production by smelting companies (non-ferrous metals smelters and gold refinery plants), using compound gold, scrap gold and imported ore as feed stock, dipped by 0.65% to 94.45 tons.

China's entire gold producing industry achieved a total industrial value of RMB 92.27 billion (US\$ 13.52 billion) in the first 8 months of 2008, expanding by 84.1% from the same period last year, with profit up 78.9% on an annual basis to RMB 9.90 billion (US\$ 1.45 billion).

The Shanghai Gold Exchange, China's sole precious metals spot trading platform, reported a gold trading volume of 3.19 million kilograms year-on-year, and trading turnover of RMB 644.38 billion (US\$ 94.4 billion), up 226%.

The Shanghai Futures Exchange reported a gold futures trading volume of 477.7 tonnes and trading turnover of RMB 87.69 billion (US\$ 12.85 billion) in September.

Top-10 gold mining regions

(gold production January to September 2008)

share of total production	in %
Shandong	20.4
Henan	11.0
Fujian	8.0
Inner Mongolia	4.8
Hunan	4.2
Shaanxi	3.9
Xinjiang	3.6
Guizhou	3.5
Gansu	3.3
Jilin	3.0
Total	65.7

source: China Gold Association

Top-5 nonferrous metals smelters

(gold production January to September 2008)

share of total production	in %
Jiangxi Copper Group	28.3
Yunnan Copper Group	23.5
Anhui Tongling Nonferrous Metals	17.6
Shanghai Xinye Copper	9.5
Hubei Daye Nonferrous Metals	8.9
Total	87.8

source: China Gold Association

In the past, little has been known about the workings of the Chinese gold industry. Production (and consumption) figures have been shrouded in secrecy. However, with the largely successful change in government policy in switching its planned economic system to a market economy, China's entry in the World Trade organisation

in November 2001 and the recent deregulation and reformation on the mining and miners laws in China, foreign investment can be viewed as having less political risk. China has maintained a double-digit economic growth for the last few years and is the fastest growing major economy in the world.

China's expansion process will be enhanced by the introduction of new ore processing technology like the application of bio-leach technology, a major subject of China's 10th 5-year Plan for key projects, and a new cyanidising technique (Thermal Chemical Pre-Oxidation Process by normal pressure).

Top-5 smelting companies

(gold production January to September 2008)

	in %
Shandong Zhaojin Mining	32.2
Henan Linbao Gold	17.1
Zhongkuang Gold Industry	10.6
Henan Zhongyun Gold Smelting	10.4
Shandong Hengbang Smelting	8.3
Total	78.6

source: China Gold Association

Not only China's national gold industry, led by its three publicly traded major gold groups Zhongjin Gold (HK code 03330), Zijin Mining (HK code 02899) and Zhaojin Mining (HK code 01818) is expected to get a strong boost, but also successful foreign exploration/development companies active in China will contribute to growing production in the years to come.

For 2008, we expect foreign gold companies to contribute more than 12 tonnes (400,000 ounces) to China's gold production, equal to approximately 5% of the country's total gold output.

China's Gold occurrence

Advanced stage precious metals and base metals projects and large areas of mineral lands with potential exist in China and, as a result, there has been a steady growth in the number of foreign mining companies being active in China.

About 50% of gold in China occurs in quartz-gold vein structures, with another 17% occurring in placer deposits and the remainder is found in polymetallic deposits, often in association with copper.

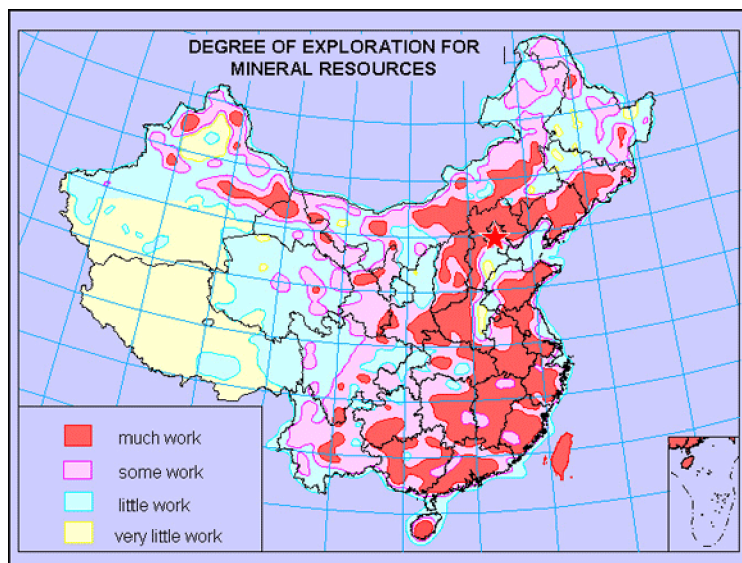
China's gold industry is fragmented, archaic and undercapitalised. Most of the production comes from small, underground mines with little mechanisation.

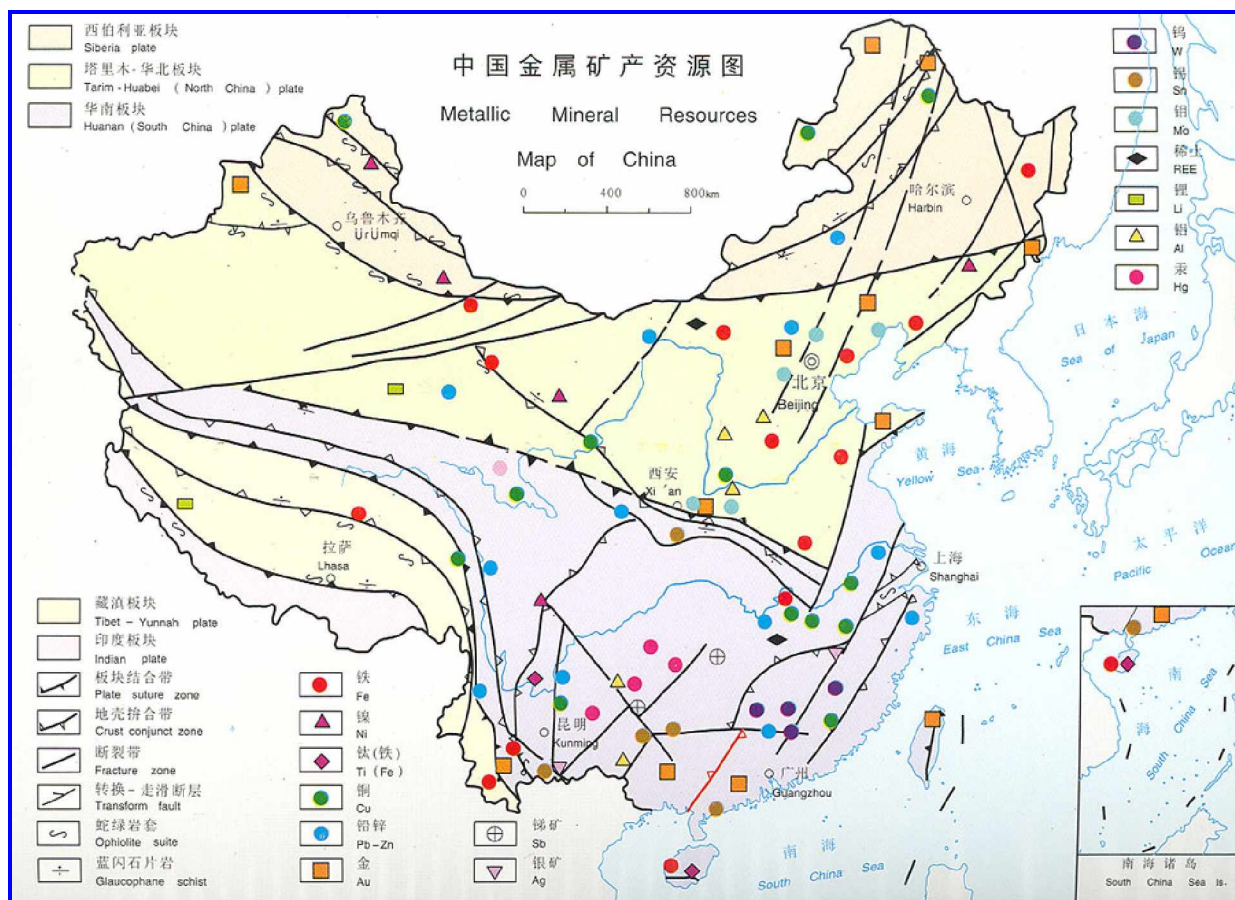
There are thought to be over 1,200 small to medium sized mines in operation throughout the country, equal to approximately 70% of total gold deposits and representing 25-30% of total proven reserves, with only a few mines producing more than 100,000 ounces annually, although the annual average is closer to 16,000 ounces.

The China Geological and Mineral Survey Bureau estimates the gold resources of Chinese ten major provinces to be over 11,000 tonnes and the country's prospective gold resources at around 15,000 tonnes.

A joint study by the United States Geological Survey and the Tianjin Geological Academy from 1997 to 2002 identified and reviewed over 160 gold occurrences in China. Within the category of sedimentary hosted gold deposits (a broad category including Carlin style), over 20 million ounces of resources have been identified in China versus over 70 million ounces in Nevada.

The largest deposits of this style discovered to date in China include Lannigou (> 3.2 million ounces) and Baguamiao (> 2.5 million ounces) but exploration has generally been neither well funded nor extensive. Most reserve definition programs are limited.





China's national gold industry

Control and ownership of many of China's largest mines is vested in the State and administrated through the China National Gold Group Corporation (CNGC). First established in 1979 and then reorganised in 1993. CNGC, operating under **China Gold Group**, controls the major gold mines in seven out of eight main producing provinces. The CNGC officially controls 450 mines and has 61 affiliates across China.

Through the biggest gold producer of the Group, Zhongjin Gold, CNGC contributes 20% of total gold production in China, and shares 30% of total Chinese gold resources. In 2005, CNGC produced 42 tonnes (1.35 million ounces) of gold, a year-on-year increase of 25%.

Between 1949 and 1982, China banned personal ownership of gold, not to mention a gold market. In recent years, China gradually lifted its control over the gold market, by allowing the purchase of gold by individual citizens.

The move to bring the local gold price in line with the international price, occurred from recommendations by the World Gold Council (WGC) in 1998 as part of a timetable for deregulation of the market, there motivated by China's acceptance into the World Trade Organisation at the end of 2001.

China Gold Association was formally founded in November 2001, with 70 enterprises as standing directors, and 256 enterprises as directors.

The official opening of the Shanghai Gold Exchange (SGE) on 30 October 2002 heralded the start of a new era in the gold market in China, and is further evidence of the intention of the Chinese government to deregulate the precious metals markets.

In January 2008, China's gold futures made a strong debut on the Shanghai Futures Exchange.

Government investing in gold mining sector

In the 1980's the Chinese government invested heavily in the gold mining sector. This policy continued and was reinforced under the Eight Five Year Plan from 1991-1995. Government spending increased to US\$ 1.5 billion in 138 specific projects. The aim of this initiative was to restrict the informal and smaller sectors and consolidate small mines into bigger and more efficient operations. The policy was not successful and by the end of the 1990 investment had fallen to US\$ 12 million annually.

However, in the last few years China has made new efforts to improve its domestic environment for mining investment. Exploration is intensified by "further exploring the old deposits, prospecting for new areas, and starting special projects", with the emphasis on large and super large mineral deposits. Fundamental geological survey and resource evaluation under the supervision of China Geological Survey have been enhanced and the complete catalogue of geological data is online for query.

CHINA'S MAJOR NATIONAL GOLD PRODUCERS



China National Gold Group Corp. (CNGGC), or **China Gold**, is a large-scale state-owned enterprise. As an investment organization authorised by the central government, China Gold directly reports to the central government and it is also a pilot company of which the government is as sole shareholder.

Being the earliest company in doing gold mining in China, and processing total assets of more than RMB 10.2 billion (US\$ 800 million), China Gold has rich management experiences and strength in both technology and capital. At the advanced level of world standard, China Gold has its gold operations all over China, and contributes 20% of total gold production in China and controls over 30% of the total reserve in China, which guarantees its promising prospects.

In June 2008, CNGG announced that it had won the exploration rights for the Yangshan Gold Mine, China's largest nickel miner, which will pay 40% of the bid amount of US\$ 318 million, which will help to develop the gold mine.

The Yangshan Gold Mine, founded in 2007 in northwest China's Gansu Province, is considered to be the largest Carlin-type gold mine in Asia and the sixth largest in the world. It is estimated to have deposits equivalent to at least 300 tons of gold, in the high-grade "96" vein ore. The value of the deposits works out over US\$ 9 billion based on a gold price of US\$ 800 per ounce.

The Joint Venture is expected to have an annual output of 2 to 5 tons.

In May 2008, CNGG completed the purchase of the 42% controlling interest of Ivanhoe Mines in Jinshan Gold Mines for a purchase price of Cdn\$ 217.7 million.



On July 30, 2003 **Zhongjin Gold Co.**, 57%-owned by CNGGC, became the first listed company in the nation's gold industry after it launched an initial public offering (IPO) on the Shanghai Stock Exchange. The Company issued 100 million shares at a price of 4.05 yuan (US\$ 0.49) per share. The IPO earned 388 million yuan (US\$ 46.7 million) in proceeds, excluding issuance expenses.

Zhongjin Gold, based in North China's Tianjin Municipality, produced 4.8 tons of gold from its mines in 2007, and refines and processes approximately 30 tons of gold a year, and annex a lot of smaller domestic gold mining companies following the listing to become a competitive conglomerate in the short term.

Zhongjin also controls 51% of Hubei Sanxin Gold Copper Co., which owns two large gold deposits, Jiguanzui and Taohuzuazui, both of which are skarn type. Ore reserves are 20.93 tons, including 50 tons of gold, 360,000 tons of copper, 5.47 million tons of iron ore, and 1.81 million tons of troilite.

Hubei Sanxin has a mining and processing capacity of more than 600,000 tons of ore every year; daily capacity is 1,800 to 2,000 tons. The annual production of mining gold is 1 ton, copper 9,000 tons, iron ore concentrate 70,000 tons, sulphur concentrate 30,000 tons and mining silver 4 tons. As of year-end 2005, Zhongjin has a reserve of 60 tonnes (1.9 million ounces) of gold and 30 tonnes of copper.

In February 2008, Zhongjin sold 53.7 million A shares at RMB 39.96 each for total proceeds RMB 1.98 billion (US\$ 261 million) for expansion.

The issue price represented a 64% discount to the share price.

In March 2008, Zhongjin announced that it plans to pay RMB 900 million (US\$ 126.7 million) for a 90% stake in a gold mining company in the northern province of Shaanxi. The Company's exploration rights have proven to contain 81 tonnes of gold.



Zijin Mining Group ("Zijin"), formerly Fujian Zijin Mining Industry, incorporated on September 6, 2000, is a comprehensive mining conglomerate in China primarily engaged in gold production, and specifically in the exploration, mining, processing, refining of gold, copper and other non-ferrous metals, and the sale of mineral products.

In December 2003, 400.54 million H shares were issued by the Company when it was listed on the Hong Kong Stock Exchange. Zijin was the first Mainland gold producer listed overseas.

Since October 21, 2006, Zijin has been included in the Xinhua FTSE China 25 Index (top 25 H-shares and red chips). As at September 31, 2007, Zijin had a total of 13.1 billion shares issued of which 3.2 billion shares are listed in Hong Kong, representing 30.48% of the total issued share capital of the Company

In 2007, Zijin Mining produced a total of 52,294 tonnes of gold (1.68 million ounces), including 24.827 tonnes of ore-produced gold, an increase of 6.1% over 2006.

This production represented 19.3% of China's total gold output and 10.5% of ore-produced gold.

At the end of 2007, the Group has maintained (ore) resources/reserves of approximately 638 tonnes of gold, (19.8 million ounces), including 98 tonnes associated with other metals, platinum and palladium of about 151 tonnes, copper of about 9.37 tonnes, nickel of about 0.67 million tonnes, lead of about 0.52 million tonnes, molybdenum of about 0.31 tonnes, tin of about 0.1 million tonnes, iron ores of about 167.9 million tonnes, and coal of about 300 million tonnes, as well as new resources/reserves of bauxite of about 43.97 million tonnes, gallium of about 7,372 tonnes, and tungsten of about 63,580 tonnes (on equity basis for non-subsidiaries).

As at December 31, 2007, Zijin has a total of 172 mine exploration rights covering an area of 5,224.44 square kilometres and a total of 35 mining rights covering an area of 51.87 square kilometres.

In 2008, Zijin expects to produce approximately 57.3 tonnes (1.78 million ounces) of gold, of which approximately 29.7 tonnes are produced from mines and approximately 27.6 tonnes ore processed.

Production of copper is expected at approximately 59,000 tonnes, processed copper at 10,000 tonnes, zinc at 149,000 tonnes, iron concentrates 1.26 million tonnes, reduction ore 100,000 tonnes, and silver at 93 tonnes (2.9 million ounces).

The Zijinshan Gold Mine, Guizhou Shuiyindong Gold Mine, Huchun Gold Mine and other gold mines should seize market opportunities and increase production.

Luoyang Yinhuai should maintain production capacity and enhance the performance through investment.

The acquisition of new projects is the shortcut to substantially increase Zijin's resources, Resource acquisition should follow the rules of priority in gold, invest in large projects, no distinction for projects in China and international projects, and the Group will aim to achieve a fast and outstanding development.

As at the end of September 30, 2008, Zijin had total assets of RMB 25.2 billion (US\$ 3.68 billion) and a net shareholders value of RMB 156.6 billion (US\$ 2.28 billion).

Net cash flow generated from operating activities in the first nine months of 2008 amounted to RMB 2.48 billion (US\$ 0.36 billion).

As at the end of September, cash and cash equivalents amounted to RMB 5.66 billion (US\$ 0.83 billion).

Zijin has shareholdings in Ridge Mining and Pinnacle Mines (both available for sale) and Lingbao Gold (6.52 million shares) and ABRA Mining (0.77 million shares).



Lingbao Gold, based in Henan Province, is principally engaged in gold mining and smelting. The Company was listed on the Hong Kong Stock Exchange (HK 03330) on January 12, 2006. At an IPO price of HK\$ 3.33 net proceeds from the sale of 297.3 million H shares or 38.59% of the enlarged capital, were approximately HK\$ 834 million (US\$ 107 million). The Company owns 3 branch companies and 13 subsidiary companies.

In 2007, Lingbao produced approximately 10.37 tonnes of gold (approximately 333,500 ounces). Net profits amounted to RMB 219.8 million (approximately US\$ 28.5 million).

In the first half of 2008, the Lingbao group produced approximately 6.69 kg of gold (approximately 214,992 ounces), including approximately 44 kg (14,275 ounces) of compound gold, representing an increase of 16.4% compares with the first half of 2007.

The turnover was approximately RMB 1.83 billion, representing an increase of approximately 81% and profit attributable to shareholders was approximately RMB 128 million, an increase of 233%.

Cash and bank balance as at June 30, 2008 amounted to RMB 352 million (US\$ 51.5 million) and shareholders value amounted to RMB 1.72 billion (US\$ 0.25 billion).

Lingbao's mineral resources are mainly scattered in 5 provinces in China, including Henan, Xinjiang, Jiangxi, Gansu and Inner Mongolia, with 53 mining and exploration rights as at 31 August 2008, covering 1,278 square kilometres.

The Company's total gold reserves and resources as at 30 June 2008 were approximately 124 tonnes.

The Company had earmarked RMB 60 million (US\$ 4.8 million) for further expansion and acquisitions and will continue to identify suitable acquisition opportunities in 2007.

Lingbao has completed the expansion of the processing facility of Xinjiang's Habahe Huatai Gold in the second half of 2007. The expansion will improve the daily ore processing capacity from the current 500 tonnes to 1,500 tonnes. The Phase II of the new smelting furnaces of the smelter in Henan region has been put into production, which will improve the Company's daily processing capacity of gold concentrates from 700 tonnes to 880 tonnes.

Lingbao will continue to develop the deposits of the Nanyang Xinjuan gold mines in Henan, the Duolanasay Gold Mine in Xinjiang, the Tuokuzibayi Gold Mine and Inner Mongolia Autonomous Region and at the same time enhance the processing capacity of the Xinjiang's gold mines.

In August 2006, Lingbao purchased an 80% controlling interest in a mainland mining company for RMB 68.64 million (HK\$ 67 million), in a move aimed to gain a foothold into Inner Mongolia. The Company has acquired the majority stake in Chi Feng City Zheng Ji Mining, which has exploration rights in Kalaqin Banner County.

In February 2008, Lingbao entered into a Cooperation Agreement with the Government of Kyrgyz Republic, China Development Bank, Full Gold, CRB and Xinjiang Lingxi. Pursuant to the Cooperation Agreement, in consideration of payment of restoration fee of the Road of US\$ 25.3 million by Full Gold (a non-wholly owned subsidiary of Lingbao) to CRB, Full Gold will acquire the mining right (including the exploration right of the Istanbul Gold Mine) from the CRB. The consideration will be satisfied by way of a bank borrowing from China Development Bank.

The Istanbul Gold Mine is located in a mining area of approximately 1,82 km² in the Kyrgyz Republic and has approximately 23.48 tonnes of gold resources and reserves.

In the second half of 2008, Lingbao will proactively proceed with exploration work such as tunnelling and drilling in Kyrgyz Republic to have the mine well prepared for exploration.

It is predicted that the overall design for the Istanbul Gold Mine will be completed by the end of this year.

Lingbao will also proceed with the exploration work on the multi-metal deposit of Chifengh Lingjin in Inner Mongolia, the mine renovation or Hongxin in Xiaoqinling region and the expansion of its processing plants, and to establish the production of its gold mines in the Xiaoqinlin Region, Tongbai Xingyuan, Huatai in Xinjiang and Jinchan in Inner Mongolia.



Zhaojin Mining Industry, controlled by China Gold's affiliated company Shandong Zhaojin Group (37.3% interest), was successfully listed in Hong Kong on December 8, 2006 and issued 198.7 million H-shares for proceeds of HK\$ 2.4 billion (approximately US\$ 315 million).

Zhaojin Group is located in East China's Zhaoyuan district of Shandong Province and can annually process 25 tonnes of gold. It holds approximately 330 tonnes of gold reserves (increased 32.86 tonnes in 2007), and its potential reserve is over 1,000 tonnes covering approximately 10% of China's total national reserves. The Company has five operating mines, namely Dayingezhuang Gold Mine, Jinchiling Gold Mine, Xiadian Gold Mine, Hedong Gold Mine and Jintingling Gold Mine.

Zhaojin produced 19.36 kilograms of gold in 2007, an increase of 23.7% compared with 2006. Gold was sold at an average RMB 168.28 per gram, an increase of 9.6%. Operating revenues increased about 30% to RMB 1.5 billion. As at the end of 2007, the Company had 48 prospecting rights covering a total area of 1,004.35 km² and 17 exploration rights covering a total area of 43.59 km².

In October 2007, Zhaojin announced that it intends to develop 3 new gold deposits in China. The three deposits are located in Hunan Province, Sichuan Province and the Inner Mongolia Autonomous Region, with an exploration area totalling 231.83 square kilometres.

Early January 2008, Zhaojin acquired a 52% equity interest in Fengning-Jinlong Mining ("FNJL") at a total cash consideration of RMB 310 million (US\$ 45.3 million) plus additional expenses of RMB 37.6 million. DNJL, principally engaged in mining, processing and/or smelting of gold, is based in Fengning Manchu Autonomous County in Hebei Province. It possesses three mining areas with mining rights and exploration rights amounting to approximately 1.17 km² and 19.4 km² respectively.

The gold resources amount to approximately 21 tons (675,175 ounces).

Also in January 2008, Zhaojin entered into an equity transfer agreement with Zhaoyuan City Gold Geological Team being an independent third party to the Company, to acquire the gold mine exploration right of Loulitou and Zhaoyuan City "Loulitou Exploration right", at a cash consideration of approximately RMB 8.33 million.

Loulitou Exploration Right is located on the southern area of Zhaoyuan City, Shandong province, with an exploration area of approximately 31.77 km² and is currently at the prospecting stage.

In May 2008, Zhaojin entered into an exploration rights transfer agreement with Shandong Zhaojin Group (Zhaojin Group), which has a 37.3% equity interest in the Company. Pursuant to the transfer agreement, the Company agreed to conditionally acquire four exploration rights from Zhaojin Group for a total consideration of approximately RMB 159 million (US\$ 23.2 million). As a result, the Company's gold resources are expected to be increased 10,000 kg (approximately 321,000 ounces).

During the first half of 2008, Zhaojin and its subsidiaries ("the Group") had self-produced gold of 3.44 tonnes (approximately 110,727 ounces), an increase of 7.3% compared with the corresponding period in 2007, and processed and purchased gold of 4.98 tonnes (approximately 160,078 ounces), representing a decrease of 19%. The Group had attained an aggregate gold production of 8.42 tonnes (approximately 270,805 ounces), representing a decrease of 10%, compared with the corresponding period in 2007.

During the period the group generated revenue of RMB 751.4 million (US\$ 110 million) an increase of 41.8%. The Group's profits attributable to shareholders was RMB 214.4 million (US\$ 31.3 million), representing an increase of 34.6%.

As at June 30, 2008, net assets of the Group amounted to RMB 4.1 billion (US\$ 0.6 billion), representing an increase of 8.5%.

Cash and cash equivalents amounted to RMB 589 million (US\$ 86.1 million).

In the first half of 2008, the Group completed investment amounting to approximately RMB 480 million (US\$ 70.2 million), whereby it has acquired 11 exploration rights of approximately 439.38 km², newly acquired 6 mining rights, thereby increasing its total of mining rights by approximately 10.42 km².

Through these investments, the Group has acquired gold resources of approximately 31 tons (996,672 ounces), and acquired 5.0 million tons of copper resources.

During the first half of 2008, the group invested a total of approximately RMB 37 million (US\$ 5 million) in geological exploration, completed aditing projects of 18,340 metres and drilling projects of 67,194 metres.

The newly added gold resources amounted to 18.87 tons (approximately 610,000 ounces), which was the highest level among corresponding periods in history.

On June 30, 2008, the Group possessed 23 mining rights within mining areas of 54.02 km² and 59 exploration rights within exploration areas of 1,443.73 km²



Shandong Gold Mining ("Shandong"), was jointly founded in January 2006 by the Shandong Gold Group, Shandong Zhaojin Group, Shandong Laizhou Group, Jinian Yuquan Development Center and Shandong Jinzhou Mining Group.

In August 2003, Shandong issued 60 million a shares to the public at RMB 4.78 (US\$ 0.68) per share, which commenced trading on the Shanghai Stock Exchange on August 28, 2003.

The Company's controlling shareholder remained the Shandong Gold group, holding 89.39 million shares or 50.25% as per December 31, 2007.

Shandong's unspecified ore mining and selecting production reached new record highs in 2007, compared with the previous year's 1.85 million tonnes of ore mined and 1.46 million tonnes of ore selected.

In 2006, the Company's output was 8.24 tonnes of gold.

Due to gold production expansion and gold price hikes during 2007, Shandong's operating revenue surged 175% on an annual basis to RMB 9.93 billion (US\$ 1.4 billion), while its net profit increased 54% over the year to RMB 192 million (US\$ 27.3 million).

In September 2007, Shandong's parent company, Shandong Gold Group, inked a strategic partnership agreement with the Shandong Provincial Bureau of Geology and Mineral Resources to develop the newly discovered large-scale gold deposit in the town of Sizhuang, Shandong Province.

According to the agreement, Shandong Gold Group will hold a 51% stake in the Sizhuang Gold Mine, as well as a 60% stake in China's largest diamond mine located in the Shandong Province's Mengyin county.

In November 2007, China National Gold Group announced the signing of a strategic cooperation framework agreement with Shandong Gold Group on gold exploration and operation of gold mines, including joint resource prospecting.

Shandong's plans to invest a total of RMB 640.3 million (US\$ 91.2 million) on various technical upgrade projects in 2008, including a 8,000 tonne-per-day selecting facility at the Sanshandao Gold Mine and a 6,000 tonne-per-day selecting facility at the Jiaojia Gold Mine.

In January 2008, Shandong completed the acquisition of major gold mining assets from its parent Shandong Gold Group with funds raised through a recent issuance of 17.88 million new A shares, at RMB 110.93(US\$ 15.80) per share.

The target assets include Jinchang Gold Mine, Linglon Gold Mine, Sanshandao Gold Mine, Yinan Gold Mine and Pingdu Gold's Xinhui Gold Mine. The Acquisitions are estimated to have increased the Company's gold reserves by 85 tonnes and to boost the annual production capacity by 7.71 tonnes.

Government encouraging foreign investment

One of the specific aims of the 1990's initiatives was to try and attract foreign investment into the Chinese gold mining industry. However, the lengthy and complex approval process, the limited and poor quality of designed exploration projects, coupled with a legal system that was unclear about ownership and without guarantees of tenure, was enough to deter most candidates. In addition, the mining taxation code did not encourage investment. The recent changes in regulation adapted by the Chinese government have encouraged provincial mining bureaus to source capital from mineral exploration companies.

In 1996 China passed the mineral resources law on mineral exploration and development by which The State shall safeguard the national development and utilisation of mineral resources under the responsibility and supervision of the Ministry of Land and Resources ("MLR").

By this legislation MLR has promised to reform the approval process and the costs associated with securing exploration rights in China, and in doing so to encourage foreign investment in an industry yet to experience the transformation brought in other sectors of the nation's economy. The laws and notices issued in 1998 and 2000 clarified the exploration process and the transfer and assignment of exploration rights.

In February 2006, the MLR published the "Selected laws and regulations of the People's Republic of China on Mineral Exploration and Development".

The Chinese Central Government has granted Provinces the autonomy to approve Sino – Foreign Joint Ventures for mineral exploration and mining. This provision of the law has attracted a number of mainly Canadian public companies that have been entering into Sino - Foreign Joint Ventures.

The Provision on Guidance for Foreign Investment issued by the State Consul, highlights the protection of investors' legal rights and interests.

In the new Guidance Catalogue of Industries for Foreign Investment revised by the National Department and Reform Commission, the exploration and mining of special and scarce types of coal, precious metals such as gold, silver and platinum metals, precious non-metallic minerals such as diamonds, as well as phosphorus, barite, borax and celistite, is categorised as the restricted category.

The form is China-Foreign Joint-Venture and cooperation and the requirement of the Chinese side's holdings are articulated in specific catalogue of encouraged and restricted categories.

Various policies to encourage investment in Western China will also have impact on the proposed structure of an exploration vehicle. Projects based in Central or Western China (including Sichuan), although listed as "restricted", may in fact be treated as "encouraged". The exploration right granted will typically only be for a particular mineral in the exploration area, and not for all minerals found at the same site.

Exploration licences can only be granted to qualified, geological exploration work-units registered in China. Foreign investors will either need to obtain this qualification. Subject to any restrictions set out in the Catalogue and the qualification requirements, a foreign investor registered in China as a representative office, equity or co-operative joint venture, including a non-legal person, co-operative joint venture, or a wholly foreign-owned enterprise, may apply for an exploration licence.

At present, the Geological Survey Department of MLR, which has 26 affiliated organizations and 6 regional centres, is responsible for reviewing and approving exploration applications. Provincial authorities are entitled to issue exploration rights, but they cannot issue them to foreign invested enterprises or representative offices.

In 2003, the MLR issued a circular entitled Administrative Measures of Public Tendering and Auction for the Rights of Exploring and Exploiting Mines. The bidding regulations promulgated by the MLR, effective from August 1, 2003, prescribe three approaches for Chinese and foreign mining companies to obtain exploration and mining rights.

In December 2003, the Chinese Government issued a white paper on China's Policy on Mineral Resources which stresses that China will depend on exploitation of domestic mineral resources to guarantee the needs of its modernisation drive. In future, China will strengthen mineral surveying, prospecting, exploitation, planning, management and rational utilisation of mineral resources.

The policy also highlights the importance of sustainable development, and Sino-foreign co-operation in the exploration and exploitation of mineral resources will be increased.

Comments to overview of foreign exploration companies active in China

The suggestion has been made in the past that China does not host any sizeable, continuous gold deposit emendable to commercial production based upon the fact that the largest mine was producing in the region of 100,000 ounces gold annually with the annual average closer to 16,000 ounces. This picture is outdated however, as growing production from its major national mines is showing, and production from a growing number of gold projects developed by foreign companies coming on stream, which will contribute approximately 12.5 tonnes (400,000 ounces) of gold in 2008, equal to 4% of total gold production in China and expected to double by 2010.

Missing many of the sophisticated techniques of the western approach including highly sensitive geochemical and geophysical survey as well as high-end interpretation of satellite imagery, China is relatively undiscovered, This offers a high potential for successful exploration.

On the other hand, China's government could be more cooperative by shortening the time of mining licences being approved to foreign companies with a resource base.

Overview of top-10 foreign gold companies active in China

October 31, 2008

Company	Trading symbol		Market capitalization <i>in US\$ million</i>	
			<i>current</i>	<i>ult.2007</i>
<i>Producers (3)</i>				
Eldorado Gold *	ELD	TSX	2.080	1.967
Sino Gold	SGX	ASX	694	1.350
Jinshan Gold Mines	JIN	TSX	180	418
<i>Exploration/Development (7)</i>				
Continental Minerals	KMK	TSX.V	82	203
Inter-Citic Minerals	ICI	TSX	33	128
China Goldmines	GMA	AIM	28	102
New Pacific Metals	NUX	TSX.V	22	59
McVicar Resources	MCV	TSX.V	21	60
Dragon Mountain Gold	DMG	ASX	14	97
Tianshan Goldfields	TGF	ASX	13	88

* *gold producer in both China and Turkey*

Foreign gold companies with NI 43-101 or JORC compliant reserves and resources

(in million ounces)

Company	Project	RESERVES		RESOURCES
		Proven & Probable	Measured & Indicated	Inferred
Sino Gold	Jinfeng / White Mountain / Beijihar	4.3	5.3	2.2
Mundoro	Maoling		4.8	4.4
Continenta Minerals	Xietongmen		4.3	
Jinshan Gold Mines	CSH / Dadiangou		3.9	2.1
Tianshan Goldfields	Gold Mountain		2.0	0.6
China Goldmines	Shenjiaya		1.8	
Griffin Mining	Caijiaying	1.6		
Eldorado Gold	TJS	0.9	1.2	0.1
Inter-Citic Minerals	Dachang			2.9
Leyshon Resources	Zheng Guang		1.2	
Goldrea Resources	Daye		0.3	0.3
Minco Gold	Changking	0.4	0.3	
	Total	7.2	25.1	12.6

Producers

<i>Eldorado Gold</i>	<i>120.000 - 130.000 ounces per annum; first 6-months 2008: 71,896 ounces</i>
<i>Sino Gold</i>	<i>180.000 ounces per annum; first 9-months 2008: 104,638 ounces</i>
<i>Jinshan Gold Mines</i>	<i>117.000 ounces per annum; third quarter 2008: 18,103 ounces</i>

Sino Gold - China's largest foreign gold producer



Sino Gold (SGX – ASX), listed on the ASX since 2002 and with a secondary listing in Hong Kong since February 2007, has been active in China since 1996 and became the country's largest foreign gold producer.

The Company operated the Jianchaling underground mine from 1998, located in the central Chinese Shaanxi Province, which produced approximately 450,000 ounces of gold from 1998 to 2006.

Sino Gold received a Mining Licence for its 82%-owned Jinfeng Project in Guizhou in June 2005. The estimated cost to build an open-out mine is US\$ 95 million. Construction is completed and commercial production planned for mid-May 2007.

The Jinfeng Mine, China's largest new mine, has an initial design capacity of 1.2 million tonnes per year to produce 180,000 ounces of gold per annum at an average operating cost estimated at US\$ 200/oz.

The resource estimate for the Project is 20.7 million tonnes averaging 5.2 g/t gold, containing Reserves of 4.3 million ounces, and Inferred resources of 5.2 million ounces.

In the first 9 months of 2008 gold production at Jinfeng amounted to 104,638 ounces. In the third quarter gold production increased 9% to 38,250 ounces for a record quarter and cash costs decreased to US\$ 402 per ounce. Record monthly production of 14,590 ounces at US\$ 350 per ounce was achieved in September.

The White Mountain Project in Jilin Province is to become Sino Gold's next mine. A Feasibility Study by a Chinese Design Institute was completed. Design is being processed for production of 65,000 ounces per annum at a cash cost of less than US\$ 250 per ounce. Project development costs require US\$ 55 million and commercial production is expected in 2009.

The ore reserve estimate is 0.8 million ounces and the resource estimate is 1.1 million ounces.

On October 27, 2008 Sino Gold announced that the first gold had been poured at the Company's White Mountain Mine.

In December 2007 Sino Gold successfully completed a take-over bid on Golden China Resources, valued at A\$ 80.7 million, representing a 51% premium.

Sino Gold acquired the Beijnhar Project in Inner Mongolia as part of the takeover of Golden China Resources.

In March 2008, Sino Gold announced that the Beijnhar Mineral Resource estimate has increased 37% to 51.0 million tonnes at 0.62 g/t gold, containing 1.0 million ounces, including Measured and Indicated resources of 29.0 million tonnes at 0.63 g/t gold, containing 0.6 million ounces.

A project Pre-Approval permit has been received and a Feasibility Study has been progressed towards finalization by the end of 2008.

CANADA



Jinshan Gold Mines (JIN – TSX.V) has earned a 96.5% interest in the CSH Gold Mine, located in the western part of Inner Mongolia, within the Tianshan Gold Belt. The Ningxia Nuclear Industry Geological Exploration Institute has the remaining 3.5% carried interest.

The production start-up date was on July 31, 2007 and totalled 26,945 ounces to the end of January 2008. The final feasibility study indicates the Mine is expected to produce approximately 117,000 ounces of gold per year for an initial mine life of approximately 9 years. An engineering study is underway to expand gold production to approximately 160,000 - 180,000 ounces per year.

In March 2008, Jinshan announced a new independent Measured and Indicated gold resource of 3.9 million ounces and an additional Inferred resource of 1.33 million ounces for the CSH Gold Mine.

In addition to the development of the CSH Gold Mine, Jinshan is currently drilling the Dadiangou Gold Project in Gansu Province and is also conducting regional exploration in the prolific Tianshan Gold Belt in Xianjiang Province, northern China, where it has 13 exploration licenses.

On January 31, 2008, Jinshan announced results of an initial NI 43-101 compliant independent resource estimate at the Dadiangou Gold Project. An Inferred resource of 778,000 ounces of gold was calculated.

In April 2008, China Gold, China's largest state-owned gold producing enterprise agreed to purchase the 42% controlling share holding (67.2 million shares) of Ivanhoe Mines in Jinshan, at a price of Cdn\$ 3.11 per share, valuing the transaction at Cdn\$ 217.7 million.

Gold production in the third quarter of 2008 amounted to 18,103 ounces.



Goldrea Resources (GOR – TSX.V) is continuing to expand the existing gold resource it has developed to date on its 65,000 hectares of exploration licences in Shandong Province. The Company holds these licences through its Chinese subsidiary, Rushan Goldrea Gold (90% owned by Goldrea).

Goldrea is continuing drilling on its exploration licences and has completed the Golden Rose Mine five-compartment shaft on its property to a final depth of 235.5 metres.

Goldrea intends to commence work on its Ludi Joint Venture, located in Shandong Province immediately south of its existing exploration licences, where the Company has agreed to spend Cdn\$ 1.4 million over 4 years to earn a 64% interest in the Joint Venture.

This new agreement will extend the exploration rights from the Company's existing licences to the south along the Daye Mineral Zone.

Previous drilling by the Company's joint venture partner, China Shandong No.3 Mineral and Geological Exploration Institute (3rd. Brigade) is reported to have returned up to 4.24 g/t gold over 9 metres from a drill hole positioned approximately 200 metres to the south of the Company's existing drilling.

Goldrea intends to use the Cdn\$ 5 million it has reserved to apply on the Daye Mine acquisition, the agreement on which has been terminated, to expand its existing gold resources in Shandong Province.



Sparton Resources (SRI – TSX.V) has a 39% interest in the Luxi Gold Project in Yunnan Province with Zhaojin Mining (51%) as prominent Chinese partner and Yunnan Nuclear Exploration Team “201” holding a 10% non-contributing interest.

Sparton also entered into an agreement with Brigade 208 of the Geology Bureau of the National Nuclear Corporation to carry out due diligence evaluation of 208’s gold production and exploration areas in the northern part of Inner Mongolia.

Sparton’s main recent focus in China is the evaluation in and recovery of by-product uranium from non-conventional uranium sources such as phosphates and coal ash.



Maxy Gold (MXD – TSX.V) has focused its current activities on the Midu Gold Project in Yunnan Province with an ongoing drilling campaign on the Muluo discovery, and the Huangnan Copper-Gold Project in Qinghai Province, the first project to be developed in joint venture with Western Mining Group, with seven “Priority 1” exploration targets having been identified.

Australia



Leyshon (LRL – AIM), has earned a 70% interest in the Zheng Guang Gold-Zinc Project, located in northwest Heilongjiang Province, by expending US\$ 5.9 million on exploration within 3 years under a 2003 agreement with the Qiqiha’er Brigade of the Heilongjiang Bureau of Geology and Mineral Resources.

Leyshon has entered into a 20-year agreement with the Qiqiha’er Brigade to bring the Zhing Guang Mine to production of over 100,000 ounces of gold and 200,000 ounces of silver.

The Project’s current design has an initiated capital cost estimate of US\$ 45.5 million at an estimated production cost of US\$ 225 per ounce.

In April 2008, Leyshon reported a revised resource estimate by independent resource specialists Hellman and Schofield of Australia, incorporating the 43,500 metre 2007 drill program.

The current estimate at a 0.5 g/t gold equivalent cut-off grade has increased the overall resource by approximately 25% from 24 to 30 million tonnes and increased the Measured and Indicated resource by approximately 60% from 10 to 16 million tonnes.

The contained gold decreased by approximately 4% from 1.2 million to 1.16 million ounces. Contained silver increased by approximately 20% from 3.7 to 4.5 million ounces and zinc content increased by approximately 30% from 94,000 to 120,000 tonnes.

United Kingdom



Central China Goldfield’s (GGG – AIM) property portfolio is made up of 4 projects of which the Nimu Copper-Molybdenum Project in Tibet, the Company’s flagship property, has the best chance to create significant value and the Dong Mao Huo Gold Project in Inner Mongolia has the best chance to create early cash flow.

In the Nimu Deposit, GGG can earn an interest of up to 75% by contributing US\$ 27 million to the Joint Venture Company over 6 years (the Sichuan Bureau of Metallurgy and Geological Exploration holding the remaining 25%).

In Inner Mongolia, GGG can earn up to an 80% interest in the Dong Mao Huo Gold Mine and two exploration properties. The mining area has total Inferred resources of 135,000 ounces of gold. The Company is fast tracking this project and aims to get it into production within 12 months time.

In April, 2008, GGG announced to have sold its Snow Mountain Project to its partner, the Sichuan Bureau of Metallurgy and Geological Exploration for a consideration of RMB 38 million (US\$ 5.4 million) in three installments.

In 2008, the Company's main focus will be on the Nimu and Dong Mao Huo projects. The proceeds from the sale of Snow Mountain will ensure that the Nimu work program in 2008 will be accelerated with the aim of delineating a resource on the Ganging licence area, which was the subject of the successful scout drilling program in the summer of 2007.

Overview of foreign gold/silver exploration companies active in China

Canada	Trading Symbol		Share price in Cdn\$	12 months prices		Net issued shares million	Market cap. in Cdn\$ mln. current	Market cap. in Cdn\$ mln. ultimo 2007
				H	L			
<i>October 31, 2008</i>								
Eldorado Gold *	ELD	TSX	6.87	9.01	5.17	366.1	2,515.1	2,006.7
Silvercorp Metals	SVM	TSX	3.06	10.65	2.38	152.9	467.9	1,391.1
Jinshan Gold Mines **	JIN	TSX	1.33	3.22	0.80	163.6	217.6	426.6
Continental Minerals	KMK	TSX.V	0.77	1.84	0.66	129.1	99.4	206.6
Inter-Citic Minerals	ICI	TSX	0.48	2.50	0.44	82.5	39.6	131.0
Minco Silver	MSV	TSX	1.13	4.19	0.70	31.3	35.4	92.7
Minco Gold	MMM	TSX	0.65	1.80	0.40	43.0	28.0	30.1
New Pacific Metals	NUX	TSX.V	0.86	3.15	0.55	30.1	25.9	60.2
McVicar Resources	MCV	TSX.V	0.72	2.70	0.65	34.4	24.8	61.1
Asia Now Resources	NOW	TSX.V	0.25	0.62	0.21	62.1	15.5	24.1
Southwestern Resources	SWG	TSX	0.34	1.04	0.24	44.9	15.3	29.2
Mundoro Mining	MUN	TSX	0.36	1.30	0.23	38.6	13.9	34.4
Red Dragon Resources	DRA	TSX.V	0.16	0.61	0.15	63.8	10.2	24.0
Silk Road Resources	SIL	TSX.V	0.45	1.75	0.20	22.5	10.1	27.8
Dynasty Gold	DYG	TSX.V	0.06	0.13	0.03	79.0	4.7	5.5
Maxy Gold **	MXD	TSX.V	0.13	0.65	0.13	34.5	4.5	18.3
Sparton Resources **	SRI	TSX.V	0.07	0.45	0.06	63.5	4.4	18.9
Goldrea Resources **	GOR	TSX.V	0.07	0.43	0.07	58.2	4.1	17.9
Majestic Gold	MJS	TSX.V	0.04	0.46	0.03	66.4	2.7	17.6
Gold World Resources	GDW	TSX.V	0.06	0.15	0.05	37.2	2.2	1.3

* gold producer in both Turkey and China

Australia	Trading Symbol		Share price in A\$	12 months prices		Net issued shares million	Market cap. in A\$ million	Market cap. in A\$ mln. ultimo 2007
				H	L			
<i>October 31, 2008</i>								
Sino Gold Mining	SGX	ASX	3.50	7.61	2.37	291.6	1,020.6	1,552.6
Tianshan Goldfields	TGF	ASX	0.07	0.60	0.07	268.4	18.8	100.9
Dragon Mountain Gold	DMG	ASX	0.11	0.79	0.07	178.3	19.6	111.6
Golden Tiger Mining	GTX	ASX	0.03	0.16	0.03	96.0	2.9	9.2
Hodges Resources	HDG	ASX	0.04	0.37	0.04	47.4	1.9	12.3
Gold Aura	GOA	ASX	0.01	0.10	0.01	152.9	1.5	9.1

United Kingdom	Trading symbol		Share price in pence	12 months prices		Net issued shares million	Market cap. in £ million	Market cap. in £ mln. ultimo 2007
				H	L			
<i>October 31, 2008</i>								
China Goldmines	CGM	AIM	35.50	159.50	35.50	48.5	17.2	51.4
Leyshon Resources **	LRL	AIM	4.25	31.75	3.50	218.1	9.3	55.1
Central China Goldfields **	GCG	AIM	2.00	11.00	1.75	145.5	2.9	8.6

United States	Trading Symbol		Share price in US\$	12 months prices		Net issued shares million	Market cap. in US\$ million	Market cap. in US\$ mln. ultimo 2007
				H	L			
Magnus Int. Resources	MGNU	OTCBB	0.08	0.55	0.04	54.4	4.4	14.9
Linux Gold	LNKGF	OTCBB	0.06	0.34	0.06	58.8	3.5	16.6
East Delta Resources	EDLT	OTCBB	0.05	0.25	0.03	59.3	3.0	9.3

** individually featured as Special Situation