Status and Prospects:
Gold Industry and Gold Market in China

-----A speech at LBMA Bullion Market Forum 2011-China

By Mr. Sun Zhaoxue, Chairman of China Gold Association,
and President of China National Gold Group Corporation

Distinguished guests, ladies and gentlemen,

It is my pleasure to attend this Bullion Market Forum-China 2011 held by LBMA, and it is great to have the opportunity to meet officers from different countries and regions, the experts and friends of gold industry from all over the world here to communicate, study and exchange views on the policy and strategy to promote a healthy and sustainable development of global gold industry. Invited by the organizer of the forum, I would like to make an introduction about the status and prospects of the gold industry and gold market in China.

1. **China gold mining: from a pursuer to a pacemaker**

After years of great efforts in the whole gold industry of China, in particular by integrating resources, merging and reorganizing, upgrading industry, China has stepped into a new era of development in gold industry. In 2007, the gold production of China reached 270.5 tons, ranking the top one of the world. In 2010, China produced 340.9 tons of gold, becoming the leading gold producer in the world for four years in a row. Meanwhile, the consumer market of gold in China has become active; with 517.5 tons of gold consumed in 2010, which took the second place of the world. And further, the achievements of China’s gold industry are as follows:
(1) **Important breakthroughs in geological exploration**

In recent years, gold mining enterprises in China have been increasing their investments in geological exploration and mineral property. New theories and methods of geological ore prospecting are brought into a more extensive use, which has brought marked results to the geological exploration for gold in China. During the Tenth Five-Year Plan Period, China had a proven geological reserve of gold exceeding 4,600 tons per year. Then during the eleventh Five-Year Plan Period, the reserve reached 5,000 tons in 2007, and it exceeded 6,324.7 tons in 2009. All these have turned China into the second largest country in terms of proven gold resources worldwide, second only to South Africa. It is more gratifying that breakthroughs have been made in some large prospecting areas; A number of large or super scaled gold deposits were discovered, for instance, Yangshan gold deposit in Gansu Province, Xiongcun gold and copper deposit, Dachang gold deposit, Baolun gold deposit, and the surrounding deposits in Sanshandao gold mine and Jiaojia gold mine, etc. All above laid a solid foundation for the further progress of China’s gold industry by expanding production capacity and improving profitability.

(2) **Restructuring by resources integration**

With the prosperous development of the economy and evolution of the industrial structure, China has offers strong supports on its mining industry; meanwhile the development philosophy of mining has been changed momentously. Firstly, the decentralized management of mineral resources was replaced by the systematic plan and uniform regulating. Secondly, we turn the only focus on deliverability and productivity to more focuses on safety, environmental protection, comprehensive utilization of resources and sustainable development. Against this background, the large-scale gold enterprises make full use of their advantages as exemplary role with radiating power in accordance with the principle of overall planning and rational distributing. Those large gold mining
firms made expansion and renovation on their existing mines, and made efforts to build large mineral bases and large mines in major mining areas through resources integration and enterprise restructuring, in order to make the mine distribution more rational, resources utilization and environmental protection significantly improved, and the comprehensive competitiveness significantly upgraded. For the moment, an overall structure has been initially formed in China in which large mining groups dominate domestic gold industry. And the top 10 groups have contributed almost a half of the national gold production with a rate of 49.19%.

(3) Gold consumption increasing dramatically

The nearly ten-year bull market of gold has been stimulating Chinese gold consuming to surge. In the mean time, as the raising of Chinese peoples’ income level and their needs for investment and wealth management, the market of gold jewelry consumption and gold bar investment in China has become more and more active, and it helps promote the deeply-processed manufacturing of gold. Till now, China has established two large manufacturing bases of gold jewelry in Guangdong Province; one is Shenzhen manufacturers’ cluster for national sales; the other one is Fanyu manufacturers’ cluster for export. China has surpassed Italy in the amount of gold jewelry consumption, ranking the third of the world; and in 2007, overtook Turkey, becoming the second largest gold consumer only next to India, and in recent years, the gap between China and India has become narrower. According to the statistics by China Gold Association, in 2010, the total demand for gold in China was 571.5 tons, up 100.2 tons on a year to year base with a growth rate of 21.26%. Among this, the consuming demand was 515.61 tons, increasing by 21.72% over a year earlier; industrial demand was 47.38 tons, increasing by 17.6%; and other demand was 8.52 tons, increasing by 14.98%.
(4) **Breakthroughs in mineral processing and metallurgy**

Over the past years, gold mining enterprises in China have devoted into scientific and technical innovation. We implement advanced techniques and processing facilities, which improved the mineral processing and metallurgy technology for gold. Some large-scale enterprises have set up their own research and development center to adopt a proactive approach on industry-specific problems and difficult research subjects. Then, a great progress has been achieved.

For example, the bioleaching pre-oxidation technology and whole ore roasting technology which are independently developed by China National Gold Group Corporation and of independent intellectual property, have reached the advanced level of the world standards, and these technologies have been applied in commercial operation and obtained good techno-economical results. What’s more, several national level example bases of new, high-tech industries have been built on the base of these innovations. Now in China, there stand over twenty plants using these technologies, with a total production capacity of over 50 tons of gold. The application of these new techniques enables the refractory gold resources which make up about 30% of the total gold resources in China to be developed and utilized. A large number of “unused” mines have been turned into precious resource.

Besides technologies for refractory ores, considerable progress was also made in the technology for developing low grade gold ores, by means of which, large amount of resources which were regarded as waste got used. The feeding grade in some gold mines can be as low as 0.2 g per ton. Moreover, good economic benefits have been achieved.

(5) **An open gold marketing system**

In the October of 2002, Shanghai Gold Exchange has been founded, indicating Chinese gold industry has stepped into the marketization era after adopting a
policy of monopoly purchase and distribution of gold for half a century. In 2008, a gold futures contract had been listed on Shanghai Futures Exchange, which makes China’s gold market better and even completed. Currently, China has formed a gold marketing system, with Shanghai Gold Exchange, Shanghai Futures Exchange and bullion banks as the main players. The trading items have become increasingly diversified; the trading scale has been constantly expanded; and the number of participants has been increasingly growing. In all, the total trading amount of gold in China has exceeded 12,000 tons, and China’s gold market is becoming one of the important emerging markets in the globe, in which, Shanghai Gold Exchange has become the world’s largest pit gold market for physical transactions; and the total volume of gold transactions on Shanghai Futures Exchange took the sixth place in gold futures trading in the world.

(6) Gold investment fever
Currently, due to lasting higher CPI, increasing inflationary pressure, flagging real estate sector, plus appreciation of RMB against USD, the traditional ways of investment of Chinese people, such as savings, stocks, funds and real estates, can no longer meet their needs of preserving and increasing assets value. Under these circumstances, gold investment has become particularly popular in China, because of its features of risk avoiding, easy cashing, and value maintaining and increasing. In 2010, the consumption of gold bar for investment reached 141.9 tons, increasing by 93.59% over a year earlier; and the consumption of gold coins was 16.6 tons, increasing by 55.23%.

2. Outlooks of the development of China’s gold industry
Considering the situations of the current international economic and political stage, the world economy is recovering slowly; USD keeps depreciating continuously; together with the worldwide inflation and risks of regional politics; all these have boosted the high price of gold in the world. Against this general
background, China’s gold industry is faced with precious opportunities and a promising prospect. While to face the challenge, we must do the following.

(1) **To intensify geological exploration and rationally develop resources**

With the purpose for further development, it is a long-term work for China’s gold industry to establish firm geological resource base. On the one hand, current gold mining operations should make great efforts to explore in the deep area and surrounding area of those old mines as well as to prospect for gold in new targets, in order to increase their backup resources and so to the development potential. On the other hand, we will take full use of the rich gold resources in western China, to reinforce the geological exploration and development in these areas, so as to turn western China into resources bases for future development of China’s gold mining industry. Meanwhile, the central government will be strict on the access conditions of gold enterprises in order to eliminate backward productivity, so that those strong enterprises with large scales will dominate the progress of China’s gold industry.

(2) **To increase scientific research investment and encourage technological innovation**

The research and reform ability is an important symbol of the competitive strength of a gold mining company. The gold mining industry will further strengthen technological research in gold extraction from refractory ores, mineral processing for low grade ores, comprehensive development and recovery of multi-metal deposits, re-use and recovery of high grade old tailings, and increasing added value of product, so as to promote technology upgrading of the industry. Besides, to meet the requirements of the national environmental regulations, it is necessary to make efforts in developing and applying effective production technologies and equipments which are energy-saving, environmentally-friendly and emission-reducing, in particular in treatment of the waste water containing cyanide, tailings, and harmful gases.
(3) To further cultivate and complete gold market and stimulate gold consuming as investment in China

Due to the monopoly purchase and distribution policy implemented since the New China, until the early 1980’s, civil holding of gold was first allowed. Therefore, there is a lengthy blank period of over thirty years in China’s gold consumption history. Until 2002, the gold market was established, which indicating the raw gold materials can be traded freely. Thus the design standards and the manufacturing capability have been promoted constantly, the products have become more and more diversified, and the market has been expanded rapidly. In 2010, the gross sales of gold jewelry reached RMB 270 billion yuan. In spite of the rapid development of the Chinese jewelry industry, the per capita gold possession of Chinese people is only about 4g, much lower than the world average level. On a long view, there still exists a promising prospect and a large development space in gold jewelry market of China. With the purpose for boosting the residents’ enthusiasm to consume gold furthermore, China’s gold jewelry manufacturers have to cope with the inherent problems of common design, poor innovation, product homogenization, low added value to products, and unsatisfactory sales services. And the manufacturers will intensify efforts in improving designers’ creating capability, exploring the profound culture of gold and heightening the additional value for gold jewelry, so as not only to inherit China’s 5,000-year long history of civilization, but also to keep up with the fashion trend nowadays. Above all, China will build its unique brand combining both gold culture and fashion gold.

On the aspect of gold investment, though China’s gold market has been developing rapidly, it started later than some other markets in the globe and there exist some inadequacies and problems such as lagging market regulations, dull investment products, limited trading time, and higher transaction charges; all these affect the further development of China’s gold industry. On next step, an RMB pricing system for gold derivatives needs to be developed, to rich the
trading variety and complete the marketing system, in order to introduce more
investors to take part in the gold market, to broaden its wideness and depth, and
to promote the development of the Chinese gold investment market.

To round off the analysis and cognition above, I am fully optimistic about the
prospects of China’s gold industry. The gold production in China is expected to
uplift another step of one-hundred tons, to reach 400 tons, in the coming years.
The total demand for gold in China is estimated to reach 700 tons, and there
must be more potential of increase in both production and consumption.

3. Strengthening international communication and corporation: a
   need for sustainable and prosperous development of China’s gold
   industry

The development of China can not be separated from the world, while the
development of the world also needs China. For over 30 years since the reform
and opening up, China has been an open market to the world. Trading, finance
and many others have already been included in the whole global economic
system. As the largest developing country in the world, China plays a more and
more important role in world economy. In 2010, the GDP of China reached RMB
39.8 trillion yuan, becoming the second largest economy in the world, with the
total import and export volume of 2.97 trillion US dollars, taking a share of
about 10% of the total volume of trade worldwide. The huge purchasing power
of 1.3 billion Chinese people makes China an increasingly important ‘world
market’.

The fast development of the China’s gold industry benefited from the persistent
attention and supports from the central government, as well from the
convergence and exchange between China’s gold industry and world gold
industry under the backdrop of globalization. For China’s fast developing gold
industry of today, it is a trend and a necessity to further strengthen international
communication and cooperation in all fields among global gold industries

China Gold Association is the only national-level industrial associated organization of the gold industry in China, which insists on aim on “Serve the government, Serve the industry, Serve the enterprises”; it applies itself to promoting international exchange and cooperation among governments, industrial organizations, financial institutions, and enterprises, to set up platforms and bridges for exchanges and mutual complementarities of gold enterprises home and abroad, further to play its part to the full in leading and supporting the gold industry in China. China Gold Association is active in communication and cooperation with those international organizations that has significant international influence and industrial promotion power, such as London Bullion Market Association, the World Gold Council etc. In 2004, China Gold Association organized some Chinese gold enterprises to participate in LBMA Shanghai Annual Conference, to discuss on hot issues in the global gold industry with many foreign counterparts, and to look forward the future of world gold industry with them. In March of 2010, China Gold Association together with the World Gold Council successfully held an international gold entrepreneurs’ forum. In this event, directors of the World Gold Council and gold entrepreneurs from all over the world exchanged their ideas on the status and prospects of gold industry in China and in the world, moreover mutual corporations and win-win development were emphasized. At China Gold Association’s initiative, an agreement for gold retail and strategic cooperation was signed between China National Gold Group Corporation and the World Gold Council, which signifies the two will explore China’s broad gold market hand in hand. Currently, the World Gold Council is talking over the further cooperation with the jewelry subsidiary of China Gold Group after providing assistance to complete its consulting agreement. Just a few days ago, World Gold Council and China Gold Association jointly set up an international exchange and cooperation commission, which is aimed at promoting the development of gold industries and gold markets in the world.
China National Gold Group Corporation is the only gold company under the administration of SASAC (State-owned Assets Supervision and Administration Commission of the State Council) in China’s gold industry. Since 2007, it set up an almost unbelievable target as called “Quadruple in Four Years” in terms of its resource reserve of gold, total assets, sales revenue, and profit. To everyone’s delight, China National Gold Group Corporation not only realized this “impossible mission”, but over fulfilled it, which took an even greater leap forward in its industry history. Facing the new situations, China National Gold Group Corporation raises its goal: to achieve dual 100 billions in total assets and sales revenue in the following “Five Year” period, and to double other indexes at current levels. For this, China National Gold Group Corporation will carry out a strategy of overseas business development, to heighten its international cooperation standards, to seek for close cooperation with related governments, industrial organizations and mining companies, to expand fields of global cooperation and to upgrade cooperation levels. In addition, China National Gold Group Corporation and relevant department of geological survey in China are jointly developing the metallogenic theory, in order to make breakthroughs in ore-search fields of the world. Therefore, we sincerely look forward to more cooperation with worldwide friends in developing technology, mineral resources, financing, new products and better cooperative projects, with the purpose of promoting the development of global gold market and realizing mutual benefits by communication and cooperation.

The last but not the least; let me on behalf of the 410 members of China Gold Association, and also on behalf of the 40,000 employees of China National Gold Group Corporation, to wish all the delegates and guests here the very best of luck in your job and the very best of mood in your life. At the same time, I would like to express my best regards and wishes to all the colleagues in gold industry all over the world. Wish you all happiness, health and prosperity!

Thank you for your time!