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Unless otherwise defined herein, terms in this announcement shall have the same meanings as those defined in the Prospectus.



LINGJIN

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Lingbao Gold Company Ltd.

靈寶黃金股份有限公司

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 3330)

ANNOUNCEMENT

SUMMARY

- This announcement is intended to clarify certain statements reported by the press (“Press”) in various articles dated 30 December 2005 (“Articles”) following the Company’s press conference held on 29 December 2005 (“Press Conference”).
- Certain statements made at the Press Conference by Mr. Xu Gaoming (“Mr. Xu”), the Chairman and executive director of the Company, Mr. Lu Xiaozhao (“Mr. Lu”), an executive director of the Company and Mr. Zhao Jugang (“Mr. Zhao”), the joint company secretary of the Company should not be interpreted as the opinions or views of the Company.
- The Board of Directors wishes to affirm the statements made in the prospectus of the Company dated 30 December 2005 (“Prospectus”). The Board of Directors also confirms that there has been no significant change affecting any matter contained in the Prospectus and that no significant new matter has arisen, the inclusion of information in respect of which would have been required to be in the Prospectus if it had arisen before the Prospectus was issued.

The Company wishes to clarify certain matters reported by the Press in connection with certain statements made at the Press Conference to launch the Public Offer.

The following is the transcript[#] of the relevant questions and answers given at the Press Conference:

Q1 What do you think of the performance of gold prices and its movement next year?

A1 Thank you for your question. We are quite optimistic about the performance of gold prices next year and expect to see rises. Based on experience, gold prices next year should not be lower than those of this year.

The Company confirms that the statement is a tautology in the context that it was made. Mr. Xu made a statement to the effect that based on the experience of the rising trend of the market gold price in 2005, the gold price in 2006 should not be lower than the gold price in 2005. The Company wishes to clarify that this is no more than a statement reflecting a widely known conclusion drawn from the rising trend of gold price in the market and that investors should be aware of the risk of gold price fluctuation.

Q2 What is the current ratio of the supply of gold concentrates sourced from your own gold mines? What is the expected increase of such ratio in the next three years?

A2 Thank you for your question. Deputy General Manager Mr. Lu Xiaozhao will answer your question.

Thank you. Currently, 20% of our gold concentrates are sourced from our own gold mines. Given future strategic expansion through integration and acquisition of gold mines, focused exploration of our existing mining areas to expand our production capability, as well as following the commencement of operation of our two gold mines under construction, the proportion of gold concentrates sourced from our own gold mines may increase to 60% in the next two to three years. Thank you.

This statement made by Mr. Lu represents his personal wish based on his understanding of the Group's intention to increase its internal supply of gold concentrates. Such intention of the Group was disclosed in the section headed "Business" of the Prospectus. It is the personal wish of Mr. Lu as an operation manager of the Company to achieve a 60% internal supply of gold concentrates. The figures were not derived through proper analysis or discussions amongst the Directors. As Mr. Lu mentioned at the Press Conference, whether the internal supply of gold concentrates may increase to 60% is contingent on many factors including future strategic expansion through integration and acquisition of gold mines, focused exploration of our existing mining areas to expand our production capability, as well as the commencement of operation of our two gold mines under construction. At present it is far too remote to predict whether these factors could or would be achieved by the Company. The Group's intention of acquiring additional mines and mining rights and integration of mines in the Xiaoqinling region and its plan for developing its focused exploration have been fully disclosed in the sections headed "Future Plans and Use of Proceeds" and "Business" of the Prospectus.

Q3 What is your cash costs target in the future?

A3 Our target is to reduce our cash operating costs to below US\$200/ounce in two to three years.

The above statement had been misinterpreted by the Press in the Articles as "operating costs" rather than "cash operating costs". In the original context of cash operating costs, such statement made by Mr. Lu represents his personal wish. The figure is not supported by financial information nor was it derived through proper analysis or discussion amongst the Directors. The Company would like to point out to investors that disclosures regarding the Group's operating performance, such as cash operating costs of its mining businesses in Henan, had been made under the sections headed "Summary" and "Business" of the Prospectus.

Q4 Given that only 10% of your gold concentrates were sourced from your own gold mines, and now that you are going to expand your smelting capability and investments in gold mines, have you set any target as to the extent of increase in the amount of gold concentrates sourced from your own gold mines? Also, by how much do you think the gross margin of your smelting business will increase as a result?

A4 Thank you for your question. Our operation chief, Deputy General Manager Mr. Lu Xiaozhao will give you the answer.

Thank you for your question again. Currently, the gold concentrates used by our smelting plant are largely sourced from outside suppliers. This is mainly due to the fact that we have been strategically focusing on expanding and strengthening our smelting capability for the two years since our Group's establishment in September 2002. The basis of such focus was due to the abundant supply of raw materials in the Xiaoqinling Region in Henan Province, which is the second largest gold producing region in the PRC. For the next two to three years, we will adjust such strategy because our smelting business could only give us a stable gross margin of 20%. As an integrated gold mining enterprise involved in mining, processing and smelting businesses, if we combine the mining and smelting business segments, this would achieve a gross margin of 40% for our Company. Therefore, we believe that it was an appropriate strategy to focus on expanding our mining business. Since 2004 and 2005, we have been acquiring numerous mining rights in various parts of the PRC, in particular, Xiaoqinling region of Henan Province, central and western parts of the PRC including Xinjiang and Jiangxi. We will continue to concentrate our efforts and financial resources on our mining business in the future in order to further enhance our productivity and therefore improving our gross profit. Thank you for your question.

The above statement regarding 40% gross profit margin represents Mr. Lu's personal and theoretical benchmarking of the Company's integrated business model against those of the other leading gold mining companies in the PRC and rest of the world. The gross margins for almost all renowned gold mining companies were well above those of smelting companies. By strategically focusing more on the mining segment and increasing the internal supply of gold concentrates by the Company in the coming two to three years, it is the personal wish of Mr. Lu, as an operation manager of the Company, to achieve an overall gross margin of 40% in the future. Mr. Lu did not intend to imply that the gross margin of 40% could be achieved in two to three years. The statement reported in the Articles that the gross profit margin for smelting would be about 20% remains accurate and reflects the position of the Company. This is consistent with the disclosure on the gross margin of Company's smelting segment (i.e. approximated by the segment results to segment turnover ratio of the Company's smelting business for the six months ended 30 June 2005 being approximately 19.7%) in the section headed "Financial Information" of the Prospectus.

Q5 The Prospectus seems to have mentioned that the dividend payout ratio for this year will be 40%. Is it going to be the case? What about next year?

A5 Yes, our dividend payout ratio for 2005 will be 40%. With reference to distributions in the future, I think that we wish to maintain a long-term dividend payout ratio at a rate of 25% or above.

This statement made by Mr. Zhao arose from him inadvertently making a reference to the Company's long term dividend policy, which had been informally discussed at a board meeting of the Company. However, the Company wishes to stress that there has not been any decision, agreement or understanding amongst the Directors in relation to dividend policies for periods beyond 2005. Resolution of the Board to declare approximately 40% of the Company's distributable profits as dividends for the year ending 31 December 2005 has been stated in the section headed "Financial Information" of the Prospectus. In addition, the Board of Directors confirms that all information regarding the Company's dividend policy has been disclosed in the Prospectus, the full text of which is disclosed below:

"Dividend Policy

Subject to applicable requirements of PRC law, our Board of Directors will declare dividends, if any, in Renminbi with respect to H Shares on a per share basis and will pay such dividends in Hong Kong

dollars. Any dividend distribution shall be subject to shareholders' approval. The decision to make a recommendation for the payment of any dividend and the amount of the dividend will depend on factors including (a) our overall results of operation; (b) our financial position; (c) our capital requirements; (d) our shareholders' interests; (e) our future prospects; and (f) other factors that the Board deems relevant.

Under the Company Law and our Articles of Association, all of our shareholders have equal rights to dividends and distributions. The holders of H Shares will share proportionately on a per share basis in all dividends and other distributions declared by our Board of Directors. Further information on the dividend policy is set out in the section headed "Financial information – Dividend policy" in this prospectus.

As of 1 January 2006, pursuant to the applicable provisions of PRC laws, we only make dividend distribution from the balance of retained earnings after the following provisions have been made:

- recovery of accumulated losses, if any;
- contribution to the statutory surplus reserve fund equivalent to 10% of our after-tax profit, as determined under PRC GAAP; and
- allocations, if any, to the discretionary common reserve fund as approved by our shareholders in a shareholders' meeting.

The minimum annual contribution to the statutory surplus reserve fund is 10% of our after-tax profit, as determined under PRC GAAP. When the statutory surplus reserve fund reaches 50% of our registered capital, no further contribution to this fund will be required.

For the year ending 31 December 2005, our Board intends to declare approximately 40% of our distributable profits as dividends. This dividend policy is subject to amendment depending on the factors mentioned above.

Any distributable profits that are not distributed in any given year will be retained and available for distribution in subsequent years."

The Board of Directors wishes to clarify that the statements made by Mr. Xu, Mr. Lu and Mr. Zhao respectively referred to in questions and answers (1) to (5) above should not be interpreted as the opinions or views of the Company.

In addition, the Board of Directors wishes to affirm the statements made in the Prospectus. In particular, the following risk factors remain accurate and reflect the position of the Company and should be considered by prospective investors:

"Gold price fluctuation

Our operation may be exposed to gold price fluctuation. The gold price in the PRC is highly influenced by the international gold price which is denominated in U.S. dollars. As most of our revenue will be derived from the sale of gold, consequently, our expected earnings will be closely related to the international gold price. Gold prices may be influenced by numerous factors and events which are beyond our control. These factors and events include world demand, forward selling activities, gold reserve movements in central banks and other macro-economic factors such as expectations regarding inflation, interest rates, currency exchange rates as well as general global economic conditions. These factors and events may have an adverse effect on our operational activities. Under the relevant PRC laws and regulations, hedging activities presently are not permitted in gold trading in the PRC market. We have not been

involved in hedging transactions or any alternative measures during the Track Record Period to manage the potential gold price risk.”

“Prior dividend distribution

We declared dividend in the approximate amount of RMB23.5 million for the year ended 31 December 2002, representing approximately 49.1% of the profit attributable to our shareholders for the year ended 31 December 2002. This was principally attributable to the dividend payment required by PRC legislation payable to Lingbao State-owned Assets as a result of the Reorganisation and establishment of the Company. Such dividend distribution was not made in accordance with our dividend policy as described in the section entitled “Financial Information - Dividend Policy” and the amount of distribution is not indicative of the dividends that we may pay in the future.”

Investors should read the entire Prospectus carefully and our Group strongly cautions investors not to place any reliance on any information contained in press articles or other media, certain of which may not be consistent with information contained in the Prospectus.

Potential investors should make any investment decision with respect to the Global Offering only after carefully reviewing and evaluating all of the information contained in the Prospectus. The Company and its Directors accept full responsibility for the accuracy and completeness of the information contained in the Prospectus and this announcement.

This announcement is issued at the request of the Stock Exchange taking account of rule 11.13 of the Listing Rules. The Board of Directors confirms that other than the matters described in the announcement, since the publication of the Prospectus there has been no significant change that affects information contained in the Prospectus and no significant new matter has arisen in respect of which is required to be included in the Prospectus.

As at the date of this announcement, the Directors are Xu Gaoming, Wang Jianguo, Lu Xiaozhao, Jin Guangcai, Xu Wanmin, Di Qinghua, Qi Guozhong, Ning Jincheng, Wang Yanwu, Niu Zhongjie and Zheng Jinqiao.

By order of the Board
Lingbao Gold Company Ltd.
Xu Gaoming
Chairman

Hong Kong, 3 January 2006

The Press Conference was conducted in Chinese and the transcript contained in this document is an English translation of the relevant Chinese questions and answers.